Transcript of Ladder Capital Corp’s Q2 2016 Earnings Call

August 4, 2016

Operator: Greetings and welcome to Ladder Capital Corporation's Second Quarter 2016 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over your host, Kelly Porcella, General Counsel for Ladder Capital. Thank you. You may begin.

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 second 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 June 30, 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 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. 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 and/or otherwise posted to our website at www.laddercapital.com.

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 second quarter, Ladder reported core earnings, a non-GAAP measure of $30.9 million or $0.32 per share. Our annualized after-tax core ROE was 9.5% in the quarter, and 10.1% for the first half of 2016. You might remember in our last earnings call, we mentioned that due to extremely volatile market conditions in January and February, we became more cautious with our securitization activities.

Instead, we decided to take advantage of the deteriorating prices of spread products across most markets and focused our efforts on acquiring highly-rated more liquid securities, along with over $55 million of our corporate bonds and $4.7 million of our common stock. We also noted that markets seemed to settle down a bit in March, as credit spreads largely retraced their recent widening, returning to where they were at the end of 2015.

During the second quarter, we began to return to a more typical pace of loan production, originating a total of $431.9 million in loans, comprised of $270.3 million of loans held for securitization and $161.6 million of loans to be held on our balance sheet. We continued to purchase CMBS with $302.7 million of acquisitions in the second quarter. We did not originate any mezzanine loans nor did we buyback any of our stock or our bonds in the second quarter.

Our sales activity in the second quarter was rather light. We sold 40 condominium units for a contribution to core earnings of $4.2 million along with $114.2 million of CMBS for a core gain on sale of $2.3 million and we sold a $40 million participation in a mortgage loan for a core gain on sale of $2.2 million. We did not contribute any loans into securitization nor did we sell any non-condominium real estate of mezzanine loans.

With the first half of 2016 now behind us, it may be helpful to look at a few trends that we've seen, as it will help understand how we manage our efforts as we move further into the current credit cycle.

One data point that caught our eye is in our mezzanine loan portfolio. At the beginning of the year, we owned a mezzanine book with a balance of $286 million. Only six months later that book has been paid down to $163 million, a decrease of almost 43%. This is a clear indication to us that lenders are getting more comfortable in making larger loans on the same assets than they were making just a couple of years ago.

We feel that the credit cycle has begun to turn and can see in our daily loan reviews that loan requests from borrowers are becoming more aggressive with regard to leverage. We also see more lenders willing to accommodate these requests, however, we think that when risk retention rules go into effect at the end of the year, some of these relax lending practices will be curtailed.

Another interesting data point has to do with simple supply and demand. In the first half of 2015, CMBS new issue volume in the United States was about $54.49 billion, while that figure decreased to just $30.7 billion in 2016. In a yield start world, with a decreased supply of new issues structured fixed income products, we can help but feel that technical pressures should be pushing prices higher and yields lower; and indeed that is what we've seen over the last five months or six months beginning in March of 2016. This is in large part, while we cut back on our securitization efforts, opting instead to hold onto and add to our loan inventories and our securities portfolio.

From the end of 2015, through the first half of 2016, we increased our securities holdings by $300 million to $2.7 billion at the end of June. Between the January to June period, we saw the unrealized mark -to-market valuation of our securities portfolio increase by $61.9 million. At the end of July, we also owned $680 million in loans held for securitization with a fairly robust pipeline of securitizable loans under application, but not yet approved or closed.

While we are cautiously optimistic regarding the securitization business for the third quarter, we need to be aware that while we are seeing relatively calm markets over the last five months, except for a week of Brexit -induced volatility, we also note that the price of oil has fallen from the low $50s per barrel in early June to a price of just under $40 per barrel in early August, down 20% in under two months. This looks eerily similar to what we saw from August of 2015 through February of 2016.

So again, we stress that our optimism is somewhat reserved. We're happy that things have returned to some version of normal in our markets and are hopeful that market conditions remain stable for the remainder of the year.

I'll now turn you over to Marc Fox.

Marc A. Fox

Chief Financial Officer

Thank you, Brian. We'll now review Ladder Capital's financial results for the quarter ended June 30, 2016. Core earnings in the second quarter of 2016 were $30.9 million compared to $52.1 million in the same quarter a year ago. Core earnings for the first six months of 2016 were $69.1 million compared to $100.2 million (sic) [$100.1 million] (08:50) in the first half of last year.

In the second quarter of 2016, core EPS was $0.32 per share compared to $0.51 per share for the second quarter of 2015. As Brian noted, on an after-tax core basis, Ladder generated a 9.5% return on average equity during the second quarter and a 10.1% return over the first six months of 2016. This is based on an average equity, excluding NCIs of consolidated joint ventures of approximately $1.5 billion.

GAAP net income before taxes for the three months ended June 30, 2016, was $1.6 million. This amount partially offset the GAAP net loss before taxes reported in the first quarter of the year, bringing the reported GAAP result for the six months ended June 30, 2016, to a loss of $10.7 million. These results compared t o income before taxes $73.9 million and $94.9 million for the comparable periods in 2015 respectively.

Net interest income and net rental income generated by Ladder's loans, CMBS, and real estate portfolios, were the major sources of core earnings as those assets continue to perform well during the second quarter and the first half of the year. The year-over-year difference in first half core earnings is largely attributable to lower income from sales of securitized loans net of hedging with our securitization profit and lower gains on sales of securities, partially offset by reductions in operating expenses in 2016 versus 2015.

The largest GAAP to core earnings adjustment in the first six months of the year related for the timing of the recognition of hedge results that coincide with realization of gains and losses on the disposition of hedged assets. Consistent with the prior quarter, our portfolio of CMBS and U.S. Agency Securities increased, as we opted to invest capital on shorter-term, highly-rated, highly-liquid CMBS investments.

As Brian noted, we purchased a total of $302.7 million of securities during the three months ended June 30, 2016. In the meantime, the quarterly mark-to-market on our $2.7 billion portfolio was a positive $26.9 million during the second quarter, following a $35 million positive mark in the first quarter.

Loan originations increased significantly from the prior quarter, as Ladder originated $431.9 million of loans during the second quarter compared to $119.1 million in the first quarter of the year. As a result, loans held for sale of securitization increased by $230.1 million to $583.5 million by quarter end, and have continued to grow as we originated an additional $99.6 million of conduit loans in the third quarter through July.

I would now review Ladder's income statement and some additional balance sheet data. Interest income was $55.8 million in the second quarter of 2016 and $115.4 million for the first six months of the year. This compares to $115.6 million for the six months ended June 30, 2015. Net rental income of $11.5 million in the second quarter and $26.4 million for the first six months are comparable for the net rental income earned during the same period in 2015.

In addition to the $583.5 million of loans held for sale at the end of the quarter, we also had loans held for investment of $1.5

billion. Our portfolio of CMBS and U.S. Agency Securities increased to $2.7 billion from $2.6 billion at March 31, 2016. In terms of real estate, our total real estate portfolio as of June 30, 2016, stood at $808.8 million. During the first six months of 2016, Ladder acquired 14 properties, bringing our total square footage of real estate up to 6.8 million square feet.

In terms of key balance sheet metrics, as of June 30, 2016, 96.6% of our debt investments for senior secured including first mortgage loans and commercial mortgage-backed securities secured by first mortgage loans. This is consistent with the senior secured focus to the company. Our senior secured assets plus cash comprised 80.1% of our total asset base. Total unencumbered assets including cash was $776.3 million, reflecting a 1.17:1 ratio to unsecured debt outstanding, which totaled $663.9 million at June 30 of 2016.

The average coupon on loans held for sale that were originated in the second quarter of 2016 was approximately 4.57%. The average coupon on loans held for investment originated in the quarter reflected a weighted average spread of approximately 6.38% over one month LIBOR. The weighted average loan to value ratio of the commercial real estate loans on our balance sheet was approximately 66.2%, consistent with the weighted average loan to values in prior quarters.

With regard to securities, 85.7% of our securities positions were rated AAA or backed by agencies of the U.S. government as of June 30; 97.9% of our CMBS positions were rated investment grade. The weighted average duration of our securities portfolio was 38 months, down from 39 months at the end of the prior quarter. And Ladder ended the quarter with total assets of $6 billion and total equity of approximately $1.5 billion. So Ladder remained levered at 2.96:1.

With regard to financing, we continue to enhance our maturity profile while maintaining a diverse set of funding sources. As of June 30, 2016, we had $4.4 billion of debt outstanding and committed financing availability of over $1.3 billion for additional investments.

Our FHLB borrowings grew to $2 billion as of June 30, 2016. We continue to execute advances with the Federal Home Loan Bank in the ordinary course of business. Since our last earnings call, we replaced a $50 million revolving credit facility with a $100 million committed, secured loan repo line maturing in 2019. We upsized one of our loan repo lines from $35 million to $100 million and extended it through 2019. We also upsized our outstanding committed securities repo line to $400 million and extended that line through 2018. We continue to negotiate facility extensions and seek additional financing relationships, including alternatives to the FHLB for which we continue to have a five-year transition period following the release of the FHFA's final role.

So summing up, to date in 2016, Ladder has generated $69.1 million of core earnings and core return on average equity of 10.1% over the first six months during a period of reduced securitization activity. Ladder has continued to cover the $0.275 per share dividend in each of the first two quarters; and Ladder has continued to maintain its credit standards with no credit losses on any loans.

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

Q&A

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question is from Jessica Levi-Ribner of FBR & Company. Please go ahead.

Jessica S. Levi-Ribner
FBR Capital Markets & Co.
Hey, good afternoon. Thanks for taking my question.

Brian R. Harris
Chief Executive Officer & Director
Sure.

Jessica S. Levi-Ribner
FBR Capital Markets & Co.
At the quarter end, what is your total lending capacity left?

Brian R. Harris
Chief Executive Officer & Director
Marc, I'm going to ask you – I mean, it depends what products we're in.

Marc A. Fox
Chief Financial Officer
Right.

Brian R. Harris
Chief Executive Officer & Director
If we wanted to own all securities, it's enormous, but we tend to run the company about one-to-one leverage outside of securities. So, plenty of room, but we would just be picking up leverage. Yeah, I think the question is hard for me to answer because we certainly have $130 million in cash, but if we ever needed more cash we could just sell securities and create more. So we don't feel at all limited.

Marc A. Fox
Chief Financial Officer
That's right.

Jessica S. Levi-Ribner
FBR Capital Markets & Co.
Okay.

Operator: Our next question is from Charles Nabhan from Wells Fargo.

Charles Nabhan
Wells Fargo Securities LLC
Hi, guys. Could you provide an update on the Ladder shelf, which you've registered last quarter? And just give us a sense for whether any of the loans that you securitized or that are held for sale at quarter end will be securitized of your own shelf, or if you plan to contribute them to other shelves?

Brian R. Harris
Chief Executive Officer & Director
Sure. We've been approved on the shelf, and again I want to stress that this shelf is really there, not instead of our typical partnerships that we work in, but in addition to. And while we are not fully aware of how each and every one of our partners will react to regulation and risk retention, we want to be ready, if we have to, to operate alone, but that's not our objective, it's simply almost a fail-safe that we'll do.

But right now we have, as I said, $680-plus million in securitizable loans. We'll have probably $1 billion pretty soon and we're intending to do a September securitization. It won't entail all of those loans certainly, but I wouldn't say that the rest of the portfolio was spoken for at this time going into the yearend. We'd probably team up with somebody, really depends on how risk retention works.

Charles Nabhan

Wells Fargo Securities LLC

Okay. And as a follow-up, in the past you've guided that you're underwriting loans to a gain on sale margin of roughly 3% to 4% and that a 15 bp change in the spreads would impact the gain on sale by roughly 100 bps. Is that still a general rule of thumb or should we think about things differently now?

Brian R. Harris

Chief Executive Officer & Director

Well, I think that's a goal more than a reality at times. There are times where it can be significantly higher or lower than that. Certainly in the last 12 months or so, it had been lower than that. But I think that, as of now, anyway it looks like we're returning to a more normal pace in profit margin. But again, a lot of that has to do with just how much volume will come from outside of what we're doing here, what the supply and demand looks like. So, the goals are – are we targeting 3% to 4%? Yes, we are.

Charles Nabhan

Wells Fargo Securities LLC

Okay. Thank you.

Operator: Our next question is from Rick Shane from JPMorgan.

Richard B. Shane

JPMorgan Securities LLC

Thanks, guys. My primary question related to sort of objective for securitization through the remainder of the year has been answered. But I'd like to talk a little bit about the decline in spread income during the quarter. I'm assuming that that's just a function of the portfolio shift towards CMBS, but want to make sure there's nothing we're missing there in terms of yield compression?

Brian R. Harris

Chief Executive Officer & Director

Marc, if you want to weigh in, you can. But Rick, one thing I do know is, as I mentioned we took some pay downs in the mezzanine portfolio, which tended to be rather high rate loans that were not levered other than by the senior in front of them. And in addition to that, I know that we took a rather large payoff on a land loan. So, I hesitate to follow too many trends when a large loan like a – in fact, I know of two loans that paid off; that one was $75 million, the other one was $100 million; that were rather high rate. So my guess is, they're probably the culprits that would have led to that.

Marc A. Fox

Chief Financial Officer

Brian, we had – first quarter we had a couple of agency security payoffs that came with additional payments that go through interest income and that would have influenced the margins that you're seeing. We didn't have that in the second quarter.

Brian R. Harris

Chief Executive Officer & Director

Yeah. I think the general idea there, Rick, is that while the net interest margin is on average maybe lower, if you take out mezzanine loans and land loans, it's probably safer, but those are some of the more higher octane rates that we carry on mortgage instruments.

Richard B. Shane

JPMorgan Securities LLC

Okay, great. And Marc, just to follow-up on your comment. It sounds like there was – there were no exit fees during the second quarter, so we should start to look at that second quarter number perhaps as a run rate?

Marc A. Fox

Chief Financial Officer

Yeah, yeah. And that's correct, running through the interest income line. That's correct.

Richard B. Shane

JPMorgan Securities LLC

Okay, great. Thank you.

Operator: [Operator Instructions] Our next question comes from Jade Rahmani from KBW.

Jade Rahmani

Keefe, Bruyette & Woods, Inc.

Thanks. Good afternoon. I was wondering if you could share your views on the most recent or actually the first risk retention compliant CMBS deal. The market seems to have had pretty strong acceptance of the transaction. So I wanted to just get your views and if you think that structure is appealing to you, if you would expect to participate in deals with a similar structure in the future?

Brian R. Harris

Chief Executive Officer & Director

It's certainly comfortable for us to participate in a format like that. I applaud them for doing that early to see what happens next. I think there's going to be real question here as to whether or not they're treated as loans or securities on the balance sheets, but that was a very attractive transaction that priced very well, and I would love to be part of a transaction like that and would be happy to hold our portion of risk retention in that format.

Jade Rahmani

Keefe, Bruyette & Woods, Inc.

Okay. And I think your comments around credit cycle seemed interesting and sort of incrementally more cautious than the last quarter. I guess beyond what you're seeing other lenders do in terms of how they're pricing loans, are you seeing any credit issues in your portfolio currently, or at the property level any signs of performance deterioration, anything of that nature?

Brian R. Harris

Chief Executive Officer & Director

No, not really. I think the first sign of any kind of a – again, turning to credit cycle, let's define that this time around. I think that we've had a mild recovery and I think that we may have a mild downturn here. So, I don't think that we have nearly the leverage in the system that was existent in 2007. So, I'm not telling you we're going to go into any kind of a financial crisis here, but we do see a little bit of slowdown in certain areas. Sometimes lease-up velocity takes longer than you think. We see some [ph] TI letters (24:29) going up; some higher concessions being made. I know even in Manhattan right now, in rentals as well as – what's going on with the condo prices on the high end.

On the hotel sector, the high-end hotel market is clearly suffering a little bit right now, probably some oversupply went on in there. Retail, for a myriad of reasons, is having issues in certain parts of the retail sector. But we're not experiencing anything in particular that is of concern to us. But when I say that we kind of feel the market – the credit cycle is turning, we get asked for a

$30 million loan and we get told the next day that someone did it at $33 million, and we had not even been asked for $30 million. Lenders were volunteering $33 million to win the business, and that's another telltale sign of heading to higher altitude on risk.

Jade Rahmani

Keefe, Bruyette & Woods, Inc.

Okay. There seems to be mixed commentary about what the banks are doing. I mean we've heard from some banks that they're looking to curtail at least the pace of lending and there's definitely a lot of regulatory scrutiny. Are you seeing aggressiveness from banks still or is it relegated to the shadow banking sector?

Brian R. Harris

Chief Executive Officer & Director

A lot of our mezzanine loans, for instance, that paid off as well as land loans, were typically not at all something that a bank would do. But we have been seeing banks paying us off rather than bridge loan lenders or REITs or hedge funds. We're seeing names of actual banks. And I will point out that most of those banks, if it's a small loan, it might very well be a small bank; but if it's a large loan, we're seeing a lot of Asian banks paying us off. It's not some of the big four banks or five banks here in the U.S.

Jade Rahmani

Keefe, Bruyette & Woods, Inc.

And just on the condo portfolio, can you give an update and also just talk about how the velocity of sales is going, and if it's in line with your expectations if there's any slowness there?

Brian R. Harris

Chief Executive Officer & Director

Well, we have seen a little bit of a slowdown, but I would attribute most of it to seasonality because we have condos that are not spread across the country; they're in Las Vegas and Miami. And Las Vegas was under some extreme heat recently, that was well documented in the news. But they're moving along, just fine. We've raised prices a little bit too and that will slow it down, but we probably have about four quarters or five more quarters of condominium sales ahead of us. And this is typically the slow period, but we're seeing a bit of a slowdown, but not a dramatic slowdown nor are we seeing contracts falling out at an unusual pace. Interest rates are quite low. So, we feel that there's more capacity for lending on those condos now; and as a result of that, velocity feels okay.

Jade Rahmani

Keefe, Bruyette & Woods, Inc.

Thanks for taking my questions.

Brian R. Harris

Chief Executive Officer & Director

Sure.

Operator: Our next question is from Ben Zucker from JMP Securities.

Benjamin Zucker

JMP Securities LLC

Thanks for taking my question. Brian, this is mostly for you. I think I heard you maybe once or twice mention a value like $680 million of loans already available for securitization. I just want to make sure I heard that right, because normally I just look at the conduit first mortgage loan balance which I see at $583 million, so just want to clarify that?

Brian R. Harris

Chief Executive Officer & Director

Sure. Yeah. It's my fault. I don't usually review what I'm saying with Marc before I come in here, and he has to follow along. But the number you're looking at as of the end of the quarter of June and the number I gave you was actually through July. During Marc's comments, I believe he mentioned $99 million in originations in the month of July, and that would have squared those two numbers together.

Benjamin Zucker

JMP Securities LLC

Got you. That's very helpful. And then on.

Brian R. Harris

Chief Executive Officer & Director

I'd just try to give you a look into the future if I can.

Benjamin Zucker

JMP Securities LLC

I always appreciate that also. I also just want to ask about real quickly this loan – this first mortgage loan that was sold and had the $2.8 million gain. Just the way it reads, this is not like a conduit loan, this is kind of just you guys picking a first mortgage out of your portfolio and you were able to sell that. Is that kind of what happened here?

Brian R. Harris

Chief Executive Officer & Director

Yeah. To tell you the truth, this is a little more complicated than it needs to be; it actually is a conduit sale. But because we originated the loan with the partner, when the loan went into the securitization, we didn't contribute the loan, we sold our participation to that bank and that bank contributed the loan. So it's a technical difference, but in reality, we effectively securitized $40 million of the loan.

Benjamin Zucker

JMP Securities LLC

I got you. And is this kind of a side strategy to anything in your conduit platform or just kind of a one-off thing that we're probably not going to see often?

Brian R. Harris

Chief Executive Officer & Director

I think we own more of that loan – I don't know off the top of my head – we did sell it off, I didn't realize that. But no, it's not a – it's really – when you split a loan with a partner, typically only one of you contributes the loan to the securitization, especially when it's the only thing you're contributing to it. So there's no strategy there, it's really just a definitional term. But the way I look at it, we securitized $40 million.

Benjamin Zucker

JMP Securities LLC

Great. Okay. That was it from me, guys. So thanks for clarifying both those remarks and I'll hand it back.

Operator: Our next question is from Ken Bruce with Bank of America Merrill Lynch.

Kenneth Matthew Bruce

Bank of America Merrill Lynch

Hi. Good evening, gentlemen. My first question is, just trying to understand kind of where your thinking is. You obviously have some cautious commentary that you're adding which – I'm not sure if that's different than what we hear from others or not, to be perfectly honest with you, it's a little difficult to tell at times. But I guess, in this backdrop where things are maybe a little bit liberal on the credit side, do you want to be growing your balance sheet? Is this the time to be doing that?

Brian R. Harris

Chief Executive Officer & Director

Yeah. I don't think that – we're not buying an average loan every day, so it's really loan by appointment. And if you happen to like it then you can – we don't pull back from lending in the downturn of a real estate cycle, we just underwrite somewhat more cautiously. So, the business operates 12 months a year, at least the lending side, the securitization side all the time. But I think we're just – it's just an example of we're a little further into the recovery, and that probably began in 2008. So we're into our eighth year here, going into year nine, so it just feels a little bit toppy here.

You're seeing a lot of real estate that was selling at some very aggressive prices. You saw some hotels trade at some very aggressive prices mostly to foreign buyers. Those are all examples of, when perhaps your cash flows that you're underwriting may start – you may need to start thinking about them going down rather than up. But I wouldn't read into it as far as if we get very concerned, often times we'll address some of our credit concerns by buying AAA securities.

So for instance, we don't write a lot of mall loans, I'm not sure we've wrote any, but we don't particularly like the regional mall in a secondary city, but we might very well buy a AAA bond if somebody else writes that loan and it's in a securitization. So there's ways to alleviate the risks and that's really what we try to do and how we stay operational in all cycles.

Kenneth Matthew Bruce

Bank of America Merrill Lynch

Right. And I guess just maybe kind of a follow-on to that. So, is it fair to think that where others are willing to be more aggressive – you used an example where somebody came in asking for a $30 million loan and they get $33 million away, that you may see some level of pay down just because others are more aggressive than you're willing to be in this backdrop and will see essentially your investment activities kind of just drift into the higher credit quality asset classes in that case?

Brian R. Harris

Chief Executive Officer & Director

Yeah, in a vacuum that might be true, but I think in reality there are so many loans maturing that are really not available to be prepaid that far outweighs the normal ebb and flow of a credit cycle, at least at this point. Again, we're a rather small company, so if we write $500 million or $600 million worth of loans in a quarter. I guess the answer to you is we're not having any difficulty finding and seeing enough investable opportunities. But don't forget, from August of last year right through February, the credit spreads just marched wider – dramatically wider every month.

A lot of that was caused by the oil shock and that was real defaults going on there, as you're seeing in some of the bankruptcies in the coal and oil industries. But as far as real estate goes, I think just cash flows, they're not great, they're okay, they're not horrible. I don't think that we're going to see a big downturn here, but I do think the idea of every ascending cash flows needs to be checked and really check for sanity as to whether or not that's the right way to look at it.

Kenneth Matthew Bruce

Bank of America Merrill Lynch

Right, right.

Brian R. Harris

Chief Executive Officer & Director

But I do expect more stops, that you're seeing our mezzanines paid off where people – we were writing those loans at 11% and 12%, where people wouldn't land into that part of the capital stack, now they're being refinanced at 4%.

Ken Bruce

Bank of America Merrill Lynch

All right. And I guess, what I'm trying to kind of figure out and I know everybody is probably in a similar camp, is that – you're looking at, I guess just in the current quarter, a 9.5% ROE, it's kind of been drifting down there. The securitization activities obviously will enhance that when the conduit is firing on more cylinders certainly than it did in the last quarter. So I guess, is it fair to assume that you can kind of in this 9%, 10% ROE absent a pickup in activity into conduit, is that supportable or do you think it may drift lower from here?

Brian R. Harris

Chief Executive Officer & Director

No, I think that's accurate. And I think anyone who's seen us out on our road shows or our visits to investors, we often times stress the securitization business is something we wind up talking about a lot, and I think because it's so current and it changes so often that's kind of an interesting topic. But what we always try to get across to people is, we're really real estate, we're making loans and we're investing in real estate. And we happen to understand capital markets, but we shoot for a 9% or 10% ROE where we can, using modest leverage and excellent credit skills which we try to always employ, and should the capital markets present themselves in such a way that we're able to supplement that 9% to 10% ROE, we'll access the securitization businesses and we'll then shoot for something in the low teens.

And I think, the last quarter, and the first quarter for that matter, was a great example of that. We securitized I think $250 million in the first quarter, effectively $40 million in the second quarter. That's pretty light securitization volume, but that doesn't mean we were out of the business. When spreads widen out like that, we never feel the need to sell, because we're very comfortable with our credit and our financing.

But on the other hand, when you see spreads widen out like that, we were able to pick up our own corporate bonds at very low prices; those are now 10 points higher. We bought our own stock, that's now higher. And we didn't feel the need to sell any loans, because we felt that the pricing was poor, in fact quite the opposite, we were acquiring securities from people who had the misfortunate of being in the market in those periods of time, but had to sell them on a rather wide level.

If you remember back in – I think it was around February, the AAA tenures went out to 170 over, and I think AAA – I'm sorry BBB-minus securities were being new issuers sold at 800. Those levels are now down around a 100 to 105 on the AAA tenure, and down around 550, 600 on the BBB-minus. So there's been a tremendous tightening. And as I mentioned, the supply side is also supportive of what you would expect to go on there. When you go from $54 billion to $30 billion year-over-year, there is a shortage of bonds. And so, as a result of that there is a lot of money finding the fixed income market and it's driving spreads tighter.

Ken Bruce

Bank of America Merrill Lynch

Okay. Great. Well, I appreciate your comments. Thank you very much.

Brian R. Harris

Chief Executive Officer & Director

Sure.

Operator: Ladies and gentlemen, we have reached the end of the question-and-answer session. I'd like to turn the call back to management for closing remarks.

Brian R. Harris

Chief Executive Officer & Director

Thanks, everybody for joining us this afternoon. And we look forward to the second half of the year. And hopefully, we'll have these discussions in the near future again. Thanks again.

Operator: Thank you. This concludes today's conference. You may disconnect your lines at this time, and have a wonderful day.