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Ladder Capital Corp. (LADR)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Ladder Capital Corp. Earnings Call for the Fourth Quarter 2015. [Operator Instructions] I would now like to turn the conference over to Ms. Kelly Porcella, Associate General Counsel for Ladder Capital Corporation. Thank you, Ms. Porcella. You may now begin.

Kelly Porcella
Associate General Counsel & Executive Director

Thank you and good afternoon, everyone. I'd like to welcome you to Ladder Capital Corp.'s earnings call for the fourth quarter of 2015. With me this afternoon are Brian Harris, the company's Chief Executive Officer; and Marc Fox, the company's Chief Financial Officer. This afternoon, we released our financial results for the quarter ended December 31, 2015. The earnings release is available in the Investor Relations section of the company's website and our Annual Report will be filed with the SEC later this week. Before the call begins, I'd like to remind everyone that certain statements made in the course of this call are not based on historical information and may constitute forward-looking statements.

These statements are based on management's current expectations and beliefs and are subject to a number of trends and uncertainties that could cause actual results to differ materially from those described in these forward [audio gap] (01:27-01:29). I refer you to Ladder Capital Corp.'s Form 10-K for the year ended December 31, 2015 for a more detailed discussion of the risk factors that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made today. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements.

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The company undertakes no duty to update any forward-looking statements that may be made during the course of this call. Additionally, certain non-GAAP financial measures will be discussed on this conference call. The company's presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Reconciliations of these non-GAAP financial measures to the most comparable measures prepared in accordance with GAAP are contained in our earnings release.

With that, I'll turn the call over to our Chief Executive Officer, Brian Harris.

Brian R. Harris
Chief Executive Officer & Director

Thank you, Kelly, and thank you, everyone, for listening in on our call today. We are pleased to report that for the fourth quarter of 2015, Ladder reported core earnings of $50.1 million, and for the full-year, we earned $191.5 million. Our pre-tax ROE for 2015 was 12.8% and 12% on an after-tax basis. In the fourth quarter, we originated a total of $935 million in loans comprised of $812.8 million of loans targeted for securitization and $122.4 million held for investment on our balance sheet.

During the quarter, we participated in three securitizations contributing a total of $604 million, resulting in a gain on sale of $13.3 million for an average profit margin of 2.2%. For the full year, we contributed a total of $2.58 billion into 10 securitizations for a gain on sale of $67.6 million or an average of 2.6% profit margin. All 10 of these securitizations were profitable.

In January of 2016, we contributed $82.4 million into our first securitization of the year, resulting in a gain of $800,000 or 1% profit margin to start us off. In our securities portfolio, we added $145.6 million and sold $56.7 million in a relatively quiet fourth quarter. In our real estate portfolio, we added 18 assets at a cost of $52.7 million and during the quarter, we also sold one office building and 41 condominium units for a core gain on sale of $11.6 million. At year-end, we held total assets of $5.89 billion, including $109 million in cash. We had a debt-to-equity ratio of 2.9:1.

Unfortunately, our current stock price is trading at a fairly steep discount to book value and when we saw our shares trading at 65% of book value in mid January, we took some steps that seemed prudent against that backdrop. It seemed to us that the market was signaling concern around three main topics: One, deterioration in credit spreads and how that might impact our large CMBS portfolio; two, our origination to securitization business; and three, our standing with the Federal Home Loan Bank after it was announced that we would be asked to phase out our membership over the next five years. I'd like to address each of these concerns in order starting with our CMBS portfolio. We'd like to remind everyone that while we do own $2.4 billion in CMBS, the CUSIPs we own are about 99% investment grade with the vast majority being rated AAA.

In addition, the average duration of our holdings is a relatively short 3.3 years. First, a little history and some context. AAA 10-year securities have seen credit spreads balloon from approximately 90 basis points over swaps in the first quarter of 2015, to today's spread of about 170 basis points. This movement has caused the price of these securities to drop by about 5.5 points. During that same 14-month period, BBB 10-year spreads have gone from 355 basis points to 800 basis points, causing these prices to drop by about 35 points.

On shorter maturities, AAA five-year securities have moved from 55 basis points to 105 basis points for a delta of about 2 points. From this, we can see that the largest losses in CMBS inventory are in lower-rated BBBs and longer-term 10-year CUSIPs. We do not own any long average life BBB securities.

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Our largest exposures to trusts are currently one, Hilton Hotels for $369.9 million, with all rated classes due in November of 2018, but pre-payable without penalty now. Our second largest exposure is to Parkmerced Apartments in San Francisco for $224.7 million, with all rated classes due in November of 2019, but pre-payable without penalty starting in November of 2018. The third-largest CUSIP holding we have is Extended Stay America for $205.1 million, with all classes due by December of 2019, but pre-payable without penalty today.

We believe that the total of $575 million related to the two hotel deals I mentioned are likely to pay off at par within the next 12 months, given that the underlying cash flows in both transactions have significantly increased since these bonds were issued. We also believe the $224.7 million related to the Parkmerced transaction is quite likely to pay off in November of 2018. You can see that in just these three largest positions, we expect to be repaid about $800 million or almost one-third of our current portfolio on average in less than 18 months. Because these securities are all due by the end of 2019, a maximum of three years and 10 months, as long as the credit is viewed as solid, the prices of these securities will not deviate far from $1.00 on $1 because they are expected to pay off at [ph] $1.00 (08:44) very soon. Of our $2.4 billion of securities, over $1.9 billion have durations of less than five years with $990 million expected to pay off in three years or less.

We take this unusually detailed step to provide you with transparency into a very large part of our securities inventory that has not been very affected by the volatility in spreads that we've seen over the last year. We generally own highly rated securities that are short in duration and they can be easily liquidated to provide cash to the company if better opportunities arise. While we hold them, our ROE tends to be over 10%.

While there are some mark-to-market losses reflected in our financials, we wanted to point out that for a company that owns $2.4 billion in CMBS, we have fared far better than most with our always-cautious inventory management, owning very little of the asset class that experienced the greatest losses.

Next up, our conduit business. As we mentioned earlier, all 10 of our 2015 securitizations were profitable with an average profit margin of 2.6%.

We did participate in one securitization in 2016 so far and it was also profitable, however, we feel that the level of volatility in today's markets is just too risky for us to be conducting large-scale lending operations on 10-year loans. Caution is appropriate here. We dialed down our efforts in the conduit space as we originate with a view that we will hold much of our production on balance sheet until volatility settles down a bit. Our originators have already begun to react to the increased volatility doing what we generally do in markets like this. We are emphasizing five-year loans on acquisitions of commercial properties while being very selective on 10-year loans and especially cash-out refinances on less-favorable asset types.

Note that none of this is unexpected. For those of you who know us well, we've often mentioned that while our conduit business produces excellent returns, it occasionally seizes up during periods of increased volatility.

Our business model is fundamentally constructed around these interruptions and allows us to manage through these periodic occurrences. And when they happen, we reallocate capital into safer and less volatile, more liquid investments like AAA bonds with shorter maturities and balance sheet loans. We have seen this before and we believe we are well-equipped to handle the challenges of this market in a profitable yet safe way. Why create more securities when the market is already having trouble absorbing the ones that are out there?

Last, a note on our membership in the Federal Home Loan Bank. While most captive insurance members sponsored by REITs have seen their membership shortened to one year, we're fortunate to be on the short list with five years to exit the program. We will continue to use this competitive advantage to the fullest while we have it.

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While we see no meaningful impact from this in the short term, we will need to be ready to finance our operations without this funding source in five years.

We should not have any difficulty making this adjustment as time goes by and remember that we already have alternative secured bank lines as well as access to the unsecured debt markets with our BB rating. In fact, I'm pleased to report that we recently successfully upsized our corporate revolver by $68 million, from $75 million to $143 million. We believe this expanded facility will help us to react quickly to some of the investment opportunities that we're seeing in today's volatile market conditions.

Now, I'd like to review our strategy in today's current market. While we are constantly seeking to allocate our capital in the most profitable and prudent manner possible, we have recently been able to take advantage of market volatility in ways that we have not acted on in the past. In the first quarter of 2016, when high-yield bond prices collapsed primarily as a result of combination of a slowdown in China, the collapse in energy-related products and doubts about the safety of some large European banks, we were presented with the ability to purchase some of our own corporate debt. We have two issues outstanding, a seven and three-eighths interest rate due in 2017 and a five and seven-eighths interest rate due in 2021.

We previously had purchased $5.4 million of our shorter maturity bond in 2014. In the first quarter of 2016, we purchased an additional $20.6 million of this bond at a price of 97.9% of par, generating a gain of $239,000 and eliminating the need to pay the seven and three-eighths interest rate on these bonds through September of 2017. We also purchased $21.7 million of our bonds due in 2021, at an average price of 82.6% of par generating a gain of $3.5 million dollars and also eliminating associated interest expenses through 2021. Having purchased a total of $47.8 million of our own corporate debt, we de-levered the company and now have $577.2 million of corporate unsecured debt outstanding at the end of February 2016. Our penchant for holding large amounts of cash enabled us to move quickly to seize on these opportunities presented to us in the first two months of the year.

Lastly, we repurchased 84,200 shares of our common stock in the fourth quarter of 2015 and an additional 149,340 shares in the first two months of 2016, for a total of 233,590 about shares at a cost of $2.6 million. We still have $47.4 million remaining in our stock repurchase authorization. We expect to continue these activities throughout the remainder of 2016 whenever they present themselves as attractive investment opportunities. We believe our book value is strong and relatively easy to understand. Until our stock price recovers from its deep discount to book value, we will continue with our efforts to raise cash levels, invest in shorter, more highly rated securities, as well as balance sheet loans and other REIT qualified that have become more attractive as liquidity in general has become more expensive.

We will continue to lend into our conduit program with an understanding that our contributions to securitizations over the next quarter, will be reduced as we continue to be very selective in this space. This caution is appropriate for the current market and we expect that the current deterioration in market prices will curb the competitive environment before a more attractive market environment emerges down the road. With the spread widening experienced over the last 14 months in CMBS, we feel it is best to continue our practice of avoiding losses rather than trying to be too courageous in illiquid markets. You should note that despite CMBS market volatility, our core REIT qualified assets have performed very well and have produced the steady stream of reliable and predictable cash flow.

As such, we feel well-suited to handle these market conditions and what lies ahead. For a company that owned about $6 billion worth of spread products at a time when spreads moved violently against us for 14 months in a row, I'm very happy with the team's performance at Ladder. Our active management of risk and liquidity has served us well in these difficult times and positioned us to go on full offense as assets have become attractively priced and competition has been cut back dramatically. We look forward to the rest of 2016 and beyond.

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I'll now turn you over to Marc Fox, our CFO.

Marc A. Fox

Chief Financial Officer

Thank you and good evening. I will now review Ladder Capital's financial results for the quarter and year ended December 31, 2015. In 2015, Ladder generated core earnings of $50.1 million in the fourth quarter and $191.5 million for the year. These amounts compare to $52.9 million and $219.3 million, for the fourth quarter and calendar year 2014 respectively. Core EPS for the fourth quarter of 2015, was $0.45 per share, compared to $0.32 per share in the same period last year. Core EPS for 2015, was $1.85 a share versus $1.36 per share in 2014. Despite unfavorable market conditions and significant spread widening that affected securitization profit margins during the second half of the year, Ladder generated a 12.8% pre-tax return on average equity and an after tax ROAE of 12% during 2015, based on an average shareholders' equity balance of approximately $1.5 billion.

Looking back at the fourth quarter and calendar year 2015 and comparing the results for the prior year, the financial results were most heavily influenced by less favorable securitization market conditions, higher average level of investment assets held by Ladder during the past year and ongoing cost reduction efforts. Brian has already discussed the conduit market conditions at length, so I will limit my comments. For perspective, in 2014 and 2015, Ladder participated in 10 securitization transactions in each year. The average securitization profit margin in 2014 was 3.65% overall and 4.08% for multi-asset transactions. In 2015, a year in which we only executed multi-asset securitizations, the average securitization profit margin was 2.6%.

The impact of 2015's higher levels of investment assets can be seen in the following fourth quarter comparisons. Interest income was $62.9 million in Q4 2015, $6 million higher than in the same quarter in 2014. And net rental income was $14.4 million in the fourth quarter of 2015, $4.4 million higher than the same quarter a year earlier. Interest expense was also higher in 2015 as we financed our larger asset base. So consistent with the prior quarters, net interest income shows a positive trend on a year-over-year basis, with the $127.6 million earned in 2015 reflecting a 16.9% increase over last year.

The year-over-year declining trend in expenses continued in the fourth quarter, reflecting our company-wide approach to cost reduction. For calendar year 2015, the sum of our salary and employee benefits, operating expenses and fee expenses, declined by 17.5% or $19.3 million compared to 2014. I will now move on to discuss some key fourth quarter investment activity and balance sheet metrics. We originated $935.2 million of loans during the three months ended December 31, 2015 which brought full-year loan production to $3.6 billion. Excluding the two large loans originated in 2014, 2015 origination volume was within $200 million of the prior year total. In terms of asset yields on our loan originations, the average coupon on the loans held for sale that were originated in the fourth quarter of 2015, was approximately 4.92% versus 4.45% in a comparable quarter of the prior year, excluding one large loan originated in that period at a relatively low rate.

The average coupon on loans held for investment originated in the quarter, reflected a weighted average spread of approximately 6.39% over one-month LIBOR versus a 6.52% spread in the fourth quarter of 2014. At the end of the fourth quarter, our portfolio of loans held for investments stood at $1.7 billion, up $217.6 million since the end of the prior year. The weighted average loan-to-value ratio of the commercial real estate loans on our balance sheet was approximately 66% which has remained around the same range as that seen in recent quarters. With regard to securities, 87% of our securities positions were rated AAA or were backed by agencies of the U.S. Government as of December 31, 2015, 99% were rated in investment grade. The weighted average duration of our securities portfolio was 3.3 years or 39 months, as of December 31, 2015, down from 49 months a year prior.

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This short maturity profile coupled with the credit quality of the senior securities in which we invest protects us during periods of high volatility. Brian discussed our recent real estate investment transaction activity which brought our total portfolio to $834.8 million spread across 108 investments as of year-end. Total assets were approximately $5.9 billion. At the end of the quarter, approximately 94% of our debt investment assets were senior secured, including first mortgage loans and CMBS secured by first mortgage loans. Senior secured assets plus cash comprised 78% of our total asset base. This is consistent with the senior secured focus of the company.

Total unencumbered assets including cash were $806.8 million at the end of the quarter, reflecting a 1.3 to 1 ratio to unsecured debt outstanding which totaled $619.6 million at 12/31/15. The debt-to-equity ratio stood at 2.9 times at December 31. This is within the 2 times to 3 times range we have historically targeted. As we've discussed previously, if we were to exclude our securities portfolio and its associated leverage, Ladder's total debt-to-equity ratio would be 1.3 times to 1 times. With regard to financing, we continue to maintain a diverse set of funding sources and access [ph] to (23:49) a significant amount of additional financing availability while looking for opportunities to retire bond financing at a discount to face value.

As Brian discussed, we have been active repurchasing our common stock at current price levels as well. Of importance, is the successful completion of our effort to expand the size of our long term committed syndicated revolving credit facility by $68 million to $143 million in February, on the same terms as agreed in 2014. This valuable funding source which does not require the pledging of investment assets as collateral provides Ladder with greater financing flexibility on a day-to-day basis. As of December 31, 2015, we had $4.3 billion of debt outstanding and committed financing availability of over $1.4 billion, for additional investments. During the quarter, we secured a new loan repurchase facility with $35 million of committed financing capacity.

In the fourth quarter of 2015, we increased our FHLB borrowings to $1.86 billion. As discussed in the earnings release issued earlier today, Ladder's captive insurance subsidiary is one of a very small number of entities owned by mortgage REITs that have the benefit of a five-year transition period under the new membership eligibility rule published by the FHFA in January 2016. During this five-year transition period, Ladder's subsidiary is eligible and continue to draw new additional advances, extend the maturities of existing advances and pay off outstanding advances in the same way it has historically and on the same terms as non-captive insurance company FHLB members, subject to two new conditions.

First, new advances, including any existing advances that are extended during the five-year transition period, will have maturity [ph] dates (25:42) on or before February 19, 2021. Second, future advances are subject to a requirement that total outstanding advances do not exceed 40% of the subsidiary's total assets. We have executed new advances since the effective date of the new rule in the ordinary course of business. So over the next few years, Ladder does not anticipate that the FHFA's final regulation will materially impact its operations. In the latter stages of the five-year transition period in late 2019 and 2020, we expect to gradually replace the FHLB with alternative funding sources.

In conclusion, Ladder has remained cautious as market conditions have changed and has exercised the firm's operating flexibility to rotate between our complementary commercial real estate products in light of recent market conditions. Thanks to our dynamic business plan and our focus on high credit quality senior secured assets we believe we are well-positioned for success in future quarters.

At this point, let's open the line for questions and answers.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Steve DeLaney of JMP Securities. Please go ahead.

Steve C. DeLaney
JMP Securities LLC

Q

Good evening everyone and thank you for taking my question. Brian, I was intrigued I know this is a time for people to play defense and be cautious but it seems that while you're doing that you're excited about I think to take your words, go on full offense. As you see this playing out in the months ahead, can you give us any sense of where you think the best risk-adjusted returns may be for Ladder. CMBS seems to be obvious but I'm wondering if you are also seeing better pricing opportunities on senior portfolio loans as well? Thank you.

Brian R. Harris
Chief Executive Officer & Director

A

Sure, Steve. Correct what you said. I think that the two products that stand out as having gotten much more opportunistically priced are obviously spread related products in CMBS. As we said we don't own too many longer dated securities, they move around quite a bit in price volatility. I will say that I think some of the longer dated securities that we have been avoiding for the last couple of years are now becoming much more in focus to us because you can imagine the BBB having fallen by 35 points to 40 points in value. Thankfully we have sidestepped that devaluation but there are some that we might start [ph] weaving (28:42) into there and that will take a little while for them to come back but if we can find good credit instruments I think that we would certainly start moving out on the maturity curve now and having avoided it for a while now.

Bridge loans also, I think the securitization market, this so-called conduit business has gotten very, very difficult because of the lack of liquidity and really the gaps and spread widening. And this [ph] has – had (28:10) a result not only on our corporate bonds that we mentioned we purchased causing the price of those to fall but also its caused a [ph] bit of (29:18) a liquidity crunch in that a lot of borrowers simply want to refinance into something short term until the volatility blows over. So bridge loans certainly are the ultimate liquidity experience. If you can provide short term financing that's prepayable to a borrower, you can charge more aggressively for that now. So that's really where we're focusing our activities these days.

Steve C. DeLaney
JMP Securities LLC

Q

Okay, that's helpful. Thank you. And at the end of year, you had $572 million of loans held for sale. We've noted one Deutsche Bank deal looked like you sold $82 million. I know there's a [ph] comp (29:57) deal in the market this week but thinking about the $572 million and the $82 million that's been reported, how do we think about the remaining loans? You were definitely sounding like you're pulling back. Is it possible those loans will stay on balance sheet for some time rather than committing them to a deal? And maybe you could – I assume if they are held on balance sheet, are you required to mark those to market in some fashion? Thanks.

Brian R. Harris
Chief Executive Officer & Director

A

I'll let Marc answer the mark to market question. But first before that, I'll just say that a lot of the loans that we originate and then securitize, they are sold in the same quarter oftentimes. And you did see a small contribution from us in a first quarter transaction and I think it was as I said $82 million I think. I can say – we may very well

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hold loans on our balance sheet but I don't want you to think we have $572 million on our balance sheet of 10-year products. In fact I'm going to ask Marc to correct me if I'm wrong here but I believe the two largest loans that we wrote in the fourth quarter and into the first quarter were a $240 million five-year loan...

Steve C. DeLaney
JMP Securities LLC
Q

Okay.

Brian R. Harris
Chief Executive Officer & Director
A

...that we were securitizing in pieces, so that's now six months old. I think we did that loan in September. And I think we split that loan with another party, I think it was two-thirds, one-third. And the other large loan that we've written was a $125 million loan that I believe closed in December or early January. And that is also a five-year loan going along with the theme that I mentioned there that we will position five-year loans preferably.

Steve C. DeLaney
JMP Securities LLC
Q

Right.

Brian R. Harris
Chief Executive Officer & Director
A

In that transaction it was a $195 million refinance where the borrower paid down the loan by $65 million dollars .So we're pretty comfortable with that from a credit perspective. Again, we have ample financing options and we're very comfortable owning five-year on balance sheet. In fact one of the things that we say many times is we generally run a real estate investment operation but we occasionally access the capital markets to push our ROEs up. But when it's not an appropriate thing to do, [ph] we'll (32:14) certainly happy to hold them on balance sheet. You had asked me earlier I think earlier, are we seeing opportunities in longer dated balance sheet of 10-year loans that we might hold for securitization. To tell you the truth, no and the reason why is because there are several parts of the capital stack in the securitization business right now that are to say they're mispriced it somehow understates it.

So if you try to do a transaction today you have B-piece buyers who are shaping pools and kicking loans out, they have a lot of pricing power. In addition to that the BBB portion it can easily move 100 basis points in the middle of the securitization when you're trying to price your deal. And then of course you have the larger classes which are the 10-year AAAs which are equally illiquid although they at some point do catch a bid.

What Ladder is uniquely positioned for I think and one of the things that we're exploring is, first of all we can hold assets on our balance sheet and not only can we do that we can securitize those assets ourselves. And we can hold our own B-piece which we're happy to do since we own it anyway. We've underwritten the loans and as opposed to letting a B-piece buyer pool shape the transaction and kick loans out. And in addition to that as you know we own many AAA securities. So all the parts of the capital stack that appear to be most problematic to most conduit lenders. We're actually able to address all of them as a principal and we're able to do that internally with just [ph] our (33:46) collateral.

So I feel like we're pretty comfortable there. The – [ph] if we try (33:51) to price 10-year loans today to create a profit margin given where securities are trading. I think the rates would be at 6.5% right now. So there is just not a lot of appetite for business up in there. And what is happening is the banks and insurance companies are getting a

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lot of production right now. But to try to price a loan given the current interest rates on the government bonds against the backdrop of where spreads are is kind of a futile exercise. So we're trying to originate in the five-year in bridge loan sector more than the 10-year. We will add some 10-year but we prefer 5-year by far.

Steve C. DeLaney
JMP Securities LLC Q

It's nice to know that what you're holding has the shorter spread duration in the five-year loans. That's very helpful. Thank you, Brian.

Brian R. Harris
Chief Executive Officer & Director A

Okay. Thanks, Steve.

Operator: Thank you. The next question is from Dan Altscher of FBR. Please go ahead.

Daniel K. Altscher
FBR Capital Markets & Co. Q

Hey, good afternoon everyone. Thanks for taking my questions. Brian, in the prepared remarks you talked a lot about some of your own corporate debt that you bought back and the values there seem to be pretty favorable. Can you just maybe give us a little bit of color as to why you chose to get aggressive on the debt as opposed to maybe the common and is that may be the [ph] continual path that – to the extent that that's still traded at a discount and you prefer to do that or (35:08) over the common at this point?

Brian R. Harris
Chief Executive Officer & Director A

Yeah I would tell you I don't think that we have much of a preference necessarily. We're not actively seeking those investments on the debt side. However we occasionally get phone calls where they're being offered. It seems that there is a correlation on the 2021 bond to the price of oil and as oil falls that bond sometimes becomes available. I suspect what's happening there is margin calls in the energy sector are hitting the high yield market. And they're selling things to meet those margin calls and our bonds' maybe one of the things they offer for sale.

So it's a very attractive yield obviously but it's not due for six years. And so at a certain price we certainly will act on those. The 2017 bond on the other hand is a fairly high rate bond at [ph] 7.38% (36:02). And when you've your stock trading at a discount to book value where it was, I think it's prudent to have a lot of cash. And I think in general you want people to understand that you're very liquid and you're capable of purchasing things. But I think at sometimes rather than purchase a mortgage investment, you might want to show cash because the mortgage investments are clearly being discounted by the market. So I felt at one point like if we had written a $10 million loan the market would've told me it was worth $6.5 million when I left the closing. So sometimes these aberrations take place and we try to take advantage of them. On the other hand the given the [ph] 7.38% (36:43) bond is due in 18 months if you're holding a lot of cash and we hold a lot of cash generally you at some point realize that cash you're holding is costing you 7.5 points. So we're happy to move on that transaction also because it does save us interest expense and it is cash that we have lying around.

And as far as the stock goes I'll admit that in the fourth quarter when we began to repurchase our stock there was a bit of a learning curve for us. We are – as you know the stock is fairly thinly traded although that has picked up a little bit lately, we're happy to see. But when the stock is trading at 100,000 shares a day, there are strict limitations on what we're able to buy. And in addition to that there were additional rules that we weren't

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completely familiar with having never done this before where we could not put [indiscernible] (37:36) in at a certain time of day toward the end of the day. So I don't want you to think that we are overlooking the stock but please understand that there are volume limitations. However, we do look at the stock not from a standpoint of, yeah I want to just want to support the stock price. When we think it's an attractive investment and we tend to look at it versus the dividend yield versus other investments we can make, then we will act on that. And as you know we have a $50 million authorization. But I would also tell you that today there are many investment opportunities that far exceed 10.5% that we tend to act on rather than repurchasing the stock. So it really depends on how liquid we are on that day and where the stock is trading. But I think you should expect to see us to continue in that vein and probably at higher volumes going forward.

Daniel K. Altscher
FBR Capital Markets & Co.
Q

Okay, understood. Thanks for that. I think probably a question for Marc, in the prepared remarks and in the press release you talked about one of the new rules with FHLB being in the 40% sort of limit. Can you maybe give us an update as to like how much debt is that the captive relative to the assets where we have seen them before or after kind of the rule right now? And if also you can give us an update on what the maturity profile of the advances look like, have you been able to extend those out, to a full [ph] 10-plus percentage points (39:03) or are you looking to?

Marc A. Fox
Chief Financial Officer
A

Sure. Let's start with where we are right now. We have about $2 billion worth of borrowing capacity at the FHLB based on the new rule. We've got a little bit more than $1.9 billion outstanding at this point in time. We have maturities that are spread out over a period of time extending all the way through September of 2024. We have gone and since the new rule had the opportunity to move some of our maturities as they've rolled out to date. But as you know we can't roll those maturities beyond February 2021. And so at this point, we have about 50 – I'd say it's about 40 different tranches of debt spread over that timeframe. And I think the biggest tranche we have is [ph] $50 million (40:16), $65 million. So....

Daniel K. Altscher
FBR Capital Markets & Co.
Q

Okay and maybe....

Marc A. Fox
Chief Financial Officer
A

Yeah and the way....

Daniel K. Altscher
FBR Capital Markets & Co.
Q

I was hoping to follow-up on that 40%.

Marc A. Fox
Chief Financial Officer
A

Pardon me.

Daniel K. Altscher
FBR Capital Markets & Co.
Q

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I was just hoping to follow-up – I'm sorry I cut you off, but also the 40% question as well.

Marc A. Fox
Chief Financial Officer

A

And that's how I got to the $2 billion in capacity.

Daniel K. Altscher
FBR Capital Markets & Co.

Q

Got it, okay.

Brian R. Harris
Chief Executive Officer & Director

A

And what is our term left, I think he asked that question.

Marc A. Fox
Chief Financial Officer

A

We're at about 2.5 years on average.

Brian R. Harris
Chief Executive Officer & Director

A

Is our average term? Okay.

Operator: Thank you. The next question is from Jade Rahmani of KBW. Please go ahead.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.

Q

Thanks for taking my questions. And I think you did a good job managing the volatility in the markets, especially the conduit margin, impressive. I just wanted to ask how much concern related to the real estate cycle declining underwriting standards, commercial real estate valuations do you think is affecting CMBS or would you say it's purely technical. And also related to that in your past securitizations which I know you track as well as across your real estate portfolio, are you seeing any signs of credit deterioration or declining fundamentals in either your on balance sheet held for investment debt portfolio or your owned real estate?

Brian R. Harris
Chief Executive Officer & Director

A

Okay. I think first I think the problem that we're largely faced with these days is technical. However, I think that technical problem is being caused by a very real credit event in a sector. I get asked a lot of times is this feel like 1998 or does this feel like 2008. And it feels like 1998 to me when long term capital caused the liquidity problem in the system and it was largely over in 90 days. My general opinion is that because of the decline in prices in many parts of the energy sector, I think the coal industry has all but gone bankrupt at this point. Those are real credit events and they are causing liquidity events in other places and you saw what MLPs did, that certainly caused some problems, too.

But as far as real estate underneath the reason I called it a technical problem, and it's certainly not a technical problem in North Dakota and it's not a technical problem in Houston. So we are seeing inventories and past securitizations where delinquencies are ticking up actually rather rapidly especially in certain oil related cities and

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some of the fracking towns. As far as Ladder goes we do not have any exposure to those markets. We do own one Kohl's department store. I think it's in South Dakota but it has a 15-year lease so I wouldn't call that exposure to oil even though it's in a neighborhood where it could be. So we do see some of these areas as definitely getting soft especially as I said Houston in particular is a problematic situation for CMBS because it's a very big city. And there are a lot of assets there. But as far as on our balance sheet we're seeing none of that.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.

Q

And based on your vantage point and your interactions with various players across the securitization market, so what do you think is a reasonable expectation for 2016 securitization volumes for the broader markets? Do you think it's too difficult to say right now or would you be comfortable putting out a number, something maybe in excess of $60 billion or $50 billion? I don't know if you're comfortable with that.

Brian R. Harris
Chief Executive Officer & Director

A

Jade, I'm uncomfortable with that question every day. And I'm particularly uncomfortable with it now, I have no idea. I tend to think though I will go so far as to say there is going to be very little supply in CMBS in about 60 days. And if I'm correct and this is more of a technical event than a credit event with a couple of exceptions understood in the oil sector. I do think that spreads will rapidly come in here pretty soon. And we're not necessarily planning for that. I just tend to look out on the calendar on what I know is being securitized and it comes to a pretty abrupt halt because of this violent movement in spreads in the recent past year. So yeah I think that if the technical nature of this should show up at some point. I know that there's some differing views of that. But in a world where $4 trillion of sovereign debt is negative, I can't help but think at some point some alternative investment manager who hasn't been in [ph] CMBS (45:27) before might start thinking a 9% BBB secured by real estate in a recovering economy might dollar-based, it might be an attractive investment. Unfortunately, that alternative investment manager has not found that market yet.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.

Q

Regarding your core businesses, can you provide a range of how much you think would be reasonable to expect you'd originate for on balance sheet loans each quarter and also do you need to ratchet up production in order to keep originators busy and happy?

Brian R. Harris
Chief Executive Officer & Director

A

I think rather than specifically go in to those answers I would just tell you that Ladder is a balanced operation. So that when one part of our business model turns off be it for whatever reason, usually another one goes on. So we will oftentimes – when you hear the CMBS I think the Commercial Mortgage Alert had a headline a couple of weeks ago that said giant losses in CMBS originators. Well it's a zero-sum game, if somebody's losing money, somebody's making money. And if you're selling securities and losing a fortune there's a good chance the guy who's buying those securities is probably going to do pretty well and the borrower certainly did pretty well too because you can't borrow at that rate anymore.

But I think that there is a reset going on right now in pricing of liquidity. So even to imply that I understand how many bridge loans on balance sheet we can write at rates I really don't know. And the reason why is because the rates are much different than they were even 90 days ago. So it's a question of borrowers who have the ability to wait versus borrowers who need to fund right away. In addition I think that the refinance pipeline is certainly

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slowing down because of where spreads are. But let's not forget there's a hell of a lot of loans maturing. So there's going to be a pile up in here soon at some point .So I wouldn't be surprised if this is a drastically lower quarter in the second quarter and maybe part of the third quarter as originations have nearly stopped. And I don't mean down 20%, I mean they're down 80%, 90%. And so the second quarter will be the first sign of that and the third quarter will probably have some hangover approach to it. But I tend to think by the end of the summer, I think most of this will be back under control and back on track in a more normal environment.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.

Q

And just in response to Steve's question I think you talked about playing in the [ph] gamut (48:04) across the credit spectrum and you could pursue your own securitizations. It sounded like I felt a hint that you might be interested in the servicing business. Just wanted to ask about that, would you be interested in acquiring or building a special servicer?

Brian R. Harris
Chief Executive Officer & Director

A

Yeah, we've looked at that a couple of times. Certainly when I hear servicer I hear [indiscernible] (48:28) and it's a very good business and it's another balancing component where it kind of works as a hedge against some of these securitization businesses. But we do not have one of those scheduled right now nor are we actively looking at one.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.

Q

Thanks for the comments and taking the questions.

Brian R. Harris
Chief Executive Officer & Director

A

Sure.

Operator: Thank you. The next question is from Charles Nabhan of Wells Fargo Securities. Please go ahead.

Charles Nabhan
Wells Fargo Securities LLC

Q

Hi, good evening. Could you comment on the net lease property acquisitions during the quarter and specifically what types of markets those acquisitions were in and what you're seeing in terms of pricing and sort of how it compares to comparable transactions you might've done in the past?

Brian R. Harris
Chief Executive Officer & Director

A

Yeah I think we bought about 17 net lease properties I believe. And based on the volume you can tell that most of them were rather small individual investments. And so as far as geographics go I think we're spread at least in that quarter across Minnesota and a little bit along the snowbelt. Most of those are discount retailers with net leases for probably 15 years. The cap rates we were buying them at were similar if not slightly wider to the ones we had been buying them at a year ago. And as far as transactions today go, it's a fairly muted pipeline at this point, not really because they're not available at those cap rates but the financing rates that go along to fund those purchases as you know, have gotten very expensive.

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So, I would say that the equity business for us is always hand-in-hand with the debt business and while we are selling some assets, too, all the time, but I think we'll always acquire them with an eye towards what does it cost to finance them. So, when the cost to financing those purchases goes up dramatically as it has recently, like the rest of the market, we, too, pull to the sideline and our acquisition pipeline falls abruptly.

Charles Nabhan
Wells Fargo Securities LLC

Q

Okay. And as a follow-up, we saw one smaller conduit lender close up shop last month and presumably, there could be more in light of some of the volatility we've seen in the market. So, I was wondering if you could comment on the competitive landscape for conduit lenders and whether you see that as an opportunity once things hopefully get back on track in the second half of the year.

Brian R. Harris
Chief Executive Officer & Director

A

Well, this will certainly cut the herd for sure. I think that there's a couple of things going on that impact, especially some of the slower conduit players. But for instance when a B-piece buyer has a lot of authority and he kicks out 30% of the loans in the pool, oftentimes, those line lenders that finance those positions will ask those lenders to remove those positions from their lines. So, I think, that causes one set of problems that probably was largely unanticipated by those lenders.

So, I think, there is no real competitor right now in the conduit business because I don't think anyone is terribly active in the conduit business because the entire sector is being ceded to banks and insurance companies today.

We actively write loans that are five years as I mentioned earlier, some of the large loans. So, we're functioning very much like a bank in shorter-term products, five-year and bridge loans. We're happy to write 10-year loans also, but we have an eye towards securitization and hedging on those 10-year instruments and it's frankly just – it's [ph] unruly (52:00) right now and that's one of the reasons I think we're – I would just indicate here the conduit business is going to take a knee here for about 90 days and that will start probably in about 45 days from now.

Charles Nabhan
Wells Fargo Securities LLC

Q

Okay. And finally, there's some legislation out there relating to Dodd-Frank risk retention and single asset securitizations along with at the B-piece could potentially be split. Could you comment on the prospects of that legislation? And I know you've done some single-asset securitizations in the past, how you think about that shaping the market over the next year or so?

Brian R. Harris
Chief Executive Officer & Director

A

I'll answer this for the extent of my knowledge. I believe this came out last night and we have spoken to some government officials regarding exactly this topic, but I don't know enough about it right now to see what is actually going to go through and what's going to pass. I think that it's a bit of a big hill to climb but there have been certain things that made it easier especially in the single-asset securitization world if it goes that way. But given the recent passage of something, which was as early as last night, I really don't feel like I can – I don't want to speak on it as an expert. I really don't know. Our attorneys are downloading that information now.

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Charles Nabhan
Wells Fargo Securities LLC

Q

Okay. Thank you very much.

Brian R. Harris
Chief Executive Officer & Director

A

Sure.

Operator: Thank you. [Operator Instructions] Our next question is from Rick Shane of JPMorgan. Please go ahead.

Richard B. Shane
JPMorgan Securities LLC

Q

Hi, guys. Thanks for taking my questions today. We're starting to see in the mortgage REIT space a little bit more activity in terms of strategic considerations, changes in structure, sales, acquisitions. I'm curious given where you stand right now whether or not you see any opportunities. And the other thing I would ask you is – look, this is a company that historically was very well funded privately. It appears that most of those original investors have not reduced their positions at all over time. Does it make sense given the valuation to think about bringing this in?

Brian R. Harris
Chief Executive Officer & Director

A

I'm sorry, Rick, what was the last line you said?

Richard B. Shane
JPMorgan Securities LLC

Q

Does it make sense to consider something along the lines of taking Ladder private at this point?

Brian R. Harris
Chief Executive Officer & Director

A

That's an interesting question. It's one that has been debated. We do have many of our original investors still. I don't think that the company will go private. However, if you were to see the price to book value stay very low for very long time, I can't speak on behalf of the owners of those shares, but I know the numbers start clicking in my own head. And although I've never really approached anybody to go about doing that, but you have to believe if you think that your book value is solid and you are trading at a 40-point discount to book value, yeah, of course, any financial expert would run those numbers in their head.

But so, does it make sense? Yeah, at some point it sure does, but I don't see that happening in the near term. I think our objective in the short term here is to really improve book value and get this discount dispensed with and I think we should be able to do that because I think one of the things that most of this market doesn't fully understand about Ladder as we're rather new is our ability to generate cash very, very quickly. So, when we can deleverage the balance sheet by buying our own debt back or our own stock back and make appropriate investments considering where the market is, we're not forced to be in anyone business at all and we're pretty comfortable in these volatile markets. They don't particularly bother us.

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Richard B. Shane
JPMorgan Securities LLC

Q

It's interesting. Look, we understand the strategy and the ability to go to different corners and different markets and I think over the next few months, we'll really see the benefits of that. I also appreciate at least acknowledging the consideration of taking the company private. I know it's a tough question in a forum like this but it's good to know that you're weighing all the options out there. I assume given the multiple that doing anything despite the fact that you might want to be a little bit more aggressive offensively in terms of making an acquisition is a little bit difficult.

Brian R. Harris
Chief Executive Officer & Director

A

Yes. Of course, it is. Yeah, I think we'd always look at things but realistically, we took this company from $1.5 billion in assets to $6 billion in assets in a very short period of time. And if you are trading at a premium to book value, I think that number goes from $6 billion to $8 billion pretty quickly, too. But if you're trading at a discount to book value, I think you really have to just face the realities of what you're looking at in the market. And I think it's time at that point, as I heard one other CEO of one of these REITs mentioned, caution is prudent and prudent affects earnings. That's translated to mean cash, it needs to be around to make sure everybody is safe and we subscribe to that theory.

So, you will see higher cash balances. The fact that we were able to upsize our unsecured revolver to $143 million is very, very helpful in this market and I think we'll continue to do the things we can do while our stock is a little impaired but we're making every effort to move the stock up to book value and then we'll start working on our outstanding ROEs. I think it doesn't – As a CEO of the place, it just doesn't feel like it's an earnings conversation when you make $50 million in the quarter and the stock drops 30%. I think it sounds more like how much money are you down and so we're happy to take that argument on and we will. And when we return the stock to book value, we will – that's when we'll be fighting off the front foot again.

Richard B. Shane
JPMorgan Securities LLC

Q

So, it sounds honestly like the right thing to do. I think you will, at least in the short term, potentially be surprised by how confused people get by doing the right thing but in the long term, it tends to work out.

Brian R. Harris
Chief Executive Officer & Director

A

Rick, we sat around one day and I know Facebook has hackathons. We literally sit around offices and throw out wild ideas and think about what are the possibilities that we could do. And one person said, well, what if we just showed up on New Year's Eve with no earnings, no dividend and $1.5 billion in cash. And the answer was the stock is up 30%. And so while I don't want anybody to misinterpret that line, we're not planning to do that.

But there is a version of that that doesn't involve a dividend cut and doesn't involve any form of selling anything, because we have such a short book. Our book pays itself off very quickly. We've got paid off today in a $75 million hotel loan and it was 50% levered, so we now have another $38 million in cash and, frankly, I don't have a big pipeline of applications for the conduit securitization business but I have plenty of investment opportunities.

Richard B. Shane
JPMorgan Securities LLC

Q

So, it's a third rainy Thursday afternoon at the end of earnings season and you just made me laugh, so thank you.

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Brian R. Harris
Chief Executive Officer & Director

A

Okay, Rick. Thanks.

Operator: Thank you. The next question is from Ken Bruce of Bank of America Merrill Lynch. Please go ahead.

Kenneth Matthew Bruce
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Thanks. Good afternoon. You've addressed a lot of the questions, so I'll try to keep this brief. It sounds like you think that a lot of this dislocation in the market is going to pass over the course of the next month and a half, two months. And because of that, you're basically just going to keep your head down and just block and tackle with your lending portfolios in the like instead of CMBS. But if that is not the case, if we have this prolonged period of the current market backdrop, what changes if any would you make to your business?

Brian R. Harris
Chief Executive Officer & Director

A

I think, as I said, we're pretty comfortable in times like this and so what you're describing is a long period of time, where there's a lot of volatility and a lack of liquidity. That would suit us very well. We'd be pretty comfortable with that because we stay very liquid, we stay very short. We're well-financed through various vehicles. As you know, we have the Federal Home Loan Bank for five more years.

So, I would tell you that given where securities are trading, where spreads have widened to, they're extraordinarily attractive right now. And they're rather liquid and they can easily be financed. So, I think, to take your chances on a 10-year conduit loan that has to go through a rating agency and a B-piece inquisition and then partner up with a few people and then get sold with AAA's and BBB's and see where the market is, I think that's a tall order when you can simply buy those securities while the people who are selling those are suffering.

And as I said, it's a zero-sum game and we are able to acquire highly rated securities right now at relatively low prices. I don't mean AAA three-year securities. Those are selling around par right now and they are very easy to sell, they're very easy to buy. But if you want to extend out on the maturity a little bit more, we feel like our credit skills in-house are capable of selecting the right assets that will not have any problems and we will continue to do that.

Kenneth Matthew Bruce
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

And in terms of the portfolio, I understand that, but in terms of the operating platform, would you make any changes there or do you think it supports – would that business support your current footprint?

Brian R. Harris
Chief Executive Officer & Director

A

I don't believe the conduit business is nearly dead. I think this is an interruption I've seen many times. This may seem a little extreme because I don't think we've seen the energy sector collapsed like this before, but I've certainly seen recessions, I've seen Feds raising rates. I have seen long-term capital causing the head of the banks to all meet with the Federal Reserve and liquidity problems, and they are typically followed by very attractive investment periods.

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So, while I don't think that the energy problem is going away anytime soon, I think that at some point, there will be tremendous write-downs in there. And once that gets over with, then I think some of this volatility will slow down. However, there are other structural issues that are causing volatility that are not going away. Dodd-Frank is – I don't know what it's necessarily intended to do; it is absolutely causing liquidity problems.

So, I don't want to imply that volatility is going away in 45 days. I just think it's going to settle down. But when you think about the investment and liquidity apparatus in the United States, it is drastically impaired.

Kenneth Matthew Bruce
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Right. I guess that's the paradox. I mean, your business is set up to benefit from these situations and it feels at the same time that you have to play a bunch of defense when you get into one of these markets. And maybe it's just a matter of time of being able to get better price discovery and at least some comfort in terms of where you start transacting again. It feels at the moment that there's – everybody is kind of backed into a corner.

Brian R. Harris
Chief Executive Officer & Director

A

Well, I mean, we used to do $5 billion and $7 billion transactions in 2006. We can't even approach that but yet, you did see Apple do a very large corporate bond offering, Exxon did one the other day, too. So it isn't like it's gone, but I do think that the CMBS sector and also the REIT sector for that matter having been – the CMBS world sometimes intersects with high yield and I think the REIT investor world sometimes intersects with MLPs. So, I think that that's adding a little bit more pressure and a lack of liquidity in few areas.

But the mantra around here is be tight on principle, make sure you get paid back. We're not overly concerned if we have the right interest rate as long as we get paid back and we keep the leverage in the sanity column and that has served us well for decades. So, we'll continue to do that and we'll be more liquid in these more volatile times but we've set up the organization. Just the fact that we own $2.4 billion in CMBS that has a three-year average life is indicative of a fair understanding that that liquidity can evaporate pretty quickly. I mean, we didn't become that in the first quarter when we saw liquidity problems, we became that five years ago when we started buying these things.

Kenneth Matthew Bruce
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Great. Well, that was it. Thanks again for your time this evening.

Brian R. Harris
Chief Executive Officer & Director

A

Sure.

Operator: Thank you. The next question is from David Lapierre of Loomis Sayles. Please go ahead.

David Lapierre
Loomis Sayles & Co., LP

Q

Hi, guys. Thanks for the call. Just curious, I appreciate your comments on the FHLB and your funding profile. Have you guys seen any changes from the big banks on repo lines, on margins or anything there?

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Brian R. Harris
Chief Executive Officer & Director

A

We have not. I would hesitate to say it but if anything, we're seeing slightly more aggressive terms from the banks on highly rated securities. I'm not necessarily seeing any changes in the way we finance our whole loan portfolio or our bridge loan portfolio. However, the two-year or three-year AAA is a very easier-to-finance business today than it was three months ago. And I think what you're really seeing is a flight to quality there. Banks truly understand that those assets are money good, so they are happy to be aggressive around them. And I think what you're really seeing is they are less aggressive on the BBBs, BBs and A and AA portions of this sector. So, the answer is neutral to positive changes as far as Ladder's inventory goes.

David Lapierre
Loomis Sayles & Co., LP

Q

Okay. Great. Thanks. That's helpful.

Brian R. Harris
Chief Executive Officer & Director

A

Sure.

Operator: Thank you. And our final question comes from Joseph Zhu of Frost Investment Advisors. Please go ahead.

Joseph Guangxi Zhu-Carnevale
Frost Investment Advisors LLC

Q

Hey. Good evening, guys. Thank you for your time. Just quick question for you. Do you have any off-balance-sheet unfunded commitment to your borrowers?

Marc A. Fox
Chief Financial Officer

A

Yeah, we do but they're pretty limited because we're not a construction lender per se and that's where you really end up seeing that.

Brian R. Harris
Chief Executive Officer & Director

A

I think the nature of your question is do we have any large commitments and the answer is we have very small ones and we set up a company that way and any time, the volatility of this company can shut their cash off going out the door very, very quickly.

Joseph Guangxi Zhu-Carnevale
Frost Investment Advisors LLC

Q

Okay. Would you say it's less or more than maybe $100 million or what's the magnitude of that commitment?

Brian R. Harris
Chief Executive Officer & Director

A

I would think it's much less.

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Joseph Guangxi Zhu-Carnevale
Frost Investment Advisors LLC

Q

Yeah. Okay. Great. And also, looking at the FHLB, the five-year thing, do you have a difference [ph] in the quarter (01:07:47) in terms of the asset encumbered for the line versus any unencumbered asset?

Brian R. Harris
Chief Executive Officer & Director

A

Well, the Federal Home Loan Bank is very conservative in what they will finance. They take AAA and AA securities, they do not take A securities and they are not aggressive financers of whole loans that when we make loans to properties, they tend to prefer multifamily properties as opposed to hotels. But obviously, the unsecured line is just the unsecured line.

But the Home Loan Bank is not a very aggressive advanced rate lender. The rates tend to be low but they're certainly not high leverage operation at all and I think that's important because one of the things that I – I mean, we took an unusual step today and we told some people in our largest holdings in securities.

Joseph Guangxi Zhu-Carnevale
Frost Investment Advisors LLC

Q

Sure.

Brian R. Harris
Chief Executive Officer & Director

A

And the reason we did that was because first of all, we wanted them to know how short they were and, of course, everyone of you can go check with the people you know in the mortgage business as to what those might be were and we're pretty comfortable with all of you doing that. But I also wanted you to know, too, that those positions that we own at least in the AAA and AA areas, if we were to remove them from the Federal Home Loan Bank and put them on our bank lines, the bank lines are more aggressive on the advanced rate and our actual ROEs would go up, not down.

Joseph Guangxi Zhu-Carnevale
Frost Investment Advisors LLC

Q

Okay.

Brian R. Harris
Chief Executive Officer & Director

A

But we did...

Marc A. Fox
Chief Financial Officer

A

[indiscernible] (01:09:19)

Joseph Guangxi Zhu-Carnevale
Frost Investment Advisors LLC

Q

Okay. Great. And so, in another ways of saying that is for your unencumbered asset, they're mainly not securities but they're more like loans, right?

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Marc A. Fox
Chief Financial Officer

A

It's a combination. It's a combination of securities, loans and real estate.

Joseph Guangxi Zhu-Carnevale
Frost Investment Advisors LLC

Q

Okay. And looking at your CMBS investment portfolio now and congrats on your early kind of position, you have been buying that in the past five years. But as they mature, do you have any big shift in terms of the size and also are you going to be slightly a bit down in credit in terms of buying CMBS bonds going forward?

Brian R. Harris
Chief Executive Officer & Director

A

That is a decision we make on a day-to-day basis. The reason we tend to keep things very short is really not so much because they are investments in CMBS, they're really just better than cash. We don't like holding cash in the bank at zero and we're very comfortable with the price volatility or lack of price volatility on short AAA's. And we can sell them pretty quickly if we need to or want to when we see a better investment.

Depending on where things are, we'll easily move down in credit if we'd like to. Historically, we haven't done that very much. We prefer liquidity. We do feel we can underwrite down in credit very comfortably well at today's prices. If everything stayed right where it is right now, we would certainly be going longer out on maturity and slightly down in credit, down in credit meaning A and BBB, not down in credit unrated and BB.

Joseph Guangxi Zhu-Carnevale
Frost Investment Advisors LLC

Q

Sure. Thank you so much for your time.

Brian R. Harris
Chief Executive Officer & Director

A

You're welcome.

Operator: Thank you. I would now like to turn the conference back over to management for any additional closing comments.

Brian R. Harris
Chief Executive Officer & Director

That's it from here. And we just want to thank everybody for staying with us and it's a rather long call but we felt that additional detail was a little helpful here for you and hopefully you thought so, too. So thanks very much.

Operator: Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and thank you for your participation.

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