



Transcript of Ladder Capital Corp's Q3 2017 Earnings Call

November 2, 2017

Operator: Greetings, and welcome to Ladder Capital Corp's Third Quarter 2017 Earnings Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation [Operator Instructions].

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

Kelly Porcella

General Counsel, Ladder Capital Corp

Thank you, and good afternoon everyone. I'd like to welcome you to Ladder Capital Corp's earnings call for the third quarter of 2017. With me this afternoon are Brian Harris, the company's Chief Executive Officer; Pamela McCormack, the company's President; and Marc Fox, the company's Chief Financial Officer.

This afternoon, we released our financial results for the quarter ended September 30, 2017. 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, 2016, and Form 10-Q for the quarter ended June 30, 2017, 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're 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, Ladder Capital Corp

Thank you, Kelly. Ladder had an all around strong third quarter with core earnings, a non-GAAP measure, of \$35.6 million or \$0.35 per share. Our annualized after-tax return on average equity was 10.5% in the quarter and our average over the first three quarters was 10.7%.

Our debt-to-equity ratio at the end of the quarter was 2.9:1. There were no gains on sales from securitization in the quarter. However, since the first quarter, we've seen substantial increases in revenue contribution from our balance sheet loan portfolio and also from our inventory of owned real estate.

Capital markets activity in the quarter included a successful offering of \$400 million of senior unsecured notes in September, at an interest rate of 5.25% and a term of eight years. Six months earlier in the year, we successfully sold an additional \$500 million of senior unsecured notes at a rate of 5.25% maturing in five years. These two bond offerings, coupled with the upsizing of our corporate revolving credit facility to \$241 million, has put us in a very strong position to take advantage of rising interest rates, should that happen, and we'll be able to grow our asset base safely with our new longer and stronger liability structure.

In the beginning of 2017, we had \$564 million of corporate bonds outstanding with more than half of them coming due within one year. Today, we have a total of \$1.17 billion of unsecured notes outstanding and none of these are due over the next three years. With our longer maturity schedule, we're in a much better position to leverage this upsized capital, and this should lead to higher ROEs, stemming from an increased asset base. And because all of these obligations are fixed rate, we've essentially rate-locked capital with plans to make loans in a higher interest rate environment over the next few years.

I normally update loan origination statistics at this point in the call. But today, I've asked our President, Pamela McCormack, to handle this part of the call, since she is primarily responsible for managing our origination and underwriting efforts along with asset management and securitization. I've also asked Pamela to give you a glimpse into activity in October, since there were two large hurricanes in the United States in September, and these storms actually delayed some of our loan closings and pushed them into October.

I'll leave you with me generally optimistic view about our business over the next few quarters. And after you hear what Pamela has to say, I think you'll agree. Our overall portfolio is performing very well as we would expect, especially in a market where equity indices are at or near all-time highs, unemployment is near all-time lows, interest rates are generally low and corporate profit seem to be holding up well.

With that, I'll now hand you off to Pamela.

Pamela L. McCormack

President, Ladder Capital Corp

Thank you, Brian. With regard to our lending business in the third quarter, we originated \$630 million of loans comprised of \$307 million of floating-rate bridge loans and \$323 million of loans we intend to securitize. Our portfolio of balance sheet loans grew to over \$2.8 billion at the end of the quarter. With this growth in our Bridgeport loan portfolio and favorable market conditions, we decided to execute our first CLO in October.

The timing for this transaction seem right to us, with pricing finally competitive with our existing financing sources. We contributed \$457 million of bridge loans at an advanced rate of 81.5% and an all-in net cost of funds assuming no credit losses of LIBOR-plus 192 basis points to 232 basis points, depending on the timing of pay-offs and extensions.

Ladder retained an \$85 million interest in this CLO, which allows continuing to provide optimal service to our borrowers by

maintaining control over the special servicer and major decisions on the loans.

Our expected return on the retained position assuming no credit losses is 15.5% to 19.5%, again depending on the timing of pay-off and extensions. The transaction allowed us to further diversify our funding base with additional non-recourse, non-mark-to-market, matched term funding source from CLO debt investors, while also increasing our liquidity by almost \$100 million.

In addition to the CLO, we have already contributed \$431 million of loans into three CMBS securitizations in the fourth quarter, and we expect to participate in additional transactions through year end. The results of these CMBS securitizations will be reflected as gains on sales in the fourth quarter. We continue to believe that having the ability to both, execute our own securitizations and to contribute to partner deals affords us maximum strategic and operational flexibility.

Finally, as Brian mentioned earlier, a number of our loans closings were delayed in the third quarter due to the severe weather. Consequently, we are experiencing an active fourth quarter for loan closings as well. In the month of October, we closed \$589 million of loans, including \$215 million we intend to hold on balance sheet.

With that said, I'll turn you over to our CFO, Marc Fox.

Marc A. Fox

Chief Financial Officer, Ladder Capital Corp

Thank you, Pamela. I will now review Ladder Capital's financial results for the quarter and nine months ended September 30, 2017. Core earnings in the third quarter of 2017 were \$35.6 million. This amount compares to \$44.5 million in the same quarter of 2016. Core earnings in the first nine months of 2017 were \$118.4 million, compared to \$113.6 million for the first three quarters of the prior year.

Core EPS for the third quarter of 2017 was \$0.35 per share, compared to \$0.40 per share for the same quarter last year. Core EPS for the first nine months of 2017 was \$1.08 per share, compared to \$1.10 per share earned in the comparable period in 2016.

On an after-tax core basis, Ladder generated a 10.5% return on average equity during the third quarter and a 10.7% return over the first nine months of 2017. This is based on an average equity balance, excluding non-controlling interest of consolidated JVs, of approximately \$1.5 billion.

During the third quarter of 2017, core earnings were primarily derived from net interest income generated by Ladder Securities and held for investment loan portfolios and net rental income from our real estate portfolio. These lines of business generated recurring income in excess of Ladder's total corporate expenses. There were no securitization transaction in the third quarter and the largest gap to core earnings adjustment in the quarter related to real estate depreciation.

On a GAAP basis, Ladder generated net income before taxes of \$30.1 million for the three months ended 9/30/2017 and \$60.3 million year-to-date. These results compare to net income before taxes of \$58.3 million and \$47.6 million reported in the three and nine months ended 9/30/2016. Ladder reported more favorable net results of derivative transactions in the first three quarters of 2017, reflecting the impact on hedge positions of the substantial decline in interest rates experienced early last year.

I will now review a few highlights from Ladder's income statement and balance sheet. Where relevant and meaningful, these statistics exclude the impact of any assets securitized in Ladder-only securitization transactions and their related liabilities that are currently being consolidated under GAAP.

Net interest income was \$30.2 million in the third quarter. This income amount is comparable to net interest income earned

in prior quarters and was primarily derived from Ladder's held for investment loan portfolio. Ladder's portfolio of loans held for investment, or balance sheet loans, has increased by \$1.2 billion or 73% over the past year.

As Pamela noted, loan origination volume has remained steady over the past year and has been accelerating in recent months. Ladder's portfolio of loans held for sale stood at \$523 million at the end of the third quarter, while Ladder's portfolio of loans held for investment was over \$2.8 billion.

Net rental income, which includes operating lease income and tenant recoveries net of real estate operating expenses, was \$16 million in the third quarter, up \$3.3 million from the third quarter of the prior year, which reflects the growth of Ladder's real estate portfolio, which stood at \$1 billion at 9/30/2017. In the third quarter, Ladder made \$48.6 million of net leased and other equity investments.

Ladder's portfolio of CMBS and U.S. agency securities investment has decreased by approximately \$1.5 billion over the course of the past twelve months, and it stood at \$1.2 billion at the end of the third quarter as we continued to reallocate equity capital toward attractive balance sheet loan and real estate equity investments.

In terms of key balance sheet metrics, as of September 30, 2017, 96.5% of our debt investments were senior secured, including first mortgage loans and commercial mortgage-backed securities secured by first mortgage loans, which is consistent with the senior secured focus of the company. Senior secured assets, plus cash comprise 76% of our total asset base.

Excluding loans transferred, but not sold for GAAP, Ladder ended the quarter with total assets of \$5.8 billion and total equity of \$1.5 billion. Our core debt-to-equity ratio increased slightly during the quarter to 2.9:1.

Total unencumbered assets, including cash were \$1.6 billion at quarter end. The quarter-over-quarter increase in unencumbered assets exceeded the increase in our unsecured debt, which now includes the new issued \$400 million of corporate bonds, bringing our unencumbered assets to unsecured debt ratio to 1.39:1 as of September 30, 2017.

The average coupon on loans held for sale originated in the third quarter was 4.55%, while the average coupon on loans held for investment originated during the quarter reflected a weighted average spread of approximately 5.95% over one month LIBOR. The weighted average loan to value ratio of the commercial real estate loans on our balance sheet at quarter end was approximately 64.4%, which is in line with the weighted average LTVs in recent quarters.

With regard to securities, 78.5% of our securities positions were rated AAA or backed by agencies of the U.S. government as of quarter end. Almost all of our CMBS positions were rated investment grade. The weighted average duration of our securities portfolio was 38 months, consistent with the average duration of 38 months prevailing during the same quarter at the end of – during 2016 and at the end of the second quarter of 2017 as well.

On the financing side, we continue to enhance our maturity profile, while maintaining a diverse set of funding sources. As of September 30, 2017, we had \$4.3 billion of core debt outstanding and committed financing availability of over \$1.9 billion for additional investments. Our FHLB borrowing stood at \$1.46 billion at the end of the quarter.

During the quarter, Moody's Investors Service revised its outlook for Ladder's ratings to positive from stable. And S&P Global Ratings raised its long-term issuer credit rating on Ladder to BB from BB-. At the same time, S&P raised their ratings on the Company's senior unsecured notes to BB- from B+.

As we approach the end of 2017, in a market characterized by good set of attractive investment opportunities, we intend to continue to strengthen the core financial foundation of our firm by emphasizing the addition of more committed funding that is longer term, unsecured or secured, but non-recourse.

In that regard, we have issued \$900 million of unsecured corporate bonds with terms of five and eight years. We have more than tripled the size of our unsecured revolving credit facility over the past 20 months, growing it from five major banks providing \$75 million of funding to eight major banks providing over \$240 million today, while also extending the final maturity date to 2021.

We've also issued \$372.3 million of non-recourse, non-mark-to-market, match-funded debt in October, when we successfully executed our initial CLO financing as we securitized the pool of \$456.9 million of floating-rate loans.

As has been our historic practice, we continue to utilize long-term non-recourse, fixed rate assignable mortgage debt to finance our real estate that is leased on a long-term basis to credit-worthy tenants. And we continue to maintain the discipline of extending the maturities of already committed loan and securities repurchase facilities, so we typically have at least two and sometimes as many as five years remaining until final maturity.

When combined with a disciplined approach to corporate average, where we target 2 to 3 times debt-to-equity ratio, our commitment to operating within our triangle of CRE finance business lines and a credit-centric investment approach, Ladder is well positioned for 2018 and beyond.

So summing up, in the third quarter Ladder generated \$35.6 million of core earnings and a core after-tax return on average equity of 10.5%. And we also earned \$118.4 million and a 10.7% return on average equity for the first nine months of the year.

Ladder continued to maintain solid dividend coverage in each of the first three quarters of the year. We benefited from a credit rating upgrade from Standard & Poor's and are moved to positive ratings outlook by Moody's. We issued \$400 million of 5.25% unsecured senior notes due in 2025, and the proceeds we used in part to pay off outstanding secured debt. And we continue to apply disciplined approach to the use of leverage, the allocation of capital in the face of the risk we encounter until the selection of longer term investments in loans and real estate.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session [Operator Instructions]. Our first question is from Steve DeLaney at JMP Securities. Please state your question.

Steve C. DeLaney

Analyst, JMP Securities LLC

Good evening, everyone, and thank you for taking the question. So my first question is something of a history question. Stocks appear to be trading today based on how the market perceives the companies will perform in a higher interest rate environment. I think we could all agree with that. It's been a while since we had a higher interest rate environment or a rising rate environment. But in 2003, the average tenure was 4.02; in 2006, it was 4.79, so we went up 75 basis points during that period. Obviously, there were other things going on in that period with respect to underwriting, et cetera.

But Brian or Pamela, I was just wondering question I get often is, how will CMBS volumes hold up if the tenure moves to 3% or higher than that? And I'm just curious, you guys have been around the business for a pretty good while, so any

thoughts you have about borrower behavior in a rising interest rate environment? Thank you.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Sure, Steve. The only thing that really gets affected – or there's two forms of loan production and it's really refinance and it's acquisition.

Steve C. DeLaney

Analyst, JMP Securities LLC

Right.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

The refinance pipeline is not impacted at all, because the maturity date comes whether rates are high or rates are low. Prepayments, where people are able to refinance at lower proceeds on those refinances – I'm sorry, at higher proceeds fall to the wayside, because rates go higher.

But the acquisition side of the business, where a person is acquiring a property and then borrowing money against it, often times, there's a little bit of a delay, because as interest rates go up, the seller of the real estate doesn't want to understand that he owns an instrument that's more like a bond than anything else.

And so eventually what happens is, you do see some widening.

Steve C. DeLaney

Analyst, JMP Securities LLC

Right.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Because invariably, the buyers are the ones who have the raw material cost of the interest embedded in their models. But then, I think, there's a second part of it too, because if it's accompanied by – typically what makes interest rates go up is growth in inflation. And typically when stock markets are pluming all-time highs like they are now with low interest rates, relatively low interest rates, invariably some people pull money out of the stock market, because they think it's getting choppy and they find their way into real estate eventually and we are seeing that.

Steve C. DeLaney

Analyst, JMP Securities LLC

All right. That's helpful for that perspective for sure. And then the second point is, don't know if you can comment on this, but we've been trying to keep up with these Form 4s that are coming through. And I was just wondering if Marc or someone there is tracking sort of on a week-to-week basis with the current percentage of shares – Ladder's total shares that are currently held by GI or TowerBrook? I believe it's all public record, but it's hard to keep up with it.

Marc A. Fox

Chief Financial Officer, Ladder Capital Corp

Yeah, yeah. I think that when you look at – we've got four major shareholders here; GI, TowerBrook, AIMCo and OMERS. And they are part of our original share – partner group and...

Steve C. DeLaney

Analyst, JMP Securities LLC

Right.

Marc A. Fox

Chief Financial Officer, Ladder Capital Corp

...everybody else.

Steve C. DeLaney

Analyst, JMP Securities LLC

Sure.

Marc A. Fox

Chief Financial Officer, Ladder Capital Corp

To-date, as of the end of the October, they own between them 27.7 million shares, which was about 25% of the shares. To give you a reference point, prior to the IPO, they controlled about 61% of the shares right after the IPO, we issued about 15% of the shares, they would have owned 53%. So...

Steve C. DeLaney

Analyst, JMP Securities LLC

Right.

Marc A. Fox

Chief Financial Officer, Ladder Capital Corp

...we cut it more than half.

Steve C. DeLaney

Analyst, JMP Securities LLC

Great. That's very helpful. Thank you for the comments.

Operator: Our next question is from Rick Shane with JPMorgan. Please state your question.

Richard B. Shane

Analyst, JPMorgan Securities LLC

Sure. Thanks for taking the question and it actually sort of follows along with Steve's question. Brian, we're in an environment now, where spreads are tight, rates are ticking higher. I am curious you mentioned that you have contributed almost \$417 million to conduit securitization this quarter. I'm curious what we should be thinking about in terms of gain on sale margin and just the dynamics given the rate environment we're in that we should think about going forward?

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Sure, Rick. I think, we actually disclosed a little into October 2, as Pamela said because of the hurricanes in September, which ultimately pushed a lot of closings back a little bit. So if I look at the origination platform right now in bridge as well as conduit through the third quarter and into the fourth quarter, these have been four of the strongest months I can recall in quite a while.

And I think some of that has to do with the belief that interest rates are going to rise. So you have this fencesitter mentality, where a lot of times people think rates may go down. But I think the third quarter pretty much convinced them after listening to the Fed, that the bottoms were in and rates were probably going to go a little bit higher.

And what this sometimes has the effect of doing, it has in residential real estate also whereas they call them the fence sitters, they kind of jump in and refinance everything very quickly. So sometimes you have, despite interest rates rising, you have an unnatural amount of loan origination, because it's sort of like the train is leaving the station. So there is a fair amount of a demand that takes place at that point. In a mortgage origination business, especially a gain on sale business, which it would be part of what we do here, the best thing you could have is spreads tightening while rates are rising.

And the reason why is, because you're hedged against interest rates, so you ultimately own loans at lower than par, because you're making money on a treasury hedge as rates go up. And this gets rid of the IO component in the pricing. And ultimately most of the dollars that the income streams that you sell are sold into the AAA and AA classes without an IO component, so profit margins actually expand from what you were thinking.

So, we always price to make a certain amount of money on a given risk that we'll take by originating a loan. And more often than not, in a rising rate environment like we saw over the last three months or so, you will wind up making a little more than you've thought.

And that's not always intuitive, because oftentimes when rates fall dramatically, people think you're making a lot of money, because you have higher rates, but you really own those loans at 102 and 103. And often times, when rates are falling dramatically in a short period of time, it's not because people want to buy bonds, it's because people are buying government bonds and credit spreads are widening. So third quarter and into October have been very comfortable mortgage environment for those that originate loans.

Richard B. Shane

Analyst, JPMorgan Securities LLC

Got it. That's very helpful. Thank you.

Operator: Our next question is from Jade Rahmani with KBW. Please state your question.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thanks very much. Just looking at the stock performance of late and since the IPO. I was wondering what are your top priorities in terms of creating shareholder value. Is it getting the securitization activity to be on a more regular pace of issuance, which it clearly sounds like it is? Is it monetizing real estate assets to generate gains or perhaps increasing transparency so that investors could better underwrite net asset value?

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

That's a lot. So, I would tell you, Jade, that some of the steps that we took in the capital markets are really a prelude to running a bigger balance sheet, frankly. And, as we've said in the call, at the end of last year, we had some unsecured debt more than half of which was due within a year. So, there's not much you can do with that. You really have to stay very liquid. Because if you're unable to refinance those corporate bonds in the market, you have to sell assets. And, obviously, want to remain liquid.

With the two refinances that we did, in what one refinance and one new issue in the corporate bond market in March. And September, we've raised \$900 million in unsecured debt none of which was five to eight years were the numbers. And interestingly enough, the rate was the same give you an idea of what happened with corporate market spreads, 5.25% was the rate on both. So this really positions us with very large amount of unsecured non-mark-to-market, non-callable capital that we can leverage. So, that will support a bigger balance sheet and higher earning assets.

So the key for really, at least from the plumbing side of the business, was to be able to comfortably carry your bigger asset base, because our return on equity is fine. We're very comfortable with that. But I think we were uncomfortable carrying bigger balances with that much debt coming due within a year. With the new administration, we didn't know what would happen. Ultimately, it all worked out to our benefit. But of course, we didn't have that hindsight back in January. But if you look at the loan growth and the transition we've made out of securities, which we've always maintained, was a liquidity vehicle that just had a high ROE.

Our leverage went down, because we sold \$1 billion in securities. And if you just look from the end of December through the end of September here, I think, our balance sheet loan portfolio is up close to \$1 billion, our securities portfolio is down \$1 billion. And that actually creates less leverage, because we don't leverage the balance sheet loans as much. And the other add-on was the real estate portfolio where, I think, we're up about 25% from year end. So those are durable earning streams. They are quite dependable. And you saw we made in a quarter, where we had no securitizations at all, very similar to the first quarter actually, we make quite a bit more money because of the earning asset base and we're able to easily cover our dividend without any activity at all from the securitization platform.

Now, we have seen some activity going into the fourth quarter. So, yes, we would always like to ramp up the securitization business, but that's not the business that we control. And so when the markets are healthy, we'll be participating in them as often as possible, but we will often times skip a quarter if we're not comfortable with the way that feels. So the value proposition is certainly more conduit, which we've always maintain, we make about 9% or 10% ROE if we don't do anything except make loans.

If we have a couple of products that will allow us to punch above our weight in that area and that's the conduit business, where we have gain on sales. And in addition to that, we now have the real estate portfolio, which now that it's mostly over two years old, we may very well begin to take advantage of the gains that are imputed in that portfolio.

We probably have to do a better job of putting an identity on our real estate portfolio. We've been speaking to quite a few people. And when you talk to Vornado you know what they own. When you talk to Simon, you know what they own. When you talk to Ladder, most people don't know what we own. And the reality is, what we own is cheap real estate. And there is a pattern underneath it all. But if we are capable of making loans across product classes, we really ought to be able to spot cheap assets also.

So in the last quarter, I think, we spent \$48 million on real estate investments, the lion share of that was a multi-family apartment complex in Miami. It was not net leased properties, we sometimes do that, but – so want to add the conduit. We want to realize monetization of the real estate portfolio here and there. It's a very dependable source of income.

NAV is a topic we're talking about. How do we explain to the market and be more transparent, so that the market understands what we own in real estate and why we own it. We think that that will be a very positive scenario.

And lastly as I said, when I began to answer the longwinded question here was that, we expect to run a bigger balance sheet. And we're now positioned for the next three to four years to do that. And with our fixed cost covered, there should be quite a bit of income falling to the bottom-line. The ROE profile of Ladder got a lot better in the last six months.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

And in terms of the net effect of the capital markets activities, are you comfortable saying whether you anticipate the quarterly cash dividend to be on a positive trajectory for potential increases? I mean, it sounds with the ROE on the October CLO in the 15% to 20% range that that should be the case?

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Well, mathematically, I can confirm that we have plenty of room in it. We do review this in December with our board and we are preparing a discussion with the board. And to the extent that everything continues along plan, my guess is I would be a fan of doing something in that direction. But, of course, it would have to be approved and declared by the Board.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

And in terms of gains generated by the TRS, would the intention be to retain that capital?

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Yes. I think so. The TRS, we don't necessarily separate it quite that much. But we are required to payout a certain amount of our income and we're generally conservative in our dividend policy. So wherever we can retain capital to prevent us from issuing any equity in the markets as an internally managed company, that's a plus for us, we would do that. So, my guess is any dividend increase would primarily come from eligible assets.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

In terms of the loan book, I was wondering if you could comment on repayments. We've seen an acceleration from some of your peers in repayment activity and I do have some worries about adverse selection, if they're getting the best quality assets or refinancing away from them and they're having to replace that in a spread-compressing environment, you could be swapping high quality assets for lower quality. You guys have been disciplined in being able to maintain yield. And I know don't compete as aggressively in the really large loans space. So, just wondering if you could comment on repayment activity and maybe just overall the lending environment overall?

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Sure. Well, I'll let Marc answer the question on what the repayments were in the quarter. But they're not that aggressive as far as that bad news goes anyway. What was the number we...

Marc A. Fox

Chief Financial Officer, Ladder Capital Corp

Yeah. For our balance sheet loan portfolio, last quarter it was just under – the amortization repayments were just under \$90 million. And to put that into perspective for you, for the last three quarters prior for that, so the second quarter it was \$87 million, quarter before that it was \$68 million, the quarter before that which was the fourth quarter of last year it was \$88 million.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

So, we're not experiencing. The net inflows are exceeding the – the payoffs are lower than the originations, which is what you want to be doing. Again, I think we told you we were going to focus more on bridge loans toward the end of last year. And I think we've increased that loan book from \$2 billion to almost \$3 billion. So our portfolio is expanding. It's expanding in a

couple of ways though that may not be as obvious. With the opening of the CLO market and getting the cost of funds through a CLO execution in line with our other alternatives that we've elected to enter the CLO market, we have no objection to holding pieces of them, especially when they yield 17% in a base case scenario. We never sacrifice credit. We don't care what the price is, we don't do it.

And so as a result of that, we're pretty comfortable in the quality of our portfolio. We don't have any problems anywhere in the organization. We had one single tenant property go into bankruptcy when A&P went bankrupt that space leased immediately to an investment grade company for many years. So it's 100% occupied. So the real estate we underwrote was fine.

And another question that we get sometimes, and I said look at this before we got on the call, next year if all we do is get paid off on the loans that aren't maturing, where there are no further expenses, we have \$780 million coming due over the next 15 months. So that's the fourth quarter and the 12 months in 2018. That's a very manageable number. Anything else that prepays in advance of that will come with prepayment penalties. And so that, while we would hate to see them go, part of the lending business is getting paid back. So we're okay with that.

Our pace of originations because of the CLO business has really picked up quite a bit, because we're reaching a little bit more into where other people were lending into more cash-flowing loans, whereas in the past, we probably had a little bit more transitional nature, where lease-up was required a repositioning. And we're very comfortable doing that at that part of the real estate cycle.

Now, we're getting towards the back end of the real estate cycle. And I think you have to be a little bit more cautious around cash flow increases that you might be perceiving that are coming online. Because while your property is coming online, there is a lot of other properties coming online too, because loan growth is now in there's a lot of money been raised in the bridge loan area. So unfortunately, while the bridge loan market today is very attractive to us, we don't believe it will stay in that condition. We think it will start to become a little bit of a credit challenge. Right now, it's just about interest rates and what is the spread you're charging.

And I think Marc mentioned our spread on a close to \$3 billion portfolio is 5.95, probably one of the higher ones in the business. But we won't do anything to try to defend that margin if we feel the principal column is at risk. And so we're getting a little bit safer, I would say. And I think our average spread is coming down, but it's not coming down due to pressure from competitors, it's coming down, because we're electing to do more cash flowing loans that rating agencies and CLO buyers like better, whereas we kind of avoided those in the past. We kind of let them go to the other players in the business.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

And what was the blended interest rate on 3Q balance sheet originations?

Marc A. Fox

Chief Financial Officer, Ladder Capital Corp

Yes. On the balance sheet originations, actually – it was the 5.95.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Oh, I'm sorry. What was the portfolio at?

Marc A. Fox

Chief Financial Officer, Ladder Capital Corp

The portfolio, I'm not sure what the portfolio is right now, Brian.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Okay. Sorry. So we originated a fair amount of business. And we have a big pipeline too. So, in an environment where unemployment is low, interest rates are low, stock markets at all-time highs and you've got global growth, that's the formula really, where you will see a lot of real estate acquisitions. And I expect the loan business to be very attractive over the next 12 months. And ultimately, it will turn into a proceeds conversation. But, in this time around in the cycle, banks can participate, because they're not really that involved in the bridge lending business.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

The House tax reform proposal, just wondering if you had any initial thoughts, I know it's just far off from as there are a lot of puts and takes and it will go through multiple permutations, but any kind of initial reactions, whether it'd be to the actual impact on commercial real estate or even your decision to be reached since the corporate tax rate could potentially materially decline?

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

I'm going to hold off on that one, because I only took a brief look at it within the last hour or so. I will tell you that as a citizen, I would think the U-Haul company is going to be busy in New York and California.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

And then just lastly, the NAV question, would you be willing to share some insight into the magnitude of what you think you're sitting on in terms of real estate gains?

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

I have a very good idea of what I think that is, but I think we're going to roll that out really in a more transparent format, where we explain to people what we own and why we own it. Because, I just don't think the market fully understands how we go about acquiring real estate assets. And I think, I frankly haven't done a great job of that. So, we're going to spend a little bit time on that. I think we, over the last couple of years, have spent a lot of time talking about securities and large holdings and those things, whereas that's a much more diminished part of our business now.

And so, I think we have to put a little bit more of an identity on our real estate holdings and it actually should become quite clear, what's going on. Everybody knows we have a lot of condominiums that we sold and made a lot of money on. And everybody is wondering if we can do it again.

Owning real estate and selling it at a profit is no different to us than underwriting securities and selling those at a profit, and no different to making loans and doing a CLO or doing CMBS securitization. There are simply various phases of liquidity and they take a little bit longer to sell \$100 million building, but the mechanics of identifying inexpensive mispriced cash flows and then realizing the gains on them is actually the exact same playbook that the other disciplines are.

This is a real estate business that involves various phases of real estate and debt instruments around it, but all of the decisions

on valuation work the same way.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Well, thanks so much for your comments. Really appreciate it.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Okay.

Operator: Our next question is from Jessica Levi-Ribner with B. Riley FBR. Please state your question.

Jessica S. Levi-Ribner

Analyst, FBR Capital Markets & Co.

Good evening, guys. Thanks so much for taking my questions. When you're thinking about contributing loans to securitization versus doing one of your own securitizations, how do you think about that? And what are the considerations? And what's driving you to contribute loans in the fourth quarter rather than doing your own?

Pamela L. McCormack

President, Ladder Capital Corp

Hi Jessica, this is Pamela.

Jessica S. Levi-Ribner

Analyst, FBR Capital Markets & Co.

Hi, Pam.

Pamela L. McCormack

President, Ladder Capital Corp

Hi. I think it's more of an art than a science. A lot of it depends on what's going on with our partners in market activity and availability on shelf, and how we feel about the market. So, I would say that it's a little less by design than you might think. We are always prepared. We write every loan with the attention of holding it, and we aggregate loans and we intend to do our own securitization. But if an opportunity comes across to us that we can participate and it provides additional liquidity to us to sell the loan so that we can make more loans. And as Brian mentioned, it's a turbo driver for our ROE, we'll take advantage of that.

But I would say the way I think of building the portfolio, we close loans with the intention of holding them to maturity and securitizing them and doing a Ladder-only deals. And if opportunity is there with the partners to take advantage of it and we feel the market and timing is right, we'll participate in securitizations. In this last fourth quarter, that has been the case.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Yeah. And Jessica, this is Brian. I think, the one thing about adding, there are some positives to working with partners. But like anything with partners, they take more coordination. So, unfortunately, if you want to contribute \$100 million or \$150 million in loans to a securitization and you want to do it three to four times in three or four weeks, that's a very nice way to turn your inventory over and you recycle your capital very quickly. And definitionally, you're

always in the market. The problem is, it requires a lot of other people to be doing things in tandem with you, your other partners, your B-Piece buyers, your rating agencies, as well as your sales forces and you have to watch your calendar too to make sure that you're not walking into a pile up at the end of the quarter.

So while we certainly went out and showed ourselves and the market, I think that we can do our own securitizations, there's added risks to having that much security in your execution and that you aggregate for longer, but you control the process. And as a result of that, you don't need the partner cooperation. And, so depending on liquidity, markets, spreads and just general quality of the portfolio, I think that dictates it.

Right now, we're still in the experimental phase. We did an L structure on the Ladder-only deal. The last three securitizations we participated in October, were all gain on sale, where we're not holding anything. And that has its own level of attractiveness too. But it really – you have to judge not only the portfolio of the market and where you think spreads are going, but also where a series of partners/competitors are and that are working in tandem with you.

So, it's a little bit confused, but right now through Pamela where we're executing rapid fire in the small contribution to various deals manner, which is a little exhausting for some of the people at one of these road shows when you're only selling 150 million, but it's very a attractive way to go about it too.

Jessica S. Levi-Ribner

Analyst, FBR Capital Markets & Co.

Okay. Can you give us an idea of what the gain on sale looks like in the fourth quarter?

Pamela L. McCormack

President, Ladder Capital Corp

Jessica, I'm sorry. We're not sharing that information at this time...

Jessica S. Levi-Ribner

Analyst, FBR Capital Markets & Co.

Okay.

Pamela L. McCormack

President, Ladder Capital Corp

...since we didn't prepare that. But I will just say I think you will see a consistent gain in the fourth quarter.

Jessica S. Levi-Ribner

Analyst, FBR Capital Markets & Co.

Okay. And that was it for me. Thank you.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Okay. Thanks.

Operator: Our next question is from George Bahamondes with Deutsche Bank. Please state your question.

George Bahamondes

Analyst, Deutsche Bank Securities, Inc.

I had questions on the CLO and the securitization details you mentioned in your prepared remarks. But I'll just ask those offline. So, no questions on my end.

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

Okay.

Pamela L. McCormack

President, Ladder Capital Corp

Thank you.

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

Brian R. Harris

Chief Executive Officer & Director, Ladder Capital Corp

I just want to thank everybody for getting on the call with us today. And as I mentioned, we're pretty optimistic about the go forward here. Hopefully, these attractive market conditions last. So, it will be a little while till we talk to you again, because of year-end audit, but look forward to catching up with you next time. Thank you.

Operator: This concludes today's teleconference. You may now disconnect your lines at this time and thank you for your participation.