

Exantas Capital Corp.  
Form 10-Q  
November 07, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-32733

EXANTAS CAPITAL CORP.

(Exact name of registrant as specified in its charter)

Maryland 20-2287134

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

717 Fifth Avenue, New York, New York 10022

(Address of principal executive offices) (Zip  
Code)

(212) 621-3210

(Registrant's telephone number, including area  
code)

N/A

(Former name, former address and former fiscal  
year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). "

Yes  No

The number of outstanding shares of the registrant's common stock on November 2, 2018 was 31,660,622 shares.

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
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 ON FORM 10-Q

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## EXANTAS CAPITAL CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	September 30, 2018	December 31, 2017
	(unaudited)	
<b>ASSETS <sup>(1)</sup></b>		
Cash and cash equivalents	\$ 48,053	\$ 181,490
Restricted cash	6,580	22,874
Accrued interest receivable	7,466	6,859
CRE loans, net of allowances of \$1,736 and \$5,328	1,514,829	1,284,822
Investment securities available-for-sale	352,778	211,737
Principal paydowns receivable	44,300	76,129
Investments in unconsolidated entities	1,596	12,051
Derivatives, at fair value	2,665	602
Other assets	13,298	7,793
Assets held for sale (amounts include \$17,000 and \$61,841 of legacy CRE loans held for sale in continuing operations, see Note 20)	17,854	107,718
<b>Total assets</b>	<b>\$ 2,009,419</b>	<b>\$ 1,912,075</b>
<b>LIABILITIES <sup>(2)</sup></b>		
Accounts payable and other liabilities	\$ 12,793	\$ 5,153
Management fee payable	938	1,035
Accrued interest payable	3,937	4,387
Borrowings	1,422,906	1,163,485
Distributions payable	6,474	5,581
Preferred stock redemption liability	—	50,000
Derivatives, at fair value	—	76
Accrued tax liability	239	540
Liabilities held for sale (see Note 20)	1,787	10,342
<b>Total liabilities</b>	<b>1,449,074</b>	<b>1,240,599</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$0.001: 10,000,000 shares authorized 8.25% Series B Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share; 0 and 4,613,596 shares issued and outstanding	—	5
Preferred stock, par value \$0.001: 10,000,000 shares authorized 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share; 4,800,000 and 4,800,000 shares issued and outstanding	5	5
Common stock, par value \$0.001: 125,000,000 shares authorized; 31,657,420 and 31,429,892 shares issued and outstanding (including 422,592 and 483,073 unvested restricted shares)	32	31
Additional paid-in capital	1,082,344	1,187,911
Accumulated other comprehensive income	5,629	1,297
Distributions in excess of earnings	(527,665)	(517,773)
<b>Total stockholders' equity</b>	<b>560,345</b>	<b>671,476</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,009,419</b>	<b>\$ 1,912,075</b>

The accompanying notes are an integral part of these statements

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS - (Continued)  
 (in thousands, except share and per share data)

	September 30, 2018	December 31, 2017
	(unaudited)	
(1) Assets of consolidated variable interest entities ("VIEs") included in total assets above:		
Restricted cash	\$ 5,504	\$ 20,846
Accrued interest receivable	3,477	3,347
CRE loans, pledged as collateral and net of allowances of \$927 and \$1,330	780,302	603,110
Loans held for sale	—	13
Principal paydowns receivable	—	72,207
Other assets	132	73
Total assets of consolidated VIEs	\$ 789,415	\$ 699,596
(2) Liabilities of consolidated VIEs included in total liabilities above:		
Accounts payable and other liabilities	\$ 41	\$ 96
Accrued interest payable	656	592
Borrowings	548,526	416,655
Total liabilities of consolidated VIEs	\$ 549,223	\$ 417,343

The accompanying notes are an integral part of these statements

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[\(Back to Index\)](#)EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS(in thousands, except share and per share data)  
(unaudited)

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
<b>REVENUES</b>				
Interest income:				
CRE loans	\$26,496	\$21,953	\$74,314	\$65,327
Securities	5,217	1,661	12,878	5,298
Other	123	369	261	2,464
Total interest income	31,836	23,983	87,453	73,089
Interest expense	17,322	13,853	47,865	42,454
Net interest income	14,514	10,130	39,588	30,635
Other revenue	25	130	82	2,022
Total revenues	14,539	10,260	39,670	32,657
<b>OPERATING EXPENSES</b>				
Management fees	2,813	4,924	8,438	10,242
Equity compensation	757	895	2,383	2,417
General and administrative	2,336	4,336	7,943	11,780
Depreciation and amortization	36	26	68	126
Impairment losses	—	—	—	177
(Recovery of) provision for loan and lease losses, net	(461)	(612)	(1,260)	518
Total operating expenses	5,481	9,569	17,572	25,260
	9,058	691	22,098	7,397
<b>OTHER INCOME (EXPENSE)</b>				
Equity in earnings of unconsolidated entities	454	41,047	231	41,290
Net realized and unrealized gain (loss) on investment securities available-for-sale and loans and derivatives	279	(1,465)	569	15,619
Net realized and unrealized (loss) gain on investment securities, trading	—	(9)	53	(970)
Fair value adjustments on financial assets held for sale	(1,588)	—	(6,244)	58
Loss on extinguishment of debt	—	(10,365)	—	(10,365)
Other income (expense)	57	(690)	574	(604)
Total other (expense) income	(798)	28,518	(4,817)	45,028
<b>INCOME FROM CONTINUING OPERATIONS BEFORE TAXES</b>				
Income tax (expense) benefit	—	(4,464)	31	(5,938)
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>8,260</b>	<b>24,745</b>	<b>17,312</b>	<b>46,487</b>
<b>NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX</b>	<b>364</b>	<b>(6,087)</b>	<b>161</b>	<b>(10,832)</b>
<b>NET INCOME</b>	<b>8,624</b>	<b>18,658</b>	<b>17,473</b>	<b>35,655</b>
Net income allocated to preferred shares	(2,588)	(6,014)	(10,385)	(18,043)
Consideration paid in excess of carrying value of preferred shares	—	—	(7,482)	—
Net loss allocable to non-controlling interest, net of taxes	—	—	—	196
<b>NET INCOME (LOSS) ALLOCABLE TO COMMON SHARES</b>	<b>\$6,036</b>	<b>\$12,644</b>	<b>\$(394)</b>	<b>\$17,808</b>

The accompanying notes are an integral part of these statements  
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EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS - (Continued)  
 (in thousands, except share and per share data)  
 (unaudited)

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
NET INCOME (LOSS) PER COMMON SHARE - BASIC:				
CONTINUING OPERATIONS	\$0.18	\$ 0.61	\$(0.02)	\$ 0.93
DISCONTINUED OPERATIONS	\$0.01	\$( 0.20 )	\$0.01	\$( 0.35 )
TOTAL NET INCOME (LOSS) PER COMMON SHARE - BASIC	\$0.19	\$ 0.41	\$(0.01)	\$ 0.58
NET INCOME (LOSS) PER COMMON SHARE - DILUTED:				
CONTINUING OPERATIONS	\$0.18	\$ 0.61	\$(0.02)	\$ 0.92
DISCONTINUED OPERATIONS	\$0.01	\$( 0.20 )	\$0.01	\$( 0.35 )
TOTAL NET INCOME (LOSS) PER COMMON SHARE - DILUTED	\$0.19	\$ 0.41	\$(0.01)	\$ 0.57
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	31,229,368	31,232	31,186,050	30,810,259
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	31,477,398	31,152	31,186,057	31,017,108

The accompanying notes are an integral part of these statements

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## EXANTAS CAPITAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Net income	\$8,624	\$18,658	\$17,473	\$35,655
Other comprehensive income (loss):				
Reclassification adjustments for realized (gains) losses on investment securities available-for-sale included in net income	(282 )	2,521	(65 )	1,342
Unrealized gains (losses) on investment securities available-for-sale, net	1,871	(1,673 )	1,969	(3,167 )
Reclassification adjustments associated with unrealized losses from interest rate hedges included in net income	—	—	—	17
Unrealized gains on derivatives, net	824	136	2,428	211
Total other comprehensive income (loss)	2,413	984	4,332	(1,597 )
Comprehensive income before allocation to non-controlling interests and preferred shares	11,037	19,642	21,805	34,058
Net income allocated to preferred shares	(2,588 )	(6,014 )	(10,385 )	(18,043 )
Consideration paid in excess of carrying value of preferred shares	—	—	(7,482 )	—
Net loss allocable to non-controlling interest	—	—	—	196
Comprehensive income allocable to common shares	\$8,449	\$13,628	\$3,938	\$16,211

The accompanying notes are an integral part of these statements

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(in thousands, except share data)

(unaudited)

	Common Stock Shares	Common Stock Amount	Series B Preferred Stock	Series C Preferred Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity
Balance, January 1, 2018	31,429,892	\$ 31	\$ 5	\$ 5	\$ 1,187,911	\$ 1,297	\$ —	\$(517,773 )	\$ 671,476
Stock-based compensation	236,387	1	—	—	—	—	—	—	1
Amortization of stock-based compensation	—	—	—	—	2,383	—	—	—	2,383
Retirement of common stock	(7,134 )	—	—	—	(69 )	—	—	—	(69 )
Forfeiture of unvested stock	(1,725 )	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	17,473	—	17,473
Distributions on preferred stock	—	—	—	—	—	—	(10,385)	—	(10,385 )
Preferred stock redemption Securities	—	—	(5 )	—	(107,881 )	—	(7,482)	—	(115,368 )
available-for-sale, fair value adjustment, net	—	—	—	—	—	1,904	—	—	1,904
Designated derivatives, fair value adjustment	—	—	—	—	—	2,428	—	—	2,428
Distributions on common stock	—	—	—	—	—	—	394	(9,892 )	(9,498 )
Balance, September 30, 2018	31,657,420	\$ 32	\$ —	\$ 5	\$ 1,082,344	\$ 5,629	\$ —	\$(527,665 )	\$ 560,345

The accompanying notes are an integral part of these statements

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[\(Back to Index\)](#)EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$17,473	\$35,655
Net (income) loss from discontinued operations, net of tax	(161 )	10,832
Net income from continuing operations	17,312	46,487
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operating activities:		
(Recovery of) provision for loan and lease losses, net	(1,260 )	518
Depreciation, amortization and accretion	1,919	1,763
Amortization of stock-based compensation	2,383	2,417
Sale of and principal payments on syndicated corporate loans held for sale	69	1,433
Sale of and principal payments on investment securities, trading	241	4,493
Net realized and unrealized (gain) loss on investment securities, trading	(53 )	970
Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives	(569 )	(15,619 )
Fair value adjustments on financial assets held for sale	6,244	(58 )
Loss on extinguishment of debt	—	10,365
Impairment losses	—	177
Equity in earnings of unconsolidated entities	(231 )	(41,290 )
Return on investment from investments in unconsolidated entities	411	49,713
Changes in operating assets and liabilities	4,443	3,917
Net cash provided by continuing operating activities	30,909	65,286
Net cash provided by discontinued operating activities	329	139,430
Net cash provided by operating activities	31,238	204,716
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Origination and purchase of loans	(570,036)	(348,764)
Principal payments received on loans and leases	399,472	474,729
Proceeds from sale of loans	16,709	—
Purchase of investment securities available-for-sale	(149,100)	(121,887)
Principal payments on investment securities available-for-sale	14,325	33,779
Proceeds from sale of investment securities available-for-sale	48	33,347
Acquisition of the remaining interest in Life Care Funding, LLC	—	(5 )
Return of capital from investments in unconsolidated entities	10,369	48,792
Proceeds from the sale of an investment in an unconsolidated entity	—	16,159
Settlement of derivative instruments	(46 )	(1,416 )
Net cash (used in) provided by continuing investing activities	(278,259)	134,734
Net cash provided by discontinued investing activities	29,712	18,720
Net cash (used in) provided by investing activities	(248,547)	153,454
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		

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Retirement of common stock	(69 )	(98 )
Repurchase of preferred stock	(165,340)	—
Net proceeds from (repayments of) repurchase agreements	126,740	(13,824 )
Proceeds from borrowings:		
Securitizedizations	397,452	251,449
Convertible senior notes	—	121,589
Payments on borrowings:		
Securitizedizations	(262,576)	(266,378)
Convertible senior notes	—	(108,690)
Payment of debt issuance costs	(9,640 )	(8,253 )
Distributions paid on preferred stock	(12,670 )	(18,043 )
Distributions paid on common stock	(6,319 )	(4,685 )

The accompanying notes are an integral part of these statements

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)  
 (in thousands)  
 (unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
Net cash provided by (used in) continuing financing activities	67,578	(46,933 )
Net cash used in discontinued financing activities	—	(133,139 )
Net cash provided by (used in) financing activities	67,578	(180,072 )
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(149,731)	178,098
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	204,364	119,425
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$54,633	\$297,523
SUPPLEMENTAL DISCLOSURE:		
Interest expense paid in cash	\$41,341	\$38,062
Income taxes paid in cash	\$—	\$517

The accompanying notes are an integral part of these statements

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018  
(unaudited)

NOTE 1 - ORGANIZATION

Exantas Capital Corp., a Maryland corporation, and its subsidiaries (collectively, the "Company") (formerly known as Resource Capital Corp.) is a real estate investment trust ("REIT") that is primarily focused on originating, holding and managing commercial mortgage loans and commercial real estate-related debt investments. The Company is externally managed by Exantas Capital Manager Inc. (the "Manager") (formerly known as Resource Capital Manager, Inc.), which is an indirect wholly-owned subsidiary of C-III Capital Partners LLC ("C-III"), a leading commercial real estate ("CRE") investment management and services company engaged in a broad range of activities. C-III is the beneficial owner of approximately 2.4% of the Company's outstanding common shares at September 30, 2018. The Company has qualified, and expects to qualify in the current fiscal year, as a REIT.

In November 2016, the Company received approval from its board of directors (the "Board") to execute a strategic plan (the "Plan") to focus its strategy on CRE debt investments. The Plan contemplates disposing of certain loans underwritten prior to 2010 ("legacy CRE loans"), exiting underperforming non-core asset classes (residential real estate-related assets and commercial finance assets) and establishing a dividend policy based on sustainable earnings. As a result, the Company evaluated its residential mortgage and middle market lending segments' assets and liabilities and determined both met all of the criteria to be classified as held for sale in the fourth quarter of 2016. As a result of the reclassification, these segments are reported as discontinued operations and have been excluded from continuing operations. See Note 20 for further discussion.

The Company conducts its operations through the use of subsidiaries that it consolidates into its financial statements. The Company's core assets are consolidated through its investment in RCC Real Estate, Inc. ("RCC Real Estate"), a wholly-owned subsidiary that holds CRE loans, CRE-related securities and investments in CRE securitizations, which are consolidated as VIEs, as discussed in Note 3. Additionally, the Company consolidates investments in wholly and partially-owned qualifying REIT subsidiaries and taxable REIT subsidiaries ("TRS") that historically held whole and partially-owned equity investments in collateralized debt obligations ("CDOs"), collateralized loan obligations ("CLOs"), investments in asset-backed securities ("ABS"), an asset management service provider, life settlement contracts, middle market secured corporate loans, residential mortgage loans, residential mortgage-backed securities ("RMBS") and syndicated corporate loans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the accounting policies set forth in Note 2 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The consolidated financial statements include the accounts of the Company, majority-owned or controlled subsidiaries and VIEs for which the Company is considered the primary beneficiary. All inter-company transactions and balances have been eliminated in consolidation.

Basis of Presentation

All adjustments necessary to present fairly the Company's financial position, results of operations and cash flows have been made.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less at the time of purchase. At September 30, 2018 and December 31, 2017, approximately \$45.5 million and \$177.5 million, respectively, of the reported cash balances exceeded the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation deposit insurance limits of \$250,000 per respective depository or brokerage institution. However, all of the Company's cash deposits are held at multiple, established financial

institutions to minimize credit risk exposure.

Restricted cash includes required account balance minimums primarily for the Company's CRE CDO securitizations and derivative instruments as well as cash held in the syndicated corporate loan CDOs.

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 SEPTEMBER 30, 2018  
 (unaudited)

The following table provides a reconciliation of cash, cash equivalents and restricted cash on the consolidated balance sheets to the total amount shown on the consolidated statements of cash flows (dollars in thousands):

	September 30,	
	2018	2017
Cash and cash equivalents	\$48,053	\$282,984
Restricted cash	6,580	14,539
Total cash, cash equivalents and restricted cash shown on the Company's consolidated statements of cash flows	\$54,633	\$297,523

#### Preferred Equity Investment

Preferred equity investments, which are subordinate to any loans but senior to common equity, depending on the investment's characteristics, may be accounted for as real estate, joint ventures or as mortgage loans. The Company's preferred equity investment is accounted for as a CRE loan held for investment, is carried at cost, net of unamortized loan fees and origination costs, and is included within CRE loans on the Company's consolidated balance sheets. The Company accretes or amortizes any discounts or premiums over the life of the related loan utilizing the effective interest method. Interest and fees are recognized as income subject to recoverability, which is substantiated by obtaining annual appraisals on the underlying property.

#### Discontinued Operations

The results of operations of a component or a group of components of the Company that either has been disposed of or is classified as held for sale is reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results.

#### Income Taxes

The Company recorded a full valuation allowance against its net deferred tax assets of approximately \$10.0 million at September 30, 2018 as the Company believes it is more likely than not that the deferred tax assets will not be realized. This assessment was based on the Company's cumulative historical losses and uncertainties as to the amount of taxable income that would be generated in future years by the Company's TRSs.

#### Recent Accounting Standards

##### Accounting Standards Adopted in 2018

In May 2017, the Financial Accounting Standards Board ("FASB") issued guidance to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Modification accounting should be applied unless all of the following three criteria are met: (i) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (ii) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. Adoption did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance provides a screen to determine when an integrated set of assets and activities (a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the guidance requires that: (i) to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output and (ii) remove the evaluation of whether a market participant could replace missing elements. The guidance also narrows the definition of an output to: the result of inputs and processes applied to those inputs that provide goods or services to customers, investment income (such as dividends or interest),

or other revenues. Adoption did not have a material impact on the Company's consolidated financial statements.

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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(unaudited)

In November 2016, the FASB issued guidance to reduce the diversity in practice of the classification and presentation of changes in restricted cash on the statement of cash flows. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Adoption did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued guidance to reduce the diversity in practice around the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The guidance addresses the following eight specific cash flow issues: (i) debt prepayments or extinguishment costs; (ii) contingent consideration payments made after a business combination; (iii) proceeds from the settlement of insurance claims; (iv) proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); (v) settlement of zero-coupon debt instruments or other debt instruments with insignificant coupon rates; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions and (viii) separately identifiable cash flows and application of the predominance principle. Adoption did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued guidance to address certain aspects of the recognition, measurement, presentation and disclosure of financial instruments in order to provide users of financial statements with more decision-useful information. The guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements, and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. Adoption did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance that establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. At issuance, the guidance was effective for the first interim or annual period beginning after December 15, 2016. In August 2015, the FASB issued additional guidance that delayed the previous effective date by one year, resulting in the original guidance becoming effective for the first interim or annual period beginning after December 15, 2017. In 2016, the FASB issued multiple amendments to the accounting standard to provide further clarification. Exclusions from the scope of this guidance include revenues resulting from loans, investment securities available-for-sale, investment securities, trading, investments in unconsolidated entities and leases. The Company evaluated the applicability of this guidance, considering the scope exceptions, and determined that adoption did not have a material impact on its consolidated financial statements.

Accounting Standards to be Adopted in Future Periods

In August 2018, the FASB issued guidance to modify the fair value measurement disclosure requirements, including: disclosures on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, the policy for timing of transfers between levels and the narrative description of measurement uncertainty. The guidance is effective for annual reporting periods beginning

after December 15, 2019, and interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance.

In June 2018, the FASB issued guidance to simplify the accounting for share-based payment transactions for acquiring goods and services from nonemployees by including these payments in the scope of the guidance for share-based payments to employees. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company evaluated the applicability of this guidance and determined that, currently, adoption does not have a material impact on its consolidated financial statements.

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In February 2018, the FASB issued guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company evaluated the applicability of this guidance and determined that, currently, adoption does not have a material impact on its consolidated financial statements.

In August 2017, the FASB issued guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities. Additionally, the guidance simplifies the application of the hedge accounting guidance via certain targeted improvements. In October 2018, the FASB updated the guidance to add a benchmark interest rate permitted for hedge accounting purposes. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company evaluated the applicability of this guidance and determined that, currently, adoption does not have a material impact on its consolidated financial statements.

In January 2017, the FASB issued guidance to add the Securities and Exchange Commission ("SEC") Staff Announcement "Disclosure of the Impact that Recently Issued Accounting Standards will have on the Financial Statements of a Registrant when such Standards are Adopted in a Future Period (in accordance with Staff Accounting Bulletin Topic 11.M)." The announcement applies to the May 2014 guidance on revenue recognition from contracts with customers, the February 2016 guidance on leases and the June 2016 guidance on how credit losses for financial assets at amortized cost and certain other instruments that are measured at fair value through net income are determined. The announcement provides the SEC staff view that a registrant should evaluate certain recent accounting standards that have not yet been adopted to determine appropriate financial statement disclosures about the potential material effects of those recent accounting standards. If a registrant does not know or cannot reasonably estimate the impact that adoption of the recent accounting standards referenced in this announcement is expected to have on the financial statements, then the registrant should make a statement to that effect and consider the additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the recent accounting standards will have on the financial statements of the registrant when adopted. The Company completed its assessment under the new guidance on revenue recognition from contracts with customers, see "Accounting Standards Adopted in 2018." The Company is currently evaluating the impact of this guidance on leases and the measurement of credit losses on financial instruments and its impact on its consolidated financial statements.

In June 2016, the FASB issued guidance which will change how credit losses for most financial assets and certain other instruments that are measured at fair value through net income are determined. The new guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. For available-for-sale debt securities, the guidance requires recording allowances rather than reducing the carrying amount, as it is currently under the other-than-temporary impairment model. It also simplifies the accounting model for credit-impaired debt securities and loans. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods within that reporting period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is in the process of evaluating the impact of this new guidance.

In February 2016, the FASB issued guidance requiring lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting will remain largely unchanged. The guidance will also require new qualitative and quantitative disclosures to help financial statement users better understand the timing, amount and uncertainty of cash flows arising from leases. This guidance will be effective for reporting periods beginning on or after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company evaluated the applicability of this guidance and determined that, currently, adoption does not have a material impact on its

consolidated financial statements.

**Reclassifications**

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 presentation, including the reclassification of investment securities, trading, loans held for sale and direct financing leases to other assets on the consolidated balance sheets. These reclassifications had no effect on the reported consolidated statements of operations.

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NOTE 3 - VARIABLE INTEREST ENTITIES

The Company has evaluated its securities, loans, investments in unconsolidated entities, liabilities to subsidiary trusts issuing preferred securities (consisting of unsecured junior subordinated notes), securitizations, guarantees and other financial contracts in order to determine if they are variable interests in VIEs. The Company regularly monitors these legal interests and contracts and, to the extent it has determined that it has a variable interest, analyzes the related entity for potential consolidation.

Consolidated VIEs (the Company is the primary beneficiary)

Based on management's analysis, the Company was the primary beneficiary of six and seven VIEs at September 30, 2018 and December 31, 2017, respectively (collectively, the "Consolidated VIEs").

The Consolidated VIEs are CRE securitizations, CDOs and CLOs that were formed on behalf of the Company to invest in real estate-related securities, commercial mortgage-backed securities ("CMBS"), syndicated corporate loans, corporate bonds and ABS and were financed by the issuance of debt securities. The Manager and C-III Asset Management LLC ("C3AM"), a subsidiary of C-III, manage the CRE-related entities. By financing these assets with long-term borrowings through the issuance of debt securities, the Company seeks to generate attractive risk-adjusted equity returns and to match the term of its assets and liabilities. The primary beneficiary determination for each of these VIEs was made at each VIE's inception and is continually assessed.

The Company has exposure to losses on its securitizations to the extent of its investments in the subordinated debt and preferred equity of each securitization. The Company is entitled to receive payments of principal and interest on the debt securities it holds and, to the extent revenues exceed debt service requirements and other expenses of the securitizations, distributions with respect to its preferred equity interests. As a result of consolidation, the debt and equity interests the Company holds in these securitizations have been eliminated, and the Company's consolidated balance sheets reflect the assets held, debt issued by the securitizations to third parties and any accrued payables to third parties. The Company's operating results and cash flows include the gross amounts related to the securitizations' assets and liabilities as opposed to the Company's net economic interests in the securitizations. Assets and liabilities related to the securitizations are disclosed, in the aggregate, on the Company's consolidated balance sheets. For a discussion of the debt issued through the securitizations see Note 9.

Creditors of the Company's Consolidated VIEs have no recourse to the general credit of the Company, nor to each other. During the three and nine months ended September 30, 2018 and 2017, the Company did not provide any financial support to any of its VIEs nor does it have any requirement to do so, although it may choose to do so in the future to maximize future cash flows on such investments by the Company. There are no explicit arrangements that obligate the Company to provide financial support to any of its Consolidated VIEs.

The following table shows the classification and carrying values of assets and liabilities of the Company's Consolidated VIEs at September 30, 2018 (in thousands):

	CRE Securitizations	Other	Total
<b>ASSETS</b>			
Restricted cash	\$ 5,000	\$ 504	\$5,504
Accrued interest receivable	3,477	—	3,477
CRE loans, pledged as collateral	780,302	—	780,302
Other assets	132	—	132
Total assets <sup>(1)</sup>	\$ 788,911	\$ 504	\$789,415
<b>LIABILITIES</b>			
Accounts payable and other liabilities	\$ 41	\$—	\$41

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Accrued interest payable	656	—	656
Borrowings	548,526	—	548,526
Total liabilities	\$ 549,223	\$—	\$549,223

(1) Assets of each of the Consolidated VIEs may only be used to settle the obligations of each respective VIE.

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Unconsolidated VIEs (the Company is not the primary beneficiary, but has a variable interest)

Based on management's analysis, the Company is not the primary beneficiary of the VIEs discussed below since it does not have both (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. Accordingly, the following VIEs are not consolidated in the Company's financial statements at September 30, 2018. The Company's maximum exposure to risk for each of these unconsolidated VIEs is set forth in the "Maximum Exposure to Loss" column in the table below.

Unsecured Junior Subordinated Debentures

The Company has a 100% interest in the common shares of Resource Capital Trust I ("RCT I") and RCC Trust II ("RCT II"), respectively, with a value of \$1.5 million in the aggregate, or 3% of each trust, at September 30, 2018. RCT I and RCT II were formed for the purposes of providing debt financing to the Company. The Company completed a qualitative analysis to determine whether or not it is the primary beneficiary of each of the trusts and determined that it was not the primary beneficiary of either trust because it does not have the power to direct the activities most significant to the trusts, which include the collection of principal and interest and protection of collateral through servicing rights. Accordingly, neither trust is consolidated into the Company's consolidated financial statements.

The Company records its investments in RCT I and RCT II's common shares of \$774,000 each as investments in unconsolidated entities using the cost method, recording dividend income when declared by RCT I and RCT II. The trusts each hold subordinated debentures for which the Company is the obligor in the amount of \$25.8 million for each of RCT I and RCT II. The debentures were funded by the issuance of trust preferred securities of RCT I and RCT II. The Company will continuously reassess whether it is deemed to be the primary beneficiary of the trusts.

Wells Fargo Commercial Mortgage Trust 2017-C40

In October 2017, the Company purchased 95% of the Class E, F, G, H and J certificates of Wells Fargo Commercial Mortgage Trust 2017-C40 ("C40"), a B-piece investment in a Wells Fargo Commercial Mortgage Securities, Inc., private-label, \$705.4 million securitization. C3AM, a related party that is not under common control, is the special servicer of C40. The Company determined that although its investment in C40 represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounts for its various investments in C40 as investment securities available-for-sale on its consolidated financial statements.

Prospect Hackensack JV LLC

In March 2018, the Company invested \$19.2 million in the preferred equity of Prospect Hackensack JV LLC ("Prospect Hackensack"), a joint venture between the Company and an unrelated third party ("Managing Member"). Prospect Hackensack was formed for the purpose of acquiring and operating a multifamily CRE property. The Managing Member manages the daily operations of the property. The Company determined that although its investment in Prospect Hackensack represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounts for its investment in Prospect Hackensack's preferred equity as a CRE loan on its consolidated financial statements.

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The following table shows the classification, carrying value and maximum exposure to loss with respect to the Company's unconsolidated VIEs at September 30, 2018 (in thousands):

	Unsecured Junior Subordinated Debentures	C40	Prospect Hackensack	Total	Maximum Exposure to Loss
<b>ASSETS</b>					
Accrued interest receivable	\$ 33	\$ 172	\$ —	\$ 205	\$ —
CRE loans	—	—	19,372	19,372	\$ 19,372
Investment securities available-for-sale <sup>(1)</sup>	—	21,465	—	21,465	\$ 21,117
Investments in unconsolidated entities	1,548	—	—	1,548	\$ 1,548
Total assets	1,581	21,637	19,372	42,590	
<b>LIABILITIES</b>					
Accrued interest payable	693	—	—	693	N/A
Borrowings	51,548	—	—	51,548	N/A
Total liabilities	52,241	—	—	52,241	N/A
Net (liability) asset	\$ (50,660 )	\$ 21,637	\$ 19,372	\$ (9,651)	N/A

<sup>(1)</sup> The Company's investment in C40 is carried at fair value and its maximum exposure to loss is the amortized cost of the investment.

At September 30, 2018, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to any of its unconsolidated VIEs.

**NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION**

The following table summarizes the Company's supplemental disclosure of cash flow information (in thousands):

	For the Nine Months Ended September 30, 2018 2017	
Non-cash continuing financing activities include the following:		
Proceeds from the private exchange of convertible senior notes	\$—	\$ 22,161
Payments on the private exchange of convertible senior notes	\$—	\$(22,161)
Distributions on common stock accrued but not paid	\$ 4,749	\$ 1,566
Distribution on preferred stock accrued but not paid	\$ 1,725	\$ 4,010

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## NOTE 5 - LOANS

The following is a summary of the Company's loans (dollars in thousands, except amounts in footnotes):

Description	Quantity	Principal	Unamortized (Discount) Premium, net <sup>(1)</sup>	Amortized Cost	Allowance for Loan Losses	Carrying Value <sup>(2)</sup>	Contractual Interest Rates <sup>(3)</sup>	Maturity Dates <sup>(4)(5)(6)</sup>
At September 30, 2018:								
CRE loans held for investment:								
Whole loans <sup>(7)(8)</sup>	78	\$1,501,076	\$ (8,583 )	\$1,492,493	\$ (1,736 )	\$1,490,757	1M LIBOR plus 2.50% to 1M LIBOR plus 6.25%	November 2018 to October 2021
Mezzanine loan	1	4,700	—	4,700	—	4,700	10.00%	June 2028
Preferred equity investment (see Note 3) <sup>(9)(10)</sup>	1	19,545	(173 )	19,372	—	19,372	11.50%	April 2025
Total CRE loans held for investment		1,525,321	(8,756 )	1,516,565	(1,736 )	1,514,829		
Total loans		\$1,525,321	\$ (8,756 )	\$1,516,565	\$ (1,736 )	\$1,514,829		

At December 31, 2017:  
 CRE loans held for investment:

Whole loans <sup>(7)</sup>	70	\$1,297,164	\$ (7,014 )	\$1,290,150	\$ (5,328 )	\$1,284,822	1M LIBOR plus 3.60% to 1M LIBOR plus 6.25%	February 2018 to January 2021
Total CRE loans held for investment		1,297,164	(7,014 )	1,290,150	(5,328 )	1,284,822		
Total loans		\$1,297,164	\$ (7,014 )	\$1,290,150	\$ (5,328 )	\$1,284,822		

Amounts include unamortized loan origination fees of \$8.5 million and \$6.7 million and deferred amendment fees (1) of \$295,000 and \$268,000 being amortized over the life of the loans at September 30, 2018 and December 31, 2017, respectively.

(2)

Substantially all loans are pledged as collateral under various borrowings at September 30, 2018 and December 31, 2017.

- (3) LIBOR refers to the London Interbank Offered Rate.
- (4) Maturity dates exclude contractual extension options, subject to the satisfaction of certain terms, that may be available to the borrowers.
- (5) Maturity dates exclude one whole loan, with an amortized cost of \$7.0 million, in default at December 31, 2017. Maturity dates exclude one whole loan, with an amortized cost of \$11.5 million, in maturity default and performing
- (6) with respect to debt service due in accordance with a forbearance agreement at September 30, 2018. The loan was classified as an asset held for sale and in maturity default at December 31, 2017. Whole loans had \$92.2 million and \$84.1 million in unfunded loan commitments at September 30, 2018 and
- (7) December 31, 2017, respectively. These unfunded loan commitments are advanced as the borrowers formally request additional funding, as permitted under the loan agreement, and any necessary approvals have been obtained.
- (8) At June 30, 2018, two legacy CRE loans with amortized costs of \$28.3 million were reclassified to whole loans from assets held for sale as the Company now intends to hold these loans to maturity.
- (9) The interest rate on the Company's preferred equity investment pays currently at 8.00%. The remaining interest is deferred until maturity.
- (10) Beginning in April 2023, the Company has the right to unilaterally force the sale of the underlying property.

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The following is a summary of the contractual maturities, assuming full exercise of the extension options available to the borrowers, of the Company's CRE loans held for investment, at amortized cost (in thousands, except amounts in footnotes):

Description	2018	2019	2020 and Thereafter	Total
At September 30, 2018:				
Whole loans <sup>(1)</sup>	\$	-\$80,830	\$1,400,147	\$1,480,977
Mezzanine loan	—	—	4,700	4,700
Preferred equity investment	—	—	19,372	19,372
Total CRE loans <sup>(1)(2)</sup>	\$	-\$80,830	\$1,424,219	\$1,505,049

Description	2018	2019	2020 and Thereafter	Total
At December 31, 2017:				
Whole loans <sup>(2)</sup>	\$	-\$148,622	\$1,134,528	\$1,283,150

Excludes one whole loan, with an amortized cost of \$11.5 million, in maturity default and performing with respect (1) to debt service due in accordance with a forbearance agreement at September 30, 2018. The loan was classified as an asset held for sale and in maturity default at December 31, 2017.

(2) Excludes one whole loan, with an amortized cost of \$7.0 million, in default at December 31, 2017.

At September 30, 2018, approximately 33.1%, 20.9% and 20.1% of the Company's CRE loan portfolio was concentrated in the Southwest, Pacific and Mountain regions, respectively, based on carrying value, as defined by the National Council of Real Estate Investment Fiduciaries ("NCREIF"). At December 31, 2017, approximately 28.0%, 24.3%, and 12.5% of the Company's CRE loan portfolio was concentrated in the Southwest, Pacific and Mountain regions, respectively, based on carrying value.

#### Principal Paydowns Receivable

Principal paydowns receivable represents loan principal payments that have been received by the Company's servicers and trustees but have not been remitted to the Company. At September 30, 2018, the Company had \$44.3 million of loan principal paydowns receivable, all of which was received in cash by the Company in October 2018. At December 31, 2017, the Company had \$75.9 million of loan principal paydowns receivable, all of which was received in cash by the Company in January 2018.

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## NOTE 6 - FINANCING RECEIVABLES

The following tables show the activity in the allowance for loan losses for the nine months ended September 30, 2018 and year ended December 31, 2017 and the allowance for loan losses and recorded investments in loans at September 30, 2018 and December 31, 2017 (in thousands):

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
	Commercial Real Estate Loans	Commercial Real Estate Loans
Allowance for loan losses:		
Allowance for loan losses at beginning of period	\$5,328	\$3,829
(Recovery of) provision for loan losses, net	(1,260)	) 1,499
Loans charged-off	(2,332)	) —
Allowance for loan losses at end of period	\$1,736	\$5,328

	September 30, 2018	December 31, 2017
	Commercial Real Estate Loans	Commercial Real Estate Loans
Allowance for loan losses ending balance:		
Individually evaluated for impairment	\$—	\$2,500
Collectively evaluated for impairment	\$1,736	\$2,828

## Loans:

## Amortized cost ending balance:

Individually evaluated for impairment	\$24,072	\$7,000
Collectively evaluated for impairment	\$1,492,493	\$1,283,150

## Credit quality indicators

## Commercial Real Estate Loans

CRE loans are collateralized by a diversified mix of real estate properties and are assessed for credit quality based on the collective evaluation of several factors, including but not limited to: collateral performance relative to underwritten plan, time since origination, current implied and/or reunderwritten loan-to-collateral value ratios, loan structure and exit plan. Depending on the loan's performance against these various factors, loans are rated on a scale from 1 to 5, with loans rated 1 representing loans with the highest credit quality and loans rated 5 representing loans with lowest credit quality. The factors evaluated provide general criteria to monitor credit migration in the Company's loan portfolio; as such, a loan's rating may improve or worsen, depending on new information received.

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The criteria set forth below should be used as general guidelines and, therefore, not every loan will have all of the characteristics described in each category below. Loans that are performing according to their underwritten plans generally will not require an allowance for loan loss.

Risk Rating	Risk Characteristics
1	<ul style="list-style-type: none"> <li>• Property performance has surpassed underwritten expectations.</li> <li>• Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix.</li> </ul>
2	<ul style="list-style-type: none"> <li>• Property performance is consistent with underwritten expectations and covenants and performance criteria are being met or exceeded.</li> <li>• Occupancy is stabilized, near stabilized or is on track with underwriting.</li> </ul>
3	<ul style="list-style-type: none"> <li>• Property performance lags behind underwritten expectations.</li> <li>• Occupancy is not stabilized and the property has some tenancy rollover.</li> </ul>
4	<ul style="list-style-type: none"> <li>• Property performance significantly lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers.</li> <li>• Occupancy is not stabilized and the property has a large amount of tenancy rollover.</li> </ul>
5	<ul style="list-style-type: none"> <li>• Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Expected sale proceeds would not be sufficient to pay off the loan at maturity.</li> <li>• The property has a material vacancy rate and significant rollover of remaining tenants.</li> <li>• An updated appraisal is required.</li> </ul>

All CRE loans are evaluated for any credit deterioration by debt asset management and certain finance personnel on at least a quarterly basis.

Whole loans are first individually evaluated for impairment; and to the extent not deemed impaired, a general reserve is established.

The allowance for loan loss is computed as (i) 1.5% of the aggregate face values of loans rated as a 3, plus (ii) 5.0% of the aggregate face values of loans rated as a 4, plus (iii) specific allowances measured and determined on loans individually evaluated, which are loans rated as a 5. While the overall risk rating is generally not the sole factor used in determining whether a loan is impaired, a loan with a higher overall risk rating would tend to have more adverse indicators of impairment, and therefore would be more likely to experience a credit loss.

The Company's mezzanine loan and preferred equity investment are evaluated individually for impairment.

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Credit risk profiles of CRE loans at amortized cost and legacy CRE loans held for sale at the lower of cost or fair value were as follows (in thousands, except amounts in footnotes):

	Rating 1	Rating 2	Rating 3 (1)	Rating 4	Rating 5 (2)	Held for Sale (3)	Total
At September 30, 2018:							
Whole loans	\$—	\$1,376,836	\$110,808	\$4,849	\$—	\$—	\$1,492,493
Mezzanine loan (4)	—	4,700	—	—	—	—	4,700
Preferred equity investment (4)	—	19,372	—	—	—	—	19,372
Legacy CRE loans held for sale	—	—	—	—	—	17,000	17,000
	\$—	\$1,400,908	\$110,808	\$4,849	\$—	\$17,000	\$1,533,565
At December 31, 2017:							
Whole loans	\$65,589	\$1,040,883	\$171,841	\$4,837	\$7,000	\$—	\$1,290,150
Legacy CRE loans held for sale	—	—	—	—	—	61,841	61,841
	\$65,589	\$1,040,883	\$171,841	\$4,837	\$7,000	\$61,841	\$1,351,991

Includes one whole loan, with an amortized cost of \$11.5 million, that was in maturity default at September 30, (1)2018. The loan is performing with respect to debt service due in accordance with a forbearance agreement at September 30, 2018.

(2) Includes one whole loan, with an amortized cost of \$7.0 million, that was in default at December 31, 2017.

(3) Includes one and two legacy CRE loans that were in default with total carrying values of \$17.0 million and \$22.5 million at September 30, 2018 and December 31, 2017, respectively.

(4) The Company's mezzanine loan and preferred equity investment are evaluated individually for impairment.

At December 31, 2017, the Company had one CRE whole loan designated as an impaired loan with a risk rating of 5 due to short term vacancy/tenant concerns and a past due maturity of February 2017. The loan had an amortized cost of \$7.0 million and a carrying value of \$4.5 million at December 31, 2017. In September 2018, the note was sold for \$4.7 million.

Except as previously discussed, all of the Company's CRE loans, its mezzanine loan and its preferred equity investment were current with respect to contractual principal and interest at September 30, 2018.

#### Loan Portfolios Aging Analysis

The following table presents the CRE loan portfolio aging analysis as of the dates indicated for CRE loans at amortized cost and legacy CRE loans held for sale at the lower of cost or fair value (in thousands, except amounts in footnotes):

	30-59 Days	60-89 Days	Greater than 90 Days (1)(2)	Total Past Due (3)	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing (2)
At September 30, 2018:							
Whole loans	\$—	\$—	—\$11,516	\$11,516	\$1,480,977	\$1,492,493	\$11,516
Mezzanine loan	—	—	—	—	4,700	4,700	—
Preferred equity investment	—	—	—	—	19,372	19,372	—
Legacy CRE loans held for sale	—	—	17,000	17,000	—	17,000	—
Total loans	\$—	\$—	—\$28,516	\$28,516	\$1,505,049	\$1,533,565	\$11,516



At December 31, 2017:

Whole loans	\$—	\$	-\$7,000	\$7,000	\$1,283,150	\$1,290,150	\$—
Legacy CRE loans held for sale	11,516	—	11,000	22,516	39,325	61,841	—
Total loans	\$11,516	\$	-\$18,000	\$29,516	\$1,322,475	\$1,351,991	\$—

(1) Includes one whole loan, with an amortized cost of \$7.0 million, that was in default at December 31, 2017.

Includes one whole loan, with an amortized cost of \$11.5 million, that was in maturity default at September 30, (2)2018. The loan is performing with respect to debt service due in accordance with a forbearance agreement at September 30, 2018.

(3) Includes one and two legacy CRE loans that were in default with total carrying values of \$17.0 million and \$22.5 million at September 30, 2018 and December 31, 2017, respectively.

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## Impaired Loans

The following tables show impaired loans at December 31, 2017 (in thousands):

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Whole loans	\$ —	\$ —	\$ —	\$ —	\$ —
Loans with a specific valuation allowance:					
Whole loans	\$ 7,000	\$ 7,000	\$ (2,500 )	\$ 7,000	\$ —
Total:					
Whole loans	\$ 7,000	\$ 7,000	\$ (2,500 )	\$ 7,000	\$ —

The Company did not have any impaired loans at September 30, 2018.

## Troubled-Debt Restructurings ("TDR")

There were no TDRs for the nine months ended September 30, 2018 and 2017.

## NOTE 7 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The following table summarizes the Company's investment securities available-for-sale, including those pledged as collateral. As of December 31, 2017, ABS may include, but are not limited to, the Company's investments in securities backed by syndicated corporate loans and other loan obligations. Investment securities available-for-sale are carried at fair value (in thousands, except amounts in the footnote):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value <sup>(1)</sup>
At September 30, 2018:				
CMBS	\$ 350,179	\$ 3,755	\$ (1,156 )	\$ 352,778
Total	\$ 350,179	\$ 3,755	\$ (1,156 )	\$ 352,778

## At December 31, 2017:

CMBS	\$ 210,806	\$ 1,947	\$ (1,174 )	\$ 211,579
ABS	259	—	(101 )	158
Total	\$ 211,065	\$ 1,947	\$ (1,275 )	\$ 211,737

(1) At September 30, 2018 and December 31, 2017, \$325.7 million and \$169.6 million, respectively, of investment securities available-for-sale were pledged as collateral under related financings.

The following table summarizes the estimated payoff dates of the Company's investment securities available-for-sale according to their estimated weighted average life classifications (in thousands, except percentages):

	September 30, 2018			December 31, 2017		
	Amortized Cost	Fair Value	Weighted Average Coupon	Amortized Cost	Fair Value	Weighted Average Coupon
Less than one year <sup>(1)</sup>	\$ 126,349	\$ 126,749	5.40%	\$ 25,475	\$ 25,275	5.55%
Greater than one year and less than five years	70,778	70,976	5.10%	126,273	127,104	4.65%
Greater than five years and less than ten years	153,052	155,053	3.83%	59,317	59,358	3.53%
Total	\$ 350,179	\$ 352,778	4.65%	\$ 211,065	\$ 211,737	4.45%

(1) The Company expects that the payoff dates of these CMBS and ABS will either be extended or that the securities will be paid off in full.

At September 30, 2018, the contractual maturities of the CMBS investment securities available-for-sale range from June 2022 to August 2061.

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The following table summarizes the fair value, gross unrealized losses and number of securities aggregated by investment category and the length of time that individual investment securities available-for-sale have been in a continuous unrealized loss position during the periods specified (in thousands, except number of securities):

	Less than 12 Months			More than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
At September 30, 2018:									
CMBS	\$39,398	\$ (350 )	11	\$6,286	\$ (806 )	6	\$45,684	\$ (1,156 )	17
Total temporarily impaired securities	\$39,398	\$ (350 )	11	\$6,286	\$ (806 )				