STARWOOD PROPERTY TRUST, INC.
Form 10-Q
November 02, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	27-0247747 (I.R.S. Employer Identification No.)
591 West Putnam Avenue Greenwich, Connecticut (Address of Principal Executive Offices)	 06830 (Zip Code)

Registrant's telephone number, including area code:

(203) 422-7700

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of October 27, 2016 was 238,411,267.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including without limitation, statements concerning our operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are developed by combining currently available information with our beliefs and assumptions and are generally identified by the words “believe,” “expect,” “anticipate” and other similar expressions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates.

These forward-looking statements are based largely on our current beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or within our control, and which could materially affect actual results, performance or achievements. Factors that may cause actual results to vary from our forward-looking statements include, but are not limited to:

· factors described in our Annual Report on Form 10-K for the year ended December 31, 2015, this Quarterly Report on Form 10-Q and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016, including those set forth under the captions “Risk Factors” and “Business”;

· defaults by borrowers in paying debt service on outstanding indebtedness;

· impairment in the value of real estate property securing our loans or in which we invest;

· availability of mortgage origination and acquisition opportunities acceptable to us;

· potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;

· national and local economic and business conditions;

· general and local commercial and residential real estate property conditions;

· changes in federal government policies;

· changes in federal, state and local governmental laws and regulations;

· increased competition from entities engaged in mortgage lending and securities investing activities;

· changes in interest rates; and

· the availability of, and costs associated with, sources of liquidity.

In light of these risks and uncertainties, there can be no assurances that the results referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q will in fact occur. Except to the extent required by applicable law or regulation, we undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, changes to future results over time or otherwise.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands, except share data)

	As of September 30, 2016	As of December 31, 2015
Assets:		
Cash and cash equivalents	$ 501,557	$ 368,815
Restricted cash	51,735	23,069
Loans held-for-investment, net	5,232,231	5,973,079
Loans held-for-sale, at fair value	347,490	203,865
Loans transferred as secured borrowings	100,978	86,573
Investment securities ($332,047 and $403,703 held at fair value)	854,667	724,947
Properties, net	1,237,879	919,225
Intangible assets ($69,018 and $119,698 held at fair value)	155,392	201,570
Investment in unconsolidated entities	185,748	199,201
Goodwill	140,437	140,437
Derivative assets	34,309	45,091
Accrued interest receivable	26,744	34,314
Other assets	128,292	102,479
Variable interest entity (“VIE”) assets, at fair value	73,923,699	76,675,689
Total Assets	$ 82,921,158	$ 85,698,354
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 174,124	$ 156,805
Related-party payable	23,901	40,955
Dividends payable	115,190	114,947
Derivative liabilities	12,753	5,196
Secured financing agreements, net	4,122,839	3,980,699
Convertible senior notes, net	1,339,853	1,323,795
Secured borrowings on transferred loans	102,365	88,000
VIE liabilities, at fair value	72,924,751	75,817,014
Total Liabilities	78,815,776	81,527,411

Commitments and contingencies (Note 21)		
Equity:		
Starwood Property Trust, Inc. Stockholders' Equity:		
Preferred stock, $0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 per share, 500,000,000 shares authorized, 242,995,917 issued and 238,389,032 outstanding as of September 30, 2016 and 241,044,775 issued and 237,490,779 outstanding as of December 31, 2015	2,430	2,410
Additional paid-in capital	4,230,577	4,192,844
Treasury stock (4,606,885 shares and 3,553,996 shares)	(92,104)	(72,381)
Accumulated other comprehensive income	40,248	29,729
Accumulated deficit	(112,303)	(12,286)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,068,848	4,140,316
Non-controlling interests in consolidated subsidiaries	36,534	30,627
Total Equity	4,105,382	4,170,943
Total Liabilities and Equity	$ 82,921,158	$ 85,698,354

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited, amounts in thousands, except per share data)

	For the Three Months Ended September 30, 2016	2015	For the Nine Months Ended September 30, 2016	2015
Revenues:				
Interest income from loans	$ 121,225	$ 120,598	$ 361,314	$ 357,319
Interest income from investment securities	19,175	24,674	53,879	76,228
Servicing fees	22,918	32,528	70,921	90,939
Rental income	39,742	10,045	110,262	17,731
Other revenues	1,645	4,300	3,814	7,437
Total revenues	204,705	192,145	600,190	549,654
Costs and expenses:				
Management fees	27,780	28,082	76,510	82,871
Interest expense	59,082	50,688	173,237	151,021
General and administrative	51,470	38,693	119,677	115,361
Acquisition and investment pursuit costs	1,509	3,682	5,682	9,735
Costs of rental operations	18,011	2,352	46,518	5,261
Depreciation and amortization	15,352	7,234	53,185	17,147
Loan loss allowance, net	2,127	(2,667)	3,395	311
Other expense	—	3	100	378
Total costs and expenses	175,331	128,067	478,304	382,085
Income before other income, income taxes and non-controlling interests	29,374	64,078	121,886	167,569
Other income:				
Change in net assets related to consolidated VIEs	47,848	49,665	94,388	153,399
Change in fair value of servicing rights	(14,283)	(4,217)	(33,213)	(8,411)
Change in fair value of investment securities, net	(2,786)	2,617	(714)	3,564
Change in fair value of mortgage loans held-for-sale, net	49,996	19,082	70,122	51,044
Earnings from unconsolidated entities	4,305	5,706	12,849	20,747
Gain on sale of investments and other assets, net	10	3,348	165	20,755
(Loss) gain on derivative financial instruments, net	(2,328)	2,230	(6,793)	7,323
Foreign currency loss, net	(3,214)	(17,782)	(20,580)	(27,235)
Total other-than-temporary impairment (“OTTI”)	(711)	—	(765)	—
Noncredit portion of OTTI recognized in other comprehensive income	—	—	54	—
Net impairment losses recognized in earnings	(711)	—	(711)	—

Loss on extinguishment of debt	—	—	—	(5,921)
Other income, net	269	64	10,998	119
Total other income	79,106	60,713	126,511	215,384
Income before income taxes	108,480	124,791	248,397	382,953
Income tax provision	(2,667)	(7,675)	(3,467)	(27,418)
Net income	105,813	117,116	244,930	355,535
Net income attributable to non-controlling interests	(47)	(381)	(1,034)	(1,289)
Net income attributable to Starwood Property Trust, Inc.	$ 105,766	$ 116,735	$ 243,896	$ 354,246
Earnings per share data attributable to Starwood Property Trust, Inc.:				
Basic	$ 0.44	$ 0.49	$ 1.02	$ 1.51
Diluted	$ 0.44	$ 0.49	$ 1.00	$ 1.51
Dividends declared per common share	$ 0.48	$ 0.48	$ 1.44	$ 1.44

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$ 105,813	$ 117,116	$ 244,930	$ 355,535
Other comprehensive income (loss) (net change by component):				
Cash flow hedges	185	(208)	(136)	(348)
Available-for-sale securities	6,105	(9,095)	8,656	(18,915)
Foreign currency remeasurement	1,331	2,912	1,999	2,877
Other comprehensive gain (loss)	7,621	(6,391)	10,519	(16,386)
Comprehensive income	113,434	110,725	255,449	339,149
Less: Comprehensive income attributable to non-controlling interests	(47)	(381)	(1,034)	(1,289)
Comprehensive income attributable to Starwood Property Trust, Inc.	$ 113,387	$ 110,344	$ 254,415	$ 337,860

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

Common stock		Additional	Treasury Stock		(Accumulated	Accumulated	Total Starwood Property	Non-
Shares	Par Value	Paid-in Capital	Shares	Amount	Deficit) Retained Earnings	Other Comprehensive Income	Trust, Inc. Stockholders' Equity	Controlling Interests
241,044,775	$ 2,410	$ 4,192,844	3,553,996	$ (72,381)	$ (12,286)	$ 29,729	$ 4,140,316	$ 30,627
14,707	—	299	—	—	—	—	299	—
—	—	—	1,052,889	(19,723)	—	—	(19,723)	—
1,147,975	12	22,785	—	—	—	—	22,797	—
788,460	8	14,649	—	—	—	—	14,657	—
—	—	—	—	—	243,896	—	243,896	1,034
—	—	—	—	—	(343,913)	—	(343,913)	—
—	—	—	—	—	—	10,519	10,519	—
—	—	—	—	—	—	—	—	(144)
—	—	—	—	—	—	—	—	10,417
—	—	—	—	—	—	—	—	(5,400)
242,995,917	$ 2,430	$ 4,230,577	4,606,885	$ (92,104)	$ (112,303)	$ 40,248	$ 4,068,848	$ 36,534
224,752,053	$ 2,248	$ 3,835,725	1,213,750	$ (23,635)	$ (9,378)	$ 55,896	$ 3,860,856	$ 22,056

13,800,000	138	326,004	—	—	—	—	326,142	—
9,400	—	219	—	—	—	—	219	—
—	—	(945)	—	—	—	—	(945)	—
—	—	—	1,793,223	(37,890)	—	—	(37,890)	—
—	—	(17,727)	—	—	—	—	(17,727)	—
1,484,879	15	26,440	—	—	—	—	26,455	—
619,256	6	14,822	—	—	—	—	14,828	—
—	—	—	—	—	354,246	—	354,246	1,289
—	—	—	—	—	(339,025)	—	(339,025)	—
—	—	—	—	—	—	(16,386)	(16,386)	—
—	—	—	—	—	—	—	—	4,188
—	—	—	—	—	—	—	—	4,133
—	—	—	—	—	—	—	—	(1,259)
240,665,588	$ 2,407	$ 4,184,538	3,006,973	$ (61,525)	$ 5,843	$ 39,510	$ 4,170,773	$ 30,407

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net income	$ 244,930	$ 355,535
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs, premiums and discounts on secured financing agreements	12,061	11,055
Amortization of convertible debt discount and deferred costs	16,058	15,631
Accretion of net discount on investment securities	(11,967)	(20,312)
Accretion of net deferred loan fees and discounts	(38,809)	(26,615)
Amortization of net discount from secured borrowings on transferred loans	—	4
Share-based compensation	22,797	26,455
Share-based component of incentive fees	14,657	14,828
Change in fair value of fair value option investment securities	714	(3,564)
Change in fair value of consolidated VIEs	42,371	17,438
Change in fair value of servicing rights	33,213	8,411
Change in fair value of loans held-for-sale	(70,122)	(51,044)
Change in fair value of derivatives	3,360	(12,765)
Foreign currency loss, net	20,367	27,372
Gain on sale of investments and other assets	(165)	(20,755)
Other-than-temporary impairment	711	—
Loan loss allowance, net	3,395	311
Depreciation and amortization	49,081	15,873
Earnings from unconsolidated entities	(12,849)	(20,747)
Distributions of earnings from unconsolidated entities	15,151	18,665
Bargain purchase gain	(8,406)	—
Loss on extinguishment of debt	—	5,921
Origination and purchase of loans held-for-sale, net of principal collections	(1,186,080)	(1,424,837)
Proceeds from sale of loans held-for-sale	1,123,512	1,443,871
Changes in operating assets and liabilities:		
Related-party payable, net	(17,166)	(17,947)
Accrued and capitalized interest receivable, less purchased interest	(58,275)	(48,310)
Other assets	6,168	(29,576)
Accounts payable, accrued expenses and other liabilities	(3,537)	(25,211)
Net cash provided by operating activities	201,170	259,687
Cash Flows from Investing Activities:		
Origination and purchase of loans held-for-investment	(1,583,628)	(1,670,124)

Proceeds from principal collections on loans	2,187,844	1,057,700
Proceeds from loans sold	236,433	599,504
Purchase of investment securities	(359,510)	(163,018)
Proceeds from sales of investment securities	3,799	6,301
Proceeds from principal collections on investment securities	70,316	348,090
Real estate business combinations, net of cash acquired	(91,186)	(239,933)
Proceeds from sale of properties	—	33,056
Additions to properties and other assets	(10,209)	(309)
Investment in unconsolidated entities	(3,870)	(32,063)
Distribution of capital from unconsolidated entities	15,026	29,003
Payments for purchase or termination of derivatives	(24,954)	(18,271)
Proceeds from termination of derivatives	37,652	30,194
Return of investment basis in purchased derivative asset	206	260
(Increase) decrease in restricted cash, net	(28,311)	9,404
Net cash provided by (used in) investing activities	449,608	(10,206)

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30, 2016	2015
Cash Flows from Financing Activities:		
Borrowings under financing agreements	$ 3,158,920	$ 3,423,328
Principal repayments on and repurchases of borrowings	(3,138,534)	(3,289,937)
Payment of deferred financing costs	(17,799)	(13,876)
Proceeds from common stock issuances	299	326,361
Payment of equity offering costs	—	(945)
Payment of dividends	(343,670)	(332,023)
Contributions from non-controlling interests	10,417	—
Distributions to non-controlling interests	(5,400)	(1,259)
Purchase of treasury stock	(19,723)	(29,792)
Issuance of debt of consolidated VIEs	596	9,132
Repayment of debt of consolidated VIEs	(202,892)	(246,230)
Distributions of cash from consolidated VIEs	40,731	26,690
Net cash used in financing activities	(517,055)	(128,551)
Net increase in cash and cash equivalents	133,723	120,930
Cash and cash equivalents, beginning of period	368,815	255,187
Effect of exchange rate changes on cash	(981)	(3,349)
Cash and cash equivalents, end of period	$ 501,557	$ 372,768
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 146,011	$ 126,668
Income taxes paid	3,038	27,256
Supplemental disclosure of non-cash investing and financing activities:		
Fair value of assets acquired, net of cash	$ 270,021	$ 540,764
Fair value of liabilities assumed	170,429	300,831
Net assets acquired from consolidated VIEs	133,177	39,506
Dividends declared, but not yet paid	115,190	115,191
Consolidation of VIEs (VIE asset/liability additions)	19,118,645	8,067,859
Deconsolidation of VIEs (VIE asset/liability reductions)	5,404,305	5,278,580
Unsettled investment securities sold	14,926	—
Unsettled common stock repurchased	—	8,098

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of September 30, 2016

(Unaudited)

1. Business and Organization

Starwood Property Trust, Inc. (“STWD” and, together with its subsidiaries, “we” or the “Company”) is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering (“IPO”). We are focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities (“CMBS”), and other commercial real estate investments in both the U.S. and Europe. We refer to the following as our target assets: commercial real estate mortgage loans, preferred equity interests, CMBS and other commercial real estate-related debt investments. Our target assets may also include residential mortgage-backed securities (“RMBS”), certain residential mortgage loans, distressed or non-performing commercial loans, commercial properties subject to net leases and equity interests in commercial real estate. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have three reportable business segments as of September 30, 2016:

- Real estate lending (the “Lending Segment”)—engages primarily in originating, acquiring, financing and managing commercial first mortgages, subordinated mortgages, mezzanine loans, preferred equity, CMBS, RMBS and other real estate and real estate-related debt investments in both the U.S. and Europe that are held for investment.

- Real estate investing and servicing (the “Investing and Servicing Segment”)—includes (i) servicing businesses in both the U.S. and Europe that manage and work out problem assets, (ii) an investment business that selectively acquires and manages unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions, and (iv) an investment business that selectively acquires commercial real estate assets, including properties acquired from CMBS trusts. This segment excludes the consolidation of securitization variable interest entities (“VIEs”).

- Real estate property (the “Property Segment”)—engages primarily in acquiring and managing equity interests in stabilized commercial real estate properties, including multi-family properties, that are held for investment.

We are organized and conduct our operations to qualify as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). As such, we will generally not be subject to U.S. federal corporate income tax on that portion of our net income that is distributed to stockholders if we distribute at least 90% of our taxable income to our stockholders by prescribed dates and comply with various other requirements.

We are organized as a holding company and conduct our business primarily through our various wholly-owned subsidiaries. We are externally managed and advised by SPT Management, LLC (our “Manager”) pursuant to the terms of a management agreement. Our Manager is controlled by Barry Sternlicht, our Chairman and Chief Executive Officer. Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht.

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2. Summary of Significant Accounting Policies

Balance Sheet Presentation of the Investing and Servicing Segment's Variable Interest Entities

As noted above, the Investing and Servicing Segment operates an investment business that acquires unrated, investment grade and non-investment grade rated CMBS. These securities represent interests in securitization structures (commonly referred to as special purpose entities, or "SPEs"). These SPEs are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. Under accounting principles generally accepted in the United States of America ("GAAP"), SPEs typically qualify as VIEs. These are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

Because the Investing and Servicing Segment often serves as the special servicer of the trusts in which it invests, consolidation of these structures is required pursuant to GAAP as outlined in detail below. This results in a consolidated balance sheet which presents the gross assets and liabilities of the VIEs. The assets and other instruments held by these VIEs are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the VIEs do not have any recourse to the general credit of any other consolidated entities, nor to us as the consolidator of these VIEs.

The VIE liabilities initially represent investment securities on our balance sheet (pre-consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles as special servicer of the bonds issued by the consolidated VIEs or as collateral administrator of the consolidated VIEs are also eliminated. Finally, an allocable portion of the identified servicing intangible associated with the eliminated fee streams is eliminated in consolidation.

Refer to the segment data in Note 22 for a presentation of the Investing and Servicing Segment without consolidation of these VIEs.

Basis of Accounting and Principles of Consolidation

The accompanying condensed consolidated financial statements include our accounts and those of our consolidated subsidiaries and VIEs. Intercompany amounts have been eliminated in consolidation. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows have been included.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the "Form 10-K"), as filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the operating results for the full year.

Refer to our Form 10-K for a description of our recurring accounting policies. We have included disclosure in this Note 2 regarding principles of consolidation and other accounting policies that (i) are required to be disclosed quarterly, (ii) we view as critical, or (iii) became significant since December 31, 2015 due to a corporate action or increase in the significance of the underlying business activity.

Variable Interest Entities

We evaluate all of our interests in VIEs for consolidation. When our interests are determined to be variable interests, we assess whether we are deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. Accounting Standards Codification ("ASC") 810, Consolidation, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its

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economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. We consider our variable interests as well as any variable interests of our related parties in making this determination. Where both of these factors are present, we are deemed to be the primary beneficiary and we consolidate the VIE. Where either one of these factors is not present, we are not the primary beneficiary and do not consolidate the VIE.

To assess whether we have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, we consider all facts and circumstances, including our role in establishing the VIE and our ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE.

Effective January 1, 2016, we implemented Accounting Standards Update ("ASU") 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis, which specifies that the right to remove the decision maker in a VIE must be exercisable without cause for the decision maker to not be deemed the party that has the power to direct the activities of a VIE. In connection with the implementation of this ASU, we consolidated VIE assets and VIE liabilities from CMBS trusts as of March 31, 2016 where the right to remove the Company as special servicer was not exercisable without cause.

Our implementation of the ASU also resulted in the determination that certain entities in which we hold interests, which prior to the implementation of the ASU were not considered VIEs, are now considered VIEs as the limited partners of these entities do not collectively possess (i) the right to remove the general partner without cause or (ii) the right to participate in significant decisions made by the partnership. The application of the ASU to these particular entities did not change our respective conclusions as to whether or not they should be consolidated. We applied the provisions of this ASU using a modified retrospective approach which does not require the restatement of prior period financial statements. There was no cumulative-effect adjustment to equity upon adoption. Refer to Note 14 for further discussion of the impact of our implementation of ASU 2015-02.

To assess whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, we consider all of our economic interests, including debt and equity investments, servicing fees, and other arrangements deemed to be variable interests in the VIE. This assessment requires that we apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by us.

Our purchased investment securities include CMBS which are unrated and non-investment grade rated securities issued by CMBS trusts. In certain cases, we may contract to provide special servicing activities for these CMBS trusts, or, as holder of the controlling class, we may have the right to name and remove the special servicer for these trusts. In our role as special servicer, we provide services on defaulted loans within the trusts, such as foreclosure or work-out procedures, as permitted by the underlying contractual agreements. In exchange for these services, we receive a fee. These rights give us the ability to direct activities that could significantly impact the trust's economic performance. However, in those instances where an unrelated third party has the right to unilaterally remove us as special servicer without cause, we do not have the power to direct activities that most significantly impact the trust's economic performance. We evaluated all of our positions in such investments for consolidation.

For securitization VIEs in which we are determined to be the primary beneficiary, all of the underlying assets, liabilities and equity of the structures are recorded on our books, and the initial investment, along with any associated unrealized holding gains and losses, are eliminated in consolidation. Similarly, the interest income earned from these structures, as well as the fees paid by these trusts to us in our capacity as special servicer, are eliminated in consolidation. Further, an allocable portion of the identified servicing intangible asset associated with the servicing fee streams, and the corresponding allocable amortization or change in fair value of the servicing intangible asset, are also eliminated in consolidation.

We perform ongoing reassessments of: (1) whether any entities previously evaluated under the majority voting interest framework have become VIEs, based on certain events, and therefore subject to the VIE consolidation framework, and (2) whether changes in the facts and circumstances regarding our involvement with a VIE causes our consolidation conclusion regarding the VIE to change.

We elect the fair value option for initial and subsequent recognition of the assets and liabilities of our consolidated securitization VIEs. Interest income and interest expense associated with these VIEs are no longer relevant on a standalone basis because these amounts are already reflected in the fair value changes. We have elected to present these items in a single line on our condensed consolidated statements of operations. The residual difference shown on our condensed consolidated statements of operations in the line item "Change in net assets related to consolidated VIEs" represents our beneficial interest in the VIEs.

We separately present the assets and liabilities of our consolidated securitization VIEs as individual line items on our condensed consolidated balance sheets. The liabilities of our consolidated securitization VIEs consist solely of obligations to the bondholders of the related CMBS trusts, and are thus presented as a single line item entitled "VIE liabilities." The assets of our consolidated securitization VIEs consist principally of loans, but at times, also include foreclosed loans which have been temporarily converted into real estate owned ("REO"). These assets in the aggregate are likewise presented as a single line item entitled "VIE assets."

Loans comprise the vast majority of our securitization VIE assets and are carried at fair value due to the election of the fair value option. When an asset becomes REO, it is due to nonperformance of the loan. Because the loan is already at fair value, the carrying value of an REO asset is also initially at fair value. Furthermore, when we consolidate a CMBS trust, any existing REO would be consolidated at fair value. Once an asset becomes REO, its disposition time is relatively short. As a result, the carrying value of an REO generally approximates fair value under GAAP.

In addition to sharing a similar measurement method as the loans in a CMBS trust, the securitization VIE assets as a whole can only be used to settle the obligations of the consolidated VIE. The assets of our securitization VIEs are not individually accessible by the bondholders, which creates inherent limitations from a valuation perspective. Also creating limitations from a valuation perspective is our role as special servicer, which provides us very limited visibility, if any, into the performing loans of a CMBS trust.

REO assets generally represent a very small percentage of the overall asset pool of a CMBS trust. In a new issue CMBS trust there are no REO assets. We estimate that REO assets constitute approximately 4% of our consolidated securitization VIE assets, with the remaining 96% representing loans. However, it is important to note that the fair value of our securitization VIE assets is determined by reference to our securitization VIE liabilities as permitted under ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. In other words, our VIE liabilities are more reliably measurable than the VIE assets, resulting in our current measurement methodology which utilizes this value to determine the fair value of our securitization VIE assets as a whole. As a result, these percentages are not necessarily indicative of the relative fair values of each of these asset categories if the assets were to be valued individually.

Due to our accounting policy election under ASU 2014-13, separately presenting two different asset categories would result in an arbitrary assignment of value to each, with one asset category representing a residual amount, as opposed to its fair value. However, as a pool, the fair value of the assets in total is equal to the fair value of the liabilities.

For these reasons, the assets of our securitization VIEs are presented in the aggregate.

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Business Combinations

Under ASC 805, Business Combinations, the acquirer in a business combination must recognize, with certain exceptions, the fair values of assets acquired, liabilities assumed, and non-controlling interests when the acquisition constitutes a change in control of the acquired entity. As goodwill is calculated as a residual, all goodwill of the acquired business, not just the acquirer's share, is recognized under this "full goodwill" approach.

We apply the provisions of ASC 805 in accounting for acquisitions of real estate assets. In doing so, we record provisional amounts for certain items as of the date of acquisition. During the measurement period, a period which shall not exceed one year, we prospectively adjust the provisional amounts recognized to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized.

Fair Value Option

The guidance in ASC 825, Financial Instruments, provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The decision to elect the fair value option is determined on an instrument by instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in our consolidated balance sheets from those instruments using another accounting method.

We have elected the fair value option for eligible financial assets and liabilities of our consolidated securitization VIEs, loans held-for-sale originated by the Investing and Servicing Segment's conduit platform, purchased CMBS issued by VIEs we could consolidate in the future and certain investments in marketable equity securities. The fair value elections for VIE and securitization related items were made in order to mitigate accounting mismatches between the carrying value of the instruments and the related assets and liabilities that we consolidate at fair value. The fair value elections for mortgage loans held-for-sale originated by the Investing and Servicing Segment's conduit platform were made due to the short-term nature of these instruments. The fair value elections for investments in marketable equity securities were made because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market.

Fair Value Measurements

We measure our mortgage backed securities, derivative assets and liabilities, domestic servicing rights intangible asset and any assets or liabilities where we have elected the fair value option at fair value. When actively quoted observable prices are not available, we either use implied pricing from similar assets and liabilities or valuation models based on net present values of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

As discussed above, we measure the assets and liabilities of consolidated securitization VIEs at fair value pursuant to our election of the fair value option. The securitization VIEs in which we invest are “static”; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the securitization VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a collateralized debt obligation (“CDO”). This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. Refer to Note 19 for further discussion regarding our fair value measurements.

Loans Held-for-Investment and Provision for Loan Losses

Loans that are held for investment are carried at cost, net of unamortized acquisition premiums or discounts, loan fees, and origination costs as applicable, unless the loans are deemed impaired. We evaluate each loan classified as held-for-investment for impairment at least quarterly. Impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, we record an allowance through the provision for loan losses to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral. Actual losses, if any, could ultimately differ from these estimates.

We perform a quarterly review of our portfolio of loans. In connection with this review, we assess the performance of each loan and assign a risk rating based on several factors, including risk of loss, loan-to-collateral value ratio ("LTV"), collateral performance, structure, exit plan, and sponsorship. Loans are rated "1" through "5", from less risk to greater risk, in connection with this review.

Deferred Financing Costs

In accordance with ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30), effective January 1, 2016 we modified our presentation of deferred financing costs in our condensed consolidated balance sheets to present such costs as a direct deduction from the carrying value of the related debt liability, consistent with debt discounts, rather than as a separate deferred asset as the previous guidance required. Deferred financing costs will continue to be amortized to interest expense over the terms of the respective debt agreements. As required by this ASU, we applied this change retrospectively to our prior period condensed consolidated balance sheet presentation.

Earnings Per Share

We present both basic and diluted earnings per share ("EPS") amounts in our financial statements. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur from (i) our share-based compensation, consisting of unvested restricted stock ("RSAs") and restricted stock units ("RSUs"), (ii) shares contingently issuable to our Manager, and (iii) the "in-the-money" conversion options associated with our outstanding convertible senior notes (see further discussion in Note 17). Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

Nearly all of the Company's unvested RSUs and RSAs contain rights to receive non-forfeitable dividends and thus are participating securities. Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities. For the three and nine months ended September 30, 2016 and 2015, the two-class method resulted in the most dilutive EPS calculation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The most significant and subjective estimate that we make is the projection of cash flows we expect to receive on our loans, investment securities and intangible assets, which has a significant impact on the amounts of interest income, credit losses (if any), and fair values that we record and/or disclose. In addition, the fair value of financial assets and liabilities that are estimated using a discounted cash flows method is significantly impacted by the rates at which we estimate market participants would discount the expected cash flows.

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Reclassifications

In connection with our implementation of ASU 2015-03 discussed above, we reclassified deferred financing costs of $38.3 million and $1.4 million previously reported in other assets to secured financing agreements, net and convertible senior notes, net, respectively, within our condensed consolidated balance sheet as of December 31, 2015.

Recent Accounting Developments

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers, which establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. At issuance, the ASU was effective for the first interim or annual period beginning after December 15, 2016. On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year, resulting in the ASU becoming effective for the first interim or annual period beginning after December 15, 2017. Early application, which was not permissible under the initial effectiveness timeline, is now permissible though no earlier than as of the first interim or annual period beginning after December 15, 2016. We do not expect the application of this ASU to materially impact the Company.

On January 5, 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities, which impacts the accounting for equity investments, financial liabilities under the fair value option, and disclosure requirements for financial instruments. The ASU shall be applied prospectively and is effective for annual periods, and interim periods therein, beginning after December 15, 2017. Early application is not permitted. We are in the process of assessing the impact this ASU will have on the Company.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes a right-of-use model for lessee accounting which results in the recognition of most leased assets and lease liabilities on the balance sheet of the lessee. Lessor accounting was not significantly changed. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2018 by applying a modified retrospective approach. Early application is permitted. We are in the process of assessing the impact this ASU will have on the Company.

On March 14, 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815) – Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that the change in counterparty to a derivative designated in a hedging relationship, in and of itself, would not require that the hedging relationship be de-designated for hedge accounting purposes. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On March 15, 2016, the FASB issued ASU 2016-07, Investments – Equity Method and Joint Ventures (Topic 323) – Simplifying the Transition to the Equity Method of Accounting, which amends existing guidance to require that in instances where an investee is transitioning from the cost method of accounting to the equity method of accounting due to an increase in ownership level or degree of influence, the investee applies the equity method of accounting prospectively from the date significant influence is obtained, whereas existing guidance requires an investee to retrospectively apply the equity method of accounting for all previous periods in which the investment was held. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On March 17, 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amends the principal-versus-agent implementation guidance and illustrations in the FASB's revenue recognition standard issued in ASU 2014-09. The ASU provides further guidance to assist an entity in the determination of whether the nature of its promise to its customer is to provide the underlying goods or services, meaning the entity is a principal, or to arrange for a third party to provide the underlying goods or services, meaning the entity is an agent. The ASU is effective for the first interim or annual period beginning after December 15, 2017. Early application is permissible though no earlier than the first interim or annual period beginning after December 15, 2016. We do not expect the application of this ASU to materially impact the Company.

On March 30, 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting, which seeks to simplify the accounting for employee share-based payment transactions, including the accounting for associated income taxes and forfeitures. The ASU is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted in any interim or annual period. We do not expect the application of this ASU to materially impact the Company.

On April 14, 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing, which amends guidance and illustrations in the FASB's revenue recognition standard issued in ASU 2014-09 regarding the identification of performance obligations and the implementation guidance on licensing arrangements. The ASU is effective for the first interim or annual period beginning after December 15, 2017. Early application is permissible though no earlier than the first interim or annual period beginning after December 15, 2016. We do not expect the application of this ASU to materially impact the Company.

On June 16, 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments, which mandates use of an "expected loss" credit model for estimating future credit losses of certain financial instruments instead of the "incurred loss" credit model that existing GAAP currently mandates. The "expected loss" model requires the consideration of possible credit losses over the life of an instrument compared to only estimating credit losses upon the occurrence of a discrete loss event in accordance with the current "incurred loss" methodology. The ASU is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019. Early application is permissible though no earlier than the first interim or annual period beginning after December 15, 2018. We are in the process of assessing the impact this ASU will have on the Company.

On August 26, 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments, which seeks to reduce diversity in practice regarding how various cash receipts and payments are reported within the statement of cash flows. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2017. Early application is permitted in any interim or annual period. We do not expect the application of this ASU to materially impact the Company.

On October 24, 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other Than Inventory, which requires that an entity recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time of the transfer instead of deferring the tax consequences until the asset has been sold to an outside party, as current GAAP requires. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2017. Early application is permitted in any interim or annual period. We are in the process of assessing the impact this ASU will have on the Company.

On October 26, 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810) – Interests Held through Related Parties That Are under Common Control, which requires when assessing which party is the primary beneficiary in a VIE, the decision maker considers interests held by entities under common control on a proportionate basis instead of treating those interests as if they were that of the decision maker itself, as current GAAP requires. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted in any interim or annual period. We are in the process of assessing the impact this ASU will have on the Company.

3. Acquisitions

Medical Office Portfolio

In September 2016, we entered into an agreement to acquire a stabilized portfolio of 38 medical office buildings which are geographically dispersed throughout the U.S. and primarily affiliated with major hospitals or located on or adjacent to a major hospital campus (the “Medical Office Portfolio”). The aggregate purchase price for the Medical Office Portfolio, which collectively comprises approximately 2.2 million square feet, is approximately $837.9 million. The Medical Office Portfolio, which is primarily net leased to investment-grade health systems and major physician-owned medical groups, is 95% occupied and carries a weighted average remaining lease term of 7.0 years. The acquisition is expected to close in December 2016, subject to customary closing conditions. In October 2016, we funded a $40.0 million deposit associated with this acquisition.

Woodstar Portfolio

The Woodstar Portfolio is comprised of 32 affordable housing communities with 8,948 units concentrated primarily in the Tampa, Orlando and West Palm Beach metropolitan areas.

During the nine months ended September 30, 2016, we acquired the final 14 affordable housing communities of the Woodstar Portfolio, which are comprised of 3,710 units with total assets of $276.3 million and assumed liabilities of $170.4 million. These assumed liabilities include federal, state and county sponsored financing and other assumed debt. Refer to Note 9 for further discussion of these assumed debt facilities.

For the 14 affordable housing communities acquired during 2016, we recognized revenues of $23.7 million and net income of $3.9 million during the nine months ended September 30, 2016. Such net income includes (i) bargain purchase gains of $8.4 million, (ii) depreciation and amortization expense of $12.7 million and (iii) one-time acquisition-related costs, such as legal and due diligence costs, of approximately $0.9 million.

No goodwill was recognized in connection with the Woodstar Portfolio acquisition as the purchase price did not exceed the fair value of the net assets acquired. During the nine months ended September 30, 2016, a bargain purchase gain of $8.4 million was recognized within other income, net in our condensed consolidated statements of operations as the fair value of the net assets acquired exceeded the purchase price due to favorable changes in net asset fair values occurring between the date the purchase price was negotiated and the closing date.

Investing and Servicing Segment Property Portfolio

During the three and nine months ended September 30, 2016, our Investing and Servicing Segment acquired controlling interests in commercial real estate properties as well as a non-performing loan from CMBS trusts for $3.3 million and $91.1 million, respectively. In addition, during the nine months ended September 30, 2016, we foreclosed on the non-performing loan that was previously acquired from a CMBS trust for $8.2 million. These properties, aggregated with the controlling interests in 14 U.S. commercial real estate properties acquired from CMBS trusts during the year ended December 31, 2015 for $138.7 million, comprise the Investing and Servicing Segment Property Portfolio (the “REO Portfolio”). When the properties are acquired from CMBS trusts that are consolidated as VIEs on our balance sheet, the acquisitions are reflected as repayment of debt of consolidated VIEs in our consolidated statements of cash flows.

Ireland Portfolio

During 2015, we acquired 12 net leased fully occupied office properties and one multi-family property all located in Dublin, Ireland. Collectively, these 13 properties comprise our “Ireland Portfolio”.

The Ireland Portfolio, which collectively is comprised of approximately 600,000 square feet, included total assets of $518.2 million and assumed debt of $283.0 million at acquisition. Following our acquisition, all assumed debt was immediately extinguished and replaced with new financing of $328.6 million from the Ireland Portfolio Mortgage (as set forth in Note 9). All properties within the Ireland Portfolio were acquired from entities controlled by the same third party investment fund. No goodwill or bargain purchase gain was recognized in connection with the Ireland Portfolio acquisition as the purchase price equaled the fair value of the net assets acquired.

Purchase Price Allocations of Acquisitions

We applied the provisions of ASC 805, Business Combinations, in accounting for our acquisitions of the Woodstar Portfolio, the REO Portfolio and the Ireland Portfolio. In doing so, we have recorded all identifiable assets acquired and liabilities assumed at fair value as of the respective acquisition dates. These amounts for the Woodstar Portfolio and certain properties within the REO Portfolio are provisional and may be adjusted during the measurement period, which expires no later than one year from the acquisition dates, if new information is obtained that, if known, would have affected the amounts recognized as of the acquisition dates.

The following table summarizes the identified assets acquired and liabilities assumed at the respective acquisition dates (amounts in thousands):

	2016		2015		
Assets acquired:	Woodstar Portfolio	REO Portfolio	Woodstar Portfolio	REO Portfolio	Ireland Portfolio
Cash and cash equivalents	$ 6,254	$ —	$ —	$ —	$ —
Restricted cash	—	—	—	—	10,829
Properties	245,430	71,496	339,040	128,218	445,369
Intangible assets	8,174	25,387	11,337	19,381	59,529
Other assets	16,417	2,862	652	4,973	2,508
Total assets acquired	276,275	99,745	351,029	152,572	518,235
Liabilities assumed:					
Accounts payable, accrued expenses and other liabilities	19,666	3,202	18,030	6,998	17,552
Secured financing agreements	150,763	—	8,982	—	283,010
Total liabilities assumed	170,429	3,202	27,012	6,998	300,562
Non-controlling interests	—	5,492	—	6,904	—
Net assets acquired	$ 105,846	$ 91,051	$ 324,017	$ 138,670	$ 217,673

Pro-Forma Operating Data

The pro-forma revenues and net income attributable to the Company for the three and nine months ended September 30, 2016 and 2015, assuming all the properties acquired within the Woodstar Portfolio, REO Portfolio and Ireland

Portfolio were acquired on January 1, 2014 for the 2015 acquisitions and January 1, 2015 for the 2016 acquisitions, are as follows (amounts in thousands, except per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	$ 204,887	$ 219,708	$ 610,944	$ 648,449
Net income attributable to STWD	105,872	116,980	237,895	354,719
Net income per share - Basic	0.44	0.49	1.00	1.51
Net income per share - Diluted	0.44	0.49	0.98	1.51

Pro-forma net income was adjusted to include the following estimated incremental management fees the combined entity would have incurred (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Management fee expense addition	$ 15	$ 1,406	$ 725	$ 5,793

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4. Loans

Our loans held-for-investment are accounted for at amortized cost and our loans held-for-sale are accounted for at the lower of cost or fair value, unless we have elected the fair value option. The following tables summarize our investments in mortgages and loans by subordination class as of September 30, 2016 and December 31, 2015 (dollars in thousands):

September 30, 2016	Carrying Value	Face Amount	Weighted Average Coupon		Weighted Average Life (“WAL”) (years)(3)
First mortgages (1)	$ 4,276,968	$ 4,292,098	6.0	%	2.2
Subordinated mortgages (2)	276,086	292,839	8.8	%	3.5
Mezzanine loans (1)	688,601	689,944	9.6	%	2.0
Total loans held-for-investment	5,241,655	5,274,881			
Loans held-for-sale, fair value option elected	347,490	331,892	4.7	%	10.0
Loans transferred as secured borrowings	100,978	102,365	6.1	%	1.8
Total gross loans	5,690,123	5,709,138			
Loan loss allowance (loans held-for-investment)	(9,424)	—			
Total net loans	$ 5,680,699	$ 5,709,138			
December 31, 2015					
First mortgages (1)	$ 4,723,852	$ 4,776,576	6.0	%	2.7
Subordinated mortgages (2)	392,563	416,713	8.5	%	3.4
Mezzanine loans (1)	862,693	850,024	9.9	%	2.5
Total loans held-for-investment	5,979,108	6,043,313			
Loans held-for-sale, fair value option elected	203,865	203,710	4.9	%	9.8
Loans transferred as secured borrowings	86,573	88,000	6.1	%	2.4
Total gross loans	6,269,546	6,335,023			
Loan loss allowance (loans held-for-investment)	(6,029)	—			
Total net loans	$ 6,263,517	$ 6,335,023			

(1) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan. The application of this methodology resulted in mezzanine loans with carrying values of $871.2 million and $930.0 million being classified as first mortgages as of September 30, 2016 and December 31, 2015, respectively.

(2) Subordinated mortgages include B-Notes and junior participation in first mortgages where we do not own the senior A-Note or senior participation. If we own both the A-Note and B-Note, we categorize the loan as a first mortgage loan.

(3) Represents the WAL of each respective group of loans as of the respective balance sheet date. The WAL of each individual loan is calculated using amounts and timing of future principal payments, as projected at origination.

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As of September 30, 2016, approximately $4.7 billion, or 89.4%, of our loans held-for-investment were variable rate and paid interest principally at LIBOR plus a weighted-average spread of 5.8%. The following table summarizes our investments in floating rate loans (dollars in thousands):

	September 30, 2016			December 31, 2015		
Index	Base Rate		Carrying Value	Base Rate		Carrying Value
One-month LIBOR USD	0.5311	%	$ 534,284	0.4295	%	$ 438,641
Three-month LIBOR GBP	N/A		—	0.5904	%	375,467
LIBOR floor	0.15 - 3.00	% (1)	4,154,013	0.15 - 3.00	% (1)	4,237,947
Total			$ 4,688,297			$ 5,052,055

(1) The weighted-average LIBOR floor was 0.32% and 0.31% as of September 30, 2016 and December 31, 2015, respectively.

Our loans are typically collateralized by real estate. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property’s operating results and any cash reserves are analyzed and used to assess (i) whether cash flow from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan at maturity, and/or (iii) the property’s liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower’s competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower’s exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

Our evaluation process as described above produces an internal risk rating between 1 and 5, which is a weighted average of the numerical ratings in the following categories: (i) sponsor capability and financial condition, (ii) loan and collateral performance relative to underwriting, (iii) quality and stability of collateral cash flows, and (iv) loan structure. We utilize the overall risk ratings as a concise means to monitor any credit migration on a loan as well as on the whole portfolio. While the overall risk rating is generally not the sole factor we use in determining whether a loan is impaired, a loan with a higher overall risk rating would tend to have more adverse indicators of impairment, and therefore would be more likely to experience a credit loss.

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The rating categories generally include the characteristics described below, but these are utilized as guidelines and therefore not every loan will have all of the characteristics described in each category:

Rating	Characteristics
1	Sponsor capability and financial condition—Sponsor is highly rated or investment grade or, if private, the equivalent thereof with significant management experience. Loan collateral and performance relative to underwriting—The collateral has surpassed underwritten expectations. Quality and stability of collateral cash flows—Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix. Loan structure—LTV does not exceed 65%. The loan has structural features that enhance the credit profile.
2	Sponsor capability and financial condition—Strong sponsorship with experienced management team and a responsibly leveraged portfolio. Loan collateral and performance relative to underwriting—Collateral performance equals or exceeds underwritten expectations and covenants and performance criteria are being met or exceeded. Quality and stability of collateral cash flows—Occupancy is stabilized with a diverse tenant mix. Loan structure—LTV does not exceed 70% and unique property risks are mitigated by structural features.
3	Sponsor capability and financial condition—Sponsor has historically met its credit obligations, routinely pays off loans at maturity, and has a capable management team. Loan collateral and performance relative to underwriting—Property performance is consistent with underwritten expectations. Quality and stability of collateral cash flows—Occupancy is stabilized, near stabilized, or is on track with underwriting. Loan structure—LTV does not exceed 80%.
4	Sponsor capability and financial condition—Sponsor credit history includes missed payments, past due payment, and maturity extensions. Management team is capable but thin. Loan collateral and performance relative to underwriting—Property performance lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. A sale of the property may be necessary in order for the borrower to pay off the loan at maturity. Quality and stability of collateral cash flows—Occupancy is not stabilized and the property has a large amount of rollover. Loan structure—LTV is 80% to 90%.
5	Sponsor capability and financial condition—Credit history includes defaults, deeds in lieu, foreclosures, and/or bankruptcies. Loan collateral and performance relative to underwriting—Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Sale proceeds would not be sufficient to pay off the loan at maturity. Quality and stability of collateral cash flows—The property has material vacancy and significant rollover of remaining tenants. Loan structure—LTV exceeds 90%.

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As of September 30, 2016, the risk ratings for loans subject to our rating system, which excludes loans on the cost recovery method and loans for which the fair value option has been elected, by class of loan were as follows (dollars in thousands):

	Balance Sheet Classification						
	Loans Held-For-Investment				Loans Transferred		% of
Risk Rating Category	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Loans Held-For-Sale	As Secured Borrowings	Total	Total Loans
1	$ —	$ —	$ —	$ —	$ —	$ —	— %
2	317,762	4,517	54,004	—	—	376,283	6.6 %
3	3,549,453	251,387	575,956	—	100,978	4,477,774	78.7 %
4	349,905	20,182	58,641	—	—	428,728	7.5 %
5	59,848 (1)	—	—	—	—	59,848	1.1 %
N/A	—	—	—	347,490	—	347,490	6.1 %
	$ 4,276,968	$ 276,086	$ 688,601	$ 347,490	$ 100,978	$ 5,690,123	100.0 %

(1) Represents a mezzanine loan which was reclassified to the first mortgage category during the three months ended September 30, 2016 when the Company acquired the contiguous first mortgage.

As of December 31, 2015, the risk ratings for loans subject to our rating system by class of loan were as follows (dollars in thousands):

	Balance Sheet Classification						
	Loans Held-For-Investment				Loans Transferred		% of
Risk Rating Category	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Loans Held-For-Sale	As Secured Borrowings	Total	Total Loans
1	$ 664	$ —	$ —	$ —	$ —	$ 664	— %
2	496,372	88,857	90,449	—	—	675,678	10.8 %
3	3,979,247	270,435	651,204	—	86,573	4,987,459	79.6 %
4	247,569	33,271	121,040	—	—	401,880	6.4 %
5	—	—	—	—	—	—	— %
N/A	—	—	—	203,865	—	203,865	3.2 %
	$ 4,723,852	$ 392,563	$ 862,693	$ 203,865	$ 86,573	$ 6,269,546	100.0 %

After completing our impairment evaluation process, we concluded that no impairment charges were required on any individual loans held-for-investment as of September 30, 2016 or December 31, 2015, as we expect to collect all outstanding principal and interest. None of our loans were 90 days or greater past due as of September 30, 2016.

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In accordance with our policies, we record an allowance for loan losses equal to (i) 1.5% of the aggregate carrying amount of loans rated as a "4," plus (ii) 5% of the aggregate carrying amount of loans rated as a "5, " plus (iii) any impaired loan reserves. The following table presents the activity in our allowance for loan losses (amounts in thousands):

	For the Nine Months Ended September 30,	
	2016	2015
Allowance for loan losses at January 1	$ 6,029	$ 6,031
Provision for loan losses	3,395	311
Charge-offs	—	—
Recoveries	—	—
Allowance for loan losses at September 30	$ 9,424	$ 6,342
Recorded investment in loans related to the allowance for loan loss	$ 488,576	$ 422,801

The activity in our loan portfolio was as follows (amounts in thousands):

	For the Nine Months Ended September 30,		
	2016		2015
Balance at January 1	$ 6,263,517		$ 6,300,285
Acquisitions/originations/additional funding	2,795,772		3,114,293
Capitalized interest (1)	65,003		51,416
Basis of loans sold (2)	(1,359,780)		(2,040,380)
Loan maturities/principal repayments	(2,188,583)		(1,055,419)
Discount accretion/premium amortization	38,809		26,615
Changes in fair value	70,122		51,044
Unrealized foreign currency remeasurement loss	(37,332)		(30,529)
Change in loan loss allowance, net	(3,395)		(311)
Transfer to/from other asset classifications	36,566	(3)	(8,844)
Balance at September 30	$ 5,680,699		$ 6,408,170

(1) Represents accrued interest income on loans whose terms do not require current payment of interest.
(2) See Note 11 for additional disclosure on these transactions.
(3) Represents commercial mortgage loans acquired from CMBS trusts which are consolidated as VIEs on our balance sheet. Refer to Note 15 for further discussion.

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5. Investment Securities

Investment securities were comprised of the following as of September 30, 2016 and December 31, 2015 (amounts in thousands):

	Carrying Value as of September 30, 2016	Carrying Value as of December 31, 2015
RMBS, available-for-sale	$ 260,513	$ 176,224
CMBS, fair value option (1)	1,029,205	1,038,200
Held-to-maturity (“HTM”) securities	522,620	321,244
Equity security, fair value option	12,749	14,498
Subtotal—Investment securities	1,825,087	1,550,166
VIE eliminations (1)	(970,420)	(825,219)
Total investment securities	$ 854,667	$ 724,947

(1) Certain fair value option CMBS are eliminated in consolidation against VIE liabilities pursuant to ASC 810.

Purchases, sales and principal collections for all investment securities were as follows (amounts in thousands):

	Available-for-sale RMBS	Available-for-sale CMBS	CMBS, fair value option	HTM Securities	Equity Security	Total
Three Months Ended September 30, 2016						
Purchases	$ 8,868	$ —	$ —	$ —	$ —	$ 8,868
Sales	—	—	17,456 (1)	—	—	17,456
Principal collections	9,917	—	12,289	566	—	22,772
Three Months Ended September 30, 2015						
Purchases	$ —	$ —	$ 5,665	$ 9,930	$ —	$ 15,595
Sales	—	—	1,203	—	—	1,203
Principal collections	8,500	91,794	1	21	—	100,316

	Available-for-sale RMBS	Available-for-sale CMBS	CMBS, fair value option	HTM Securities	Equity Security	Total
Nine Months Ended September 30, 2016						
Purchases	$ 97,204	$ —	$ 57,576	$ 204,730	$ —	$ 359,510

Sales	—	—	18,725 (1)	—	—	18,725
Principal collections	32,925	—	31,734	5,657	—	70,316
Nine Months Ended September 30, 2015						
Purchases	$ —	$ —	$ 14,653	$ 148,365	$ —	$ 163,018
Sales	—	—	6,301	—	—	6,301
Principal collections	27,114	92,018	2	228,956	—	348,090

(1) Settlement of $14.9 million occurred subsequent to September 30, 2016. We account for all investment securities transactions on a trade-date basis.

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RMBS, Available-for-Sale

The Company classified all of its RMBS as available-for-sale as of September 30, 2016 and December 31, 2015. These RMBS are reported at fair value in the balance sheet with changes in fair value recorded in accumulated other comprehensive income ("AOCI").

The tables below summarize various attributes of our investments in available-for-sale RMBS as of September 30, 2016 and December 31, 2015 (dollars in thousands):

				Unrealized Gains or (Losses) Recognized in AOCI				
	Purchase Amortized Cost	Credit OTTI	Recorded Amortized Cost	Non-Credit OTTI	Gross Unrealized Gains	Gross Unrealized Losses	Net Fair Value Adjustment	Fair Value
September 30, 2016								
RMBS	$ 224,735	$ (10,185)	$ 214,550	$ (104)	$ 46,069	$ (2)	$ 45,963	$ 260,513
December 31, 2015								
RMBS	$ 149,102	$ (10,185)	$ 138,917	$ (340)	$ 37,647	$ —	$ 37,307	$ 176,224

	Weighted Average Coupon (1)	Weighted Average Rating	WAL (Years) (2)
September 30, 2016			
RMBS	1.8 %	CCC+	6.0
December 31, 2015			
RMBS	1.3 %	B−	6.2

(1) Calculated using the September 30, 2016 and December 31, 2015 one-month LIBOR rate of 0.531% and 0.430%, respectively, for floating rate securities.

(2) Represents the WAL of each respective group of securities as of the respective balance sheet date. The WAL of each individual security is calculated using projected amounts and projected timing of future principal payments.

As of September 30, 2016, approximately $215.6 million, or 82.8%, of our RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 1.25%. As of December 31, 2015, approximately $122.7 million, or

69.7%, of our RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.43%. We purchased all of the RMBS at a discount that will be accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of these discounts.

The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS as of September 30, 2016 and December 31, 2015 (amounts in thousands):

	September 30, 2016	December 31, 2015
Principal balance	$ 410,897	$ 233,976
Accretable yield	(74,898)	(68,345)
Non-accretable difference	(121,449)	(26,714)
Total discount	(196,347)	(95,059)
Amortized cost	$ 214,550	$ 138,917

The principal balance of credit deteriorated RMBS was $381.1 million and $199.0 million as of September 30, 2016 and December 31, 2015, respectively. Accretable yield related to these securities totaled $65.8 million and $57.7 million as of September 30, 2016 and December 31, 2015, respectively.

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The following table discloses the changes to accretable yield and non-accretable difference for our RMBS during the three and nine months ended September 30, 2016 (amounts in thousands):

Three Months Ended September 30, 2016	Accretable Yield	Non-Accretable Difference
Balance as of July 1, 2016	$ 78,116	$ 119,003
Accretion of discount	(4,197)	—
Principal write-downs, net	—	(1,429)
Purchases	1,905	2,949
Sales	—	—
OTTI	—	—
Transfer to/from non-accretable difference	(926)	926
Balance as of September 30, 2016	$ 74,898	$ 121,449
Nine Months Ended September 30, 2016		
Balance as of January 1, 2016	$ 68,345	$ 26,714
Accretion of discount	(11,354)	—
Principal recoveries, net	—	2,565
Purchases	11,052	99,025
Sales	—	—
OTTI	—	—
Transfer to/from non-accretable difference	6,855	(6,855)
Balance as of September 30, 2016	$ 74,898	$ 121,449

We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was $0.5 million and $0.4 million for the three months ended September 30, 2016 and 2015, respectively, and $1.2 million and $1.1 million for the nine months ended September 30, 2016 and 2015, respectively, which has been recorded as management fees in the accompanying condensed consolidated statements of operations.

The following table presents the gross unrealized losses and estimated fair value of any available-for-sale securities that were in an unrealized loss position as of September 30, 2016 and December 31, 2015, and for which OTTIs (full or partial) have not been recognized in earnings (amounts in thousands):

	Estimated Fair Value		Unrealized Losses	
	Securities with a loss less than 12 months	Securities with a loss greater than 12 months	Securities with a loss less than 12 months	Securities with a loss greater than 12 months
As of September 30, 2016				
RMBS	$ 8,875	$ 971	$ (2)	$ (104)
As of December 31, 2015				

RMBS	$ 17,026	$ 653	$ (180)	$ (160)

As of September 30, 2016 and December 31, 2015, there were three securities and five securities, respectively, with unrealized losses reflected in the table above. After evaluating these securities and recording adjustments for credit-related OTTI, we concluded that the remaining unrealized losses reflected above were noncredit-related and would be recovered from the securities' estimated future cash flows. We considered a number of factors in reaching this conclusion, including that we did not intend to sell the securities, it was not considered more likely than not that we would be forced to sell the securities prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Credit losses, which represent most of the OTTI we record on securities, are calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to (ii) our amortized cost basis. Significant judgment is used in projecting cash flows for our non-agency RMBS. As a result, actual income and/or impairments could be materially different from what is currently projected and/or reported.

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CMBS, Fair Value Option

As discussed in the "Fair Value Option" section of Note 2 herein, we elect the fair value option for the Investing and Servicing Segment's CMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of September 30, 2016, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, were $1.0 billion and $4.6 billion, respectively. The $1.0 billion fair value balance represents our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value ($970.4 million at September 30, 2016) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS.

During the three and nine months ended September 30, 2016, we purchased $25.6 million and $126.9 million of CMBS, respectively, for which we elected the fair value option. Due to our consolidation of securitization VIEs, $25.6 million and $69.3 million, respectively, of this amount is eliminated and reflected as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows.

During the three and nine months ended September 30, 2016, we sold $17.5 million and $19.3 million of CMBS, respectively, for which we had previously elected the fair value option. Due to our consolidation of securitization VIEs, $0.6 million of this amount for the nine months ended September 30, 2016 is eliminated and reflected as issuance of debt of consolidated VIEs in our condensed consolidated statement of cash flows. During the three months ended September 30, 2016, no portion of our sales of CMBS for which we had previously elected the fair value option required elimination.

As of September 30, 2016, none of our CMBS where we have elected the fair value option were variable rate. The table below summarizes various attributes of our investment in fair value option CMBS as of September 30, 2016 and December 31, 2015:

	Weighted Average Coupon		Weighted Average Rating (1)	WAL (Years) (2)
September 30, 2016				
CMBS, fair value option	5.6	%	CCC	2.0
December 31, 2015				
CMBS, fair value option	3.9	%	CCC+	7.4

(1) As of September 30, 2016 and December 31, 2015, excludes $6.9 million and $51.3 million, respectively, in fair value option CMBS that are not rated.

(2)

The WAL of each security is calculated based on the period of time over which we expect to receive principal cash flows. Expected principal cash flows are based on contractual payments net of expected losses.

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HTM Securities

The table below summarizes unrealized gains and losses of our investments in HTM securities as of September 30, 2016 and December 31, 2015 (amounts in thousands):

	Net Carrying Amount (Amortized Cost)	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
September 30, 2016				
CMBS	$ 502,867	$ —	$ (10,160)	$ 492,707
Preferred interests	19,753	—	(191)	19,562
Total	$ 522,620	$ —	$ (10,351)	$ 512,269
December 31, 2015				
CMBS	$ 301,858	$ 257	$ (5,651)	$ 296,464
Preferred interests	19,386	—	(595)	18,791
Total	$ 321,244	$ 257	$ (6,246)	$ 315,255

The table below summarizes the maturities of our HTM CMBS and our HTM preferred equity interests in limited liability companies that own commercial real estate as of September 30, 2016 (amounts in thousands):

	CMBS	Preferred Interests	Total
Less than one year	$ 210,791	$ —	$ 210,791
One to three years	89,914	—	89,914
Three to five years	202,162	—	202,162
Thereafter	—	19,753	19,753
Total	$ 502,867	$ 19,753	$ 522,620

Equity Security, Fair Value Option

During 2012, we acquired 9,140,000 ordinary shares from a related-party in Starwood European Real Estate Finance Limited ("SEREF"), a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange. We have elected to report the investment using the fair value option because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market, and also due to potential lags in reporting resulting from differences in the respective regulatory requirements. The fair value of the investment remeasured in USD was $12.7 million and $14.5 million as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, our shares represent an approximate 2% interest in SEREF.

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6. Properties

Our properties include the Woodstar Portfolio, the REO Portfolio and the Ireland Portfolio as discussed in Note 3. The table below summarizes our properties held as of September 30, 2016 and December 31, 2015 (dollars in thousands):

	Depreciable Life	September 30, 2016	December 31, 2015
Property Segment			
Land and land improvements	0 – 10 years	$ 326,756	$ 247,589
Buildings and building improvements	7 – 40 years	690,240	516,117
Furniture & fixtures	3 – 7 years	22,317	11,980
Investing and Servicing Segment			
Land and land improvements	0 – 15 years	68,414	39,103
Buildings and building improvements	3 – 40 years	161,790	112,524
Furniture & fixtures	3 – 5 years	1,039	747
Properties, cost		1,270,556	928,060
Less: accumulated depreciation		(32,677)	(8,835)
Properties, net		$ 1,237,879	$ 919,225

In March 2015, the Investing and Servicing Segment sold an operating property that we had previously acquired from a CMBS trust, which resulted in a $17.1 million gain on sale of investments and other assets in our condensed consolidated statement of operations for the nine months ended September 30, 2015. There were no properties sold during the nine months ended September 30, 2016.

7. Investment in Unconsolidated Entities

The table below summarizes our investments in unconsolidated entities as of September 30, 2016 and December 31, 2015 (dollars in thousands):

	Participation / Ownership % (1)	Carrying value as of September 30, 2016	December 31, 2015

Equity method:			
Retail Fund	33%	$ 120,970	$ 122,454
Investor entity which owns equity in an online real estate auction company	50%	23,013	23,972
Equity interests in commercial real estate (2) (3)	16% - 50%	18,531	28,230
Various	25% - 50%	6,805	6,376
		169,319	181,032
Cost method:			
Investment funds which own equity in a loan servicer and other real estate assets	4% - 6%	9,225	9,225
Various	2% - 3%	7,204	8,944
		16,429	18,169
		$ 185,748	$ 199,201

(1) None of these investments are publicly traded and therefore quoted market prices are not available.
(2) During the nine months ended September 30, 2016, a partnership in which we hold a 50% interest acquired a real estate asset from a CMBS trust for $19.0 million. As of September 30, 2016, our investment in the partnership was $3.4 million.
(3) During the three months ended September 30, 2016, we received a repayment of $13.0 million from an in-substance loan, which was accounted for as an equity method investment.

There were no differences between the carrying value of our equity method investments and the underlying equity in the net assets of the investees as of September 30, 2016.

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8. Goodwill and Intangible Assets

Goodwill

Goodwill at September 30, 2016 and December 31, 2015 represents the excess of consideration transferred over the fair value of net assets of LNR Property LLC ("LNR") acquired on April 19, 2013. The goodwill recognized is attributable to value embedded in LNR's existing platform, which includes an international network of commercial real estate asset managers, work-out specialists, underwriters and administrative support professionals as well as proprietary historical performance data on commercial real estate assets.

Intangible Assets

Servicing Rights Intangibles

In connection with the LNR acquisition, we identified domestic and European servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. All of our servicing fees are specified by these Pooling and Servicing Agreements. At September 30, 2016 and December 31, 2015, the balance of the domestic servicing intangible was net of $29.8 million and $11.8 million, respectively, that was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs. Before VIE consolidation, as of September 30, 2016 and December 31, 2015, the domestic servicing intangible had a balance of $98.9 million and $131.5 million, respectively, which represents our economic interest in this asset.

Lease Intangibles

In connection with our acquisitions of commercial real estate, we recognized in-place lease intangible assets and favorable lease intangible assets associated with certain noncancelable operating leases of the acquired properties. The following table summarizes our intangible assets, which are comprised of servicing rights intangibles and lease intangibles, as of September 30, 2016 and December 31, 2015 (amounts in thousands):

	As of September 30, 2016		As of December 31, 2015	
		Accumulated		Accumulated

	Gross Carrying Value	Amortization	Net Carrying Value	Gross Carrying Value	Amortization	Net Carrying Value
Domestic servicing rights, at fair value	$ 69,018	$ —	$ 69,018	$ 119,698	$ —	$ 119,698
European servicing rights (1)	27,813	(26,570)	1,243	31,593	(28,967)	2,626
In-place lease intangible assets	106,177	(36,007)	70,170	74,983	(8,898)	66,085
Favorable lease intangible assets	17,768	(2,807)	14,961	14,103	(942)	13,161
Total net intangible assets	$ 220,776	$ (65,384)	$ 155,392	$ 240,377	$ (38,807)	$ 201,570

(1) The fair value as of September 30, 2016 and December 31, 2015 was $4.4 million and $5.3 million, respectively.

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The following table summarizes the activity within intangible assets for the nine months ended September 30, 2016 (amounts in thousands):

	Domestic Servicing Rights	European Servicing Rights	In-place Lease Intangible Assets	Favorable Lease Intangible Assets	Total
Balance as of January 1, 2016	$ 119,698	$ 2,626	$ 66,085	$ 13,161	$ 201,570
Impact of ASU 2015-02 adoption (1)	(17,467)	—	—	—	(17,467)
Acquisition of additional Woodstar Portfolio properties	—	—	8,174	—	8,174
Acquisition of additional REO Portfolio properties	—	—	22,040	3,347	25,387
Amortization	—	(1,152)	(26,939)	(1,841)	(29,932)
Foreign exchange (loss) gain	—	(231)	1,450	365	1,584
Impairment	—	—	(640)	(71)	(711)
Changes in fair value due to changes in inputs and assumptions	(33,213)	—	—	—	(33,213)
Balance as of September 30, 2016	$ 69,018	$ 1,243	$ 70,170	$ 14,961	$ 155,392

(1) As discussed in Notes 2 and 14, our implementation of ASU 2015-02 resulted in the consolidation of certain CMBS trusts effective January 1, 2016, which required the elimination of $17.5 million of domestic servicing rights associated with these newly consolidated trusts.

The following table sets forth the estimated aggregate amortization of our European servicing rights, in-place lease intangible assets and favorable lease intangible assets for the next five years and thereafter (amounts in thousands):

2016 (remainder of)	$ 4,869
2017	16,944
2018	14,582
2019	10,135
2020	7,498
Thereafter	32,346
Total	$ 86,374

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9. Secured Financing Agreements

The following table is a summary of our secured financing agreements in place as of September 30, 2016 and December 31, 2015 (dollars in thousands):

	Current Maturity	Extended Maturity (a)	Pricing		Pledged Asset Carrying Value	Maximum Facility Size		Carrying value at September 30, 2016	Carrying value at December 31, 2015
Lender 1 Repo 1	(b)	(b)	LIBOR + 1.75% to 5.75%		$ 1,527,099	$ 2,000,000	(c)	$ 1,104,111	$ 975,735
Lender 2 Repo 1	Oct 2017	Oct 2020	LIBOR + 1.75% to 2.75%		298,274	500,000		165,823	233,705
Lender 3 Repo 1	May 2017	May 2019	LIBOR + 2.50% to 2.85%		111,469	78,902		78,902	131,997
Lender 4 Repo 1	Oct 2016	Oct 2017	LIBOR + 2.00%		—	—		—	309,498
Lender 4 Repo 2	Dec 2018	Dec 2020	LIBOR + 2.00% to 2.50%		468,606	1,000,000	(d)	195,854	—
Lender 6 Repo 1	Aug 2019	N/A	LIBOR + 2.50% to 3.00%		419,655	500,000		295,887	491,263
Lender 7 Secured Financing	Jul 2018	Jul 2019	LIBOR + 2.75%	(e)	86,981	650,000	(f)	—	38,055
Lender 8 Secured Financing	Aug 2019	N/A	LIBOR + 4.00%		89,012	75,000		58,589	—
Conduit Repo 1	N/A	N/A	N/A		—	—		—	80,741
Conduit Repo 2	Nov 2016	N/A	LIBOR + 2.10%		—	150,000		—	—
Conduit Repo 3	Feb 2018	Feb 2019	LIBOR + 2.10%		26,941	150,000		19,621	66,041
Conduit Repo 4	Oct 2017	Oct 2020	LIBOR + 2.25%		141,729	100,000		99,949	—
MBS Repo 1	(g)	(g)	LIBOR + 1.90%		32,700	21,354		21,354	—
MBS Repo 2	Jun 2020	N/A	LIBOR/EURIBOR + 2.00% to 2.70%		341,425	248,635		248,635	120,850
MBS Repo 3	(h)	(h)	LIBOR + 1.40% to 1.85%		434,776	299,323		299,323	243,434
MBS Repo 4	(i)	N/A	LIBOR + 1.90%		160,386	225,000		46,257	2,000
Investing and	Feb 2018 to Jun	N/A	Various		165,547	134,661		130,366	82,964

Servicing Segment Property Mortgages	2026							
Ireland Portfolio Mortgage	May 2020	N/A	EURIBOR + 1.69%		484,725	330,560	330,560	319,322
Woodstar Portfolio Mortgages	Nov 2025 to Oct 2026	N/A	3.72% to 3.97%		377,848	276,748	276,748	248,630
Woodstar Portfolio Government Financing	Mar 2026 to Jun 2049	N/A	1.00% to 5.00%		315,218	136,115	136,115	8,982
Term Loan	Apr 2020	N/A	LIBOR + 2.75%	(e)	2,949,740	653,193	653,193	658,270
FHLB Advances	N/A	N/A	N/A		—	—	—	9,250
					$ 8,432,131	$ 7,529,491	4,161,287	4,020,737
Unamortized premium (discount), net							1,257	(1,702)
Unamortized deferred financing costs							(39,705)	(38,336)
							$ 4,122,839	$ 3,980,699

(a) Subject to certain conditions as defined in the respective facility agreement.

(b) Maturity date for borrowings collateralized by loans is September 2018 before extension options and September 2020 assuming exercise of initial extension options. Borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions and not to exceed September 2025.

(c) The initial maximum facility size of $1.8 billion may be increased to $2.0 billion at our option, subject to certain conditions.

(d) The initial maximum facility size of $600.0 million may be increased to $1.0 billion at our option, subject to certain conditions.

(e) Subject to borrower’s option to choose alternative benchmark based rates pursuant to the terms of the credit agreement. The Term Loan is also subject to a 75 basis point floor.

(f) The initial maximum facility size of $450.0 million may be increased to $650.0 million at our option, subject to certain conditions.

(g) Facility carries a rolling 11 month term which may reset monthly with the lender’s consent not to exceed December 2018. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of September 30, 2016.

(h) Facility carries a rolling 12 month term which may reset monthly with the lender’s consent. Current maturity is September 2017. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of September 30, 2016.

(i) The date that is 270 days after the buyer delivers notice to seller, subject to a maximum date of May 2018.

In the normal course of business, the Company is in discussions with its lenders to extend or amend any financing facilities which contain near term expirations.

During the nine months ended September 30, 2016, we executed five mortgage facilities with aggregate borrowings of $42.8 million to finance commercial real estate acquired by our Investing and Servicing Segment. As of September 30, 2016, these facilities carry a remaining weighted average term of 4.8 years. Two of the facilities carry floating annual interest rates with average spreads of LIBOR + 2.30% while the remaining facilities carry average fixed annual interest rates of 3.50%.

In connection with our acquisition of the Woodstar Portfolio, we assumed 22 federal, state and county sponsored mortgage facilities ("Woodstar Portfolio Government Financing") with aggregate outstanding balances of $136.1 million as of September 30, 2016. At their respective acquisition dates, we also assumed two additional mortgage facilities with aggregate outstanding balances of $18.6 million. These acquisitions were refinanced in September 2016 for $28.1 million with 10-year fixed rate financing at 3.97%.

In January 2016, we amended the mortgage-backed securities ("MBS") Repo 2 facility to extend the maturity from December 2016 to December 2017. Subsequently in June 2016, we expanded the facility to finance our acquisition of a first mortgage loan and a first mortgage loan portfolio, each of which had been securitized into single-borrower securitizations by the seller. The financing for these assets matures in June 2020 and carries an annual interest rate of three-month EURIBOR + 2.00%.

In March 2016, we amended the Lender 2 Repo 1 facility to upsize available borrowings from $500.0 million to $600.0 million. This additional $100.0 million of borrowing capacity is exclusively for the financing of conduit mortgage loans and therefore this component of the Lender 2 Repo 1 facility is separately presented in the secured financing agreements table above as Conduit Repo 4.

In April 2016, we amended the Lender 4 Repo 2 facility to allow for up to $200.0 million of financing for conduit mortgage loan originations under the existing borrowing capacity.

In April 2016, we terminated the Conduit Repo 1 facility.

In May 2016, we amended the MBS Repo 4 facility to upsize available borrowings from $125.0 million to $185.0 million and amend the maturity date to the earlier of (i) 270 days from when the lender delivers notice to the Company or (ii) May 2018. Subsequently in September 2016, we amended this facility to upsize available borrowings from $185.0 million to $225.0 million and allow for up to $50.0 million of the facility to be utilized for financing of CMBS.

In August 2016, we executed a $75.0 million secured financing agreement (“Lender 8 Secured Financing”) that carries a three year initial term and an annual interest rate of LIBOR + 4.00% to finance an existing first mortgage loan within our Lending Segment.

In September 2016, we amended the Lender 6 Repo 1 facility to extend the maturity from August 2018 to August 2019.

In September 2016, we amended the Lender 1 Repo 1 facility to upsize available borrowings from $1.6 billion to $1.8 billion and extend the maturity from January 2017 to September 2018. Subject to certain conditions defined in the facility agreement, the maximum facility size may be increased to $2.0 billion at our option.

Our secured financing agreements contain certain financial tests and covenants. Should we breach certain of these covenants, these agreements may restrict our ability to pay dividends in the future. As of September 30, 2016, we were in compliance with all such covenants.

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The following table sets forth our five year principal repayments schedule for secured financings assuming no defaults and excluding loans transferred as secured borrowings. Our credit facilities generally require principal to be paid down prior to the facilities' respective maturities if and when we receive principal payments on, or sell, the investment collateral that we have pledged. The amount reflected in each period includes principal repayments on our credit facilities that would be required if (i) we received the repayments that we expect to receive on the investments that have been pledged as collateral under the credit facilities, as applicable, and (ii) the credit facilities that are expected to have amounts outstanding at their current maturity dates are extended where extension options are available to us (amounts in thousands):

	Repurchase Agreements	Other Secured Financing	Total
2016 (remainder of)	$ 149,841	$ 8,933	$ 158,774
2017	577,431	45,795	623,226
2018	618,147	60,562	678,709
2019	753,341	19,243	772,584
2020	397,363	975,158	1,372,521
Thereafter	79,593	475,880	555,473
Total	$ 2,575,716	$ 1,585,571	$ 4,161,287

Secured financing maturities for 2016 primarily relate to $99.9 million on the Conduit Repo 4 facility and $19.6 million on the Conduit Repo 3 facility.

For the three and nine months ended September 30, 2016, approximately $3.9 million and $12.1 million, respectively, of amortization of deferred financing costs from secured financing agreements was included in interest expense on our condensed consolidated statements of operations. For the three and nine months ended September 30, 2015, approximately $3.8 million and $10.8 million, respectively, of amortization of deferred financing costs was included in interest expense on our condensed consolidated statements of operations.

The following table sets forth our outstanding balance of repurchase agreements related to the following asset collateral classes as of September 30, 2016 and December 31, 2015 (amounts in thousands):

Class of Collateral	September 30, 2016	December 31, 2015
Loans held-for-investment	$ 1,840,577	$ 2,142,198
Loans held-for-sale	119,570	146,782
Investment securities	615,569	366,284
	$ 2,575,716	$ 2,655,264

We seek to mitigate risks associated with our repurchase agreements by managing risk related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value. The margin call provisions under the majority of our repurchase facilities, consisting of 62% of these agreements, do not permit valuation adjustments based on capital markets activity. Instead, margin calls on these facilities are limited to collateral-specific credit marks. To monitor credit risk associated with the performance and value of our loans and investments, our asset management team regularly reviews our investment portfolios and is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary. For repurchase agreements containing margin call provisions for general capital markets activity, approximately 25% of these pertain to our loans held-for-sale, for which we manage credit risk through the purchase of credit index instruments. We further seek to manage risks associated with our repurchase agreements by matching the maturities and interest rate characteristics of our loans with the related repurchase agreements.

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10. Convertible Senior Notes

On October 8, 2014, we issued $431.3 million of 3.75% Convertible Senior Notes due 2017 (the “2017 Notes”). On February 15, 2013, we issued $600.0 million of 4.55% Convertible Senior Notes due 2018 (the “2018 Notes”). On July 3, 2013, we issued $460.0 million of 4.00% Convertible Senior Notes due 2019 (the “2019 Notes”). The following summarizes the unsecured convertible senior notes (collectively, the “Convertible Notes”) outstanding as of September 30, 2016 (dollars and shares in thousands, except per share amounts):

	Principal Amount	Coupon Rate	Effective Rate (1)	Maturity Date	Remaining Period of Amortization	Conversion Rate (2)	Conversion Price (3)	Conversion Spread Value - Shares (4) For the Three Months Ended September 30, 2016	Conversion Spread Value - Shares (4) For the Nine Months Ended September 30, 2016
2017 Notes	$ 431,250	3.75 %	5.87 %	10/15/2017	1.0 years	41.7397	$ 23.96	—	—
2018 Notes	$ 599,981	4.55 %	6.10 %	3/1/2018	1.4 years	47.0059	$ 21.27	1,595	1,743
2019 Notes	$ 341,363	4.00 %	5.35 %	1/15/2019	2.3 years	49.7273	$ 20.11	1,850	2,023
								3,445	3,766

	As of September 30, 2016	As of December 31, 2015
Total principal	$ 1,372,594	$ 1,372,594
Unamortized discount	(31,793)	(47,351)
Unamortized deferred financing costs	(948)	(1,448)
Carrying amount of debt components	$ 1,339,853	$ 1,323,795
Carrying amount of conversion option equity components recorded in additional paid-in capital	$ 46,343	$ 46,343

(1) Effective rate includes the effects of underwriter purchase discount and the adjustment for the conversion option, the value of which reduced the initial liability and was recorded in additional paid-in-capital.

(2) The conversion rate represents the number of shares of common stock issuable per $1,000 principal amount of Convertible Notes converted, as adjusted in accordance with the indentures governing the Convertible Notes (including the applicable supplemental indentures) as a result of the spin-off of our former single family residential (“SFR”) segment to our stockholders in January 2014 and cash dividend payments.

(3) As of September 30, 2016, the market price of the Company's common stock was $22.52 per share.

(4) The conversion spread value represents the portion of the convertible senior notes that are "in-the-money", representing the value that would be delivered to investors in shares upon an assumed conversion.

The if-converted value of the 2018 Notes and 2019 Notes exceeded their principal amount by $35.3 million and $40.9 million, respectively, at September 30, 2016 since the closing market price of the Company's common stock of $22.52 per share exceeded the implicit conversion prices of $21.27 and $20.11 per share, respectively. However, the if converted value of the 2017 Notes was less than its principal amount by $25.9 million at September 30, 2016 since the closing market price of the Company's common stock was less than the implicit conversion price of $23.96.

The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As such, only the conversion spread value, if any, is included in the computation of diluted EPS.

We did not repurchase any Convertible Notes during the three and nine months ended September 30, 2016 or during the three months ended September 30, 2015. During the nine months ended September 30, 2015, we repurchased $118.6 million aggregate principal amount of our 2019 Notes for $136.3 million plus transaction expenses of $0.1 million. The repurchase price was allocated between the fair value of the liability component and the fair value of the equity component of the convertible security. The portion of the repurchase price attributable to the equity component totaled $17.7 million and was recognized as a reduction of additional paid-in capital during the nine months ended September 30, 2015. The remaining repurchase price was attributable to the liability component. The difference between this amount and the net carrying amount of the liability and debt issuance costs was reflected as a loss on extinguishment of debt in our condensed consolidated statement of operations. For the nine months ended September 30, 2015, the loss on extinguishment of debt totaled $5.9 million consisting principally of the write-off of unamortized debt discount.

Conditions for Conversion

Prior to April 15, 2017 for the 2017 Notes, September 1, 2017 for the 2018 Notes and July 15, 2018 for the 2019 Notes, the Convertible Notes will be convertible only upon satisfaction of one or more of the following conditions: (1) the closing market price of the Company’s common stock is at least 110%, in the case of the 2017 Notes, or 130%, in the case of the 2018 Notes and the 2019 Notes, of the conversion price of the respective Convertible Notes for at least 20 out of 30 trading days prior to the end of the preceding fiscal quarter, (2) the trading price of the Convertible Notes is less than 98% of the product of (i) the conversion rate and (ii) the closing price of the Company’s common stock during any five consecutive trading day period, (3) the Company issues certain equity instruments at less than the 10-day average closing market price of its common stock or the per-share value of certain distributions exceeds the market price of the Company’s common stock by more than 10% or (4) other specified corporate events (significant consolidation, sale, merger, share exchange, fundamental change, etc.) occur.

On or after April 15, 2017, in the case of the 2017 Notes, September 1, 2017, in the case of the 2018 Notes, and July 15, 2018, in the case of the 2019 Notes, holders may convert each of their Convertible Notes at the applicable conversion rate at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date.

11. Loan Securitization/Sale Activities

As described below, we regularly sell loans and notes under various strategies. We evaluate such sales as to whether they meet the criteria for treatment as a sale—legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transfer of control.

Within the Investing and Servicing Segment, we originate commercial mortgage loans with the intent to sell these mortgage loans to VIEs for the purposes of securitization. These VIEs then issue CMBS that are collateralized in part by these assets, as well as other assets transferred to the VIE. In certain instances, we retain a subordinated interest in the VIE and serve as special servicer for the VIE. The following summarizes the fair value and par value of loans sold from our conduit platform, as well as the amount of sale proceeds used in part to repay the outstanding balance of the repurchase agreements associated with these loans for the three and nine months ended September 30, 2016 and 2015 (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Fair value of loans sold	$ 648,179	$ 410,227	$ 1,123,512	$ 1,443,871
Par value of loans sold	599,997	398,654	1,056,859	1,396,674
Repayment of repurchase agreements	366,268	299,301	709,049	1,043,757

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Within the Lending Segment, we originate or acquire loans and then subsequently sell a portion, which can be in various forms including first mortgages, A-Notes, senior participations and mezzanine loans. Typically, our motivation for entering into these transactions is to effectively create leverage on the subordinated position that we will retain and hold for investment. In certain instances, we continue to service the loan following its sale. The following table summarizes our loans sold and loans transferred as secured borrowings by the Lending Segment net of expenses (amounts in thousands):

	Loan Transfers Accounted for as Sales		Loan Transfers Accounted for as Secured Borrowings	
	Face Amount	Proceeds	Face Amount	Proceeds
For the Three Months Ended September 30,				
2016	$ 116,000	$ 115,157	$ —	$ —
2015	225,264	220,928	—	—
For the Nine Months Ended September 30,				
2016	$ 238,514	$ 236,433	$ —	$ —
2015	606,725	599,504	38,925	38,925

During the three and nine months ended September 30, 2015, the Lending Segment recognized gains on sales of loans of $2.7 million and $3.0 million, respectively, within gain on sale of investments and other assets in our condensed consolidated statements of operations. During the three and nine months ended September 30, 2016, gains recognized by the Lending Segment on sales of loans were not material.

12. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. Refer to Note 13 to the consolidated financial statements included in our Form 10-K for further discussion of our risk management objectives and policies.

Designated Hedges

Our objective in using interest rate derivatives is to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

In connection with our repurchase agreements, we have entered into six outstanding interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of September 30, 2016, the aggregate notional amount of our interest rate swaps designated as cash flow hedges of interest rate risk totaled $63.3 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.60% to 1.52% of the notional amount to the counterparty and receive floating rate LIBOR. Our interest rate swaps designated as cash flow hedges of interest rate risk have maturities ranging from August 2017 to May 2021.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2016 and 2015, we did not recognize any hedge ineffectiveness in earnings.

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Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable-rate debt. Over the next 12 months, we estimate that an additional $0.2 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 56 months.

Non-designated Hedges

Derivatives not designated as hedges are derivatives that do not meet the criteria for hedge accounting under GAAP or which we have not elected to designate as hedges. We do not use these derivatives for speculative purposes but instead they are used to manage our exposure to foreign exchange rates, interest rate changes and certain credit spreads. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in gain (loss) on derivative financial instruments in our condensed consolidated statements of operations.

We have entered into a series of forward contracts whereby we agreed to sell an amount of foreign currency for an agreed upon amount of USD at various dates through June 2020. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to certain foreign denominated loan investments and properties.

The following table summarizes our non-designated foreign exchange (“Fx”) forwards, interest rate swaps, interest rate caps and credit index instruments as of September 30, 2016 (notional amounts in thousands):

Type of Derivative	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx contracts – Buy Danish Krone ("DKK")	2	137	DKK	December 2016
Fx contracts – Buy Euros ("EUR")	2	94	EUR	December 2016
Fx contracts – Buy Norwegian Krone ("NOK")	2	15	NOK	December 2016
Fx contracts – Buy Swedish Krona ("SEK")	2	1,321	SEK	December 2016
Fx contracts – Sell Danish Krone ("DKK")	1	6,251	DKK	December 2016
Fx contracts – Sell Euros ("EUR") (1)	64	301,458	EUR	November 2016 – June 2020
Fx contracts – Sell Pounds Sterling ("GBP")	117	174,744	GBP	October 2016 – June 2019
Fx contracts – Sell Norwegian Krone ("NOK")	1	878	NOK	December 2016
Fx contracts – Sell Swedish Krona ("SEK")	1	7,032	SEK	December 2016
Interest rate swaps – Paying fixed rates	20	248,033	USD	April 2019 – October 2026

Interest rate swaps – Receiving fixed rates	1	8,000	USD	July 2017
Interest rate caps	2	294,000	EUR	May 2020
Interest rate caps	4	34,405	USD	June 2018 – October 2020
Credit index instruments	5	16,000	USD	September 2058
Total	224			

(1) Includes 45 Fx contracts executed to hedge our Euro currency exposure created by our acquisition of the Ireland Portfolio. As of September 30, 2016, these contracts have an aggregate notional amount of €242.0 million and varying maturities through June 2020.

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The table below presents the fair value of our derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015 (amounts in thousands):

	Fair Value of Derivatives in an Asset Position (1)		Fair Value of Derivatives in a Liability Position (2)	
	As of September 30, 2016	December 31, 2015	As of September 30, 2016	December 31, 2015
Derivatives designated as hedging instruments:				
Interest rate swaps	$ 7	$ 57	$ 208	$ 122
Total derivatives designated as hedging instruments	7	57	208	122
Derivatives not designated as hedging instruments:				
Interest rate swaps and caps	713	2,360	12,038	4,970
Foreign exchange contracts	32,733	41,137	507	104
Credit index instruments	856	1,537	—	—
Total derivatives not designated as hedging instruments	34,302	45,034	12,545	5,074
Total derivatives	$ 34,309	$ 45,091	$ 12,753	$ 5,196

(1) Classified as derivative assets in our condensed consolidated balance sheets.
(2) Classified as derivative liabilities in our condensed consolidated balance sheets.

The tables below present the effect of our derivative financial instruments on the condensed consolidated statements of operations and of comprehensive income for the three and nine months ended September 30, 2016 and 2015 (amounts in thousands):

Derivatives Designated as Hedging Instruments For the Three Months Ended September 30,	Gain (Loss) Recognized in OCI (effective portion)	Gain (Loss) Reclassified from AOCI into Income (effective portion)	Gain (Loss) Recognized in Income (ineffective portion)	Location of Gain (Loss) Recognized in Income
2016	$ 107	$ (78)	$ —	Interest expense
2015	$ (395)	$ (187)	$ —	Interest expense
For the Nine Months Ended September 30,				
2016	$ (397)	$ (261)	$ —	Interest expense
2015	$ (933)	$ (585)	$ —	Interest expense

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income for the Three Months Ended September 30,		Amount of Gain (Loss) Recognized in Income for the Nine Months Ended September 30,	
		2016	2015	2016	2015
Interest rate swaps and caps	(Loss) gain on derivative financial instruments	$ (626)	$ (17,242)	$ (25,899)	$ (22,206)
Foreign exchange contracts	(Loss) gain on derivative financial instruments	(189)	18,957	21,160	29,129
Credit index instruments	(Loss) gain on derivative financial instruments	(1,513)	515	(2,054)	400
		$ (2,328)	$ 2,230	$ (6,793)	$ 7,323

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13. Offsetting Assets and Liabilities

The following tables present the potential effects of netting arrangements on our financial position for financial assets and liabilities within the scope of ASC 210-20, Balance Sheet—Offsetting, which for us are derivative assets and liabilities as well as repurchase agreement liabilities (amounts in thousands):

	(i) Gross Amounts Recognized	(ii) Gross Amounts Offset in the Statement of Financial Position	(iii) = (i) - (ii) Net Amounts Presented in the Statement of Financial Position	(iv) Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	(iv) Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Received / Pledged	(v) = (iii) - (iv) Net Amount
As of September 30, 2016						
Derivative assets	$ 34,309	$ —	$ 34,309	$ 871	$ —	$ 33,438
Derivative liabilities	$ 12,753	$ —	$ 12,753	$ 871	$ 11,882	$ —
Repurchase agreements	2,575,716	—	2,575,716	2,575,716	—	—
	$ 2,588,469	$ —	$ 2,588,469	$ 2,576,587	$ 11,882	$ —
As of December 31, 2015						
Derivative assets	$ 45,091	$ —	$ 45,091	$ 243	$ —	$ 44,848
Derivative liabilities	$ 5,196	$ —	$ 5,196	$ 243	$ 4,953	$ —
Repurchase agreements	2,655,264	—	2,655,264	2,655,264	—	—
	$ 2,660,460	$ —	$ 2,660,460	$ 2,655,507	$ 4,953	$ —

14. Variable Interest Entities

Investment Securities

As discussed in Note 2, we evaluate all of our investments and other interests in entities for consolidation, including our investments in CMBS and our retained interests in securitization transactions we initiated, all of which are generally considered to be variable interests in VIEs.

Securitization VIEs consolidated in accordance with ASC 810 are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The assets and other instruments held by these securitization entities are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the securitization entities do not have any recourse to the general credit of any other consolidated entities, nor to us as the primary beneficiary. The VIE liabilities initially represent investment securities on our balance sheet (pre-consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles as special servicer of the bonds issued by the consolidated VIEs or as collateral administrator of the consolidated VIEs are also eliminated. Finally, an allocable portion of the identified servicing intangible associated with the eliminated fee streams is eliminated in consolidation.

VIEs in which we are the Primary Beneficiary

As discussed in Note 2, our implementation of ASU 2015-02 resulted in the consolidation of certain CMBS trusts where the right to remove the Company as special servicer was not exercisable without cause. These 14 trusts had $15.1 billion of VIE assets and $15.1 billion of VIE liabilities as of March 31, 2016. The carrying value of our CMBS investments in these 14 trusts, totaling $120.9 million, was eliminated in consolidation against VIE liabilities as of March 31, 2016.

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The inclusion of the assets and liabilities of securitization VIEs in which we are deemed the primary beneficiary has no economic effect on us. Our exposure to the obligations of securitization VIEs is generally limited to our investment in these entities. We are not obligated to provide, nor have we provided, any financial support for any of these consolidated structures.

As discussed in Note 2, our implementation of ASU 2015-02 resulted in the determination that certain entities in which we hold controlling interests, which were already consolidated prior to the implementation of ASU 2015-02, are now considered VIEs. We are the primary beneficiaries of these VIEs, which were established to facilitate the purchase of certain properties acquired with third party minority interest partners, as we possess both the power to direct the activities of the VIEs that most significantly impact their economic performance and hold significant economic interests. These VIEs had assets of $139.6 million and liabilities of $74.0 million as of September 30, 2016.

VIEs in which we are not the Primary Beneficiary

In certain instances, we hold a variable interest in a VIE in the form of CMBS, but either (i) we are not appointed, or do not serve as, special servicer or (ii) an unrelated third party has the rights to unilaterally remove us as special servicer without cause. In these instances, we do not have the power to direct activities that most significantly impact the VIE’s economic performance. In other cases, the variable interest we hold does not obligate us to absorb losses or provide us with the right to receive benefits from the VIE which could potentially be significant. For these structures, we are not deemed to be the primary beneficiary of the VIE, and we do not consolidate these VIEs.

As of September 30, 2016, one of our CDO structures was in default, which, pursuant to the underlying indentures, changes the rights of the variable interest holders. Upon default of a CDO, the trustee or senior note holders are allowed to exercise certain rights, including liquidation of the collateral, which at that time, is the activity which would most significantly impact the CDO’s economic performance. Further, when the CDO is in default, the collateral administrator no longer has the option to purchase securities from the CDO. In cases where the CDO is in default and we do not have the ability to exercise rights which would most significantly impact the CDO’s economic performance, we do not consolidate the VIE. As of September 30, 2016, this CDO structure was not consolidated.

As noted above, we are not obligated to provide, nor have we provided, any financial support for any of our securitization VIEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our investment in the entity. As of September 30, 2016, our maximum risk of loss related to securitization VIEs in which we were not the primary beneficiary was $58.8 million on a fair value basis.

As of September 30, 2016, the securitization VIEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances of $16.8 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

As discussed in Note 2, our implementation of ASU 2015-02 resulted in the determination that certain unconsolidated entities in which we hold passive non-controlling interests are now considered VIEs. We are not the primary beneficiaries of these VIEs as we do not possess the power to direct the activities of the VIEs that most significantly impact their economic performance and therefore continue to report our interests, which totaled $130.2 million as of September 30, 2016, within investment in unconsolidated entities on our condensed consolidated balance sheet. Our maximum risk of loss is limited to our carrying value of the investments of $130.2 million plus $29.2 million of unfunded commitments related to one of these VIEs.

15. Related-Party Transactions

Management Agreement

We are party to a management agreement (the “Management Agreement”) with our Manager. Under the Management Agreement, our Manager, subject to the oversight of our board of directors, is required to manage our day to day activities, for which our Manager receives a base management fee and is eligible for an incentive fee and stock awards. Our Manager’s personnel perform certain due diligence, legal, management and other services that outside professionals or consultants would otherwise perform. As such, in accordance with the terms of our Management Agreement, our Manager is paid or reimbursed for the documented costs of performing such tasks, provided that such costs and reimbursements are in amounts no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm’s-length basis. Refer to Note 16 to the consolidated financial statements included in our Form 10-K for further discussion of this agreement.

Base Management Fee. For both the three months ended September 30, 2016 and 2015, approximately $15.2 million was incurred for base management fees. For the nine months ended September 30, 2016 and 2015, approximately $45.4 million and $44.0 million, respectively, was incurred for base management fees. As of both September 30, 2016 and December 31, 2015, there were $15.2 million of unpaid base management fees included in the related-party payable in our condensed consolidated balance sheets.

Incentive Fee. For the three months ended September 30, 2016 and 2015, approximately $6.3 million and $5.3 million, respectively, was incurred for incentive fees. For the nine months ended September 30, 2016 and 2015, approximately $13.8 million and $16.1 million, respectively, was incurred for incentive fees. As of September 30, 2016 and December 31, 2015, approximately $6.3 million and $21.8 million, respectively, of unpaid incentive fees were included in related-party payable in our condensed consolidated balance sheets.

Expense Reimbursement. For the three months ended September 30, 2016 and 2015, approximately $1.5 million and $1.7 million, respectively, was incurred for executive compensation and other reimbursable expenses and recognized within general and administrative expenses in our condensed consolidated statements of operations. For the nine months ended September 30, 2016 and 2015, approximately $4.1 million and $4.6 million, respectively, was incurred for executive compensation and other reimbursable expenses. As of September 30, 2016 and December 31, 2015, approximately $2.4 million and $3.6 million, respectively, of unpaid reimbursable executive compensation and other expenses were included in related-party payable in our condensed consolidated balance sheets.

Equity Awards. In certain instances, we issue RSAs to certain employees of affiliates of our Manager who perform services for us. No such grants occurred during the three months ended September 30, 2016. During the three months ended September 30, 2015, we granted 30,608 RSAs at a grant date fair value of $0.7 million. Expenses related to the vesting of awards to employees of affiliates of our Manager were $0.6 million and $0.3 million during the three months ended September 30, 2016 and 2015, respectively, and are reflected in general and administrative expenses in our condensed consolidated statements of operations. During the nine months ended September 30, 2016 and 2015, we granted 169,104 and 108,727 RSAs, respectively, at grant date fair values of $3.3 million and $2.6 million, respectively. Expenses related to the vesting of awards to employees of affiliates of our Manager were $1.6 million and $0.7 million during the nine months ended September 30, 2016 and 2015, respectively. These shares generally vest over a three-year period.

Manager Equity Plan

In May 2015, we granted 675,000 RSUs to our Manager under the Starwood Property Trust, Inc. Manager Equity Plan ("Manager Equity Plan"). In connection with this grant and prior similar grants, we recognized share-based compensation expense of $5.7 million and $7.1 million within management fees in our condensed consolidated statements of operations for the three months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, we recognized $15.8 million and $21.4 million, respectively, related to these awards. Refer to Note 16 for further discussion of these grants.

Investments in Loans and Securities

In December 2013, we acquired a subordinate CMBS investment in a securitization issued by an affiliate of our Manager. The security was acquired for $84.1 million and is secured by five regional malls in Ohio, California and Washington. In January 2016, we acquired an additional $9.7 million of this subordinate CMBS investment.

In June 2016, we co-originated a £75.0 million first mortgage for the development of a three-property mixed use portfolio located in Greater London with SEREF, an affiliate of our Manager. We originated £60.0 million of the loan and SEREF originated £15.0 million. The loan matures in June 2019.

Acquisitions from Consolidated CMBS Trusts

Our Investing and Servicing Segment acquires interests in properties for its REO Portfolio from CMBS trusts, some of which are consolidated as VIEs on our balance sheet. Acquisitions from consolidated VIEs are reflected as repayment of debt of consolidated VIEs in our condensed consolidated statements of cash flows. During the three months ended September 30, 2016 and 2015, we acquired $3.3 million and $9.7 million, respectively, of net real estate assets from consolidated CMBS trusts and subsequently issued non-controlling interests of $1.5 million on the 2015 acquisitions. During the nine months ended September 30, 2016 and 2015, we acquired $88.4 million and $42.9 million, respectively, of net real estate assets from consolidated CMBS trusts and subsequently issued non-controlling interests of $5.5 million and $3.6 million, respectively. Also during the nine months ended September 30, 2016, a partnership in which we hold a 50% interest acquired a real estate asset from a CMBS trust for $19.0 million. Refer to Notes 3 and 7 for further discussion of these acquisitions.

Our Investing and Servicing Segment also acquires controlling interests in performing and non-performing commercial mortgage loans from CMBS trusts, some of which are consolidated as VIEs on our balance sheet. Acquisitions from consolidated VIEs are reflected as repayment of debt of consolidated VIEs in our condensed consolidated statements of cash flows. During the three months ended September 30, 2016, we acquired $26.9 million of performing loans from consolidated CMBS trusts and did not acquire any non-performing loans from consolidated CMBS trusts. During the nine months ended September 30, 2016, we acquired $36.6 million and $8.2 million of performing and non-performing loans, respectively, from consolidated CMBS trusts. During the three and nine months ended September 30, 2015, we did not acquire any performing loans and acquired $8.7 million of non-performing loans from consolidated CMBS trusts.

Other Related-Party Arrangements

During the nine months ended September 30, 2016, we established a co-investment fund which provides key personnel with the opportunity to invest in certain properties included in our REO Portfolio. These personnel include certain of our employees as well as employees of affiliates of our Manager (collectively “Fund Participants”). The fund carries an aggregate commitment of $15.0 million and owns a 10% equity interest in REO Portfolio properties acquired subsequent to January 1, 2015. As of September 30, 2016, Fund Participants have funded $4.9 million of the capital commitment and it is our current expectation that there will be no additional funding of the commitment. The capital contributed by Fund Participants is reflected on our condensed consolidated balance sheet as non-controlling interests in consolidated subsidiaries. In an effort to retain key personnel, the fund provides for disproportionate distributions which allows Fund Participants to earn an incremental 60% on all operating cash flows attributable to their capital account, net of a 5% preferred return to us as general partner of the fund. Amounts earned by Fund Participants pursuant to this waterfall are reflected within net income attributable to non-controlling interests in our condensed consolidated statement of operations. During both the three and nine months ended September 30, 2016, the non-controlling interests related to this fund recognized an immaterial loss.

Refer to Note 16 to the consolidated financial statements included in our Form 10-K for further discussion of related-party agreements.

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16. Stockholders' Equity

During the nine months ended September 30, 2016, our board of directors declared the following dividends:

Declare Date	Record Date	Ex-Dividend Date	Payment Date	Amount	Frequency
8/4/16	9/30/16	9/28/16	10/17/16	$ 0.48	Quarterly
5/9/16	6/30/16	6/28/16	7/15/16	$ 0.48	Quarterly
2/25/16	3/31/16	3/29/16	4/15/16	$ 0.48	Quarterly

During the nine months ended September 30, 2016, there were no shares issued under our At-The-Market Equity Offering Sales Agreement (the "ATM Agreement"). During the nine months ended September 30, 2016, shares issued under the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the "DRIP Plan") were not material.

There were no share repurchases during the three months ended September 30, 2016. During the nine months ended September 30, 2016, we repurchased 1,052,889 shares of common stock for $19.7 million under our $500.0 million repurchase program. Refer to Note 17 to the consolidated financial statements included in our Form 10-K for further information regarding the repurchase program. As of September 30, 2016, we have $282.1 million of remaining capacity to repurchase common stock or Convertible Notes under the repurchase program through January 2017.

Equity Incentive Plans

The Company currently maintains the Manager Equity Plan, the Starwood Property Trust, Inc. Equity Plan (the "Equity Plan"), and the Starwood Property Trust, Inc. Non-Executive Director Stock Plan ("Non-Executive Director Stock Plan"). Refer to Note 17 to the consolidated financial statements included in our Form 10-K for further information regarding these plans.

The table below summarizes our share awards granted or vested under the Manager Equity Plan during the nine months ended September 30, 2016 and 2015 (dollars in thousands):

Grant Date	Type	Amount Granted	Grant Date Fair Value	Vesting Period
May 2015	RSU	675,000	$ 16,511	3 years
January 2014	RSU	489,281	14,776	3 years
January 2014	RSU	2,000,000	55,420	3 years

As of September 30, 2016, there were 2.2 million shares available for future grants under the Manager Equity Plan, the Equity Plan and the Non-Executive Director Stock Plan.

Schedule of Non-Vested Shares and Share Equivalents

	Non-Executive Director Stock Plan	Equity Plan	Manager Equity Plan	Total	Weighted Average Grant Date Fair Value (per share)
Balance as of January 1, 2016	16,988	548,378	1,302,850	1,868,216	$ 25.84
Granted	3,776	436,700	—	440,476	19.01
Vested	—	(300,740)	(766,200)	(1,066,940)	26.17
Forfeited	—	(21,796)	—	(21,796)	23.45
Balance as of September 30, 2016	20,764	662,542	536,650	1,219,956	23.12

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17. Earnings per Share

The following table provides a reconciliation of net income and the number of shares of common stock used in the computation of basic EPS and diluted EPS (amounts in thousands, except per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic Earnings				
Income attributable to STWD common stockholders	$ 105,766	$ 116,735	$ 243,896	$ 354,246
Less: Income attributable to participating shares	(456)	(1,052)	(1,743)	(3,239)
Basic earnings	$ 105,310	$ 115,683	$ 242,153	$ 351,007
Diluted Earnings				
Basic — Income attributable to STWD common stockholders	$ 105,766	$ 116,735	$ 243,896	$ 354,246
Less: Income attributable to participating shares	(456)	(1,052)	(1,743)	(3,239)
Add: Undistributed earnings to participating shares	—	18	—	147
Less: Undistributed earnings reallocated to participating shares	—	(18)	—	(147)
Diluted earnings	$ 105,310	$ 115,683	$ 242,153	$ 351,007
Number of Shares:				
Basic — Average shares outstanding	237,429	237,796	237,017	232,194
Effect of dilutive securities — Convertible Notes	3,445	—	3,766	—
Effect of dilutive securities — Contingently issuable shares	138	129	138	129
Effect of dilutive securities — Unvested non-participating shares	79	—	61	—
Diluted — Average shares outstanding	241,091	237,925	240,982	232,323
Earnings Per Share Attributable to STWD Common Stockholders:				
Basic	$ 0.44	$ 0.49	$ 1.02	$ 1.51
Diluted	$ 0.44	$ 0.49	$ 1.00	$ 1.51

As of September 30, 2016 and 2015, participating shares of 0.9 million and 2.2 million, respectively, were excluded from the computation of diluted shares as their effect was already considered under the more dilutive two-class method used above.

Also as of September 30, 2016, there were 63.2 million potential shares of common stock contingently issuable upon the conversion of the Convertible Notes. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, this principal amount, representing 59.7 million shares at September 30, 2016, was not included in the computation of diluted EPS. However, as discussed in Note 10, the conversion options associated with the 2018 Notes and 2019 Notes are “in-the-money” as the if-converted values of the 2018 Notes and 2019 Notes exceeded their principal amounts by $35.3 million and $40.9 million, respectively, at September 30, 2016. The dilutive effect to EPS is determined by dividing this “conversion spread value” by the average share price. The “conversion spread value” is the value that would be delivered to investors in shares based on the terms of the Convertible Notes, upon an assumed conversion. In calculating the dilutive effect of these shares, the treasury stock method was used and resulted in a dilution of 3.4 million shares and 3.8 million shares for the three and nine months ended September 30, 2016, respectively. The conversion option associated with the 2017 Notes is “out-of-the-money” because the if-converted value of the 2017 Notes was less than its principal amount by $25.9 million at September 30, 2016. Therefore, there was no dilutive effect to EPS for the 2017 Notes for the three and nine months ended September 30, 2016.

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18. Accumulated Other Comprehensive Income

The changes in AOCI by component are as follows (amounts in thousands):

	Effective Portion of Cumulative Loss on Cash Flow Hedges	Cumulative Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation	Total
Three Months Ended September 30, 2016				
Balance at June 30, 2016	$ (386)	$ 39,858	$ (6,845)	$ 32,627
OCI before reclassifications	107	6,105	1,331	7,543
Amounts reclassified from AOCI	78	—	—	78
Net period OCI	185	6,105	1,331	7,621
Balance at September 30, 2016	$ (201)	$ 45,963	$ (5,514)	$ 40,248
Three Months Ended September 30, 2015				
Balance at June 30, 2015	$ (237)	$ 50,370	$ (4,232)	$ 45,901
OCI before reclassifications	(395)	(9,095)	(3,057)	(12,547)
Amounts reclassified from AOCI	187	—	5,969	6,156
Net period OCI	(208)	(9,095)	2,912	(6,391)
Balance at September 30, 2015	$ (445)	$ 41,275	$ (1,320)	$ 39,510
Nine Months Ended September 30, 2016				
Balance at January 1, 2016	$ (65)	$ 37,307	$ (7,513)	$ 29,729
OCI before reclassifications	(397)	8,656	1,999	10,258
Amounts reclassified from AOCI	261	—	—	261
Net period OCI	(136)	8,656	1,999	10,519
Balance at September 30, 2016	$ (201)	$ 45,963	$ (5,514)	$ 40,248
Nine Months Ended September 30, 2015				
Balance at January 1, 2015	$ (97)	$ 60,190	$ (4,197)	$ 55,896
OCI before reclassifications	(933)	(13,519)	(3,092)	(17,544)
Amounts reclassified from AOCI	585	(5,396)	5,969	1,158
Net period OCI	(348)	(18,915)	2,877	(16,386)
Balance at September 30, 2015	$ (445)	$ 41,275	$ (1,320)	$ 39,510

The reclassifications out of AOCI impacted the condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 as follows (amounts in thousands):

	Amounts Reclassified from AOCI during the Three Months	Amounts Reclassified from AOCI during the Nine Months	Affected Line Item

Details about AOCI Components	Ended September 30, 2016	2015	Ended September 30, 2016	2015	in the Statements of Operations
Losses on cash flow hedges:					
Interest rate contracts	$ (78)	$ (187)	$ (261)	$ (585)	Interest expense
Unrealized gains on available-for-sale securities:					
Interest realized upon collection	—	—	—	5,396	Interest income from investment securities
Foreign currency translation:					
Foreign currency loss from CMBS redemption	—	(5,969)	—	(5,969)	Foreign currency loss, net
Total reclassifications for the period	$ (78)	$ (6,156)	$ (261)	$ (1,158)	

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19. Fair Value

GAAP establishes a hierarchy of valuation techniques based on the observability of inputs utilized in measuring financial assets and liabilities at fair value. GAAP establishes market-based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy are described below:

Level I—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II—Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Valuation Process

We have valuation control processes in place to validate the fair value of the Company's financial assets and liabilities measured at fair value including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. Refer to Note 20 to the consolidated financial statements included in our Form 10-K for further discussion of our valuation process.

We determine the fair value of our assets and liabilities measured at fair value on a recurring and nonrecurring basis in accordance with the methodology described in our Form 10-K.

Fair Value Disclosures

The following tables present our financial assets and liabilities carried at fair value on a recurring basis in the condensed consolidated balance sheets by their level in the fair value hierarchy as of September 30, 2016 and

December 31, 2015 (amounts in thousands):

	September 30, 2016			
	Total	Level I	Level II	Level III
Financial Assets:				
Loans held-for-sale, fair value option	$ 347,490	$ —	$ —	$ 347,490
RMBS	260,513	—	—	260,513
CMBS	58,785	—	—	58,785
Equity security	12,749	12,749	—	—
Domestic servicing rights	69,018	—	—	69,018
Derivative assets	34,309	—	34,309	—
VIE assets	73,923,699	—	—	73,923,699
Total	$ 74,706,563	$ 12,749	$ 34,309	$ 74,659,505
Financial Liabilities:				
Derivative liabilities	$ 12,753	$ —	$ 12,753	$ —
VIE liabilities	72,924,751	—	70,013,254	2,911,497
Total	$ 72,937,504	$ —	$ 70,026,007	$ 2,911,497

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	December 31, 2015 Total	Level I	Level II	Level III
Financial Assets:				
Loans held-for-sale, fair value option	$ 203,865	$ —	$ —	$ 203,865
RMBS	176,224	—	—	176,224
CMBS	212,981	—	—	212,981
Equity security	14,498	14,498	—	—
Domestic servicing rights	119,698		—	119,698
Derivative assets	45,091	—	45,091	—
VIE assets	76,675,689	—	—	76,675,689
Total	$ 77,448,046	$ 14,498	$ 45,091	$ 77,388,457
Financial Liabilities:				
Derivative liabilities	$ 5,196	$ —	$ 5,196	$ —
VIE liabilities	75,817,014	—	73,264,566	2,552,448
Total	$ 75,822,210	$ —	$ 73,269,762	$ 2,552,448

The changes in financial assets and liabilities classified as Level III are as follows for the three and nine months ended September 30, 2016 and 2015 (amounts in thousands):

	Loans			Domestic Servicing		VIE	
Three Months Ended September 30, 2016	Held for sale	RMBS	CMBS	Rights	VIE Assets	Liabilities	Total
July 1, 2016 balance	$ 237,106	$ 251,260	$ 114,340	$ 83,301	$ 80,076,117	$ (3,540,652)	$ 77,221,472
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	49,996	—	(2,993)	(14,283)	(8,143,518)	653,103	(7,457,695)
Net accretion	—	4,197	—	—	—	—	4,197
Included in OCI	—	6,105	—	—	—	—	6,105
Purchases / Originations	709,045	8,868	—	—	—	—	717,913
Sales	(648,179)	—	(17,456)	—	—	—	(665,635)
Cash repayments / receipts	(478)	(9,917)	(12,289)	—	—	7,819	(14,865)

Transfers into Level III	—	—	—	—	—	(1)	(1)
Transfers out of Level III	—	—	—	—	—	40,959	40,959
Consolidation of VIEs	—	—	(24,403)	—	2,268,424	(109,913)	2,134,108
Deconsolidation of VIEs	—	—	1,586	—	(277,324)	37,188	(238,550)
September 30, 2016 balance	$ 347,490	$ 260,513	$ 58,785	$ 69,018	$ 73,923,699	$ (2,911,497)	$ 71,748,008
Amount of total gains (losses) included in earnings attributable to assets still held at September 30, 2016	$ 9,746	$ 4,197	$ (1,852)	$ (14,283)	$ (8,143,518)	$ 653,103	$ (7,492,607)

Three Months Ended September 30, 2015	Loans Held for sale	RMBS	CMBS	Domestic Servicing Rights	VIE Assets	VIE Liabilities	Total
July 1, 2015 balance	$ 279,352	$ 193,150	$ 314,152	$ 128,109	$ 92,719,092	$ (2,111,011)	$ 91,522,844
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	19,082	—	(2,835)	(4,217)	(10,394,490)	615,263	(9,767,197)
Net accretion	—	3,600	—	—	—	—	3,600
Included in OCI	—	(3,465)	(2,164)	—	—	—	(5,629)
Purchases / Originations	535,580	—	5,665	—	—	—	541,245
Sales	(410,227)	—	(1,203)	—	—	—	(411,430)
Issuances	—	—	—	—	—	(1,619)	(1,619)
Cash repayments / receipts	(157)	(8,500)	(91,795)	—	—	96,896	(3,556)
Transfers into Level III	—	—	—	—	—	(1,773,898)	(1,773,898)
Transfers out of Level III	—	—	—	—	—	232,484	232,484
	—	—	—	—	2,410,232	(80,149)	2,330,083

Consolidation of VIEs							
Deconsolidation of VIEs	—	—	540	—	(1,797,217)	18,457	(1,778,220)
September 30, 2015 balance	$ 423,630	$ 184,785	$ 222,360	$ 123,892	$ 82,937,617	$ (3,003,577)	$ 80,888,707
Amount of total gains (losses) included in earnings attributable to assets still held at September 30, 2015	$ 5,482	$ 3,600	$ 3,212	$ (4,217)	$ (10,394,490)	$ 615,263	$ (9,771,150)

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Nine Months Ended September 30, 2016	Loans Held for sale	RMBS	CMBS	Domestic Servicing Rights	VIE Assets	VIE Liabilities	Total
January 1, 2016 balance	$ 203,865	$ 176,224	$ 212,981	$ 119,698	$ 76,675,689	$ (2,552,448)	$ 74,836,009
Impact of ASU 2015-02 adoption (1)	—	—	—	(17,467)	17,467	—	—
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	70,122	—	(677)	(33,213)	(16,483,798)	946,703	(15,500,863)
Net accretion	—	11,354	—	—	—	—	11,354
Included in OCI	—	8,656	—	—	—	—	8,656
Purchases / Originations	1,197,801	97,204	57,576	—	—	—	1,352,581
Sales	(1,123,512)	—	(18,725)	—	—	—	(1,142,237)
Issuances	—	—	—	—	—	(596)	(596)
Cash repayments / receipts	(786)	(32,925)	(31,734)	—	—	28,591	(36,854)
Transfers into Level III	—	—	—	—	—	(972,588)	(972,588)
Transfers out of Level III	—	—	—	—	—	187,683	187,683
Consolidation of VIEs	—	—	(162,745)	—	19,118,645	(593,818)	18,362,082
Deconsolidation of VIEs	—	—	2,109	—	(5,404,304)	44,976	(5,357,219)
September 30, 2016 balance	$ 347,490	$ 260,513	$ 58,785	$ 69,018	$ 73,923,699	$ (2,911,497)	$ 71,748,008
Amount of total gains (losses) included in earnings attributable to assets still held at September 30, 2016	$ 9,746	$ 11,354	$ 263	$ (33,213)	$ (16,483,798)	$ 946,703	$ (15,548,945)

(1) As discussed in Notes 2 and 14, our implementation of ASU 2015-02 resulted in the consolidation of certain CMBS trusts effective January 1, 2016, which required the elimination of $17.5 million of domestic servicing rights associated with these newly consolidated trusts.

Nine Months Ended September 30, 2015	Loans Held for sale	RMBS	CMBS	Domestic Servicing Rights	VIE Assets	VIE Liabilities	Total
January 1, 2015 balance	$ 391,620	$ 207,053	$ 334,080	$ 132,303	$ 107,816,065	$ (4,893,120)	$ 103,988,001
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	51,044	—	(2,059)	(8,411)	(27,667,727)	3,566,846	(24,060,307)
Net accretion	—	17,087	—	—	—	—	17,087
Included in OCI	—	(12,241)	(2,362)	—	—	—	(14,603)
Purchases / Originations	1,425,499	—	14,653	—	—	—	1,440,152
Sales	(1,443,871)	—	(6,301)	—	—	—	(1,450,172)
Issuances	—	—	—	—	—	(9,132)	(9,132)
Cash repayments / receipts	(662)	(27,114)	(92,018)	—	—	171,884	52,090
Transfers into Level III	—	—	—	—	—	(2,589,916)	(2,589,916)
Transfers out of Level III	—	—	—	—	—	956,230	956,230
Consolidation of VIEs	—	—	(24,310)	—	8,067,859	(225,354)	7,818,195
Deconsolidation of VIEs	—	—	677	—	(5,278,580)	18,985	(5,258,918)
September 30, 2015 balance	$ 423,630	$ 184,785	$ 222,360	$ 123,892	$ 82,937,617	$ (3,003,577)	$ 80,888,707
Amount of total gains (losses) included in earnings attributable to assets still held at September 30, 2015	$ 5,126	$ 11,594	$ 4,171				