Transcript of Ladder Capital Corp’s Q1 2016 Earnings Call

May 5, 2016

Operator: Good afternoon, and welcome to Ladder Capital Corp.'s Earnings Call for the First Quarter of 2016. Later, you will have the opportunity to ask questions during the question-and-answer session. As a reminder, today's call is being recorded.

At this time, I would like to turn the conference call over to Ladder's General Counsel, Ms. Kelly Porcella. Please go ahead, Ms. Porcella.

Kelly Porcella

General Counsel

Thank you, and good afternoon, everyone. I'd like to welcome you to Ladder Capital Corp.'s earnings call for the first quarter of 2016. 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 March 31, 2016. The earnings release is available in the Investor Relations section of the company's website and our Quarterly Report on Form 10-Q 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 -looking statements. I refer you to Ladder Capital Corp.'s Form 10-K for the y ear 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.

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. In the first quarter, Ladder reported core earnings of $38.2 million, and core earnings per share of $0.38. Most of the description of market conditions that we'll go through this evening is just a continuation of what we described in early March, just two months ago, when we went over our 2015 full year earnings with you.

During that call, we indicated that we were becoming cautious in originating loans targeted for securitization, due to extreme volatility that was prevalent in credit markets, at the start of the y ear. To that end, we originated just $69.4 million of loans held for sale and $49.7 million of balance sheet loans.

Instead of originating at a customary pace, in the quarter, we instead allocated capital internally and repurchased $55 .7 million worth of our corporate bonds and $4.7 million of our common stock. We participated in two securitizations during the quarter, contributing a total of $249.2 million of loans for gain on sale of $3.9 million and a profit margin of 1 .57 %.

I would like to pause here and talk about our gain on sale business for a minute, as it se ems to be the focus lately for some of our analysts and investors. The reason we pulled back on originations for sale in the quarter was, because if we price loans that could be sold profitably at the requisite credit spreads that were prevalent in the first quarter, the mortgage rate that we would need to have charged to originate that would have attracted loans that would not have met our rigorous credit standards. As we have said since we started, when the securitization market seizes, as it inevitably does from time-to-time, we reallocate our capital into one of our other product lines, investing in rated securities and more liquid investments that are usually priced at very attractive levels during these periods of high volatility.

So, while we securitized about $250 million of loans in the quarter at a gain of about 1.6%, we also acquired $228 million of securities that we felt were very attractive investments. As an illustration of these values, I can report that I know of a AA bond that we bought and sold in only 42 days at a gain of 9% as spreads tightened into early April. We also bought and sold A rated bond in just 32 days for a gain of 16.1 %. Our investors are far better served when we acquire investments like that during volatile markets, rather than sell them.

While we de-emphasized our securitization efforts in the first quarter, please don't think that we are any less confident about the long-term benefits of owning this product platform. Since Ladder's first securitization in 2010, we have participated in 39 transactions through the first quarter of 2016 having sold over $11.5 billion of loans into securitizations, generating profit margins on average of 4.8% for $547 million in profits over six years; 38 of the 39 transactions, we participated in were profitable, with the only loss occurring in the summer of 2011. To be blunt, we are staying in that business, but fully expect on occasion to buy securities rather than sell them.

We also want to point out that while the securitization business at Ladder had slowed in the first quarter, the rest of our product lines performed very well. And we are pleased to have earned an annualized after-tax ROE of 10.8% in the first quarter. While we are rebuilding our origination pipeline in the second quarter, we are happy to be able to count on a very attractive stream of earnings from our balance sheet loans, our short duration securities portfolio, and our 7 million square feet of real estate holdings.

During the first quarter, we did sell one retail property for $9 million producing a gain of $605,000. Condominium sales in the quarter resulted in a contribution to core earnings of $4.7 million on sales of $14.4 million. We also received principal pay downs of $218.4 million of our balance sheet loans and $36.1 million of our CMBS inventory.

At the end of March, we had assets totaling $5.7 billion including cash of $113 million. Our quarter end debt-to-equity ratio dropped to 2.76 times from 2.87 times at year-end 2015. On the financing and liquidly front, I'm happy to report that we upsized our corporate revolver by $68 million to $143 million bringing a sizable new financing relationship into the facility. At the end of April, we had $1.818 billion of FHLB borrowings at an average term of 2.56 years, at an average cost of 1%.

Overall, I feel like we performed relatively well in the first quarter, and while one of our profit drivers was effectively sidelined by market volatility, we hope to have that product back in the lineup as we head into the summer. It was a difficult quarter in the mortgage business, but we came through it with a double-digit ROE and we are pleased with that result. I'll now turn you over to our CFO, Marc Fox.

Marc A. Fox
Chief Financial Officer

Thank you, Brian. I will now review Ladder Capital's financial results for the quarter ended March 31, 2016. Ladder generated core earnings of $38.2 million in the first quarter of 2016. This amount compares to $48 million in the same quarter of the prior year. Core EPS for the first quarter was $0.38 per share compared to $0.48 per share for the first quarter of 2015.

As you may recall, Ladder executed a 10.2% stock dividend during the first quarter, which had a $0.03 per share dilutive impact on core EPS in the current quarter. Ladder generated 10.8% after-tax return on average equity during the first quarter of 2016, down from 12.6% in the first quarter of 2015. This is based on an average shareholder's equity balance of approximately $1.5 billion.

On a GAAP basis, we are reporting a net loss of $11.4 million for the three months ended March 31, 2016. This compares to net income of $18 million for the comparable period in 2015. During the first quarter, both the five-year and 10-year swap rates declined by 51 basis points. As a result, we recognized GAAP hedging losses of $50.9 million. Those hedges are predominantly interest rate hedges that protect the value of fixed rate conduit loans and securities, which increased during the quarter.

The largest GAAP to core earnings adjustments in the quarter related to the timing of recognition of hedge results to coincide with the realization of gains and losses on the disposition of hedged assets, and real estate depreciation. These results reflect the trends and strategies that Brian cited earlier, including core earnings for the quarter that were largely generated by balance sheet loans, CMBS, and real estate portfolios, which continued to perform as planned. During the quarter, balance sheet loans produced net interest income of $31.3 million compared to $31.9 million in the prior quarter. Securities investments produced net interest income of $16.3 million versus $16.1 million in Q4 2015.

Real estate investments generated $8.7 million of net rental income, net of all financing costs as compared to $8 million in the prior quarter. And finally, we earned core gains of $4.7 million in sales of condominiums, which compares to $4.4 million earned in Q4 2015.

On the lending side, as Brian noted, volumes were down as uncertain lending market conditions caused borrowers to reassess their financing needs and in many cases, defer borrowing actions to the future, and widening credit spreads made it difficult to price loans to predictable profit as securitization profit margins compressed.

The widening credit spreads and fixed income market illiquidity also presented Ladder with the opportunity to acquire $55.7 million of its own corporate bonds at discounted prices on which Ladder realized $5.4 million of gains on the extinguishment of debt in the first quarter.

The actions taken in this past quarter are consistent with the disciplined investment and financing approach Ladder has consistently applied over time, including electing to forego certain investment opportunities during the time of heightened risk, instead opting to reallocate capital to shorter term, highly rated, highly liquid CMBS investments, very selectively making longer-term investments and loans at real estate, opportunistically repurchasing higher cost, corporate bond debt at discounted prices and continuing to buttress our financing base by extending debt maturities. As a result, Ladder ended the quarter with a somewhat smaller, slightly more liquid asset base with total assets of $5 .7 billion versus $5.9 billion at the end of 2015, levered at 2.76:1 compared to 2.87:1 at the end of last year.

Looking more closely at the income statement and balance sheet, Ladder maintained a steady stream of income during the first quarter of 2016 from its investments in high quality senior secured assets. Interest income was $59.6

million for the first quarter, $3.2 million higher than the same quarter of 2015. And net rental income of $14.9 million, was $2.6 million higher than – in the first quarter of 2015. Both interest expense and net interest income were higher than in the first three months of 2015.

During the first quarter of 2016, Ladder originated $119.1 million of loans. Ladder's portfolio of loans held for sale stood at $353.3 million at the end of the quarter, down from year -end 2015 as securitization activity was greater than originations during the quarter. At the end of the quarter, Ladder's portfolio of loans held for investments stood at $1.6 billion, down 9.54% from the end of last year due to loan repayments.

Our portfolio of CMBS and U.S. Agency Securities increased to $2.6 billion from $2.4 billion at year-end 2015, reflecting the reallocation of capital to CMBS, Brian discussed. With regard to real estate, our real estate portfolio as of March 31, 2016 stood at $809.2 million compared to $834.8 million at December 31, 2015. The declining trend in operating expenses, which started at the end of 2014, continued in the first quarter of 2016, primarily as a result of our company-wide approach to cost reduction.

In terms of key balance sheet metrics, as of March 31, 2016, 95.7 % of our debt investment assets were senior secured, including first mortgage loans and commercial mortgage -backed securities secured by first mortgage loans, which are consistent with the senior secured focus of the company. Senior secured assets plus cash comprised 78.6% of our total asset base.

Total unencumbered assets including cash with $658.7 million, reflecting 1.17:1 ratio to unsecured debt outstanding, which totaled $563.9 million at March 31, 2016. Average coupon on the loans held for sale that were originated in the first quarter of 2016 was approximately 5.05% compared to 4.14% in the comparable quarter of the prior year. The average coupon on the loans held for investment originated in the quarter reflected a weighted average spread of approximately 7.42% of a one month LIBOR versus a 6.69% spread in the first quarter of the last year. The weighted average loan to value ratio of the commercial real estate loans on our balance sheet was approximately 66.4%, remaining pretty much flat from the average weighted average LTVs in recent quarters.

With regard to securities, 84.8% of our securities positioned were rated AAA or backed by agencies of the U.S. government, as of March 31, 2016, and 98.2% were rated investment grade. The weighted average duration of our securities portfolio was 3.25 years or 39 months, the same as it was at the end of the prior quarter. With regard to financing, we continue to enhance our maturity profile, while maintaining a diverse set of funding sources. As of March 31, 2016, we had $4.1 billion of debt outstanding and committed financing availability of over $1.6 billion for additional investments.

As previously noted, during the first quarter of 2016, we took advantage of opportunities to retire bond financing at discounts to face value. At December 31, 2016, $297.7 million of the 7 3/8% coupon bonds maturing in October 2017 and $266.2 million of the 5 7/8% coupon bonds maturing in 2021, remained outstanding.

We also repurchased 424,317 shares of Class A common stock at a weighted average price of $10.96 per share, leaving us with $44.4 million remaining under the board authorized $50 million repurchase program.

We continue to execute advances with Federal Home Loan Bank in the ordinary course of business. And as we have mentioned previously, Ladder does not anticipate FHFA's final regulation will materially impact operations during the five-year transition period under the new membership eligibility rule, published by the FHFA in January of this year.

Since 12/31/2015, in addition to expanding the size of our long-term committed syndicated revolving credit facility by $68 million to $143 million, in order to achieve greater financing flexibility for a line which does not require the pledging of investment assets as collateral, we also executed a new securities repurchase agreement and extended the maturity of a major secured funding facility by two years to 2020.

At this point, it's time to open the line for questions-and-answers.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll go first to Jessica Levi-Ribner with FBR Capital Markets. Please go ahead.

Jessica S. Levi-Ribner

FBR Capital Markets & Co.

Hey, guys. Thanks so much for taking my question. Just looking forward at the second quarter, it looks like the securitization market has opened back up. Do you feel like the volumes will be comparable to last year's second quarter or will they still be a little bit light?

Brian R. Harris:
Jessica, this is Brian. I would imagine they're going to be much lighter.

Jessica S. Levi-Ribner:
Okay. And so, how do we think about that through the end of the year?

Brian R. Harris:
I think the second half of the year will – assuming we don't have another bout of volatility, it's likely that the second half of the year will, I would say, would return more to a normal rate of refinancing. But, there may be a little bit of pent-up demand, but I don't – not much. I think it will be a more normalized half than the first half though.

Jessica S. Levi-Ribner:
Okay. Great. And then, just one more question. In terms of looking at your share repurchases and around your corporate debt, do you think that you will be taking more capital actions in the second quarter and third quarter or is that a lot more opportunistic and just depends on how the market is trading your equity and your debt?

Brian R. Harris:
I think it depends how the market is trading our debt and our equity. I think in particular, I would just point out that the stock repurchase given that the company has a fairly low float, we can only purchase a certain percentage of the average daily volume. And we can only do that, when there is a corporate window open, where we're eligible to purchase. So

Jessica S. Levi-Ribner:
One hour a quarter?

Brian R. Harris:
Yeah. About that.

Jessica S. Levi-Ribner:
You could try.

Brian R. Harris:
But, so – but on any given day, I'm not happy to see our bonds trading at a discount like they were in the first quarter, but I don't think it had anything to do with us. I think it had to do with the high–yield market in general.

Jessica S. Levi-Ribner:
Yeah.

Brian R. Harris:
And they [indiscernible] (19:55) of energy, but if those opportunities present themselves, we will certainly deploy capital in those directions.

Jessica S. Levi-Ribner:
Okay. Well, thank you very much.

Brian R. Harris:
Sure.

Operator: And we'll go next to Rick Shane with JPMorgan. Please go ahead.

Richard B. Shane
JPMorgan Securities LLC

Hey, Brian, thanks for taking my questions. You talked a little bit about the securitization market starting to open back up and you'd also made the comment that if you had pursued loans in the first quarter that sort of net your gain on sale hurdles, it would have meant taking on loans that didn't meet your typical standards or pricing. I'm curious, if you are seeing a significant shift, I mean, you said the market is open, but does that necessarily mean the market is going to be opened for Ladder the way you want to do it?

Brian R. Harris:
Sure. I think that, you have to remember, we were dealing with some pretty unusual moves there in credit spreads in the first quarter. So I mean, to put in perspective, we had B-pieces with 20% yields and the B-piece buyers, felt like they had the ability to kick out 30% to 40% of the loans in a pool. That is not something we'll ever tolerate. But on the other hand, I think when you have BBBs at 9.5 % that used to be trading at 5.5 %, that's a pretty unusual move. So, when you roll over that up into what is the mortgage rate you would need to clear some profitability, you start to realize that the rate you're going to have to close loans at is much higher than what banks and insurance companies are at the time.

So, I would tell you that the securitized business, I often time say it seizes, that's really what it means. There's nothing wrong with it in particular. You can sell things. It's just that sometimes the public market is pricing things, effectively pricing you out of the business for a short periods of time. But it wasn't happening, because there was anything wrong with the loans, it was happening because there was a liquidity issue in the financial system.

And you have to remember, you go back, the very solvency of some European banks was being questioned in the middle of January. And I think during our March call, I indicated that I felt that that there was a technical problem and I think we are right in that regard and that, in the middle of February you would have thought the world was ending, in the middle of March everything seemed okay again.

So I think it was a technical problem, there's a little too much supply in the backlog there. And when I think, given that the banks can't really provide liquidity under Dodd-Frank, there was just frankly too many sellers and they sort of came down to, but you could really see there was a difference between, where you could buy $10 million of an issue in the secondary market versus where $400 million of a primary issue were going to get sold. And it was really a liquidity issue more than a credit issue, and you could see that.

Richard B. Shane:
Got it. No, I mean, obviously, we were tracking that, but at the same time, we saw that same type of volatility on the equity side and had to live through that.

Brian R. Harris:
Sure.

Richard B. Shane:
And the magnitude of the snap back that we've seen is pretty stunning just like in your world. And this is a more philosophical question, to some extent, I heard a little bit of frustration in your voice in the beginning talking about gain on sale in the analysts focused on that part of your business. I get it, that's going to go up and down and we all just have to adjust our numbers over time. One of the facets – one of the qualities of your particular company is that you're very nimble and this quarter the opportunity to make money was in line back your own debt. Do you think that the market just fundamentally is never going to give you the real value because of the sort of speed with which you react to different market conditions?

Brian R. Harris:
I don't know what the future will hold. I think at times, again, we're a fairly a new company in the public space. And I don't think that, first let me go back to your first statement about some frustration, I don't think it was frustration. I think the markets work the way the markets work, like it or not. I think sometimes though I hear other CEOs and other companies starting off calls, talking about how they're not in the securitization business or they don't own any CMBS, almost as if that's a compliment to them. And unfortunately a compliment to them for not being in the business, ultimately is anything but a compliment to us.

But in a business that you've been in for over 20 years and made billions of dollars in, one quarter would not put us in any form of leaving a business. In fact, what we do like about those quarters is a lot of our competitors do depart businesses or cutback. We simply reallocate capital. We don't insist our way through markets. They are what they are. I don't think they're wrong. And if you think that they're cheap and you buy them. And if you think that they're expensive, then you sell them. But, I think that sometimes, when you see, really since last August, when China devalued their currency, the CMBS business has been difficult to say the least.

But over – but, what I tried to illustrate in my numbers to you there was, over a long period of time, it's a spectacular business and it happens to be on the lower end of things, but it's like a tide, it goes in and it goes out. And we have loans in position today that we're very comfortable that our profit margins will be higher. And that's not at all atypical, but I just don't – I get a little frustrated when there is a blanket statement made that, oh, or thank god, we're not in the CMBS business. This is a business we made a $0.5 billion in the last six years. But, I don't mean to go at any one, it's just to me, it's a defense of our model. And we – for all intents and purposes, we're not really in the CMBS business ourselves in the first quarter and that you're right, that is that nimble speed, at which we move and reallocate capital.

So, from our perspective, trying to make profits, we're rather agnostic as to how we go about doing it. We have many alternatives and some of them are acquiring securities from other lenders, which as I mentioned, I mean, I only pointed those two bonds out the AA and the A, because the snap back was incredible, and how much profitability there was. And I guess, I wanted to point out that you can take advantage of that volatility, you don't have to be a victim of it at all times.

And so, if you are not in the CMBS business and you don't buy securities, you don't have the ability to pick up those 10 point and 16 point gains on very short holds. So we still believe in our model, we're very comfortable with it. We don't think that the people markets are valuing our – origination platform very effectively. Because we seem to be trading at a value relative to our assets as opposed to our origination platform. So, again, not frustration, I think and it's been a difficult quarter, but, yeah it's fine. We'll see worse and we'll see better also.

Richard B. Shane:
Fair enough. I appreciate the answer. Thanks, Brian.

Brian R. Harris:
Sure.

Operator: And we will go next to Charles Nabhan with Wells Fargo. Please go ahead.

Charles Nabhan

Wells Fargo Securities LLC

Thanks, guys. Brian, to your point about capitalizing on the volatility in the markets rather than being a victim of it. There was some press during the quarter about Ladder potentially securitizing loans of its own shelf. And in the past, you've also talked about potentially buying B-pieces and capitalizing on some of the opportunity in that space. I was wondering, if you could comment on, comment on those opportunities and touch on how we should think about that over the next couple of years?

Brian R. Harris:
Well, I think Ladder has always been set up to operate rather independently if necessary. We don't believe operating independently is the optimal way to go, but I think you have to be prepared to. We did see at the end of last year in December some of our securitization partners just decided they didn't want to securitize assets and as a result, if we can't go alone, then we're really subject to the wins of a third-party as to the timing of our securitization.

What's not well known right now is not just the normal things that you see about spreads, but really, when you see the regulatory environment starting to kick in, and you're now getting into risk retention. There are some certifications that have to be signed and frankly operaters are forced into a model to operate with partners. And that doesn't means banks, that means for the smaller lenders, bigger lenders or banks, you're going to be subject to their interpretation of those regulations.

So, I think Ladder, we did file for a shelf and in the world of risk retention, B-pieces, we're very comfortable as we've always said. We're credit-centric organization. So, we're fine holding our own B-piece, in fact, the whole concept of skin in the game or risk retention is not at all foreign to us. We enjoy only things like that.

We have a permanent equity model. So we're somewhat uniquely suited. We don't have to hold risk weighted capital, against any of these positions. So, some of the banks may have a problem with that. So, I think, some of the permanent vehicles where there is permanent equity that can hold these things for five years or so, are really going to be in a beneficial space. We are easily able to adapt the regulatory environment, but I'll go a step further here is, will you provide, in an illiquid environment, like we witness really from December to February, B-piece buyers had a lot of pricing power and the pricing power wasn't just in the price they would pay for things. They were simply kicking loans out and they were – we don't view the B-piece market as our credit arbiter.

So, we don't show B-pieces to – we don't show loans to B-piece buyers, nor do we think that any of our loan should be kicked out. But in a world, where they've got pricing power, you kind of have to deal with them or you have to become one of them. And we are very comfortable holding our own collateral and being the credit arbiter of our own loans. And we are quite comfortable holding our own risk for five years to 10 years.

Charles Nabhan:
Got it. And as a follow-up, I wanted to switch gears to the balance sheet lending business. Marc, if I heard you correctly, you said that the yields on – the spreads on incremental investments went from LIBOR plus 6 .96% in the first quarter of 2015 or around 7.2% over this quarter. Now, I know that pricing on loans – on interim loans could vary from deal-to-deal. So my question is, is that widening a function of the specific deals that you did this quarter versus last year or are you seeing wider spreads in the market, a willingness among borrowers to accept those market spreads, given the – the wider spreads, given the volatility that we've seen?

Marc A. Fox:
I think, Chuck, this quarter that statistic probably means less than it has in prior quarters, we like to provide it as a reference, but it was a pretty low volume quarter. And so I can't really say that, that average this quarter is as statistically significant as it might have been in prior quarters, when we had more volume.

Charles Nabhan:
Okay. And to that point about volume, do you anticipate a pickup in activity over the balance of the year, in that balance sheet business?

Marc A. Fox:
Yes, we do. Yeah.

Charles Nabhan:
Okay. Thank you. I appreciate the color, guys.

Brian R. Harris:
Sure.

Operator: And we'll go next to Ben Zucker with JMP Securities. Please go ahead.

Benjamin Zucker
JMP Securities LLC

Hey , guys. Good afternoon, and thanks for taking my call. To start off, I mean, Brian, would it be fair to characterize even the volatility in the CMBS market that we saw in the first quarter of 2016 as worse than really any quarter that we experienced throughout 2015, when we were first speaking about the problems there?

Brian R. Harris:
Categorically, yes. Much worse.

Benjamin Zucker:
And I'm just wondering, I think we even saw there was a deal that recently priced and I might have seen the spread at like 170 over]10-year treasury swaps]. So, I am just kind of curious like, as you guys sit there internally and you think about when to step back, like how do you make that determination about, when you feel like may be some of the technical issues have largely subsided and you do feel little bit safer about stepping back into that market?

Brian R. Harris:
Well, we triangulate our positions, whatever we price anything. So, when we're making a loan, keep in mind, we have a very active investment area that buys CMBS on a regular basis. So we don't just get price discovery when we're selling a securitization. So if we are selling AA loans or AAA loans in the market, we have a pretty good sense as to how much stickiness there is. Are we getting 20 bids or are we getting three bids? Are the 20 bids altogether or are there three bids, a half-point apart from each other? So we have some anecdotal evidence around us that explains to us the depth of the liquidity pool, not just the best price you're able to get.

And we take that information and we massage it into the way we originate loans. We also know, when we lose assets, when we give a bid to someone and we take a look at where we think the loan will execute in the securitization based on AAAs through B-pieces. And sometimes those parameters get out of whack and you see, you're losing loans that appear to be at a loss, where other lenders and I don't think that the other lenders don't know that. I think the other lenders are simply expressing a view that says, well I think spreads are going to tighten by the time I securitize this. And that's fine and in the three months, they may be right. If we have a view that spreads are going to tighten, we don't express it in our loan portfolio, we express it in our securities portfolio where we only have to be right for one hour as opposed to three month s when ultimately a whole loan gets to securitization through a B-piece gauntlet as well as rating agencies and a partner.

Benjamin Zucker:
That makes perfect sense.

Brian R. Harris:
It's just a more efficient expression of the same view.

Benjamin Zucker:
And then the last thing is really just an issue of housekeeping. I didn't see a supplement posted yet. And I was just wondering, do you guys happen to have or would you provide, I mean un-depreciated book value figure off hand?

Marc A. Fox:
Yeah the un-depreciated book value per share is $14.30 a share.

Benjamin Zucker:
Thank you very much, Marc. All right that's it for me. Thanks guy s and again congratulations on a good quarter in a tough market.

Brian R. Harris:
Thanks.

Operator: [Operator Instructions] We'll go next to Jade Rahmani with KBW. Please go ahead.

Jade Rahmani

Keefe, Bruyette & Woods, Inc.

Thank you. In terms of overall conditions in the commercial real estate finance market, how would you characterize the level of activity, deal volume and stability of pricing? For example, if you're seeing a pull back from banks and in conjunction with the lower CMBS volumes, coupled with upcoming debt maturities, do you see or how seriously do you take the risk of a potential liquidity crunch?

Brian R. Harris:
Well the banks are becoming more aggressive. I think, if you – you guys look at the banks more than I do. But I think their lending volumes have increased. I don't – we don't have any shortage of assets that we see for financing. We do see some aggressiveness that may be a little bit uncomfortable for us. I will tell you this is probably the first quarter that I – may be last quarter, I don't know, but probably the first quarter where we are seeing just the principal amount that's too high. We have borrowers coming in and they ask us for a loan of say $40 million and we can't get past $35 million or $36 million. And we're using normal securitization techniques. But some of the funds out there or some of the banks will get to $40 million pretty comfortably and frankly, we're just not comfortable. I'm not saying they're wrong, it doesn't mean that they're going to default. I'm just saying they're aggressive.

And from our perspective, there seems to be that last quarter was really some version of a little bit of aggressiveness. Because, if you think about it, the world is having trouble selling CMBS securities, yet lenders are bidding very aggressively with too much principal, which ultimately should exacerbate the problem. And so, subordination levels go up. But I don't – I don't really, we don't conduct our lending operations, based on what others are doing. And if others are aggressive, we'll avoid them and if the bank, the banks are taking a fair share right now.

So, and I think also with that spread movement, a lot of borrowers really stepped back for a second and decided to see whether or not they wanted to refinance their portfolio. So, I think that will take a little while. And I don't see volume back to normal right now. And I do expect it to be back to normal, probably by June. But it still feels a little bit uncertain, still.

Jade Rahmani:
That's interesting. The color we've gotten is that, some of the mid-cap banks have talked about pulling back their commercial real estate volumes, due to concentration risk and regulatory scrutiny. Just your loan repayments were

pretty strong and some of the other commercial mortgage REITs did see a moderation and attributed that to the sort of freeze up we saw in the 1Q market. How did you view loan repayment activity in your portfolio?

Brian R. Harris:
It was a little bit higher than normal, but again, I wouldn't read into it too much for much the same reason that Marc gave around spreads in the quarter. It was relatively low volume. I think we took about 10% of our portfolio that paid off. I think in our last call, I indicated that, given where our price-to-book value was, we were going to pull back and we were going to create more cash and a more liquid alternative as opposed to getting aggressive on the lending side and effectively we shrank the balance sheet probably by about $200 million, $250 million, and we did that through buying back our debt and our stock.

So that was delivered on our part. We do have – we have a rather short maturity schedule in our bridge loan portfolio. So, often times, if a borrower wants to extend to loan we're generally pretty cooperative with it. But I think in the last quarter, we are very interested in receiving more liquidity rather than extending loans.

Jade Rahmani:
And just in terms of your own shelf, can you put any parameters around what kind of size you'd be thinking for Ladder securitization, and are these going to be marketed to the same types of buyers that would buy bank-led securitizations? Do you think the demand would be similar for that product?

Brian R. Harris:
I don't know how big will be or even if we'll use it for that matter, we're simply lining it up as an alternative. We are pretty comfortable pricing some loans through what would appear to be a breakeven level, because the B- piece is at 20%. So, we're happily on a B-piece at a level that's tighter than that. So, we can price things at levels that are attractive to borrowers, even though they may not make sense in a conduit securitization with the third-party B-piece buyer. But again the size, bigger is always better, because you get better diversity and you get better treatment at the rating agencies. But I would imagine the buyers would be the same. I think we are known around the investment community as a relatively safe credit shop and we don't take too many chances. So I would anticipate that the credit guys would be the buyers of the bonds we would produce. We would, no doubt, employ the facilities of an investment bank. We don't have a sales force here. So, we will certainly have some help on that, if we go in that direction.

Jade Rahmani:
Great. Well, thanks very much for taking my questions.

Brian R. Harris:
Sure.

Operator: That concludes our Q&A session. I'll now return the call to Brian Harris, the company's Chief Executive Officer.

Brian R. Harris:
Thank you. And thanks for hanging in there with us tonight and I appreciate the call, and the questions that were asked. And obviously, if you have any follow-up questions, our people are always available. Thanks, everybody.

Operator: Thank you. That concludes today's call. You may now disconnect, and have a wonderful day.