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, 2020

OR

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

For the transition period from _____ to _____

Commission File No. 001-35517

ARES COMMERCIAL REAL ESTATE CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland	**45-3148087**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

245 Park Avenue, 42nd Floor, New York, NY 10167
(Address of principal executive offices) (Zip Code)

(212) 750-7300
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value per share	ACRE	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 28, 2020
Common stock, $0.01 par value	33,441,937

ARES COMMERCIAL REAL ESTATE CORPORATION

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of	
	September 30, 2020	December 31, 2019
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 81,295	$ 5,256
Restricted cash	—	379
Loans held for investment ($495,167 and $515,896 related to consolidated VIEs, respectively)	1,778,199	1,682,498
Current expected credit loss reserve	(25,454)	—
Loans held for investment, net of current expected credit loss reserve	1,752,745	1,682,498
Real estate owned, net	37,476	37,901
Other assets ($896 and $1,309 of interest receivable related to consolidated VIEs, respectively; $61,833 and $41,104 of other receivables related to consolidated VIEs, respectively)	77,542	58,100
Total assets	$ 1,949,058	$ 1,784,134
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Secured funding agreements	$ 791,136	$ 728,589
Notes payable	57,848	54,708
Secured term loan	109,803	109,149
Collateralized loan obligation securitization debt (consolidated VIE)	443,860	443,177
Secured borrowings	54,617	—
Due to affiliate	2,670	2,761
Dividends payable	11,072	9,546
Other liabilities ($368 and $718 of interest payable related to consolidated VIEs, respectively)	8,703	9,865
Total liabilities	1,479,709	1,357,795
Commitments and contingencies (Note 8)		
STOCKHOLDERS' EQUITY		
Common stock, par value $0.01 per share, 450,000,000 shares authorized at September 30, 2020 and December 31, 2019 and 33,441,937 and 28,865,610 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	329	283
Additional paid-in capital	497,421	423,619
Accumulated earnings (deficit)	(28,401)	2,437
Total stockholders' equity	469,349	426,339
Total liabilities and stockholders' equity	$ 1,949,058	$ 1,784,134

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue:				
Interest income	$ 30,626	$ 28,269	$ 91,908	$ 86,248
Interest expense	(11,875)	(15,124)	(40,450)	(47,539)
Net interest margin	18,751	13,145	51,458	38,709
Revenue from real estate owned	3,623	6,702	10,032	16,970
Total revenue	22,374	19,847	61,490	55,679
Expenses:				
Management and incentive fees to affiliate	1,847	1,578	5,771	5,405
Professional fees	639	542	2,202	1,553
General and administrative expenses	969	1,005	2,797	3,153
General and administrative expenses reimbursed to affiliate	802	831	2,890	2,261
Expenses from real estate owned	4,046	6,838	13,976	15,644
Total expenses	8,303	10,794	27,636	28,016
Provision for current expected credit losses	(1,048)	—	22,063	—
Realized losses on loans sold	4,008	—	4,008	—
Change in unrealized losses on loans held for sale	(3,998)	—	—	—
Income before income taxes	15,109	9,053	7,783	27,663
Income tax expense, including excise tax	181	19	350	332
Net income attributable to common stockholders	$ 14,928	$ 9,034	$ 7,433	$ 27,331
Earnings per common share:				
Basic earnings per common share	$ 0.45	$ 0.32	$ 0.23	$ 0.96
Diluted earnings per common share	$ 0.44	$ 0.31	$ 0.22	$ 0.95
Weighted average number of common shares outstanding:				
Basic weighted average shares of common stock outstanding	33,337,445	28,634,514	32,852,553	28,598,807
Diluted weighted average shares of common stock outstanding	33,550,444	28,867,603	33,072,085	28,837,766
Dividends declared per share of common stock	$ 0.33	$ 0.33	$ 0.99	$ 0.99

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share and per share data)
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Earnings (Deficit)	Total Stockholders' Equity
Balance at December 31, 2018	28,755,665	$ 283	$ 421,739	$ 3,565	$ 425,587
Stock-based compensation	93,405	—	492	—	492
Net income	—	—	—	8,543	8,543
Dividends declared	—	—	—	(9,520)	(9,520)
Balance at March 31, 2019	28,849,070	$ 283	$ 422,231	$ 2,588	$ 425,102
Stock-based compensation	19,665	—	427	—	427
Net income	—	—	—	9,755	9,755
Dividends declared	—	—	—	(9,527)	(9,527)
Balance at June 30, 2019	28,868,735	$ 283	$ 422,658	$ 2,816	$ 425,757
Stock-based compensation	(3,125)	—	479	—	479
Net income	—	—	—	9,034	9,034
Dividends declared	—	—	—	(9,526)	(9,526)
Balance at September 30, 2019	28,865,610	$ 283	$ 423,137	$ 2,324	$ 425,744
Stock-based compensation	—	—	482	—	482
Net income	—	—	—	9,660	9,660
Dividends declared	—	—	—	(9,547)	(9,547)
Balance at December 31, 2019	28,865,610	$ 283	$ 423,619	$ 2,437	$ 426,339
Sale of common stock	4,600,000	46	73,186	—	73,232
Offering costs	—	—	(341)	—	(341)
Stock-based compensation	(66,658)	—	225	—	225
Net loss	—	—	—	(17,263)	(17,263)
Dividends declared	—	—	—	(11,076)	(11,076)
Impact of adoption of CECL (Note 2)	—	—	—	(5,051)	(5,051)
Balance at March 31, 2020	33,398,952	$ 329	$ 496,689	$ (30,953)	$ 466,065
Stock-based compensation	42,985	—	365	—	365
Net income	—	—	—	9,768	9,768
Dividends declared	—	—	—	(11,072)	(11,072)
Balance at June 30, 2020	33,441,937	$ 329	$ 497,054	$ (32,257)	$ 465,126
Stock-based compensation	—	—	367	—	367
Net income	—	—	—	14,928	14,928
Dividends declared	—	—	—	(11,072)	(11,072)
Balance at September 30, 2020	33,441,937	$ 329	$ 497,421	$ (28,401)	$ 469,349

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the nine months ended September 30,	
	2020	2019
	(unaudited)	(unaudited)
Operating activities:		
Net income	$ 7,433	$ 27,331
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of deferred financing costs	4,906	4,954
Accretion of deferred loan origination fees and costs	(5,732)	(5,022)
Stock-based compensation	956	1,398
Depreciation of real estate owned	668	448
Provision for current expected credit losses	22,063	—
Realized losses on loans sold	4,008	—
Changes in operating assets and liabilities:		
Other assets	(9,302)	(4,305)
Due to affiliate	(91)	(536)
Other liabilities	(2,165)	608
Net cash provided by (used in) operating activities	22,744	24,876
Investing activities:		
Issuance of and fundings on loans held for investment	(485,913)	(415,156)
Principal repayment of loans held for investment	280,318	343,948
Proceeds from sale of loans held for sale	96,597	—
Receipt of origination fees	3,978	4,982
Purchases of capitalized additions to real estate owned	(243)	(1,586)
Net cash provided by (used in) investing activities	(105,263)	(67,812)
Financing activities:		
Proceeds from secured funding agreements	466,778	415,433
Repayments of secured funding agreements	(404,231)	(573,377)
Proceeds from notes payable	3,000	56,155
Proceeds from secured borrowings	55,095	—
Payment of secured funding costs	(3,700)	(5,124)
Proceeds from issuance of debt of consolidated VIEs	—	172,673
Dividends paid	(31,694)	(27,961)
Proceeds from sale of common stock	73,232	—
Payment of offering costs	(301)	—
Net cash provided by (used in) financing activities	158,179	37,799
Change in cash, cash equivalents and restricted cash	75,660	(5,137)
Cash, cash equivalents and restricted cash, beginning of period	5,635	11,468
Cash, cash equivalents and restricted cash, end of period	$ 81,295	$ 6,331

See accompanying notes to consolidated financial statements.

1. ORGANIZATION

Ares Commercial Real Estate Corporation (together with its consolidated subsidiaries, the “Company” or “ACRE”) is a specialty finance company primarily engaged in originating and investing in commercial real estate loans and related investments. Through Ares Commercial Real Estate Management LLC (“ACREM” or the Company’s “Manager”), a Securities and Exchange Commission (“SEC”) registered investment adviser and a subsidiary of Ares Management Corporation (NYSE: ARES) (“Ares Management” or “Ares”), a publicly traded, leading global alternative investment manager, it has investment professionals strategically located across the United States and Europe who directly source new loan opportunities for the Company with owners, operators and sponsors of commercial real estate (“CRE”) properties. The Company was formed and commenced operations in late 2011. The Company is a Maryland corporation and completed its initial public offering (the “IPO”) in May 2012. The Company is externally managed by its Manager, pursuant to the terms of a management agreement (the “Management Agreement”).

The Company operates as one operating segment and is primarily focused on directly originating and managing a diversified portfolio of CRE debt-related investments for the Company’s own account. The Company’s target investments include senior mortgage loans, subordinated debt, preferred equity, mezzanine loans and other CRE investments, including commercial mortgage backed securities. These investments are generally held for investment and are secured, directly or indirectly, by office, multifamily, retail, industrial, lodging, senior-living, self storage, student housing, residential and other commercial real estate properties, or by ownership interests therein.

The Company has elected and qualified to be taxed as a real estate investment trust (“REIT”) for United States federal income tax purposes under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its taxable year ended December 31, 2012. The Company generally will not be subject to United States federal income taxes on its REIT taxable income as long as it annually distributes all of its REIT taxable income prior to the deduction for dividends paid to stockholders and complies with various other requirements as a REIT.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the related management's discussion and analysis of financial condition and results of operations included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC.

Refer to the Company’s Annual Report on Form 10-K for a description of the Company’s recurring accounting policies. The Company has included disclosure below regarding basis of presentation and other accounting policies that (i) are required to be disclosed quarterly or (ii) the Company views as critical as of the date of this report.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with United States generally accepted accounting principles (“GAAP”) and include the accounts of the Company, the consolidated variable interest entities (“VIEs”) that the Company controls and of which the Company is the primary beneficiary, and the Company’s wholly-owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the Company’s results of operations and financial condition as of and for the periods presented. All intercompany balances and transactions have been eliminated.

Interim financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The current period’s results of operations will not necessarily be indicative of results that ultimately may be achieved for the year ending December 31, 2020.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. As of the filing date of this Quarterly Report, there is an outbreak of a novel and highly contagious form of coronavirus (“COVID-19”), which the World Health Organization has declared a global pandemic, the United States has declared a national emergency and every state in the United States is under a federal disaster declaration. Many states, including those in which the Company and its borrowers operate, have issued orders requiring the closure of, or certain restrictions on the operation of, non-essential businesses and/or requiring residents to stay at home. The COVID-19 pandemic and preventative measures taken to contain or mitigate its spread have caused, and are continuing to cause, business shutdowns or the re-introduction of business shutdowns, cancellations of events and restrictions on travel, significant reductions in demand for certain goods and services, reductions in business activity and financial transactions, supply chain interruptions and overall economic and financial market instability both globally and in the United States. While several countries, as well as certain states in the United States, have relaxed the public health restrictions with a view to partially or fully reopen their economies, recurring COVID-19 outbreaks have led to the re-introduction of such restrictions in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. Additionally, the absence or delay of viable treatment options or a vaccine could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may continue to experience a recession, and we anticipate our business and operations could be materially adversely affected by a prolonged recession in the United States. The Company believes the estimates and assumptions underlying its consolidated financial statements are reasonable and supportable based on the information available as of September 30, 2020, however, uncertainty over the ultimate impact the COVID-19 pandemic will have on the global economy and the Company’s business, makes any estimates and assumptions as of September 30, 2020 inherently less certain than they would be absent the current and potential impacts of the COVID-19 pandemic. Actual results could differ from those estimates.

Variable Interest Entities

The Company evaluates all of its interests in VIEs for consolidation. When the Company’s interests are determined to be variable interests, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 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 economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. The Company considers its variable interests, as well as any variable interests of its related parties in making this determination. Where both of these factors are present, the Company is deemed to be the primary beneficiary and it consolidates the VIE. Where either one of these factors is not present, the Company is not the primary beneficiary and it does not consolidate the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its 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.

To assess whether the Company has 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, the Company considers all of its economic interests, including debt and equity investments, servicing fees, and other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company applies 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 the Company.

For VIEs of which the Company is determined to be the primary beneficiary, all of the underlying assets, liabilities, equity, revenue and expenses of the structures are consolidated into the Company’s consolidated financial statements.

The Company performs an ongoing reassessment of: (1) whether any entities previously evaluated under the majority voting interest framework have become VIEs, based on certain events, and therefore are subject to the VIE consolidation framework, and (2) whether changes in the facts and circumstances regarding its involvement with a VIE cause the Company’s consolidation conclusion regarding the VIE to change. See Note 15 included in these consolidated financial statements for further discussion of the Company's VIEs.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include funds on deposit with financial institutions, including demand deposits with financial institutions. Cash and short-term investments with an original maturity of three months or less when acquired are considered cash and cash equivalents for the purpose of the consolidated balance sheets and statements of cash flows.

Restricted cash includes deposits required under certain Secured Funding Agreements (each individually defined in Note 6 included in these consolidated financial statements).

The following table provides a reconciliation of cash, cash equivalents and restricted cash in the consolidated balance sheets to the total amount shown in the consolidated statements of cash flows ($ in thousands):

	As of September 30,	
	2020	2019
Cash and cash equivalents	$ 81,295	$ 5,952
Restricted cash	—	379
Total cash, cash equivalents and restricted cash shown in the Company's consolidated statements of cash flows	$ 81,295	$ 6,331

Loans Held for Investment

The Company originates CRE debt and related instruments generally to be held for investment. Loans that are held for investment are carried at cost, net of unamortized loan fees and origination costs (the "carrying value"). Loans are generally collateralized by real estate. The extent of any credit deterioration associated with the performance and/or value of the underlying collateral property and the financial and operating capability of the borrower could impact the expected amounts received. The Company monitors performance of its loans held for investment portfolio under the following methodology: (1) borrower review, which analyzes the borrower's ability to execute on its original business plan, reviews its financial condition, assesses pending litigation and considers its general level of responsiveness and cooperation; (2) economic review, which considers underlying collateral (i.e. leasing performance, unit sales and cash flow of the collateral and its ability to cover debt service, as well as the residual loan balance at maturity); (3) property review, which considers current environmental risks, changes in insurance costs or coverage, current site visibility, capital expenditures and market perception; and (4) market review, which analyzes the collateral from a supply and demand perspective of similar property types, as well as from a capital markets perspective. Such analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, and the borrower's exit plan, among other factors.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed against interest income in the period the loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding the borrower's ability to make pending principal and interest payments. Non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management's judgment, are likely to remain current. The Company may make exceptions to placing a loan on non-accrual status if the loan has sufficient collateral value and is in the process of collection.

Loan balances that are deemed to be uncollectible are written off as a realized loss and are deducted from the current expected credit loss reserve. The write-offs are recorded in the period in which the loan balance is deemed uncollectible based on management's judgment.

Current Expected Credit Losses

In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard replaced the incurred loss impairment methodology pursuant to GAAP with a methodology that reflects current expected credit losses ("CECL") on both the outstanding balances and unfunded commitments on loans held for investment and requires consideration of a broader range of historical experience adjusted for current conditions and reasonable and supportable forecast information to inform credit loss estimates (the "CECL Reserve"). ASU No. 2016-13 was effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. ASU No. 2016-13 was adopted by the Company on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of January 1, 2020. Subsequent period increases and decreases to expected credit losses will impact earnings and are recorded within provision for current expected credit losses in the Company's consolidated statements of operations. The CECL Reserve related to outstanding balances on loans held for investment required under ASU No. 2016-13 is a valuation account that is deducted from the amortized cost basis of the Company's loans held for investment in the Company's consolidated balance sheets. The CECL Reserve related to unfunded commitments on loans held for investment is recorded within other liabilities in the Company's consolidated balance sheets. See Note 4 included in these consolidated financial statements for CECL related disclosures.

Loans Held for Sale

Although the Company generally holds its target investments as long-term investments, the Company may occasionally classify some of its investments as held for sale. Investments held for sale are carried at fair value within loans held for sale, at fair value in the Company's consolidated balance sheets, with changes in fair value recorded through earnings.

Real Estate Owned

Real estate assets are carried at their estimated fair value at acquisition and are presented net of accumulated depreciation and impairment charges. The Company allocates the purchase price of acquired real estate assets based on the fair value of the acquired land, building, furniture, fixtures and equipment.

Real estate assets are depreciated using the straight-line method over estimated useful lives of up to 40 years for buildings and improvements and up to 15 years for furniture, fixtures and equipment. Renovations and/or replacements that improve or extend the life of the real estate asset are capitalized and depreciated over their estimated useful lives. The cost of ordinary repairs and maintenance are expensed as incurred.

Real estate assets are evaluated for indicators of impairment on a quarterly basis. Factors that the Company may consider in its impairment analysis include, among others: (1) significant underperformance relative to historical or anticipated operating results; (2) significant negative industry or economic trends; (3) costs necessary to extend the life or improve the real estate asset; (4) significant increase in competition; and (5) ability to hold and dispose of the real estate asset in the ordinary course of business. A real estate asset is considered impaired when the sum of estimated future undiscounted cash flows expected to be generated by the real estate asset over the estimated remaining holding period is less than the carrying amount of such real estate asset. Cash flows include operating cash flows and anticipated capital proceeds generated by the real estate asset. An impairment charge is recorded equal to the excess of the carrying value of the real estate asset over the fair value. When determining the fair value of a real estate asset, the Company makes certain assumptions including, but not limited to, consideration of projected operating cash flows, comparable selling prices and projected cash flows from the eventual disposition of the real estate asset based upon the Company's estimate of a capitalization rate and discount rate.

The Company reviews its real estate assets, from time to time, in order to determine whether to sell such assets. Real estate assets are classified as held for sale when the Company commits to a plan to sell the asset, when the asset is being marketed for sale at a reasonable price and the sale of the asset is probable and the transfer of the asset is expected to qualify for recognition as a completed sale within one year. Real estate assets that are held for sale are carried at the lower of the asset's carrying amount or its fair value less costs to sell.

Debt Issuance Costs

Debt issuance costs under the Company's indebtedness are capitalized and amortized over the term of the respective debt instrument. Unamortized debt issuance costs are expensed when the associated debt is repaid prior to maturity. Debt issuance costs related to debt securitizations are capitalized and amortized over the term of the underlying loans using the effective interest method. When an underlying loan is prepaid in a debt securitization and the outstanding principal balance of the securitization debt is reduced, the related unamortized debt issuance costs are charged to expense based on a pro-rata share of the debt issuance costs being allocated to the specific loans that were prepaid. Amortization of debt issuance costs is included within interest expense, except as noted below, in the Company's consolidated statements of operations while the unamortized balance on (i) Secured Funding Agreements (each individually defined in Note 6 included in these consolidated financial statements) is included within other assets and (ii) Notes Payable, the Secured Term Loan (each defined in Note 6 included in these consolidated financial statements) and Secured Borrowings (defined in Note 7 included in these consolidated financial statements) and debt securitizations are each included as a reduction to the carrying amount of the liability, in the Company's consolidated balance sheets. Amortization of debt issuance costs for the note payable on the hotel property that is recognized as real estate owned in the Company's consolidated balance sheets (see Note 6 included in these consolidated financial statements for additional information on the note payable) is included within expenses from real estate owned in the Company's consolidated statements of operations.

The original issue discount ("OID") on amounts drawn under the Company's Secured Term Loan represents a discount to the face amount of the drawn debt obligations. The OID is amortized over the term of the Secured Term Loan using the effective interest method and is included within interest expense in the Company's consolidated statements of operations while the unamortized balance is included as a reduction to the carrying amount of the Secured Term Loan in the Company's consolidated balance sheets.

Revenue Recognition

Interest income is accrued based on the outstanding principal amount and the contractual terms of each loan. For loans held for investment, the origination fees, contractual exit fees and direct loan origination costs are also recognized in interest income over the initial loan term as a yield adjustment using the effective interest method.

Revenue from real estate owned represents revenue associated with the operations of a hotel property classified as real estate owned. Revenue from the operation of the hotel property is recognized when guestrooms are occupied, services have been rendered or fees have been earned. Revenues are recorded net of any discounts and sales and other taxes collected from customers. Revenues consist of room sales, food and beverage sales and other hotel revenues.

Net Interest Margin and Interest Expense

Net interest margin in the Company's consolidated statements of operations serves to measure the performance of the Company's loans as compared to its use of debt leverage. The Company includes interest income from its loans and interest expense related to its Secured Funding Agreements, Notes Payable, securitization debt, the Secured Term Loan (each individually defined in Note 6 included in these consolidated financial statements) and Secured Borrowings (defined in Note 7 included in these consolidated financial statements) in net interest margin. For the three and nine months ended September 30, 2020 and 2019, interest expense is comprised of the following ($ in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Secured funding agreements	$ 6,000	$ 7,438	$ 22,447	$ 24,868
Notes payable (1)	337	356	952	536
Securitization debt	2,518	5,088	9,879	15,361
Secured term loan	1,668	2,242	5,469	6,774
Secured borrowings	1,352	—	1,703	—
Interest expense	$ 11,875	$ 15,124	$ 40,450	$ 47,539

(1) Excludes interest expense on the $28.3 million note payable, which is secured by a hotel property that is recognized as real estate owned in the Company's consolidated balance sheets (see Note 6 included in these consolidated financial statements for additional information on the note payable). Interest expense on the $28.3 million note payable is included within expenses from real estate owned in the Company's consolidated statements of operations.

Comprehensive Income

For the three and nine months ended September 30, 2020 and 2019, comprehensive income equaled net income; therefore, a separate consolidated statement of comprehensive income is not included in the accompanying consolidated financial statements.

Recent Accounting Pronouncements

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. ASU No. 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

3. LOANS HELD FOR INVESTMENT

As of September 30, 2020, the Company's portfolio included 49 loans held for investment, excluding 98 loans that were repaid, sold or converted to real estate owned since inception. The aggregate originated commitment under these loans at closing was approximately $2.0 billion and outstanding principal was $1.8 billion as of September 30, 2020. During the nine months ended September 30, 2020, the Company funded approximately $496.4 million of outstanding principal, received repayments of $299.2 million of outstanding principal and sold three loans with outstanding principal of $101.0 million to third parties as described in more detail in the tables below. As of September 30, 2020, 95.2% of the Company's loans have LIBOR floors, with a weighted average floor of 1.74%, calculated based on loans with LIBOR floors. References to LIBOR or "L" are to 30-day LIBOR (unless otherwise specifically stated).

The Company's investments in loans held for investment are accounted for at amortized cost. The following tables summarize the Company's loans held for investment as of September 30, 2020 and December 31, 2019 ($ in thousands):

	As of September 30, 2020				
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Unleveraged Effective Yield		Weighted Average Remaining Life (Years)
Senior mortgage loans	$ 1,680,529	$ 1,690,473	5.9% (2)	6.2% (3)	1.3
Subordinated debt and preferred equity investments	97,670	98,672	13.4% (2)	13.4% (3)	2.1
Total loans held for investment portfolio	$ 1,778,199	$ 1,789,145	6.3% (2)	6.6% (3)	1.3

	As of December 31, 2019			
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Unleveraged Effective Yield (2)	Weighted Average Remaining Life (Years)
Senior mortgage loans	$ 1,622,666	$ 1,632,164	6.5%	1.5
Subordinated debt and preferred equity investments	59,832	60,730	15.1%	2.6
Total loans held for investment portfolio	$ 1,682,498	$ 1,692,894	6.8%	1.6

(1) The difference between the Carrying Amount and the Outstanding Principal amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs.

(2) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. The total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of September 30, 2020 and December 31, 2019 as weighted by the outstanding principal balance of each loan.

(3) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. The total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all interest accruing loans held by the Company as of September 30, 2020 as weighted by the total outstanding principal balance of each interest accruing loan (excludes loans on non-accrual status as of September 30, 2020).

A more detailed listing of the Company's loans held for investment portfolio based on information available as of September 30, 2020 is as follows ($ in millions, except percentages):

Loan Type	Location	Outstanding Principal (1)	Carrying Amount (1)	Interest Rate	Unleveraged Effective Yield (2)	Maturity Date (3)	Payment Terms (4)
Senior Mortgage Loans:							
Office	Diversified	$108.6	$108.2	L+3.65%	5.7%	Jan 2023	I/O
Mixed-use	FL	99.0	98.7	L+4.25%	7.8%	Feb 2021	I/O
Multifamily	FL	91.3	90.7	L+5.00%	6.7%	Jun 2022	I/O
Multifamily	TX	75.0	74.7	L+2.85%	5.0%	Oct 2022	I/O
Office	IL	69.6	69.6	L+3.75%	5.6%	Dec 2020	I/O
Hotel	OR/WA	68.1	67.6	L+3.45%	4.6% (5)	May 2021	I/O
Office	NC	61.0	60.8	L+4.25%	8.4%	Mar 2021	I/O
Hotel	Diversified	60.8	60.6	L+3.60%	6.2%	Sep 2021	I/O
Office	IL	57.3	57.2	L+3.95%	6.3%	Jun 2021	I/O
Mixed-use	CA	51.2	51.0	L+4.00%	6.2%	Apr 2022 (6)	I/O
Industrial	NY	49.8	49.6	L+5.00%	8.3%	Feb 2021	I/O
Multifamily	FL	46.2	46.0	L+5.00%	6.6%	Jun 2022	I/O
Multifamily	FL	43.3	43.1	L+2.60%	5.5%	Jan 2022	I/O
Student Housing	TX	41.0	40.9	L+4.75%	5.4%	Jan 2021	I/O
Multifamily	NJ	41.0	40.8	L+3.05%	4.9%	Mar 2022	I/O
Office	GA	40.2	39.7	L+3.05%	5.7%	Dec 2022	I/O
Hotel	CA	40.0	40.0	L+4.12%	5.9%	Jan 2021	I/O
Student Housing	CA	39.7	39.7	L+3.95%	5.2%	Jul 2021 (7)	I/O
Multifamily	KS	35.8	35.5	L+3.25%	5.5%	Nov 2022	I/O
Mixed-use	TX	35.2	34.9	L+3.75%	6.7%	Sep 2022	I/O
Industrial	NC	34.8	34.6	L+4.05%	5.9%	Mar 2024	I/O
Hotel	MI	34.2	34.1	L+3.95%	4.3%	Jul 2022 (8)	I/O
Hotel	IL	32.9	32.4	L+4.40%	—% (9)	May 2021	I/O
Office	CA	31.1	30.8	L+3.35%	6.0%	Nov 2022	I/O
Multifamily	NY	30.1	30.1	L+3.20%	4.9%	Dec 2020	I/O
Student Housing	NC	30.0	29.9	L+3.15%	5.9%	Feb 2022	I/O
Multifamily	PA	29.4	29.2	L+3.00%	5.9%	Dec 2021	I/O
Office	IL	28.0	27.7	L+3.80%	6.2%	Jan 2023	I/O
Multifamily	TX	27.5	27.5	L+3.20%	4.9%	Oct 2021 (10)	I/O
Student Housing	TX	24.6	24.3	L+3.45%	5.5%	Feb 2023	I/O
Student Housing	AL	24.1	23.0	L+4.45%	—% (9)	Dec 2020 (11)	I/O
Office	CA	22.8	22.8	L+3.40%	6.2%	Nov 2021	I/O
Mixed-use	CA	22.5	22.2	L+4.10%	6.5%	Mar 2023	I/O
Office	NC	22.1	21.5	L+3.52%	6.8%	May 2023	I/O
Student Housing	FL	22.0	21.9	L+3.25%	5.9%	Aug 2022	I/O
Industrial	CA	21.5	21.4	L+4.50%	7.3%	Dec 2021	I/O
Self Storage	FL	19.5	19.4	L+3.50%	6.0%	Mar 2022	I/O
Multifamily	WA	18.6	18.5	L+3.00%	5.1%	Mar 2023	I/O
Office	TX	15.8	15.6	L+4.05%	7.6%	Nov 2021	I/O
Residential	CA	13.7	13.7	13.00%	13.0%	Feb 2021 (12)	I/O
Industrial	CA	13.5	13.3	L+3.75%	6.3%	Mar 2023	I/O
Multifamily	SC	9.1	8.8	L+6.50%	10.1%	Sep 2022	I/O
Office	NC	8.6	8.5	L+4.00%	6.7%	Nov 2022	I/O
Subordinated Debt and Preferred Equity Investments:							
Office	IL	34.5	34.2	L+8.00%	10.0%	Mar 2023	I/O
Office	NJ	17.0	16.5	12.00%	12.8%	Jan 2026	I/O (13)
Residential Condominium	NY	16.8	16.8	L+14.00% (14)	18.0%	May 2021 (14)	I/O
Mixed-use	IL	15.9	15.8	L+12.25%	14.5%	Nov 2021	I/O
Residential Condominium	HI	11.5	11.5	14.00%	17.0%	Oct 2020 (15)	I/O
Office	CA	2.9	2.9	L+8.25%	9.7%	Nov 2021	I/O

Total/Weighted Average	$1,789.1	$1,778.2	6.3%

(1) The difference between the Carrying Amount and the Outstanding Principal amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs. For the loans held for investment that represent co-investments with other investment vehicles managed by Ares Management (see Note 13 included in these consolidated financial statements for additional information on co-investments), only the portion of Carrying Amount and Outstanding Principal held by the Company is reflected.

(2) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. Unleveraged Effective Yield for each loan is calculated based on LIBOR as of September 30, 2020 or the LIBOR floor, as applicable. The total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of September 30, 2020 as weighted by the outstanding principal balance of each loan.

(3) Certain loans are subject to contractual extension options that generally vary between one and two 12-month extensions and may be subject to performance based or other conditions as stipulated in the loan agreement. Actual maturities may differ from contractual maturities stated herein as certain borrowers may have the right to prepay with or without paying a prepayment penalty. The Company may also extend contractual maturities and amend other terms of the loans in connection with loan modifications.

(4) I/O = interest only, P/I = principal and interest.

(5) At origination, the Oregon/Washington loan was structured as both a senior and mezzanine loan with the Company holding both positions. The mezzanine position of this loan, which had an outstanding principal balance of $13.1 million as of September 30, 2020, was on non-accrual status as of September 30, 2020 and therefore, the Unleveraged Effective Yield presented is for the senior position only as the mezzanine position is non-interest accruing.

(6) In May 2020, the Company and the borrower entered into a modification and extension agreement to, among other things, extend the maturity date on the senior California loan to April 2022.

(7) In May 2020, the Company and the borrower entered into a modification and extension agreement to, among other things, extend the maturity date on the senior California loan to July 2021.

(8) In August 2020, the Company and the borrower entered into a modification and extension agreement to, among other things, extend the maturity date on the senior Michigan loan to July 2022.

(9) Loan was on non-accrual status as of September 30, 2020 and therefore, there is no Unleveraged Effective Yield as the loan is non-interest accruing.

(10) In September 2020, the borrower exercised a one-year extension option in accordance with the loan agreement, which extended the maturity date on the senior Texas loan to October 2021.

(11) In July 2020, the Company and the borrower entered into a modification and extension agreement to, among other things, extend the maturity date on the senior Alabama loan to December 2020.

(12) In August 2020, the Company and the borrowers entered into a modification and extension agreement to, among other things, extend the maturity date on the senior California loan to February 2021.

(13) In February 2021, amortization will begin on the subordinated New Jersey loan, which had an outstanding principal balance of $17.0 million as of September 30, 2020. The remainder of the loans in the Company's portfolio are non-amortizing through their primary terms.

(14) The subordinated New York loan includes a $2.4 million loan to the borrower, for which such amount accrues interest at a per annum rate of 20.00% and has an initial maturity date of April 2021 upon the borrower exercising a 6-month extension option in September 2020 in accordance with the loan agreement. The remaining outstanding principal balance of the subordinated New York loan accrues interest at L + 14.00% and has an initial maturity date of May 2021.

(15) In March 2020, the Company and the borrower entered into a modification and extension agreement to, among other things, extend the maturity date on the subordinated Hawaii loan to October 2020.

The Company has made, and may continue to make, modifications to loans, including loans that are in default. Loan terms that may be modified include interest rates, required prepayments, asset release prices, maturity dates, covenants, principal amounts and other loan terms. The terms and conditions of each modification vary based on individual circumstances and will be determined on a case by case basis. The Company's Manager monitors and evaluates each of the Company's loans held for investment and has maintained regular communications with borrowers and sponsors regarding the potential impacts of the COVID-19 pandemic on the Company's loans. Some of the Company's borrowers, in particular, borrowers with properties exposed to the hospitality, student housing and retail industries, have indicated that due to the impact of the COVID-19 pandemic, they may be unable to timely execute their business plans, are experiencing cash flow pressure, have had to temporarily close their businesses or have experienced other negative business consequences. Certain borrowers have requested temporary interest deferral or forbearance or other modifications of their loans. Based on these discussions with borrowers, the Company has made four loan modifications, representing an aggregate principal balance of $108.0 million, during the three months ended September 30, 2020. These modifications included deferrals or capitalization of interest, amendments in extension, future funding or performance tests, extension of the maturity date, amendments to the interest rate, repurposing of reserves or covenant waivers on loans secured by properties directly or indirectly impacted by the COVID-19 pandemic. None of these loan modifications met the requirements for accounting as troubled debt restructurings.

For the nine months ended September 30, 2020, the activity in the Company's loan portfolio was as follows ($ in thousands):

Balance at December 31, 2019	$	1,682,498
Initial funding		422,062
Origination fees and discounts, net of costs		(4,915)
Additional funding		74,372
Amortizing payments		(1,819)
Loan payoffs		(299,227)
Loans sold to third parties (1)		(100,504)
Origination fee accretion		5,732
Balance at September 30, 2020	$	1,778,199

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(1) In July 2020, the Company closed the sale of a senior mortgage loan with outstanding principal of $31.5 million, which was collateralized by a hotel property located in Minnesota, to a third party. In addition, in August 2020, the Company closed the sale of two senior mortgage loans to a third party with outstanding principal of $39.9 million and $29.6 million, respectively, which were collateralized by multifamily properties located in Illinois and Texas, respectively. As of June 30, 2020, it was the Company's intent to sell these three senior mortgage loans and thus, the three loans were reclassified from held for investment to held for sale and were carried at fair value in the Company's consolidated balance sheets. For the three months ended June 30, 2020, the Company recognized an aggregate net unrealized loss of $4.0 million in the Company's consolidated statements of operations upon reclassifying the three loans from held for investment to held for sale as the carrying value exceeded fair value as determined by the sale prices of the loans. This aggregate net unrealized loss was realized during the three months ended September 30, 2020. The three senior mortgage loans discussed above were previously classified as held for investment and were sold in order to rebalance and optimize the Company's loan portfolio.

As of September 30, 2020, all loans held for investment were paying in accordance with their contractual terms. As of September 30, 2020, the Company had three loans held for investment on non-accrual status due to the impact of the COVID-19 pandemic with a carrying value of $68.0 million.

4. CURRENT EXPECTED CREDIT LOSSES

The Company estimates its CECL Reserve primarily using a probability-weighted model that considers the likelihood of default and expected loss given default for each individual loan. Calculation of the CECL Reserve requires loan specific data, which includes capital senior to the Company when the Company is the subordinate lender, changes in net operating income, debt service coverage ratio, loan-to-value, occupancy, property type and geographic location. Estimating the CECL Reserve also requires significant judgment with respect to various factors, including (i) the appropriate historical loan loss reference data, (ii) the expected timing of loan repayments, (iii) calibration of the likelihood of default to reflect the risk characteristics of the Company's floating-rate loan portfolio and (iv) the Company's current and future view of the macroeconomic environment. The Company may consider loan-specific qualitative factors on certain loans to estimate its CECL Reserve. In order to estimate the future expected loan losses relevant to the Company's portfolio, the Company utilizes historical market loan loss data licensed from a third party data service. The third party's loan database includes historical loss data for commercial mortgage-backed securities, or CMBS, issued dating back to 1998, which the Company believes is a reasonably comparable and available data set to its type of loans. The Company utilized macroeconomic data that reflects a current recession; however, the short and long-term economic implications of the COVID-19 pandemic and its financial impact on the Company are highly uncertain. For periods beyond the reasonable and supportable forecast period, the Company reverts back to historical loss data. Management's current estimate of expected credit losses decreased from June 30, 2020 to September 30, 2020 due to changes in the portfolio, including contractual reduction in loan commitments, loan paydowns and shorter average remaining loan term. The CECL Reserve takes into consideration the macroeconomic impact of the COVID-19 pandemic on CRE properties and is not specific to any loan losses or impairments on the Company's loans held for investment.

As of September 30, 2020, the Company's CECL Reserve for its loans held for investment portfolio is $27.1 million or 135 basis points of the Company's total loans held for investment commitment balance of $2.0 billion and is bifurcated between the current expected credit loss reserve (contra-asset) related to outstanding balances on loans held for investment of $25.5 million and a liability for unfunded commitments of $1.7 million. The liability was based on the unfunded portion of the loan commitment over the full contractual period over which the Company is exposed to credit risk through a current obligation to extend credit. Management considered the likelihood that funding will occur, and if funded, the expected credit loss on the funded portion.

Current Expected Credit Loss Reserve for Funded Loan Commitments

Activity related to the CECL Reserve for outstanding balances on the Company's loans held for investment as of and for the three and nine months ended September 30, 2020 was as follows ($ in thousands):

Balance at June 30, 2020	$	26,063
Provision for current expected credit losses		(609)
Write-offs		—
Recoveries		—
Balance at September 30, 2020 (1)	$	25,454

Balance at December 31, 2019	$	—
Impact of adoption of CECL		4,440
Provision for current expected credit losses		21,014
Write-offs		—
Recoveries		—
Balance at September 30, 2020 (1)	$	25,454

(1) As of September 30, 2020, the CECL Reserve related to outstanding balances on loans held for investment is recorded within current expected credit loss reserve in the Company's consolidated balance sheets.

Current Expected Credit Loss Reserve for Unfunded Loan Commitments

Activity related to the CECL Reserve for unfunded commitments on the Company's loans held for investment as of and for the three and nine months ended September 30, 2020 was as follows ($ in thousands):

Balance at June 30, 2020	$	2,099
Provision for current expected credit losses		(439)
Write-offs		—
Recoveries		—
Balance at September 30, 2020 (1)	$	1,660

Balance at December 31, 2019	$	—
Impact of adoption of CECL		611
Provision for current expected credit losses		1,049
Write-offs		—
Recoveries		—
Balance at September 30, 2020 (1)	$	1,660

(1) As of September 30, 2020, the CECL Reserve related to unfunded commitments on loans held for investment is recorded within other liabilities in the Company's consolidated balance sheets.

The Company continuously evaluates the credit quality of each loan by assessing the risk factors of each loan and assigning a risk rating based on a variety of factors. Risk factors include property type, geographic and local market dynamics, physical condition, leasing and tenant profile, projected cash flow, loan structure and exit plan, loan-to-value ratio, debt service coverage ratio, project sponsorship, and other factors deemed necessary. Based on a 5-point scale, the Company's loans are rated "1" through "5," from less risk to greater risk, which ratings are defined as follows:

Ratings	Definition
1	Very Low Risk
2	Low Risk
3	Medium Risk
4	High Risk/Potential for Loss: Asset performance is trailing underwritten expectations. Loan at risk of impairment without material improvement to performance
5	Impaired/Loss Likely: A loan that has a significantly increased probability of default or principal loss

The risk ratings are primarily based on historical data as well as taking into account future economic conditions.

As of September 30, 2020, the carrying value, excluding the CECL Reserve, of the Company's loans held for investment within each risk rating by year of origination is as follows ($ in thousands):

	2020	2019	2018	2017	2016	Prior	Total
Risk rating:							
1	$ —	$ —	$ 8,538	$ —	$ —	$ —	$ 8,538
2	—	109,385	22,753	27,500	—	—	159,638
3	410,038	482,374	296,576	247,540	16,474	—	1,453,002
4	—	—	99,929	22,974	—	34,118	157,021
5	—	—	—	—	—	—	—
Total	$ 410,038	$ 591,759	$ 427,796	$ 298,014	$ 16,474	$ 34,118	$ 1,778,199

Accrued Interest Receivable

The Company elected not to measure a current expected credit loss reserve on accrued interest receivable due to the Company's policy of writing off uncollectible accrued interest receivable balances in a timely manner. As of September 30, 2020, interest receivable of $9.2 million is included within other assets in the Company's consolidated balance sheets and is excluded from the carrying value of loans held for investment. If the Company were to have uncollectible accrued interest receivable, it generally would reverse accrued and unpaid interest against interest income and no longer accrue for these amounts.

5. REAL ESTATE OWNED

On March 8, 2019, the Company acquired legal title to a hotel property located in New York through a deed in lieu of foreclosure. Prior to March 8, 2019, the hotel property collateralized a $38.6 million senior mortgage loan held by the Company that was in maturity default due to the failure of the borrower to repay the outstanding principal balance of the loan by the December 2018 maturity date. In conjunction with the deed in lieu of foreclosure, the Company derecognized the $38.6 million senior mortgage loan and recognized the hotel property as real estate owned. As the Company does not expect to complete a sale of the hotel property within the next twelve months, the hotel property is considered held for use, and is carried at its estimated fair value at acquisition and is presented net of accumulated depreciation and impairment charges. The Company did not recognize any gain or loss on the derecognition of the senior mortgage loan as the fair value of the hotel property of $36.9 million and the net assets held at the hotel property of $1.7 million at acquisition approximated the $38.6 million carrying value of the senior mortgage loan. The assets and liabilities of the hotel property are included within other assets and other liabilities, respectively, in the Company's consolidated balance sheets and include items such as cash, restricted cash, trade receivables and payables and advance deposits.

The following table summarizes the Company's real estate owned as of September 30, 2020 and December 31, 2019 ($ in thousands):

	As of	
	September 30, 2020	December 31, 2019
Land	$ 10,200	$ 10,200
Buildings and improvements	24,281	24,281
Furniture, fixtures and equipment	4,331	4,087
	38,812	38,568
Less: Accumulated depreciation	(1,336)	(667)
Real estate owned, net	$ 37,476	$ 37,901

As of September 30, 2020, no impairment charges have been recognized for real estate owned.

For the three and nine months ended September 30, 2020, the Company incurred depreciation expense of $224 thousand and $668 thousand, respectively. For the three and nine months ended September 30, 2019, the Company incurred depreciation expense of $207 thousand and $448 thousand, respectively. Depreciation expense is included within expenses from real estate owned in the Company's consolidated statements of operations.

6. DEBT

Financing Agreements

The Company borrows funds, as applicable in a given period, under the Wells Fargo Facility, the Citibank Facility, the BAML Facility, the CNB Facility, the MetLife Facility, the U.S. Bank Facility and the Morgan Stanley Facility (individually defined below and collectively, the "Secured Funding Agreements"), Notes Payable (as defined below) and the Secured Term Loan (as defined below). The Company refers to the Secured Funding Agreements, Notes Payable and the Secured Term Loan as the "Financing Agreements." The outstanding balance of the Financing Agreements in the table below are presented gross of debt issuance costs. As of September 30, 2020 and December 31, 2019, the outstanding balances and total commitments under the Financing Agreements consisted of the following ($ in thousands):

	September 30, 2020			December 31, 2019		
	Outstanding Balance	Total Commitment		Outstanding Balance	Total Commitment	
Secured Funding Agreements:						
Wells Fargo Facility	$ 375,301	$ 500,000		$ 360,354	$ 500,000	
Citibank Facility	120,506	325,000		126,603	325,000	
BAML Facility	—	—	(1)	36,280	36,280	(1)
CNB Facility	50,000	50,000	(2)	30,500	50,000	(2)
MetLife Facility	104,124	180,000		131,807	180,000	
U.S. Bank Facility	—	—	(3)	43,045	185,989	
Morgan Stanley Facility	141,205	150,000		—	—	
Subtotal	$ 791,136	$ 1,205,000		$ 728,589	$ 1,277,269	
Notes Payable	$ 59,155	$ 84,155		$ 56,155	$ 84,155	
Secured Term Loan	$ 110,000	$ 110,000		$ 110,000	$ 110,000	
Total	$ 960,291	$ 1,399,155		$ 894,744	$ 1,471,424	

(1) In May 2019, the Company's borrowing period for new individual loans under the BAML Facility (as defined below) expired and its term was not extended. As such, the total commitment amount under the BAML Facility as of December 31, 2019 represented the outstanding balance under the facility at the time the borrowing period expired. In June 2020, the BAML Facility was repaid in full and its term was not extended.

(2) The CNB Facility (as defined below) has an accordion feature that provides for, subject to approval by City National Bank in its sole discretion, an increase in the commitment amount from $50.0 million to $75.0 million for up to a period of 120 days once per calendar year.

(3) In July 2020, the U.S. Bank Facility matured and its term was not extended. The U.S. Bank Facility had been repaid in full prior to its maturity.

Some of the Company's Financing Agreements are collateralized by (i) assignments of specific loans, preferred equity or a pool of loans held for investment or loans held for sale owned by the Company, (ii) interests in the subordinated portion of the Company's securitization debt, or (iii) interests in wholly-owned entity subsidiaries that hold the Company's loans held for investment. The Company is the borrower or guarantor under each of the Financing Agreements. Generally, the Company partially offsets interest rate risk by matching the interest index of loans held for investment with the Secured Funding Agreements used to fund them. The Company's Financing Agreements contain various affirmative and negative covenants, including negative pledges, and provisions regarding events of default that are normal and customary for similar financing arrangements.

Wells Fargo Facility

The Company is party to a master repurchase funding facility with Wells Fargo Bank, National Association ("Wells Fargo") (the "Wells Fargo Facility"), which allows the Company to borrow up to $500.0 million. Under the Wells Fargo Facility, the Company is permitted to sell, and later repurchase, certain qualifying senior commercial mortgage loans, A-Notes, pari-passu participations in commercial mortgage loans and mezzanine loans under certain circumstances, subject to available collateral approved by Wells Fargo in its sole discretion. The initial maturity date of the Wells Fargo Facility is December 14, 2020, subject to three 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if all three were exercised, would extend the maturity date of the Wells Fargo Facility to December 14, 2023. Advances under the Wells Fargo Facility accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a pricing margin range of 1.50% to 2.25%, subject to certain exceptions. The Company incurs a non-utilization fee of 25 basis points per annum on the average daily available balance of the Wells Fargo Facility to the extent less than 75% of the Wells Fargo Facility is utilized. For the three months ended September 30, 2020, the Company did not incur a non-utilization fee. For the nine months ended September 30, 2020, the Company incurred a non-utilization fee of $19 thousand. For the three and nine months ended September 30, 2019, the Company incurred a non-utilization fee of $177 thousand and $489 thousand, respectively. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

Citibank Facility

The Company is party to a $325.0 million master repurchase facility with Citibank, N.A. ("Citibank") (the "Citibank Facility"). Under the Citibank Facility, the Company is permitted to sell and later repurchase certain qualifying senior commercial mortgage loans and A-Notes approved by Citibank in its sole discretion. The initial maturity date of the Citibank Facility is December 13, 2021, subject to two 12-month extensions, each of which may be exercised at the Company's option assuming no existing defaults under the Citibank Facility and applicable extension fees being paid, which, if both were exercised, would extend the maturity date of the Citibank Facility to December 13, 2023. Advances under the Citibank Facility accrue interest at a per annum rate equal to the sum of one-month LIBOR plus an indicative pricing margin range of 1.50% to 2.25%, subject to certain exceptions. The Company incurs a non-utilization fee of 25 basis points per annum on the average daily available balance of the Citibank Facility to the extent less than 75% of the Citibank Facility is utilized. For the three and nine months ended September 30, 2020, the Company incurred a non-utilization fee of $129 thousand and $386 thousand, respectively. For the three and nine months ended September 30, 2019, the Company incurred a non-utilization fee of $99 thousand and $268 thousand, respectively. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

BAML Facility

The Company was party to a $125.0 million Bridge Loan Warehousing Credit and Security Agreement with Bank of America, N.A. ("Bank of America") (the "BAML Facility"). Under the BAML Facility, the Company was able to obtain advances secured by eligible commercial mortgage loans collateralized by multifamily properties. Bank of America approved the loans on which advances were made under the BAML Facility in its sole discretion. The Company was able to request individual loans under the facility up to May 23, 2019 and the term of the borrowing period was not extended. Individual advances under the BAML Facility had a two-year maturity, subject to one 12-month extension at the Company's option upon the satisfaction of certain conditions and applicable extension fees being paid. At the time the term of the borrowing period expired, the Company had one individual advance outstanding in the amount of $36.3 million that had a maturity date of September 5, 2019 per the original terms of the BAML Facility. In September 2019, the Company amended the BAML Facility to extend the maturity date for the one individual advance outstanding to December 4, 2019. In addition, in December 2019, the Company amended the BAML Facility to extend the maturity date for the one individual advance outstanding to March 3, 2020. In addition, effective February 2020, the Company amended the BAML Facility to extend the maturity date for the one individual advance outstanding to July 1, 2020. In June 2020, the BAML Facility was repaid in full and its term was not extended. Advances under the BAML Facility accrued interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.00%, subject to certain exceptions. The Company incurred a non-utilization fee of 12.5 basis points per annum up to May 23, 2019 on the average daily available balance of the BAML Facility to the extent less than 50% of the BAML Facility was utilized. For the three and nine months ended September 30, 2020 and for the three months ended September 30, 2019, the Company did not incur a non-utilization fee. For the nine months ended September 30, 2019, the Company incurred a non-utilization fee of $43 thousand. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

CNB Facility

The Company is party to a $50.0 million secured revolving funding facility with City National Bank (the "CNB Facility"). The Company is permitted to borrow funds under the CNB Facility to finance investments and for other working capital and general corporate needs. In March 2020, the Company exercised a 12-month extension option on the CNB Facility to extend the initial maturity date to March 10, 2021. In June 2019, the Company amended the CNB Facility to, among other things, (1) add an accordion feature that provides for, subject to approval by City National Bank in its sole discretion, an increase in the commitment amount from $50.0 million to $75.0 million for up to a period of 120 days once per calendar year, (2) add two additional 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the CNB Facility to March 10, 2022 and (3) decrease the interest rate on advances to a per annum rate equal to the sum of, at the Company's option, either (a) LIBOR for a one, two, three, six or, if available to all lenders, 12-month interest period plus 2.65% or (b) a base rate (which is the highest of a prime rate, the federal funds rate plus 0.50%, or one-month LIBOR plus 1.00%) plus 1.00%; provided that in no event shall the interest rate be less than 2.65%. Previously the interest rate on advances was a per annum rate equal to the sum of, at the Company's option, either (a) LIBOR for a one, two, three, six or, if available to all lenders, 12-month interest period plus 3.00% or (b) a base rate (which is the highest of a prime rate, the federal funds rate plus 0.50%, or one-month LIBOR plus 1.00%) plus 1.25%. Unless at least 75% of the CNB Facility is used on average, unused commitments under the CNB Facility accrue non-utilization fees at the rate of 0.375% per annum. For the three and nine months ended September 30, 2020, the Company incurred a non-utilization fee of $6 thousand and $38 thousand, respectively. For the three and nine months ended September 30, 2019, the Company incurred a non-utilization fee of $40 thousand and $117 thousand, respectively. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

MetLife Facility

The Company is party to a $180.0 million revolving master repurchase facility with Metropolitan Life Insurance Company ("MetLife") (the "MetLife Facility"), pursuant to which the Company may sell, and later repurchase, commercial mortgage loans meeting defined eligibility criteria which are approved by MetLife in its sole discretion. In August 2020, the Company amended the MetLife Facility to, among other things, (1) extend the initial maturity date of the MetLife Facility to August 13, 2022, subject to two 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the MetLife Facility to August 13, 2024, (2) increase the interest rate on new advances subsequent to the date of the amendment to a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.50%. The interest rate on advances with respect to existing loans financed under the MetLife Facility prior to the amendment will continue to accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.30%, subject to certain exceptions and (3) waive the non-utilization fee of 25 basis points per annum on the average daily available balance of the MetLife Facility, which is owed if less than 65% of the MetLife Facility is utilized, for a period of nine months subsequent to the date of the amendment. For the three and nine months ended September 30, 2020, the Company incurred a non-utilization fee of $5 thousand and $7 thousand, respectively. For both the three and nine months ended September 30, 2019, the Company incurred a non-utilization fee of $5 thousand. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

U.S. Bank Facility

The Company was party to a $186.0 million master repurchase and securities contract with U.S. Bank National Association ("U.S. Bank") (the "U.S. Bank Facility"). Pursuant to the U.S. Bank Facility, the Company was permitted to sell, and later repurchase, eligible commercial mortgage loans collateralized by retail, office, mixed-use, multifamily, industrial, hospitality, student housing, manufactured housing or self storage properties. U.S. Bank approved the mortgage loans that were subject to the U.S. Bank Facility in its sole discretion. On July 31, 2020, the U.S. Bank Facility matured and its term was not extended. The U.S. Bank Facility had been repaid in full prior to its maturity. Advances under the U.S. Bank Facility generally accrued interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.25%, unless otherwise agreed between U.S. Bank and the Company, depending upon the mortgage loan sold to U.S. Bank in the applicable transaction. The Company incurred a non-utilization fee of 25 basis points per annum on the average daily available balance of the U.S. Bank Facility to the extent less than 50% of the U.S. Bank Facility was utilized. For the three and nine months ended September 30, 2020, the Company incurred a non-utilization fee of $34 thousand and $216 thousand, respectively. For the three and nine months ended September 30, 2019, the Company incurred a non-utilization fee of $89 thousand and $156 thousand, respectively. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

Morgan Stanley Facility

In January 2020, the Company entered into a $150.0 million master repurchase and securities contract with Morgan Stanley Bank, N.A. ("Morgan Stanley") (the "Morgan Stanley Facility"). Under the Morgan Stanley Facility, the Company is permitted to sell, and later repurchase, certain qualifying commercial mortgage loans collateralized by retail, office, mixed-use, multifamily, industrial, hospitality, student housing or self-storage properties. Morgan Stanley may approve the mortgage loans that are subject to the Morgan Stanley Facility in its sole discretion. The initial maturity date of the Morgan Stanley Facility is January 16, 2023, subject to two 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the Morgan Stanley Facility to January 16, 2025. Advances under the Morgan Stanley Facility generally accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread ranging from 1.75% to 2.25%, determined by Morgan Stanley, depending upon the mortgage loan sold to Morgan Stanley in the applicable transaction.

Notes Payable

Certain of the Company's subsidiaries are party to three separate non-recourse note agreements (the "Notes Payable") with the lenders referred to therein, consisting of (1) a $32.4 million note that was closed in May 2019, which is secured by a $40.5 million senior mortgage loan held by the Company on an industrial property located in North Carolina, (2) a $28.3 million note that was closed in June 2019, which is secured by a hotel property located in New York that is recognized as real estate owned in the Company's consolidated balance sheets and (3) a $23.5 million note that was closed in November 2019, which is secured by a $34.6 million senior mortgage loan held by the Company on a multifamily property located in South Carolina.

The initial maturity date of the $32.4 million note is March 5, 2024, subject to one 12-month extension, which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if exercised, would extend the maturity date to March 5, 2025. Advances under the $32.4 million note accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.50%. As of September 30, 2020, the total outstanding principal balance of the note was $27.9 million.

The maturity date of the $28.3 million note is June 10, 2024, subject to one 6-month extension, which may be exercised at the Company's option, subject to the satisfaction of certain conditions, which, if exercised, would extend the maturity date to December 10, 2024. The loan may be prepaid at any time subject to the payment of a prepayment fee, if applicable. Initial advances under the $28.3 million note accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 3.00%. If the hotel property that collateralizes the $28.3 million note achieves certain financial performance hurdles, the interest rate on advances will decrease to a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.50%. The $28.3 million loan amount may be increased to up to $30.0 million to fund certain construction costs of improvements at the hotel, subject to the satisfaction of certain conditions and the payment of a commitment fee. As of September 30, 2020, the total outstanding principal balance of the note was $28.3 million.

The initial maturity date of the $23.5 million note is September 5, 2022, subject to two 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date to September 5, 2024. Advances under the $23.5 million note accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 3.75%. As of September 30, 2020, the total outstanding principal balance of the note was $3.0 million.

Secured Term Loan

The Company and certain of its subsidiaries are party to a $110.0 million Credit and Guaranty Agreement with the lenders referred to therein and Cortland Capital Market Services LLC, as administrative agent and collateral agent for the lenders (the "Secured Term Loan"). The initial maturity date of the Secured Term Loan is December 22, 2020, subject to one 12-month extension, which may be exercised at the Company's option, provided there are no existing events of default under the Secured Term Loan, which, if exercised, would extend the maturity date of the Secured Term Loan to December 22, 2021. During the extension period, the spread on advances under the Secured Term Loan increases every three months by 0.125%, 0.375% and 0.750% per annum, respectively, beginning after the third-month of the extension period. Advances under the Secured Term Loan accrue interest at a per annum rate equal to the sum of, at the Company's option, one, two, three or six-month LIBOR plus a spread of 5.00%. The total original issue discount on the Secured Term Loan draws was $2.6 million, which represents a discount to the debt cost to be amortized into interest expense using the effective interest method over the term of the Secured Term Loan. For the three and nine months ended September 30, 2020, the estimated per annum effective interest rate of the Secured Term Loan, which is equal to LIBOR plus the spread plus the accretion of the original issue discount and associated costs, was 5.9% and 6.5%, respectively. For the three and nine months ended September 30, 2019, the estimated per annum effective interest rate of the Secured Term Loan was 8.0% and 8.1%, respectively.

7. SECURED BORROWINGS

Certain of the Company's subsidiaries are party to three separate secured borrowing arrangements related to transferred loans, consisting of (1) a secured borrowing that was closed in February 2020, which is secured by a $24.4 million senior mortgage loan on an office property located in North Carolina that was originated by the Company, (2) a secured borrowing that was closed in June 2020, which is secured by a $24.9 million subordinated loan on a multifamily property located in Florida that was originated by the Company and (3) a secured borrowing that was closed in June 2020, which is secured by a $12.6 million subordinated loan on a multifamily property located in Florida that was originated by the Company (collectively, the "Secured Borrowings").

In April 2019, the Company originated a $30.5 million loan on an office property located in North Carolina, which was bifurcated between a $24.4 million senior mortgage loan and a $6.1 million mezzanine loan. In February 2020, the Company transferred its interest in the $24.4 million senior mortgage loan to a third party and retained the $6.1 million mezzanine loan. The Company evaluated whether the transfer of the $24.4 million senior mortgage loan met the criteria in FASB ASC Topic 860, *Transfers and Servicing*, for treatment as a sale – legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint and transfer of effective control – and determined that the transfer did not qualify as a sale and thus, is treated as a financing transaction. As such, the Company did not derecognize the $24.4 million senior mortgage loan asset and recorded a secured borrowing liability in the consolidated balance sheets. The initial maturity date of the $24.4 million secured borrowing is May 5, 2023, subject to one 12-month extension, which may be exercised at the transferee's option, which, if exercised, would extend the maturity date to May 5, 2024. Advances under the $24.4 million secured borrowing accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.50%. As of September 30, 2020, the total outstanding principal balance of the secured borrowing was $17.6 million.

In June 2020, the Company originated a $91.8 million senior mortgage loan on a multifamily property located in Florida, which the Company subsequently bifurcated between a $66.9 million senior participation, which accrues interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.94% and a $24.9 million subordinated participation, which accrues interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 10.50%. In June 2020, the Company transferred its interest in the $24.9 million subordinated participation to a third party and retained the $66.9 million senior participation. The Company evaluated whether the transfer of the $24.9 million subordinated participation met the criteria in FASB ASC Topic 860, *Transfers and Servicing*, for treatment as a sale. As the $66.9 million senior participation and the $24.9 million subordinated participation failed to meet the participating interest requirements in FASB ASC Topic 860, *Transfers and Servicing*, since the cash flows from the original $91.8 million senior mortgage loan are not allocated pro rata to the participation holders and there is a subordination of interest amongst the holders, it was determined that the transfer did not qualify as a sale and thus, is treated as a financing transaction. As such, the Company did not derecognize the $24.9 million subordinated participation and recorded a secured borrowing liability in the consolidated balance sheets. The initial maturity date of the $24.9 million secured borrowing is June 5, 2022, subject to one 12-month extension, which may be exercised at the borrower's option, which, if exercised, would extend the maturity date to June 5, 2023. As of September 30, 2020, the total outstanding principal balance of the secured borrowing was $24.9 million.

In June 2020, the Company closed the purchase of a $46.7 million senior mortgage loan on a multifamily property located in Florida (see Note 13), which the Company subsequently bifurcated between a $34.1 million senior participation, which accrues interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.94% and a $12.6 million subordinated participation, which accrues interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 10.50%. In June 2020, the Company transferred its interest in the $12.6 million subordinated participation to a third party and retained the $34.1 million senior participation. The Company evaluated whether the transfer of the $12.6 million subordinated participation met the criteria in FASB ASC Topic 860, *Transfers and Servicing*, for treatment as a sale. As the $34.1 million senior participation and the $12.6 million subordinated participation failed to meet the participating interest requirements in FASB ASC Topic 860, *Transfers and Servicing*, since the cash flows from the original $46.7 million senior mortgage loan are not allocated pro rata to the participation holders and there is a subordination of interest amongst the holders, it was determined that the transfer did not qualify as a sale and thus, is treated as a financing transaction. As such, the Company did not derecognize the $12.6 million subordinated participation and recorded a secured borrowing liability in the consolidated balance sheets. The initial maturity date of the $12.6 million secured borrowing is June 5, 2022, subject to one 12-month extension, which may be exercised at the borrower's option, which, if exercised, would extend the maturity date to June 5, 2023. As of September 30, 2020, the total outstanding principal balance of the secured borrowing was $12.6 million.

8. COMMITMENTS AND CONTINGENCIES

As further discussed in Note 2, the full extent of the impact of the COVID-19 pandemic on the global economy and the Company's business is uncertain. As of September 30, 2020, there were no contingencies recorded on the Company's consolidated balance sheets as a result of the COVID-19 pandemic, however, if the global pandemic continues and market conditions worsen, it could adversely affect the Company's business, financial condition and results of operations.

As of September 30, 2020 and December 31, 2019, the Company had the following commitments to fund various senior mortgage loans, subordinated debt investments, as well as preferred equity investments accounted for as loans held for investment ($ in thousands):

	As of	
	September 30, 2020	December 31, 2019
Total commitments	$ 2,001,644	$ 1,909,084
Less: funded commitments	(1,789,145)	(1,692,894)
Total unfunded commitments	$ 212,499	$ 216,190

The Company from time to time may be a party to litigation relating to claims arising in the normal course of business. As of September 30, 2020, the Company is not aware of any legal claims that could materially impact its business, financial condition or results of operations.

9. STOCKHOLDERS' EQUITY

At the Market Stock Offering Program

On November 22, 2019, the Company entered into an equity distribution agreement (the "Equity Distribution Agreement"), pursuant to which the Company may offer and sell, from time to time, shares of the Company's common stock, par value $0.01 per share, having an aggregate offering price of up to $100.0 million. Subject to the terms and conditions of the Equity Distribution Agreement, sales of common stock, if any, may be made in transactions that are deemed to be an "at the market offering" as defined in Rule 415(a)(4) under the Securities Act of 1933, as amended. During the nine months ended September 30, 2020, the Company did not issue or sell any shares of common stock under the Equity Distribution Agreement.

Equity Offerings

On January 22, 2020, the Company entered into an underwriting agreement (the "Underwriting Agreement"), by and among the Company, ACREM, and Wells Fargo Securities, LLC, Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, as representatives of the several underwriters listed therein (collectively, the "Underwriters"). Pursuant to the terms of the Underwriting Agreement, the Company agreed to sell, and the Underwriters agreed to purchase, subject to the terms and conditions set forth in the Underwriting Agreement, an aggregate of 4,000,000 shares of the Company's common stock, par value $0.01 per share. In addition, the Company granted to the Underwriters a 30-day option to purchase up to an additional 600,000 shares. The public offering closed on January 27, 2020 and generated net proceeds of approximately $63.3 million, after deducting transaction expenses. On January 30, 2020, the Company sold an additional 600,000 shares pursuant to the Underwriters option to purchase additional shares, generating additional net proceeds of approximately $9.6 million.

Equity Incentive Plan

On April 23, 2012, the Company adopted an equity incentive plan. In April 2018, the Company's board of directors authorized, and in June 2018, the Company's stockholders approved, an amended and restated equity incentive plan that increased the total amount of shares of common stock the Company may grant thereunder to 1,390,000 shares (the "Amended and Restated 2012 Equity Incentive Plan"). Pursuant to the Amended and Restated 2012 Equity Incentive Plan, the Company may grant awards consisting of restricted shares of the Company's common stock, restricted stock units ("RSUs") and/or other equity-based awards to the Company's outside directors, employees of the Manager, officers, ACREM and other eligible awardees under the plan. Any restricted shares of the Company's common stock and RSUs will be accounted for under FASB ASC Topic 718, *Compensation—Stock Compensation*, resulting in stock-based compensation expense equal to the grant date fair value of the underlying restricted shares of common stock or RSUs.

Restricted stock and RSU grants generally vest ratably over a one to four year period from the vesting start date. The grantee receives additional compensation for each outstanding restricted stock or RSU grant, classified as dividends paid, equal to the per-share dividends received by common stockholders.

The following tables summarize the (i) non-vested shares of restricted stock and RSUs and (ii) vesting schedule of shares of restricted stock and RSUs for the Company's directors and officers and employees of the Manager as of September 30, 2020:

Schedule of Non-Vested Share and Share Equivalents

	Restricted Stock Grants—Directors	Restricted Stock Grants—Officers and Employees of the Manager	RSUs—Officers and Employees of the Manager	Total
Balance at December 31, 2019	12,332	211,467	61,594	285,393
Granted	42,985	—	59,457	102,442
Vested	(21,831)	(64,081)	(9,944)	(95,856)
Forfeited	—	(76,602)	(2,600)	(79,202)
Balance at September 30, 2020	33,486	70,784	108,507	212,777

Future Anticipated Vesting Schedule

	Restricted Stock Grants—Directors	Restricted Stock Grants—Officers and Employees of the Manager	RSUs—Officers and Employees of the Manager	Total
2020	11,162	1,661	—	12,823
2021	22,324	40,047	36,176	98,547
2022	—	29,076	36,171	65,247
2023	—	—	36,160	36,160
2024	—	—	—	—
Total	33,486	70,784	108,507	212,777

10. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted earnings per common share for the three and nine months ended September 30, 2020 and 2019 ($ in thousands, except share and per share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Net income attributable to common stockholders	$ 14,928	$ 9,034	$ 7,433	$ 27,331
Divided by:				
Basic weighted average shares of common stock outstanding:	33,337,445	28,634,514	32,852,553	28,598,807
Weighted average non-vested restricted stock and RSUs	212,999	233,089	219,532	238,959
Diluted weighted average shares of common stock outstanding:	33,550,444	28,867,603	33,072,085	28,837,766
Basic earnings per common share	$ 0.45	$ 0.32	$ 0.23	$ 0.96
Diluted earnings per common share	$ 0.44	$ 0.31	$ 0.22	$ 0.95

11. INCOME TAX

The Company wholly owns ACRC Lender W TRS LLC, which is a taxable REIT subsidiary (“TRS”) formed to issue and hold certain loans intended for sale. The Company also wholly owns ACRC 2017-FL3 TRS LLC, which is a TRS formed to hold a portion of the CLO Securitization (as defined below), including the portion that generates excess inclusion income. Additionally, the Company wholly owns ACRC WM Tenant LLC, which is a TRS formed to lease from an affiliate the hotel property classified as real estate owned acquired on March 8, 2019. ACRC WM Tenant LLC engaged a third-party hotel management company to operate the hotel under a management contract.

The income tax provision for the Company and the TRSs consisted of the following for the three and nine months ended September 30, 2020 and 2019 ($ in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Current	$ 76	$ (76)	$ 179	$ 69
Deferred	—	30	(99)	48
Excise tax	105	65	270	215
Total income tax expense, including excise tax	$ 181	$ 19	$ 350	$ 332

For the three and nine months ended September 30, 2020, the Company incurred an expense of $105 thousand and $270 thousand, respectively, for U.S. federal excise tax. For the three and nine months ended September 30, 2019, the Company incurred an expense of $65 thousand and $215 thousand, respectively, for U.S. federal excise tax. Excise tax represents a 4% tax on the sum of a portion of the Company's ordinary income and net capital gains not distributed during the calendar year (including any distribution declared in the fourth quarter and paid following January) plus any prior year shortfall. If it is determined that an excise tax liability exists for the current year, the Company will accrue excise tax on estimated excess taxable income as such taxable income is earned. The quarterly expense is calculated in accordance with applicable tax regulations.

The TRSs recognize interest and penalties related to unrecognized tax benefits within income tax expense in the Company's consolidated statements of operations. Accrued interest and penalties, if any, are included within other liabilities in the Company's consolidated balance sheets.

As of September 30, 2020, tax years 2016 through 2020 remain subject to examination by taxing authorities. The Company does not have any unrecognized tax benefits and the Company does not expect that to change in the next 12 months.

12. FAIR VALUE

The Company follows FASB ASC Topic 820-10, *Fair Value Measurement* ("ASC 820-10"), which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure requirements for fair value measurements. ASC 820-10 determines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. ASC 820-10 specifies a hierarchy of valuation techniques based on the inputs used in measuring fair value.

In accordance with ASC 820-10, the inputs used to measure fair value are summarized in the three broad levels listed below:

- Level 1-Quoted prices in active markets for identical assets or liabilities.
- Level 2-Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3-Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

GAAP requires disclosure of fair value information about financial and nonfinancial assets and liabilities, whether or not recognized in the financial statements, for which it is practical to estimate the value. In cases where quoted market prices are not available, fair values are based upon the application of discount rates to estimated future cash flows using market yields, or other valuation methodologies. Any changes to the valuation methodology will be reviewed by the Company's management to ensure the changes are appropriate. The methods used may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Company anticipates that the valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial and nonfinancial assets and liabilities could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may fall within periods of market dislocation, during which price transparency may be reduced.

As of September 30, 2020 and December 31, 2019, the Company did not have any financial and nonfinancial assets or liabilities required to be recorded at fair value on a recurring basis.

Nonrecurring Fair Value Measurements

The Company is required to record real estate owned, a nonfinancial asset, at fair value on a nonrecurring basis in accordance with GAAP. Real estate owned consists of a hotel property that was acquired by the Company on March 8, 2019 through a deed in lieu of foreclosure. See Note 5 included in these consolidated financial statements for more information on real estate owned. Real estate owned is recorded at fair value at acquisition using Level 3 inputs and is evaluated for indicators of impairment on a quarterly basis. Real estate owned is considered impaired when the sum of estimated future undiscounted cash flows expected to be generated by the real estate owned over the estimated remaining holding period is less than the carrying amount of such real estate owned. Cash flows include operating cash flows and anticipated capital proceeds generated by the real estate owned. An impairment charge is recorded equal to the excess of the carrying value of the real estate owned over the fair value. The fair value of the hotel property at acquisition was estimated using a third-party appraisal, which utilized standard industry valuation techniques such as the income and market approach. When determining the fair value of a hotel, certain assumptions are made including, but not limited to: (1) projected operating cash flows, including factors such as booking pace, growth rates, occupancy, daily room rates, hotel specific operating costs and future capital expenditures; and (2) projected cash flows from the eventual disposition of the hotel based upon the Company's estimation of a hotel specific capitalization rate, hotel specific discount rates and comparable selling prices in the market.

As of September 30, 2020 and December 31, 2019, the Company did not have any financial assets or liabilities or nonfinancial liabilities required to be recorded at fair value on a nonrecurring basis.

Financial Assets and Liabilities Not Measured at Fair Value

As of September 30, 2020 and December 31, 2019, the carrying values and fair values of the Company's financial assets and liabilities recorded at cost are as follows ($ in thousands):

		As of			
		September 30, 2020		December 31, 2019	
	Level in Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Loans held for investment	3	$ 1,778,199	$ 1,765,198	$ 1,682,498	$ 1,692,894
Financial liabilities:					
Secured funding agreements	2	$ 791,136	$ 791,136	$ 728,589	$ 728,589
Notes payable	3	57,848	59,155	54,708	56,155
Secured term loan	3	109,803	107,298	109,149	110,000
Collateralized loan obligation securitization debt (consolidated VIE)	3	443,860	440,655	443,177	445,600
Secured borrowings	3	54,617	55,095	—	—

The carrying values of cash and cash equivalents, restricted cash, interest receivable, due to affiliate liability and accrued expenses, which are all categorized as Level 2 within the fair value hierarchy, approximate their fair values due to their short-term nature.

Loans held for investment are recorded at cost, net of unamortized loan fees and origination costs. To determine the fair value of the collateral, the Company may employ different approaches depending on the type of collateral. The Company determined the fair value of loans held for investment based on a discounted cash flow methodology, taking into consideration various factors including capitalization rates, discount rates, leasing, occupancy rates, availability and cost of financing, exit plan, sponsorship, actions of other lenders, and comparable selling prices in the market. The Secured Funding Agreements are recorded at outstanding principal, which is the Company's best estimate of the fair value. The Company determined the fair value of the Notes Payable, Secured Term Loan, collateralized loan obligation ("CLO") securitization debt and Secured Borrowings based on a discounted cash flow methodology.

13. RELATED PARTY TRANSACTIONS

Management Agreement

The Company is party to a Management Agreement under which ACREM, subject to the supervision and oversight of the Company’s board of directors, is responsible for, among other duties, (a) performing all of the Company’s day-to-day functions, (b) determining the Company’s investment strategy and guidelines in conjunction with the Company’s board of directors, (c) sourcing, analyzing and executing investments, asset sales and financing, and (d) performing portfolio management duties. In addition, ACREM has an Investment Committee that oversees compliance with the Company’s investment strategy and guidelines, loans held for investment portfolio holdings and financing strategy.

In exchange for its services, ACREM is entitled to receive a base management fee, an incentive fee and expense reimbursements. In addition, ACREM and its personnel may receive grants of equity-based awards pursuant to the Company’s Amended and Restated 2012 Equity Incentive Plan and a termination fee, if applicable.

The base management fee is equal to 1.5% of the Company’s stockholders’ equity per annum, which is calculated and payable quarterly in arrears in cash. For purposes of calculating the base management fee, stockholders’ equity means: (a) the sum of (i) the net proceeds from all issuances of the Company’s equity securities since inception (allocated on a pro-rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (ii) the Company’s retained earnings at the end of the most recently completed fiscal quarter determined in accordance with GAAP (without taking into account any non-cash equity compensation expense incurred in current or prior periods); less (b) (x) any amount that the Company has paid to repurchase the Company’s common stock since inception, (y) any unrealized gains and losses and other non-cash items that have impacted stockholders’ equity as reported in the Company’s consolidated financial statements prepared in accordance with GAAP, and (z) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between ACREM and the Company’s independent directors and approval by a majority of the Company’s independent directors. As a result, the Company’s stockholders’ equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders’ equity shown in the Company’s consolidated financial statements.

The incentive fee is an amount, not less than zero, equal to the difference between: (a) the product of (i) 20% and (ii) the difference between (A) the Company’s Core Earnings (as defined below) for the previous 12-month period, and (B) the product of (1) the weighted average of the issue price per share of the Company’s common stock of all of the Company’s public offerings of common stock multiplied by the weighted average number of all shares of common stock outstanding including any restricted shares of the Company’s common stock, RSUs, or any shares of the Company’s common stock not yet issued, but underlying other awards granted under the Company’s Amended and Restated 2012 Equity Incentive Plan (see Note 9 included in these consolidated financial statements) in the previous 12-month period, and (2) 8%; and (b) the sum of any incentive fees earned by ACREM with respect to the first three fiscal quarters of such previous 12-month period; provided, however, that no incentive fee is payable with respect to any fiscal quarter unless cumulative Core Earnings for the 12 most recently completed fiscal quarters is greater than zero. “Core Earnings” is a non-GAAP measure and is defined as GAAP net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that any of the Company’s target investments are structured as debt and the Company forecloses on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), and one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between ACREM and the Company’s independent directors and after approval by a majority of the Company’s independent directors. For both the three months ended September 30, 2020 and 2019, no incentive fees were incurred. For the nine months ended September 30, 2020 and 2019, the Company incurred incentive fees of $303 thousand and $674 thousand, respectively.

The Company reimburses ACREM at cost for operating expenses that ACREM incurs on the Company’s behalf, including expenses relating to legal, financial, accounting, servicing, due diligence and other services, expenses in connection with the origination and financing of the Company’s investments, communications with the Company’s stockholders, information technology systems, software and data services used for the Company, travel, complying with legal and regulatory requirements, taxes, insurance maintained for the benefit of the Company as well as all other expenses actually incurred by ACREM that are reasonably necessary for the performance by ACREM of its duties and functions under the Management Agreement. Ares Management, from time to time, incurs fees, costs and expenses on behalf of more than one investment vehicle. To the extent such fees, costs and expenses are incurred for the account or benefit of more than one fund, each such investment vehicle, including the Company, will typically bear an allocable portion of any such fees, costs and expenses in proportion to the size of its investment in the activity or entity to which such expense relates (subject to the terms of each fund’s governing documents) or in such other manner as Ares Management considers fair and equitable under the circumstances, such as the relative fund size or capital available to be invested by such investment vehicles. Where an investment vehicle’s governing documents do not permit the payment of a particular expense, Ares Management will generally pay such investment vehicle's allocable portion of such expense. In addition, the Company is responsible for its proportionate share of certain fees and expenses, including due diligence costs, as determined by ACREM and Ares Management, including legal, accounting and financial advisor fees and related costs, incurred in connection with evaluating and consummating investment opportunities, regardless of whether such transactions are ultimately consummated by the parties thereto.

The Company will not reimburse ACREM for the salaries and other compensation of its personnel, except for the allocable share of the salaries and other compensation of the Company's (a) Chief Financial Officer, based on the percentage of his time spent on the Company's affairs and (b) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment professional personnel of ACREM or its affiliates who spend all or a portion of their time managing the Company's affairs based on the percentage of their time spent on the Company's affairs. The Company is also required to pay its pro-rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of ACREM and its affiliates that are required for the Company's operations.

Certain of the Company's subsidiaries, along with the Company's lenders under certain of the Company's Secured Funding Agreements, as well as under the CLO transaction have entered into various servicing agreements with ACREM's subsidiary servicer, Ares Commercial Real Estate Servicer LLC ("ACRES"). The Company's Manager will specially service, as needed, certain of the Company's investments. Effective May 1, 2012, ACRES agreed that no servicing fees pursuant to these servicing agreements would be charged to the Company or its subsidiaries by ACRES or the Manager for so long as the Management Agreement remains in effect, but that ACRES will continue to receive reimbursement for overhead related to servicing and operational activities pursuant to the terms of the Management Agreement.

The term of the Management Agreement ends on May 1, 2021, with automatic one-year renewal terms thereafter. Except under limited circumstances, upon a termination of the Management Agreement, the Company will pay ACREM a termination fee equal to three times the average annual base management fee and incentive fee received by ACREM during the 24-month period immediately preceding the most recently completed fiscal quarter prior to the date of termination, each as described above.

The following table summarizes the related party costs incurred by the Company for the three and nine months ended September 30, 2020 and 2019 and amounts payable to the Company's Manager as of September 30, 2020 and December 31, 2019 ($ in thousands):

	Incurred				Payable	
	For the three months ended September 30,		For the nine months ended September 30,		As of	
	2020	2019	2020	2019	September 30, 2020	December 31, 2019
Affiliate Payments						
Management fees	$ 1,847	$ 1,578	$ 5,468	$ 4,730	$ 1,847	$ 1,581
Incentive fees	—	—	303	674	—	378
General and administrative expenses	802	831	2,890	2,261	802	789
Direct costs (1)	31	19	99	148	21	13
Total	$ 2,680	$ 2,428	$ 8,760	$ 7,813	$ 2,670	$ 2,761

(1) For the three and nine months ended September 30, 2020 and 2019, direct costs incurred are included within general and administrative expenses in the Company's consolidated statements of operations.

Investments in Loans

From time to time, the Company may co-invest with other investment vehicles managed by Ares Management or its affiliates, including the Manager, and their portfolio companies, including by means of splitting investments, participating in investments or other means of syndication of investments. For such co-investments, the Company expects to act as the administrative agent for the holders of such investments provided that the Company maintains a majority of the aggregate investment. No fees will be received by the Company for performing such service. The Company will be responsible for its pro-rata share of costs and expenses for such co-investments, including due diligence costs for transactions which fail to close. The Company's investment in such co-investments are made on a pari-passu basis with the other Ares managed investment vehicles and the Company is not obligated to provide, nor has it provided, any financial support to the other Ares managed investment vehicles. As such, the Company's risk is limited to the carrying value of its investment and the Company recognizes only the carrying value of its investment in its consolidated balance sheets. As of September 30, 2020 and December 31, 2019, the total outstanding principal balance for co-investments held by the Company was $44.3 million and $40.9 million, respectively.

Loan Purchases From Affiliate

An affiliate of the Company's Manager maintains a $200 million real estate debt warehouse investment vehicle (the "Ares Warehouse Vehicle") that holds Ares Management originated commercial real estate loans, which are made available to purchase by other investment vehicles, including the Company and other Ares Management managed investment vehicles. From time to time, the Company may purchase loans from the Ares Warehouse Vehicle. The Company's Manager will approve the purchase of such loans only on terms, including the consideration to be paid, that are determined by the Company's Manager in good faith to be appropriate for the Company once the Company has sufficient liquidity. The Company is not obligated to purchase any loans originated by the Ares Warehouse Vehicle. Loans purchased by the Company from the Ares Warehouse Vehicle are purchased at fair value as determined by an independent third-party valuation expert and are subject to approval by a majority of the Company's independent directors.

In January 2020, the Company purchased a senior mortgage loan from the Ares Warehouse Vehicle with a commitment amount of $132.6 million on a portfolio of office properties located across multiple states. At the January 2020 purchase date, the senior mortgage loan had a total outstanding principal balance of $107.1 million, which is included within loans held for investment in the Company's consolidated balance sheets.

In June 2020, the Company purchased a senior mortgage loan from the Ares Warehouse Vehicle with a commitment amount of $46.7 million on a multifamily property located in Florida. At the June 2020 purchase date, the senior mortgage loan had a total outstanding principal balance of $46.2 million, which is included within loans held for investment in the Company's consolidated balance sheets.

14. DIVIDENDS AND DISTRIBUTIONS

The following table summarizes the Company's dividends declared during the nine months ended September 30, 2020 and 2019 ($ in thousands, except per share data):

Date Declared	Record Date	Payment Date	Per Share Amount	Total Amount
September 16, 2020	September 30, 2020	October 15, 2020	$ 0.33	$ 11,072
June 19, 2020	June 30, 2020	July 15, 2020	0.33	11,072
February 20, 2020	March 31, 2020	April 15, 2020	0.33	11,057
Total cash dividends declared for the nine months ended September 30, 2020			$ 0.99	$ 33,201
July 26, 2019	September 30, 2019	October 15, 2019	$ 0.33	$ 9,526
May 1, 2019	June 28, 2019	July 16, 2019	0.33	9,527
February 21, 2019	March 29, 2019	April 16, 2019	0.33	9,520
Total cash dividends declared for the nine months ended September 30, 2019			$ 0.99	$ 28,573

15. VARIABLE INTEREST ENTITIES

Consolidated VIEs

As discussed in Note 2, the Company evaluates all of its investments and other interests in entities for consolidation, including its investment in the CLO Securitization (as defined below), which is considered to be a variable interest in a VIE.

CLO Securitization

On January 11, 2019, ACRE Commercial Mortgage 2017-FL3 Ltd. (the "Issuer") and ACRE Commercial Mortgage 2017-FL3 LLC (the "Co-Issuer"), both wholly-owned indirect subsidiaries of the Company, entered into an Amended and Restated Indenture (the "Amended Indenture") with Wells Fargo Bank, National Association, as advancing agent and note administrator, and Wilmington Trust, National Association, as trustee, which governs the approximately $504.1 million principal balance of secured floating rate notes (the "Notes") issued by the Issuer and $52.9 million of preferred equity in the Issuer (the "CLO Securitization"). The Amended Indenture amends and restates, and replaces in its entirety, the indenture for the CLO securitization issued in March 2017, which governed the issuance of approximately $308.8 million principal balance of secured floating rate notes and $32.4 million of preferred equity in the Issuer.

As of September 30, 2020, the Notes were collateralized by interests in a pool of 14 mortgage assets having a total principal balance of $495.2 million (the "Mortgage Assets") that were originated by a wholly-owned subsidiary of the Company and approximately $61.8 million of receivables related to repayments of outstanding principal on previous mortgage assets. As of December 31, 2019, the Notes were collateralized by interests in a pool of 16 mortgage assets having a total principal balance of approximately $515.9 million that were originated by a wholly-owned subsidiary of the Company and approximately $41.1 million of receivables related to repayments of outstanding principal on previous mortgage assets. During the reinvestment period ending on March 31, 2021, the Company may direct the Issuer to acquire additional mortgage assets meeting applicable reinvestment criteria using the principal repayments from the Mortgage Assets, subject to the satisfaction of certain conditions, including receipt of a Rating Agency Confirmation and investor approval of the new mortgage assets.

The contribution of the Mortgage Assets to the Issuer is governed by a Mortgage Asset Purchase Agreement between ACRC Lender LLC (the "Seller"), a wholly-owned subsidiary of the Company, and the Issuer, and acknowledged by the Company solely for purposes of confirming its status as a REIT, in which the Seller made certain customary representations, warranties and covenants.

In connection with the securitization, the Issuer and Co-Issuer offered and issued the following classes of Notes: Class A, Class A-S, Class B, Class C and Class D Notes (collectively, the "Offered Notes") to a third party. The Company retained (through one of its wholly-owned subsidiaries) approximately $58.5 million of the Notes and all of the $52.9 million of preferred equity in the Issuer, which totaled $111.4 million. The Company, as the holder of the subordinated Notes and all of the preferred equity in the Issuer, has the obligation to absorb losses of the CLO, since the Company has a first loss position in the capital structure of the CLO.

After January 16, 2023, the Issuer may redeem the Offered Notes subject to paying a make whole prepayment fee of 1.0% of the then outstanding balance of the Offered Notes. In addition, once the Class A Notes, Class A-S Notes, Class B Notes and Class C Notes have been repaid in full, the Issuer has the right to redeem the Class D Notes, subject to paying a make whole prepayment fee of 1.0% on the Class D Notes.

As the directing holder of the CLO Securitization, the Company has the ability to direct activities that could significantly impact the CLO Securitization's economic performance. ACRES is designated as special servicer of the CLO Securitization and has the power to direct activities during the loan workout process on defaulted and delinquent loans, which is the activity that most significantly impacts the CLO Securitization's economic performance. ACRES did not waive the special servicing fee, and the Company pays its overhead costs. If an unrelated third party had the right to unilaterally remove the special servicer, then the Company would not have the power to direct activities that most significantly impact the CLO Securitization's economic performance. In addition, there were no substantive kick-out rights of any unrelated third party to remove the special servicer without cause. The Company's subsidiaries, as directing holders, have the ability to remove the special servicer without cause. Based on these factors, the Company is determined to be the primary beneficiary of the CLO Securitization; thus, the CLO Securitization is consolidated into the Company's consolidated financial statements.

The CLO Securitization is consolidated in accordance with FASB ASC Topic 810 and is structured as a pass through entity that receives principal and interest on the underlying collateral and distributes those payments to the note holders, as applicable. The assets and other instruments held by the CLO Securitization are restricted and can only be used to fulfill the obligations of the CLO Securitization. Additionally, the obligations of the CLO Securitization do not have any recourse to the general credit of any other consolidated entities, nor to the Company as the primary beneficiary.

The inclusion of the assets and liabilities of the CLO Securitization of which the Company is deemed the primary beneficiary has no economic effect on the Company. The Company's exposure to the obligations of the CLO Securitization is generally limited to its investment in the entity. The Company is not obligated to provide, nor has it provided, any financial support for the consolidated structure. As such, the risk associated with the Company's involvement in the CLO Securitization is limited to the carrying value of its investment in the entity. As of September 30, 2020, the Company's maximum risk of loss was $111.4 million, which represents the carrying value of its investment in the CLO Securitization.

16. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the consolidated financial statements as of and for the nine months ended September 30, 2020.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Some of the statements contained in this quarterly report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we intend such statements to be covered by the safe harbor provisions contained therein. The information contained in this section should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this quarterly report on Form 10-Q. This description contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the results discussed in the forward-looking statements due to the factors set forth in "Risk Factors" and elsewhere in this quarterly report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. In addition, some of the statements in this quarterly report (including in the following discussion) constitute forward-looking statements, which relate to future events or the future performance or financial condition of Ares Commercial Real Estate Corporation ("ACRE" and, together with its consolidated subsidiaries, the "Company," "we," "us" and "our"). The forward-looking statements contained in this report involve a number of risks and uncertainties, including statements concerning:

- our business and investment strategy;
- our projected operating results;
- the return or impact of current and future investments;
- the severity and duration of the novel coronavirus ("COVID-19") pandemic;
- the impact of the COVID-19 pandemic, on our business and the United States and global economies;
- the impact of the COVID-19 pandemic on the real estate industry and our borrowers, the performance of the properties securing our loans that may cause deterioration in the performance of our investments and, potentially, principal losses to us;
- whether, or how much, we or our borrowers have benefited or may benefit from government stimulus programs in response to the COVID-19 pandemic;
- management's current estimate of expected credit losses and current expected credit loss reserve;
- the collectability and timing of cash flows, if any, from our investments;
- estimates relating to our ability to make distributions to our stockholders in the future;
- defaults by borrowers in paying amounts due on outstanding indebtedness and our ability to collect all amounts due according to the contractual terms of our investments;
- our ability to obtain and maintain financing arrangements, including securitizations;
- market conditions and our ability to access alternative debt markets and additional debt and equity capital;
- the amount of commercial mortgage loans requiring refinancing;
- the demand for commercial real estate loans;
- our expected investment capacity and available capital;
- financing and advance rates for our target investments;
- our expected leverage;
- changes in interest rates, credit spreads and the market value of our investments;
- the impact of the elimination of the London Interbank Offered Rate ("LIBOR") on our operating results;

- effects of hedging instruments on our target investments;
- rates of default or decreased recovery rates on our target investments;
- rates of prepayments on our mortgage loans and the effect on our business of such prepayments;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- the ability of Ares Commercial Real Estate Management LLC (“ACREM” or our “Manager”) to locate suitable investments for us, monitor, service and administer our investments and execute our investment strategy;
- allocation of investment opportunities to us by our Manager;
- our ability to successfully identify, complete and integrate any acquisitions;
- our ability to maintain our qualification as a real estate investment trust (“REIT”) for United States federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940 (the “1940 Act”);
- our understanding of our competition;
- general volatility of the securities markets in which we may invest;
- adverse changes in the real estate, real estate capital and credit markets and the impact of a protracted decline in the liquidity of credit markets on our business;
- changes in governmental regulations, tax law and rates, and similar matters (including interpretation thereof);
- authoritative or policy changes from standard-setting bodies such as the Financial Accounting Standards Board, the Securities and Exchange Commission, the Internal Revenue Service, the stock exchange where we list our common stock, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business;
- actions and initiatives of the United States Government or governments outside of the United States, and changes to United States Government policies;
- the state of the United States, European Union and Asian economies generally or in specific geographic regions;
- global economic trends and economic conditions; and
- market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy.

We use words such as “anticipates,” “believes,” “expects,” “intends,” “will,” “should,” “may” and similar expressions to identify forward-looking statements, although not all forward-looking statements include these words. Our actual results and financial condition could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in “Risk Factors” and the other information included in our Annual Report on Form 10-K and elsewhere in this quarterly report on Form 10-Q.

We have based the forward-looking statements included in this quarterly report on information available to us on the date of this quarterly report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the Securities and Exchange Commission (“SEC”), including annual reports on Form 10-K, registration statements on Form S-3, quarterly reports on Form 10-Q and current reports on Form 8-K.

Overview

We are a specialty finance company primarily engaged in originating and investing in commercial real estate ("CRE") loans and related investments. We are externally managed by ACREM, a subsidiary of Ares Management Corporation (NYSE: ARES) ("Ares Management"), a publicly traded, leading global alternative asset manager, pursuant to the terms of the management agreement dated April 25, 2012, as amended, between us and our Manager (the "Management Agreement"). From the commencement of our operations in late 2011, we have been primarily focused on directly originating and managing a diversified portfolio of CRE debt-related investments for our own account.

We were formed and commenced operations in late 2011. We are a Maryland corporation and completed our initial public offering in May 2012. We have elected and qualified to be taxed as a REIT for United States federal income tax purposes under the Internal Revenue Code of 1986, as amended, commencing with our taxable year ended December 31, 2012. We generally will not be subject to United States federal income taxes on our REIT taxable income as long as we annually distribute to stockholders an amount at least equal to our REIT taxable income prior to the deduction for dividends paid and comply with various other requirements as a REIT. We also operate our business in a manner that is intended to permit us to maintain our exemption from registration under the 1940 Act.

Developments During the Third Quarter of 2020:

- ACRE closed the sale of a senior mortgage loan with outstanding principal of $31.5 million, which was collateralized by a hotel property located in Minnesota, to a third party. In addition, ACRE closed the sale of two senior mortgage loans to a third party with outstanding principal of $39.9 million and $29.6 million, respectively, which were collateralized by multifamily properties located in Illinois and Texas, respectively. ACRE recognized an aggregate net realized loss of $4.0 million upon the closing of the sale of the three loans as the carrying value exceeded the sale prices of the loans.
- The U.S. Bank Facility (as defined below) matured and its term was not extended. The U.S. Bank Facility had been repaid in full prior to the maturity date.
- ACRE amended the MetLife Facility (as defined below) to, among other things, (1) extend the initial maturity date of the MetLife Facility to August 13, 2022, subject to two 12-month extensions, each of which may be exercised at ACRE's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the MetLife Facility to August 13, 2024, (2) increase the interest rate on new advances subsequent to the date of the amendment to a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.50%. The interest rate on advances with respect to existing loans financed under the MetLife Facility prior to the amendment will continue to accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.30%, subject to certain exceptions and (3) waive the non-utilization fee of 25 basis points per annum on the average daily available balance of the MetLife Facility, which is owed if less than 65% of the MetLife Facility is utilized, for a period of nine months subsequent to the date of the amendment.

Factors Impacting Our Operating Results

The results of our operations are affected by a number of factors and primarily depend on, among other things, the level of our net interest income, the market value of our assets and the supply of, and demand for, commercial mortgage loans, CRE debt and other financial assets in the marketplace. Our net interest income, which reflects the amortization of origination fees and direct costs, is recognized based on the contractual rate and the outstanding principal balance of the loans we originate. Interest rates will vary according to the type of investment, conditions in the financial markets, creditworthiness of our borrowers, competition and other factors, none of which can be predicted with any certainty. Our operating results may also be impacted by credit losses in excess of initial anticipations or unanticipated credit events experienced by borrowers.

Loans Held for Investment Portfolio

As of September 30, 2020, our portfolio included 49 loans held for investment, excluding 98 loans that were repaid, sold or converted to real estate owned since inception. As of September 30, 2020, the aggregate originated commitment under these loans at closing was approximately $2.0 billion and outstanding principal was $1.8 billion. During the nine months ended September 30, 2020, we funded approximately $496.4 million of outstanding principal, received repayments of $299.2 million of outstanding principal and sold three loans with outstanding principal of $101.0 million to third parties. As of September 30, 2020, 95.2% of our loans have LIBOR floors, with a weighted average floor of 1.74%, calculated based on loans with LIBOR floors. References to LIBOR or "L" are to 30-day LIBOR (unless otherwise specifically stated).

As of September 30, 2020, all loans held for investment were paying in accordance with their contractual terms.

Our loans held for investment are accounted for at amortized cost. The following table summarizes our loans held for investment as of September 30, 2020 ($ in thousands):

	As of September 30, 2020				
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Unleveraged Effective Yield		Weighted Average Remaining Life (Years)
Senior mortgage loans	$ 1,680,529	$ 1,690,473	5.9% (2)	6.2% (3)	1.3
Subordinated debt and preferred equity investments	97,670	98,672	13.4% (2)	13.4% (3)	2.1
Total loans held for investment portfolio	$ 1,778,199	$ 1,789,145	6.3% (2)	6.6% (3)	1.3

(1) The difference between the Carrying Amount and the Outstanding Principal amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs.

(2) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. The total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by us as of September 30, 2020 as weighted by the outstanding principal balance of each loan.

(3) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. The total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all interest accruing loans held by us as of September 30, 2020 as weighted by the total outstanding principal balance of each interest accruing loan (excludes loans on non-accrual status as of September 30, 2020).

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”), which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and other factors management believes to be reasonable. Actual results may differ from those estimates and assumptions. There have been no significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K. See Note 2 to our consolidated financial statements included in this quarterly report on Form 10-Q, which describes factors which may impact management’s estimates and assumptions and the recently issued accounting pronouncements that were adopted or not yet required to be adopted by us.

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations for the three and nine months ended September 30, 2020 and 2019 ($ in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Total revenue	$ 22,374	$ 19,847	$ 61,490	$ 55,679
Total expenses	8,303	10,794	27,636	28,016
Provision for current expected credit losses	(1,048)	—	22,063	—
Realized losses on loans sold	4,008	—	4,008	—
Change in unrealized losses on loans held for sale	(3,998)	—	—	—
Income before income taxes	15,109	9,053	7,783	27,663
Income tax expense, including excise tax	181	19	350	332
Net income attributable to common stockholders	$ 14,928	$ 9,034	$ 7,433	$ 27,331

The following tables set forth select details of our consolidated results of operations for the three and nine months ended September 30, 2020 and 2019 ($ in thousands):

Net Interest Margin

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Interest income	$ 30,626	$ 28,269	$ 91,908	$ 86,248
Interest expense	(11,875)	(15,124)	(40,450)	(47,539)
Net interest margin	$ 18,751	$ 13,145	$ 51,458	$ 38,709

For the three months ended September 30, 2020 and 2019, net interest margin was approximately $18.8 million and $13.1 million, respectively. For the three months ended September 30, 2020 and 2019, interest income of $30.6 million and $28.3 million, respectively, was generated by weighted average earning assets of $1.8 billion and $1.5 billion, respectively, offset by $11.9 million and $15.1 million, respectively, of interest expense, unused fees and amortization of deferred loan costs. The weighted average borrowings under the Wells Fargo Facility, the Citibank Facility, the CNB Facility, the MetLife Facility, the U.S. Bank Facility and the Morgan Stanley Facility (individually defined below and collectively, the "Secured Funding Agreements"), Notes Payable (as defined below and excluding the Note Payable on the hotel property that is recognized as real estate owned in our consolidated balance sheets), the Secured Term Loan, Secured Borrowings and securitization debt (as defined below) were $1.5 billion for the three months ended September 30, 2020 and $1.1 billion for the three months ended September 30, 2019 (which included one facility which was subsequently paid in full). The increase in net interest margin for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily relates to an increase in our weighted average earning assets and weighted average borrowings for the three months ended September 30, 2020 as well as the benefit received from the impact of LIBOR floors on our loans held for investment due to a decrease in 30-day LIBOR for the three months ended September 30, 2020. As of September 30, 2020, 95.2% of our loans held for investment as measured by outstanding principal balance have LIBOR floors, with a weighted average floor of 1.74%, calculated based on loans with LIBOR floors, while 18.1% of our borrowings have LIBOR floors, with a weighted average floor of 0.95%.

For the nine months ended September 30, 2020 and 2019, net interest margin was approximately $51.5 million and $38.7 million, respectively. For the nine months ended September 30, 2020 and 2019, interest income of $91.9 million and $86.2 million, respectively, was generated by weighted average earning assets of $1.9 billion and $1.6 billion, respectively, offset by $40.5 million and $47.5 million, respectively, of interest expense, unused fees and amortization of deferred loan costs. The weighted average borrowings under the Secured Funding Agreements, Notes Payable (excluding the Note Payable on the hotel property that is recognized as real estate owned in our consolidated balance sheets), the Secured Term Loan, Secured Borrowings and securitization debt were $1.5 billion for the nine months ended September 30, 2020 and $1.2 billion for the nine months ended September 30, 2019. The increase in net interest margin for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily relates to an increase in our weighted average earning assets and weighted average borrowings for the nine months ended September 30, 2020 as well as the benefit received from the impact of LIBOR floors on our loans held for investment due to a decrease in 30-day LIBOR for the nine months ended September 30, 2020.

Revenue From Real Estate Owned

On March 8, 2019, we acquired legal title to a hotel property through a deed in lieu of foreclosure. Prior to March 8, 2019, the hotel property collateralized a $38.6 million senior mortgage loan that we held that was in maturity default due to the failure of the borrower to repay the outstanding principal balance of the loan by the December 2018 maturity date. In conjunction with the deed in lieu of foreclosure, we derecognized the $38.6 million senior mortgage loan and recognized the hotel property as real estate owned. For the three months ended September 30, 2020 and 2019, revenue from real estate owned was $3.6 million and $6.7 million, respectively. Revenues consist of room sales, food and beverage sales and other hotel revenues. The decrease in revenue from real estate owned for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 is primarily due to the impact of the COVID-19 pandemic, which significantly reduced occupancy and overall revenue at the hotel property for the three months ended September 30, 2020. For the nine months ended September 30, 2020 and 2019, revenue from real estate owned was $10.0 million and $17.0 million, respectively. The decrease in revenue from real estate owned for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 is primarily due to the impact of the COVID-19 pandemic, which significantly reduced occupancy and overall revenue at the hotel property for the nine months ended September 30, 2020. This was partially offset due to the inclusion of a full nine months of operations for the nine months ended September 30, 2020, whereas the nine months ended September 30, 2019 only included approximately seven months of operations as the hotel property was acquired on March 8, 2019.

Operating Expenses

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Management and incentive fees to affiliate	$ 1,847	$ 1,578	$ 5,771	$ 5,405
Professional fees	639	542	2,202	1,553
General and administrative expenses	969	1,005	2,797	3,153
General and administrative expenses reimbursed to affiliate	802	831	2,890	2,261
Expenses from real estate owned	4,046	6,838	13,976	15,644
Total expenses	$ 8,303	$ 10,794	$ 27,636	$ 28,016

See the Related Party Expenses, Other Expenses and Expenses from Real Estate Owned discussions below for the cause of the decrease in operating expenses for the three and nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019.

Related Party Expenses

For the three months ended September 30, 2020, related party expenses included $1.8 million in management fees due to our Manager pursuant to the Management Agreement. No incentive fees were incurred for the three months ended September 30, 2020. For the three months ended September 30, 2020, related party expenses also included $0.8 million for our share of allocable general and administrative expenses for which we were required to reimburse our Manager pursuant to the Management Agreement. For the three months ended September 30, 2019, related party expenses included $1.6 million in management fees due to our Manager pursuant to the Management Agreement. No incentive fees were incurred for the three months ended September 30, 2019. For the three months ended September 30, 2019, related party expenses also included $0.8 million for our share of allocable general and administrative expenses for which we were required to reimburse our Manager pursuant to the Management Agreement. The increase in management fees for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily relates to an increase in our stockholders' equity for the three months ended September 30, 2020 as a result of the public offering of 4,600,000 shares of our common stock in January 2020, which generated net proceeds of approximately $72.9 million. The allocable general and administrative expenses due to our Manager were relatively consistent for both periods.

For the nine months ended September 30, 2020, related party expenses included $5.8 million in management and incentive fees due to our Manager pursuant to the Management Agreement, which consisted of $5.5 million in management fees and $0.3 million in incentive fees. For the nine months ended September 30, 2020, related party expenses also included $2.9 million for our share of allocable general and administrative expenses for which we were required to reimburse our Manager pursuant to the Management Agreement. For the nine months ended September 30, 2019, related party expenses included $5.4 million in management and incentive fees due to our Manager pursuant to the Management Agreement, which consisted of $4.7 million in management fees and $0.7 million in incentive fees. For the nine months ended September 30, 2019, related party expenses also included $2.3 million for our share of allocable general and administrative expenses for which we were required to reimburse our Manager pursuant to the Management Agreement. The increase in management fees for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily relates to an increase in our stockholders' equity for the nine months ended September 30, 2020 as a result of the public offering of 4,600,000 shares of our common stock in January 2020, which generated net proceeds of approximately $72.9 million. The decrease in incentive fees for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily relates to our Core Earnings (as defined below) for the twelve months ended September 30, 2020 exceeding the 8% minimum return by a lower margin than the twelve months ended September 30, 2019. "Core Earnings" is a non-GAAP measure and is defined as GAAP net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that any of our target investments are structured as debt and we foreclose on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), and one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between our Manager and our independent directors and after approval by a majority of our independent directors. The increase in allocable general and administrative expenses due to our Manager for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily relates to an increase in the percentage of time allocated to us by employees of our Manager due to changes in transaction activity year over year.

Other Expenses

For the three months ended September 30, 2020 and 2019, professional fees were $0.6 million and $0.5 million, respectively. The increase in professional fees for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily relates to an increase in our use of third party professionals due to changes in transaction activity year over year. For both the three months ended September 30, 2020 and 2019, general and administrative expenses were $1.0 million.

For the nine months ended September 30, 2020 and 2019, professional fees were $2.2 million and $1.6 million, respectively. The increase in professional fees for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily relates to an increase in our use of third-party professionals due to changes in transaction activity year over year. For the nine months ended September 30, 2020 and 2019, general and administrative expenses were $2.8 million and $3.2 million, respectively. The decrease in general and administrative expenses for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily relates to a decrease in stock-based compensation expense due to the reversal of previously recognized expense related to restricted stock forfeitures for the nine months ended September 30, 2020.

Expenses From Real Estate Owned

For the three and nine months ended September 30, 2020 and 2019, expenses from real estate owned was comprised of the following ($ in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Hotel operating expenses	$ 3,404	$ 6,212	$ 12,059	$ 14,680
Interest expense on note payable	418	419	1,249	516
Depreciation expense	224	207	668	448
Expenses from real estate owned	$ 4,046	$ 6,838	$ 13,976	$ 15,644

For the three months ended September 30, 2020 and 2019, hotel operating expenses were $3.4 million and $6.2 million, respectively. Hotel operating expenses consist primarily of expenses incurred in the day-to-day operation of our hotel property, including room expense, food and beverage expense and other operating expenses. Room expense includes housekeeping and front office wages and payroll taxes, reservation systems, room supplies, laundry services and other costs. Food and beverage expense primarily includes the cost of food, the cost of beverages and associated labor costs. Other operating expenses include labor and other costs associated with administrative departments, sales and marketing, repairs and maintenance, real estate taxes, insurance, utility costs and management and incentive fees paid to the hotel property manager. The decrease in hotel operating expenses for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 is primarily due to the impact of the COVID-19 pandemic, which significantly reduced occupancy and forced us to implement plans to reduce overall operating expenses at the hotel property for the three months ended September

30, 2020. For both the three months ended September 30, 2020 and 2019, interest expense on our note payable was $0.4 million. For both the three months ended September 30, 2020 and 2019, the weighted average borrowings under the Note Payable on the hotel property was $28.3 million. For both the three months ended September 30, 2020 and 2019, depreciation expense was $0.2 million.

For the nine months ended September 30, 2020 and 2019, hotel operating expenses were $12.1 million and $14.7 million, respectively. The decrease in hotel operating expenses for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 is primarily due to the impact of the COVID-19 pandemic, which significantly reduced occupancy and forced us to implement plans to reduce overall operating expenses at the hotel property for the nine months ended September 30, 2020. This was partially offset due to the inclusion of a full nine months of operations for the nine months ended September 30, 2020, whereas the nine months ended September 30, 2019 only included approximately seven months of operations as the hotel property was acquired on March 8, 2019. For the nine months ended September 30, 2020 and 2019, interest expense on our note payable was $1.2 million and $0.5 million, respectively. For the nine months ended September 30, 2020 and 2019, the weighted average borrowings under the Note Payable on the hotel property was $28.3 million and $11.7 million, respectively. For the nine months ended September 30, 2020 and 2019, depreciation expense was $0.7 million and $0.4 million, respectively. The increase in depreciation expense for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 is primarily due to the inclusion of a full nine months of depreciation expense for the nine months ended September 30, 2020, whereas the nine months ended September 30, 2019 only included approximately seven months of depreciation expense as the hotel property was acquired on March 8, 2019.

Provision for Current Expected Credit Losses

We adopted Accounting Standards Update No. 2016-13, *Financial Instruments* - *Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* on January 1, 2020. For the three and nine months ended September 30, 2020, the provision for current expected credit losses was $(1.0) million and $22.1 million, respectively. Management's current estimate of expected credit losses decreased from June 30, 2020 to September 30, 2020 due to changes in the portfolio, including contractual reduction in loan commitments, loan paydowns and shorter average remaining loan term.

The current expected credit loss reserve (the "CECL Reserve") takes into consideration the macroeconomic impact of the COVID-19 pandemic on CRE properties and is not specific to any loan losses or impairments on our loans held for investment. Additionally, the CECL Reserve is not an indicator of what we expect our CECL Reserve would have been absent the current and potential future impacts of the COVID-19 pandemic.

Realized Losses on Loans Sold and Change in Unrealized Losses on Loans Held for Sale

In July 2020, we closed the sale of a senior mortgage loan with outstanding principal of $31.5 million, which was collateralized by a hotel property located in Minnesota, to a third party. In addition, in August 2020, we closed the sale of two senior mortgage loans to a third party with outstanding principal of $39.9 million and $29.6 million, respectively, which were collateralized by multifamily properties located in Illinois and Texas, respectively. As of June 30, 2020, it was our intent to sell these three senior mortgage loans and thus, the three loans were reclassified from held for investment to held for sale and were carried at fair value in our consolidated balance sheets. For the three months ended June 30, 2020, we recognized an aggregate net unrealized loss of $4.0 million in our consolidated statements of operations upon reclassifying the three loans from held for investment to held for sale as the carrying value exceeded fair value as determined by the sale prices of the loans. This aggregate net unrealized loss was realized during the three months ended September 30, 2020. For the three months ended September 30, 2020, the $4.0 million net realized loss recognized upon the sale of the loans is included within realized losses on loans sold in our consolidated statements of operations while the reversal of the net unrealized loss is included within change in unrealized losses on loans held for sale in our consolidated statements of operations.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our stockholders and other general business needs. We use significant cash to purchase our target investments, make principal and interest payments on our borrowings, make distributions to our stockholders and fund our operations.

Our primary sources of cash generally consist of unused borrowing capacity under our Secured Funding Agreements, the net proceeds of future offerings, payments of principal and interest we receive on our portfolio of assets and cash generated from our operating activities. Principal repayments from mortgage loans in securitizations where we retain the subordinate securities are applied sequentially, first used to pay down the senior notes, and accordingly, we will not receive any proceeds from repayment of loans in the securitizations until all senior notes are repaid in full.

Due to the impact of the COVID-19 pandemic, we may experience borrowers who are unable to pay interest and principal payments timely, including at the maturity date of the borrower's loan, if at all, and expected prepayments by our borrowers may not occur, which could impact our liquidity. Our Secured Funding Agreements contains margin call provisions following the occurrence of certain mortgage loan credit events. If we are unable to make the required payment or if we fail to meet or satisfy any of the covenants in our Financing Agreements, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral, including cash to satisfy margin calls, and enforce their interests against existing collateral. We are also subject to cross-default and acceleration rights with respect to our Financing Agreements. Given the impact of the COVID-19 pandemic on the real estate industry and the potential impact on our borrowers, to mitigate the risk of future margin calls, we have proactively engaged in discussions with certain of our lenders to modify the terms of our borrowings on certain assets within these facilities, in order to potentially, among other things, reduce the amounts we are borrowing against such assets and/or increase the borrowing spreads. We may not receive financing from our Secured Funding Agreements with respect to our commitments to fund our loans held for investment in the future. See "Summary of Financing Agreements" below for a description of our Financing Agreements.

We are focused on preserving our liquidity in order to satisfy our cash requirements, including future commitments to fund on our loans, make interest, principal and other payments pursuant to our financing obligations and to potentially originate new loans and make opportunistic new investments. Subject to maintaining our qualification as a REIT and our exemption from the 1940 Act, we expect that our primary sources of enhancing our liquidity will be financing, to the extent available to us, through credit, secured funding and other lending facilities, other sources of private financing, including warehouse and repurchase facilities, and public or private offerings of our equity or debt securities. On July 19, 2019, we filed a registration statement on Form S-3 with the SEC, which became effective on August 2, 2019, in order to permit us to offer, from time to time, in one or more offerings or series of offerings up to $1.25 billion of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering. We may also access liquidity through our "At the Market Stock Offering Program" which was established in November 2019 pursuant to which we may sell, from time to time, up to $100.0 million of shares of our common stock. Furthermore, we have sold, and may continue to sell certain of our mortgage loans, or interests therein, in order to manage liquidity needs. Subject to maintaining our qualification as a REIT, we may also change our dividend practice, including by reducing the amount of, or temporarily suspending, our future dividends or making dividends that are payable in cash and shares of our common stock for some period of time. We are also able to access additional liquidity through the reinvestment provisions in our collateralized loan obligation securitization debt ("CLO Securitization"), which allows us to replace mortgage assets in our CLO Securitization which have repaid, subject to the satisfaction of certain conditions, including receipt of a Rating Agency Confirmation and investor approval of the new mortgage assets. There can be no assurance that the conditions for reinvestment will be satisfied and whether our CLO Securitization will acquire any additional mortgage assets.

Ares Management or one of its investment vehicles, including the Ares Warehouse Vehicle, may originate mortgage loans and we may have the opportunity to purchase such loans that are determined by our Manager in good faith to be appropriate for us, once we have sufficient available liquidity. Ares Management or one of its investment vehicles may also acquire mortgage loans from us.

As of October 28, 2020, we had approximately $91 million in unrestricted cash.

Equity Offerings

On January 22, 2020, we entered into an underwriting agreement (the "Underwriting Agreement"), by and among us, ACREM, and Wells Fargo Securities, LLC, Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, as representatives of the several underwriters listed therein (collectively, the "Underwriters"). Pursuant to the terms of the Underwriting Agreement, we agreed to sell, and the Underwriters agreed to purchase, subject to the terms and conditions set forth in the Underwriting Agreement, an aggregate of 4,000,000 shares of our common stock, par value $0.01 per share. In addition, we granted to the Underwriters a 30-day option to purchase up to an additional 600,000 shares. The public offering closed on January 27, 2020 and generated net proceeds of approximately $63.3 million, after deducting transaction expenses. On January 30, 2020, we sold an additional 600,000 shares pursuant to the Underwriters option to purchase additional shares, generating additional net proceeds of approximately $9.6 million.

Cash Flows

The following table sets forth changes in cash, cash equivalents and restricted cash for the nine months ended September 30, 2020 and 2019 ($ in thousands):

	For the nine months ended September 30,	
	2020	2019
Net income	$ 7,433	$ 27,331
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	15,311	(2,455)
Net cash provided by (used in) operating activities	22,744	24,876
Net cash provided by (used in) investing activities	(105,263)	(67,812)
Net cash provided by (used in) financing activities	158,179	37,799
Change in cash, cash equivalents and restricted cash	$ 75,660	$ (5,137)

During the nine months ended September 30, 2020 and 2019, cash, cash equivalents and restricted cash increased (decreased) by $75.7 million and $(5.1) million, respectively.

Operating Activities

For the nine months ended September 30, 2020 and 2019, net cash provided by operating activities totaled $22.7 million and $24.9 million, respectively. For the nine months ended September 30, 2020, adjustments to net income related to operating activities primarily included the provision for current expected credit losses of $22.1 million, accretion of deferred loan origination fees and costs of $5.7 million, amortization of deferred financing costs of $4.9 million and change in other assets of $9.3 million. For the nine months ended September 30, 2019, adjustments to net income related to operating activities primarily included accretion of deferred loan origination fees and costs of $5.0 million, amortization of deferred financing costs of $5.0 million and change in other assets of $4.3 million.

Investing Activities

For the nine months ended September 30, 2020 and 2019, net cash used in investing activities totaled $105.3 million and $67.8 million, respectively. This change in net cash used in investing activities was primarily as a result of the cash used for the origination and funding of loans held for investment exceeding the cash received from principal repayment of loans held for investment and the sale of loans held for sale for the nine months ended September 30, 2020.

Financing Activities

For the nine months ended September 30, 2020, net cash provided by financing activities totaled $158.2 million and primarily related to proceeds from our Secured Funding Agreements of $466.8 million, proceeds from Secured Borrowings of $55.1 million and proceeds from the sale of our common stock of $73.2 million, partially offset by repayments of our Secured Funding Agreements of $404.2 million and dividends paid of $31.7 million. For the nine months ended September 30, 2019, net cash provided by financing activities totaled $37.8 million and primarily related to proceeds from our Secured Funding Agreements of $415.4 million, proceeds from Notes Payable of $56.2 million and proceeds from the issuance of debt of consolidated VIEs of $172.7 million, partially offset by repayments of our Secured Funding Agreements of $573.4 million and dividends paid of $28.0 million.

Summary of Financing Agreements

The sources of financing, as applicable in a given period, under our Secured Funding Agreements, Notes Payable and the Secured Term Loan (collectively, the "Financing Agreements") are described in the following table ($ in thousands):

	As of							
	September 30, 2020				December 31, 2019			
	Total Commitment	Outstanding Balance	Interest Rate	Maturity Date	Total Commitment	Outstanding Balance	Interest Rate	Maturity Date
Secured Funding Agreements:								
Wells Fargo Facility	$ 500,000	$ 375,301	LIBOR+1.45 to 2.25%	December 14, 2020 (1)	$ 500,000	$ 360,354	LIBOR+1.45 to 2.25%	December 14, 2020 (1)
Citibank Facility	325,000	120,506	LIBOR+1.50 to 2.25%	December 13, 2021 (2)	325,000	126,603	LIBOR+1.50 to 2.50%	December 13, 2021 (2)
BAML Facility	—	—	—	— (3)	36,280	36,280	LIBOR+2.00%	March 3, 2020 (3)
CNB Facility	50,000	50,000	LIBOR+2.65%	March 10, 2021 (4)	50,000	30,500	LIBOR+2.65%	March 11, 2020 (4)
MetLife Facility	180,000	104,124	LIBOR+2.10 to 2.50%	August 13, 2022 (5)	180,000	131,807	LIBOR+2.30%	August 12, 2020 (5)
U.S. Bank Facility	—	—	—	— (6)	185,989	43,045	LIBOR+1.65 to 2.25%	July 31, 2020 (6)
Morgan Stanley Facility	150,000	141,205	LIBOR+1.75 to 2.85%	January 16, 2023 (7)	—	—	—	—
Subtotal	$ 1,205,000	$ 791,136			$ 1,277,269	$ 728,589		
Notes Payable	$ 84,155	$ 59,155	LIBOR+2.50 to 3.75%	(8)	$ 84,155	$ 56,155	LIBOR+2.50 to 3.75%	(8)
Secured Term Loan	$ 110,000	$ 110,000	LIBOR+5.00%	December 22, 2020 (9)	$ 110,000	$ 110,000	LIBOR+5.00%	December 22, 2020 (9)
Total	$ 1,399,155	$ 960,291			$ 1,471,424	$ 894,744		

(1) The maturity date of the master repurchase funding facility with Wells Fargo Bank, National Association (the "Wells Fargo Facility") is subject to three 12-month extensions at our option provided that certain conditions are met and applicable extension fees are paid.

(2) The maturity date of the master repurchase facility with Citibank, N.A. (the "Citibank Facility") is subject to two 12-month extensions at our option provided that certain conditions are met and applicable extension fees are paid.

(3) Individual advances on loans under the Bridge Loan Warehousing Credit and Security Agreement with Bank of America, N.A. (the "BAML Facility") generally had a two-year maturity, subject to a 12-month extension at our option provided that certain conditions were met and applicable extension fees were paid. In May 2019, our borrowing period for new individual loans under the BAML Facility expired and its term was not extended. As such, the total commitment amount under the BAML Facility as of December 31, 2019 represented the outstanding balance under the facility at the time the borrowing period expired. In June 2020, the BAML Facility was repaid in full and its term was not extended.

(4) In March 2020, we exercised a 12-month extension option on the secured revolving funding facility with City National Bank (the "CNB Facility"). The CNB Facility is subject to one additional 12-month extension at our option provided that certain conditions are met and applicable extension fees are paid. In June 2019, we amended the CNB Facility to, among other things, (1) add an accordion feature that provides for, subject to approval by City National Bank in its sole discretion, an increase in the commitment amount from $50.0 million to $75.0 million for up to a period of 120 days once per calendar year and (2) decrease the interest rate on advances to a per annum rate equal to the sum of, at our option, either (a) LIBOR for a one, two, three, six or, if available to all lenders, 12-month interest period plus 2.65% or (b) a base rate (which is the highest of a prime rate, the federal funds rate plus 0.50%, or one-month LIBOR plus 1.00%) plus 1.00%; provided that in no event shall the interest rate be less than 2.65%.

(5) The maturity date of the revolving master repurchase facility with Metropolitan Life Insurance Company (the "MetLife Facility") is subject to two 12-month extensions at our option provided that certain conditions are met and applicable extension fees are paid. In August 2020, we amended the MetLife Facility to, among other things, (1) extend the initial maturity date of the MetLife Facility to August 13, 2022 and (2) increase the interest rate on new advances subsequent to the date of the amendment to a per annum rate equal to the sum of one-month LIBOR plus a spread 2.50%. The interest rate on advances with respect to existing loans financed under the MetLife Facility prior to the amendment continues to accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.30%, subject to certain exceptions.

(6) The maturity date of the master repurchase and securities contract with U.S. Bank National Association (the "U.S. Bank Facility") was subject to two 12-month extensions at our option provided that certain conditions were met and applicable extension fees were paid. In July 2020, the U.S. Bank Facility matured and its term was not extended. The U.S. Bank Facility had been repaid in full prior to its maturity.

(7) The maturity date of the master repurchase and securities contract with Morgan Stanley (the "Morgan Stanley Facility") is subject to two 12-month extensions at our option provided that certain conditions are met and applicable extension fees are paid.

(8) Certain of our consolidated subsidiaries are party to three separate note agreements (the "Notes Payable") with the lenders referred to therein, consisting of (1) a $32.4 million note that has an initial maturity date of March 5, 2024, subject to one 12-month extension at our option provided that certain conditions are met and applicable extension fees are paid, (2) a $28.3 million note that has a maturity date of June 10, 2024 and (3) a $23.5 million note that has an initial maturity date of September 5, 2022, subject to two 12-month extensions at our option provided that certain conditions are met and applicable extension fees are paid.

(9) The maturity date of the Credit and Guaranty Agreement with the lenders referred to therein and Cortland Capital Market Services LLC, as administrative agent and collateral agent for the lenders (the "Secured Term Loan"), is subject to one 12-month extension at our option provided that certain conditions are met.

Our Financing Agreements contain various affirmative and negative covenants, including negative pledges, and provisions related to events of default that are normal and customary for similar financing agreements. As of September 30, 2020, we were in compliance with all financial covenants of each respective Financing Agreement. We may be required to fund commitments on our loans held for investment in the future and we may not receive funding from our Secured Funding Agreements with respect to these commitments. See Note 6 to our consolidated financial statements included in this quarterly report on Form 10-Q for more information on our Financing Agreements.

Securitizations

As of September 30, 2020, the carrying amount and outstanding principal of our CLO Securitization was $443.9 million and $445.6 million, respectively. See Note 15 to our consolidated financial statements included in this quarterly report on Form 10-Q for additional terms and details of our CLO Securitization.

Secured Borrowings

As of September 30, 2020, the carrying amount and outstanding principal of our secured borrowings was $54.6 million and $55.1 million, respectively. See Note 7 to our consolidated financial statements included in this quarterly report on Form 10-Q for additional terms and details of our secured borrowings.

Leverage Policies

We intend to use prudent amounts of leverage to increase potential returns to our stockholders. To that end, subject to maintaining our qualification as a REIT and our exemption from registration under the 1940 Act, we intend to continue to use borrowings to fund the origination or acquisition of our target investments. Given current market conditions and our focus on first or senior mortgages, we currently expect that such leverage would not exceed, on a debt-to-equity basis, a 4-to-1 ratio. Our charter and bylaws do not restrict the amount of leverage that we may use. The amount of leverage we will deploy for particular investments in our target investments will depend upon our Manager's assessment of a variety of factors, which may include, among others, our liquidity position, the anticipated liquidity and price volatility of the assets in our loans held for investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the impact of the COVID-19 pandemic on the United States economy generally or in specific geographic regions and commercial mortgage markets, our outlook for the level and volatility of interest rates, the slope of the yield curve, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve.

Dividends

We elected to be taxed as a REIT for United States federal income tax purposes and, as such, anticipate annually distributing to our stockholders at least 90% of our REIT taxable income, prior to the deduction for dividends paid. If we distribute less than 100% of our REIT taxable income in any tax year (taking into account any distributions made in a subsequent tax year under Sections 857(b)(9) or 858 of the Code), we will pay tax at regular corporate rates on that undistributed portion. Furthermore, if we distribute less than the sum of 1) 85% of our ordinary income for the calendar year, 2) 95% of our capital gain net income for the calendar year and 3) any undistributed shortfall from our prior calendar year (the "Required Distribution") to our stockholders during any calendar year (including any distributions declared by the last day of the calendar year but paid in the subsequent year), then we are required to pay non-deductible excise tax equal to 4% of any shortfall between the Required Distribution and the amount that was actually distributed. Any of these taxes would decrease cash available for distribution to our stockholders. The 90% distribution requirement does not require the distribution of net capital gains. However, if we elect to retain any of our net capital gain for any tax year, we must notify our stockholders and pay tax at regular corporate rates on the retained net capital gain. The stockholders must include their proportionate share of the retained net capital gain in their taxable income for the tax year, and they are deemed to have paid the REIT's tax on their proportionate share of the retained capital gain. Furthermore, such retained capital gain may be subject to the nondeductible 4% excise tax. If we determine that our estimated current year taxable income (including net capital gain) will be in excess of estimated dividend distributions (including capital gains dividends) for the current year from such income, we accrue excise tax on a portion of the estimated excess taxable income as such taxable income is earned.

Before we make any distributions, whether for United States federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our Financing Agreements and other debt payable. If our cash available for distribution is less than our REIT taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the Required Distribution in the form of a taxable stock distribution or distribution of debt securities.

OFF-BALANCE SHEET ARRANGEMENTS

We have commitments to fund various senior mortgage loans, as well as subordinated debt and preferred equity investments in our portfolio. As a result of the COVID-19 pandemic, the progress of capital expenditures, construction and leasing is anticipated to be slower than otherwise expected, and the pace of the funding of our unfunded commitments may be slower.

Other than as set forth in this quarterly report on Form 10-Q, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, special purpose entities or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities or entered into any commitment or intend to provide additional funding to any such entities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As part of our risk management strategy, our Manager closely monitors our portfolio and actively manages the credit, interest rate, market, prepayment, real estate inflation and financing risks associated with holding a portfolio of our target investments. We manage our portfolio through an interactive process with our Manager and Ares Management. Our Manager has an Investment Committee that oversees compliance with our investment strategy and guidelines, loans held for investment portfolio holdings and financing strategy.

Credit Risk

We are subject to varying degrees of credit risk in connection with holding our target investments. We have exposure to credit risk on our CRE loans and other target investments in our business. Our Manager seeks to manage credit risk by performing our due diligence process prior to origination or acquisition and through the use of non-recourse financing, when and where available and appropriate. Credit risk is also addressed through our Manager's ongoing review of our loans held for investment portfolio. In addition, with respect to any particular target investment, our Manager's investment team evaluates, among other things, relative valuation, comparable analysis, supply and demand trends, shape of yield curves, delinquency and default rates, recovery of various sectors and vintage of collateral.

In this current environment, prepayments may slow down, borrowers may not be able to repay principal upon the loan maturity or qualify for loan extensions. Additionally, if tenants are not able to pay rent to their landlords, property owners may not be able to make payments to their lenders. We have been in regular dialogue with our borrowers and our financing providers to assess this credit risk. See Note 3 to our consolidated financial statements included in this quarterly report on Form 10-Q for a more detailed description of the potential impacts of the COVID-19 pandemic on our loan investments.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our assets and our related financing obligations, including our borrowings under the Financing Agreements. We primarily originate or acquire floating rate mortgage assets and finance those assets with index-matched floating rate liabilities. As a result, we significantly reduce our exposure to changes in portfolio value and cash flow variability related to changes in interest rates. However, we regularly measure our exposure to interest rate risk and assess interest rate risk and manage our interest rate exposure on an ongoing basis by comparing our interest rate sensitive assets to our interest rate sensitive liabilities. Based on that review, we determine whether or not we should enter into hedging transactions and derivative financial instruments, such as forward sale commitments and interest rate floors in order to mitigate our exposure to changes in interest rates.

While hedging activities may mitigate our exposure to adverse fluctuations in interest rates, certain hedging transactions that we may enter into in the future, such as interest rate swap agreements, may also limit our ability to participate in the benefits of lower interest rates with respect to our investments. In addition, there can be no assurance that we will be able to effectively hedge our interest rate risk.

In addition to the risks related to fluctuations in asset values and cash flows associated with movements in interest rates, there is also the risk of non-performance on floating rate assets. In the case of a significant increase in interest rates, the additional debt service payments due from our borrowers may strain the operating cash flows of the real estate assets underlying our mortgages and, potentially, contribute to non-performance or, in severe cases, default.

Interest Rate Effect on Net Income

Our operating results depend in large part on differences between the income earned on our assets and our cost of borrowing. The cost of our borrowings generally is based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally increase while the yields earned on our leveraged fixed-rate mortgage assets remain static, which could result in a decline in our net interest spread and net interest margin. During a period of declining interest rates, our borrowing costs generally decrease while the yields earned on our leveraged fixed-rate mortgage assets remain static, which could result in an increase in our net interest spread and net interest margin.

The following table estimates the hypothetical increases/(decreases) in net income for a twelve month period, assuming (1) an immediate increase or decrease in 30-day LIBOR as of September 30, 2020 and (2) no change in the outstanding principal balance of our loans held for investment portfolio and borrowings as of September 30, 2020 ($ in millions):

Change in 30-Day LIBOR	**Increase/(Decrease) in Net Income**
Up 100 basis points	$(11.9)
Up 50 basis points	$(6.0)
LIBOR at 0 basis points	$1.7

The severity of any such impact depends on our asset/liability composition at the time as well as the magnitude and duration of the interest rate increase and any applicable floors and caps. Further, an increase in short-term interest rates could also have a negative impact on the market value of our target investments. If any of these events happen, we could experience a decrease in net income or incur a net loss during these periods, which could adversely affect our liquidity and results of operations.

Interest Rate Cap and Floor Risk

We primarily originate or acquire floating rate mortgage assets. These are assets in which the mortgages may be subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the asset's interest yield changes during any given period. However, our borrowing costs pursuant to our Financing Agreements sometimes are not subject to similar restrictions or have different floors and caps. As a result, in a period of increasing interest rates, interest rate costs on our borrowings could increase without limitation by caps, while the interest rate yields on our floating rate mortgage assets could be limited if we do not implement effective caps. In addition, floating rate mortgage assets may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on such assets than we would need to pay the interest cost on our related borrowings. In addition, in a period of decreasing interest rates, the interest rate yields on our floating rate mortgage assets could decrease, while the interest rate costs on certain of our borrowings could be fixed at a higher floor. These factors could lower our net interest income or cause a net loss during periods of decreasing interest rates, which would harm our financial condition, cash flows and results of operations.

Market Risk

The estimated fair values of our investments fluctuate primarily due to changes in interest rates, changes in credit and other factors. Generally, in a rising interest rate environment, the estimated fair value of the fixed-rate securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of the fixed-rate securities would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our investments may be adversely impacted.

Prepayment and Securitizations Repayment Risk

Our net income and earnings may be affected by prepayment rates on our existing CRE loans. When we originate our CRE loans, we anticipate that we will generate an expected yield. When borrowers prepay their CRE loans faster than we expect, we may be unable to replace these CRE loans with new CRE loans that will generate yields which are as high as the prepaid CRE loans. If prepayment rates decrease in a rising interest rate environment, borrowers exercise extension options on CRE loans or we extend the term of CRE loans, the life of the loans could extend beyond the term of the Financing Agreements that we borrow on to fund our CRE loans. This could have a negative impact on our results of operations. In some situations, we may be forced to fund additional cash collateral in connection with the Financing Agreements or sell assets to maintain adequate liquidity, which could cause us to incur losses. Additionally, principal repayment proceeds from mortgage loans in the CLO Securitization are applied sequentially, first used to pay down the senior CLO Securitization notes. We will not receive any proceeds from the repayment of loans in the CLO Securitization until all senior notes are repaid in full.

Financing Risk

We borrow funds under our Financing Agreements to finance our target assets. The COVID-19 pandemic has resulted in extreme volatility in a variety of global markets, including the real estate-related debt markets. In reaction to market conditions, banks and other lenders have generally restricted lending activity and, in some cases, have requested margin posting or repayments where applicable for secured loans collateralized by assets with depressed valuations. Our Secured Funding Agreements contain margin call provisions following the occurrence of certain mortgage loan credit events. If we are unable to make the required payment or if we fail to meet or satisfy any of the covenants in our Financing Agreements, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral, including cash to satisfy margin calls, and enforce their interests against existing collateral. We are also subject to cross-default and acceleration rights with respect to our Financing Agreements. Given the impact of the COVID-19 pandemic on the real estate industry and the potential impact on our borrowers, to mitigate the risk of future margin calls, we have proactively engaged in discussions with certain of our lenders to modify the terms of our borrowings on certain assets within these facilities, including reducing the amounts we are borrowing against such assets and/or increasing the borrowing spreads. Weakness or volatility in the financial markets, the commercial real estate and mortgage markets and the economy generally could adversely affect one or more of our potential lenders and could cause one or more of our potential lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing.

Real Estate Risk

Our real estate investments are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; local markets with a significant exposure to the energy sector; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. The COVID-19 pandemic is having a particularly adverse impact on industries whose properties serve as collateral for some of our portfolio of loan investments. Decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loan or loans, as the case may be, which could also cause us to suffer losses. We seek to manage these risks through our underwriting and asset management processes.

Inflation Risk

Virtually all of our assets and liabilities are sensitive to interest rates. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. In each case, in general, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2020. Based upon that evaluation and subject to the foregoing, our principal executive officer and principal financial officer concluded that, as of September 30, 2020, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2020 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, we may be subject to various legal proceedings from time to time. Furthermore, third parties may try to seek to impose liability on us in connection with our loans. As of September 30, 2020, we were not subject to any material pending legal proceedings. If the global pandemic continues and market conditions worsen, litigation may increase to the extent we find it necessary to foreclose or otherwise enforce remedies with respect to loans that are in default, which borrowers may seek to resist by asserting counterclaims and defenses against us.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors described below and in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which could materially affect our business, financial condition and/or operating results. The risks described below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results. The rapid development and fluidity of the ongoing COVID-19 pandemic precludes any prediction as to the ultimate adverse impact of COVID-19 on economic and market conditions. In addition to the foregoing, COVID-19 may exacerbate the potential adverse effects on our business, financial performance, operating results, cash flows and financial condition described in the risk factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the Securities and Exchange Commission.

The COVID-19 pandemic has caused severe disruptions in the global economy, which has had, and may continue to have, a negative impact on our business and operations.

As of the filing date of this Quarterly Report, there is an outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared a global pandemic, the United States has declared a national emergency and every state in the United States is under a federal disaster declaration. The COVID-19 pandemic has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in equity and debt markets. Many states, including those in which we and our borrowers operate, have issued orders requiring the closure of, or certain restrictions on the operation of, non-essential businesses and/or requiring residents to stay at home. The COVID-19 pandemic and preventative measures taken to contain or mitigate its spread have caused, and are continuing to cause, business shutdowns, the re-introduction of business shutdowns, cancellations of events and restrictions on travel, significant reductions in demand for certain goods and services, reductions in business activity and financial transactions, supply chain interruptions and overall economic and financial market instability both globally and in the United States. While several countries, as well as certain states in the United States, have relaxed the public health restrictions with a view to partially or fully reopen their economies, recurring COVID-19 outbreaks have led to the re-introduction of such restrictions in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. Additionally, the absence or delay of viable treatment options or a vaccine could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may continue to experience a recession, and we anticipate our business and operations could be materially adversely affected by a prolonged recession in the United States.

The COVID-19 pandemic is having a particularly adverse impact on industries whose properties serve as collateral for some of our portfolio of loan investments. Certain of our investments in loans collateralized by properties within other industries have also been significantly impacted by the COVID-19 pandemic. The inability of our borrowers' tenants to pay rent on their leases or our borrowers' inability to re-lease space that becomes vacant, may adversely impact the ability of the borrowers to which we lend to continue to meet loan covenants or to make payments on their loans on a timely basis or at all. We may seek to restructure our loan investments and amend the terms, including the payment terms, which could cause us to incur losses. Potential declines in value and net operating income at properties that serve as collateral for our portfolio of loan investments significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Although on March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which contains provisions intended to mitigate the adverse economic effects of the COVID-19 pandemic, it is uncertain whether, or how much, we or certain of our borrowers have benefited or may benefit from the CARES Act or any other subsequent legislation intended to provide financial relief or assistance.

The impact of the COVID-19 pandemic on our borrowers will likely reduce the availability of our liquidity sources, but our requirements for liquidity, future commitments to fund on our loans, make interest, principal and other payments pursuant to our financing obligations, including potential margin calls, likely will not be reduced. If we did not have funds available to meet our obligations, we would have to raise capital from alternative sources, which may be at unfavorable terms or may not be available to us due to the impacts of the COVID-19 pandemic. We expect that the adverse impact of the COVID-19 pandemic will likely adversely affect our liquidity position and the execution of our business strategy. We are focused on preserving our liquidity in order to satisfy our cash requirements and we expect that our primary sources of enhancing our liquidity will be financing, to the extent available to us, public or private offerings of our equity or debt securities, asset sales and changes in our dividend practice, including by reducing the amount of, or temporarily suspending, our future dividends or making dividends that are payable in cash and shares of our common stock for some period of time.

Provisions in our financing agreements require us to pay margin call provisions following the occurrence of certain mortgage loan credit events. We may not have the funds available to satisfy such margin calls or repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce our liquidity. If we are unable to make the required payment or if we fail to meet or satisfy any of the covenants in our financing agreements, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments and enforce their interests against existing collateral. We are also subject to cross-default and acceleration rights, which could materially and adversely affect our financial condition and ability to implement our investment strategy. See "Risk Factors - The Financing Agreements and any bank credit facilities and repurchase agreements that we may use in the future to finance our assets may require us to provide additional collateral or pay down debt" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Market conditions may also make it difficult for us to extend the maturity of or refinance our existing indebtedness or to access or obtain new indebtedness with similar terms and any failure to do so could have a material adverse effect on our business. The debt capital that will be available to us in the future, if at all, may be offered at a higher cost and on less favorable terms and conditions than what we currently receive, including in potentially rising interest rate environments. If we are unable to raise or refinance debt, then our equity investors may not benefit from the potential for increased returns on equity resulting from leverage and we may be limited in our ability to make new loan commitments or to fund existing commitments on our portfolio of loan investments. See "Risk Factors-Risks Relating to Sources of Financing and Hedging-Our access to sources of financing may be limited and thus our ability to grow our business and to maximize our returns may be adversely affected" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Despite actions of the United States federal government and foreign governments, the uncertainty surrounding the COVID-19 pandemic and other factors have contributed to significant volatility and declines in the global public equity markets and global debt capital markets, including the market price of shares of our common stock. The volatility and disruption to the global economy from the COVID-19 pandemic has had, and may continue to have, a negative effect on the potential for liquidity events involving our loan investments. The illiquidity of our loan investments may make it difficult for us to sell such loan investments to access capital if required, and as a result, we could realize significantly less than the value at which we have recorded our loan investments if we were required to sell them for liquidity purposes. An inability to raise or access capital, and any required sale of all or a portion of our loan investments as a result, may affect the pace of our investment activity and the size of our portfolio, which may have an adverse impact on our financial condition or results of operations, including our total interest income.

The effects on our portfolio of loan investments described above may require us to increase the current expected credit loss ("CECL") reserve in our consolidated balance sheets ("CECL Reserve") related to certain of our investments, and may in the future require us to undertake similar actions with respect to other of our investments. As a result of the impact of the COVID-19 pandemic and other factors, from January 1, 2020 to March 31, 2020 we increased, and may continue to increase, our assessment of CECL on our loans held for investment. Our loans held for investment are carried at cost, net of unamortized loan fees and origination costs, however, under the CECL methodology we adopted pursuant to Accounting Standards Update No. 2016-13, we are required to estimate expected credit losses on such loans using a range of historical experience adjusted for current conditions. Based on certain factors, our current estimate of expected credit losses has decreased slightly from June 30, 2020 to September 30, 2020, and may continue to fluctuate as the impact of the COVID-19 pandemic develops and we receive additional collateral financial data.

In response to the COVID-19 pandemic, Ares Management Corporation instituted a work from home policy until it is deemed safe to return to the office. Such policy of an extended period of remote working by our Manager's and/or its affiliate's employees could strain our technology resources and introduce operational risks, including heightened cybersecurity risk. Remote working environments may be less secure and more susceptible to hacking attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic. In addition, COVID-19 presents a significant threat to our Manager's and/or its affiliate's employees' well-being and morale, and we may experience potential loss of productivity.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement of Ares Commercial Real Estate Corporation.
3.2*	Amended and Restated Bylaws of Ares Commercial Real Estate Corporation. (1)
10.1	Second Amendment to Master Repurchase Agreement, dated August 4, 2020, by and between ACRC Lender ML LLC, as seller, and Metropolitan Life Insurance Company, as buyer.
10.2	Reaffirmation of Guarantor dated August 4, 2020, by Ares Commercial Real Estate Corporation in favor of Metropolitan Life Insurance Company.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Previously filed

(1) Incorporated by reference to Exhibit 3.2 to the Company's Form S-8 (File No. 333-181077), filed on May 1, 2012.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARES COMMERCIAL REAL ESTATE CORPORATION

Date: October 29, 2020	By: /s/ Bryan Donohoe
	Bryan Donohoe *Chief Executive Officer* *(Principal Executive Officer)*
Date: October 29, 2020	By: /s/ Tae-Sik Yoon
	Tae-Sik Yoon *Chief Financial Officer and Treasurer* *(Principal Financial and Accounting Officer)*

Exhibit 3.1

[Conformed Copy as of June 19, 2020]

ARES COMMERCIAL REAL ESTATE CORPORATION

ARTICLES OF AMENDMENT AND RESTATEMENT

FIRST: Ares Commercial Real Estate Corporation, a Maryland corporation (the “Corporation”), desires to amend and restate its charter as currently in effect and as hereinafter amended.

SECOND: The following provisions are all the provisions of the charter of the Corporation currently in effect and as hereinafter amended:

ARTICLE I

INCORPORATOR

Christopher W. Pate, whose address is c/o Venable LLP, 750 East Pratt Street, Suite 900, Baltimore, Maryland 21202, being at least 18 years of age, formed a corporation under the general laws of the State of Maryland on September 1, 2011.

ARTICLE II

NAME

The name of the corporation (the “Corporation”) is:

Ares Commercial Real Estate Corporation

ARTICLE III

PURPOSE

The purposes for which the Corporation is formed are to engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a real estate investment trust under the Internal Revenue Code of 1986, as amended, or any successor statute (the “Code”)) for which corporations may be organized under the general laws of the State of Maryland as now or hereafter in force. For purposes of the charter of the Corporation (the “Charter”), “REIT” means a real estate investment trust under Sections 856 through 860 of the Code.

ARTICLE IV

PRINCIPAL OFFICE IN STATE AND RESIDENT AGENT

The address of the principal office of the Corporation in the State of Maryland is c/o United Agent Group Inc., 2 Wisconsin Circle #700, Chevy Chase, Maryland 20815. The name of the resident agent of the Corporation in the State of Maryland is United Agent Group Inc., whose post office address is 2 Wisconsin Circle #700, Chevy Chase, Maryland 20815. The resident agent is a Maryland corporation.

ARTICLE V

PROVISIONS FOR DEFINING, LIMITING AND REGULATING CERTAIN POWERS OF THE CORPORATION AND OF THE STOCKHOLDERS AND DIRECTORS

Section 5.1 Number of Directors. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. The number of directors of the Corporation is eight, which number may be increased or decreased only by the Board of Directors pursuant to the Bylaws of the Corporation (the "Bylaws"), but shall never be less than the minimum number required by the Maryland General Corporation Law (the "MGCL"). The names of the directors who shall serve until the first annual meeting of stockholders and until their successors are duly elected and qualify are:

Michael J. Arougheti

John B. Bartling, Jr.

John H. Bryant

Michael H. Diamond

Jeffrey T. Hinson

Paul G. Joubert

Robert L. Rosen

Todd Schuster

These directors may increase the number of directors and may fill any vacancy, whether resulting from an increase in the number of directors or otherwise, on the Board of Directors occurring before the first annual meeting of stockholders in the manner provided in the Bylaws.

The Corporation elects, at such time as it becomes eligible to make the election provided for under Section 3-804(c) of the MGCL, that, except as may be provided by the Board of Directors in setting the terms of any class or series of Preferred Stock (as hereinafter defined), any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the class in which such vacancy occurred and until a successor is elected and qualifies.

The directors (other than any director elected solely by holders of one or more classes or series of Preferred Stock) shall be classified, with respect to the terms for which they severally hold office, into three classes, as nearly equal in number as possible as determined by the Board of Directors, one class to hold office initially for a term expiring at the next succeeding annual meeting of stockholders, another class to hold office initially for a term expiring at the second succeeding annual meeting of stockholders and another class to hold office initially for a term expiring at the third succeeding annual meeting of stockholders, with the members of each class to hold office until their successors are duly elected and qualify. At each annual meeting of the stockholders, the successors to the class of directors whose term expires at such meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.

Section 5.2 Extraordinary Actions. Except as specifically provided in Section 5.8 (relating to removal of directors) and in the last sentence of Article VIII, notwithstanding any provision of law permitting or requiring any action to be taken or approved by the affirmative vote of the holders of shares entitled to cast a greater number of votes, any such action shall be effective and valid if declared advisable by the Board of Directors and taken or approved by the affirmative vote of holders of shares entitled to cast a majority of all the votes entitled to be cast on the matter.

Section 5.3 Authorization by Board of Stock Issuance. The Board of Directors may authorize the issuance from time to time of shares of stock of the Corporation of any class or series, whether now or hereafter authorized, or securities or rights convertible into shares of its stock of any class or series, whether now or hereafter authorized, for such consideration as the Board of Directors may deem advisable (or without consideration in the case of a stock split or stock dividend), subject to such restrictions or limitations, if any, as may be set forth in the Charter or the Bylaws.

Section 5.4 Preemptive and Appraisal Rights. Except as may be provided by the Board of Directors in setting the terms of classified or reclassified shares of stock pursuant to Section 6.4 or as may otherwise be provided by a contract approved by the Board of Directors, no holder of shares of stock of the Corporation shall, as such holder, have any preemptive right to purchase or subscribe for any additional shares of stock of the Corporation or any other security of the Corporation which it may issue or sell. Holders of shares of stock shall not be entitled to exercise any rights of an objecting stockholder provided for under Title 3, Subtitle 2 of the MGCL or any successor statute unless the Board of Directors, upon the affirmative vote of a majority of the Board of Directors, shall determine that such rights apply, with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which holders of such shares would otherwise be entitled to exercise such rights.

Section 5.5 Indemnification. The Corporation shall have the power, to the maximum extent permitted by Maryland law in effect from time to time, to obligate itself to indemnify, and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, (a) any individual who is a present or former director or officer of the Corporation or (b) any individual who, while a director or officer of the Corporation and at the request of the Corporation, serves or has served as a director, officer, partner, member, manager or trustee of another corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in such capacity. The Corporation shall have the power, with the approval of the Board of Directors, to provide such indemnification and advancement of expenses to a person who served a predecessor of the Corporation in any of the capacities described in (a) or (b) above and to any employee or agent of the Corporation or a predecessor of the Corporation.

Section 5.6 Determinations by Board. The determination as to any of the following matters, made in good faith by or pursuant to the direction of the Board of Directors consistent with the Charter, shall be final and conclusive and shall be binding upon the Corporation and every holder of shares of its stock: the amount of the net income of the Corporation for any period and the amount of assets at any time legally available for the payment of dividends, redemption of its stock or the payment of other distributions on its stock; the amount of paid-in surplus, net assets, other surplus, annual or other cash flow, funds from operations, net profit, net assets in excess of capital, undivided profits or excess of profits over losses on sales of assets; the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged); any interpretation of the terms, preferences, conversion or other rights, voting powers or rights, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption of any class or series of stock of the Corporation; the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Corporation or of any shares of stock of the Corporation; the number of shares of stock of any class of the Corporation; any matter relating to the acquisition, holding and disposition of any assets by the Corporation; or any other matter relating to the business and affairs of the Corporation or required or permitted by applicable law, the Charter or Bylaws or otherwise to be determined by the Board of Directors.

Section 5.7 REIT Qualification. If the Corporation elects to qualify for federal income tax treatment as a REIT, the Board of Directors shall use its reasonable best efforts to take such actions as are necessary or appropriate to preserve the status of the Corporation as a REIT; however, if the Board of Directors determines that it is no longer in the best interests of the Corporation to continue to be qualified as a REIT, the Board of Directors may revoke or otherwise terminate the Corporation's REIT election pursuant to Section 856(g) of the Code.

The Board of Directors also may determine that compliance with any restriction or limitation on stock ownership and transfers set forth in Article VII is no longer required for REIT qualification.

Section 5.8 Removal of Directors. Subject to the rights of holders of one or more classes or series of Preferred Stock to elect or remove one or more directors, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. For the purpose of this paragraph, "cause" shall mean, with respect to any particular director, conviction of a felony or a final judgment of a court of competent jurisdiction holding that such director caused demonstrable, material harm to the Corporation through bad faith or active and deliberate dishonesty.

Section 5.9 Investment Activities. No officer or director of the Corporation, including any officer or director who also serves as a director, officer or employee of any entity that provides investment advisory services or as a member of the investment committee or underwriting committee of any such entity, shall be obligated to offer to the Corporation the opportunity to participate in any business or investing activity or venture that is presented to such person other than in his or her capacity as an officer or director of the Corporation.

ARTICLE VI

STOCK

Section 6.1 Authorized Shares. The Corporation has authority to issue 500,000,000 shares of stock, consisting of 450,000,000 shares of common stock, $0.01 par value per share ("Common Stock"), and 50,000,000 shares of preferred stock, $0.01 par value per share ("Preferred Stock"). The aggregate par value of all authorized shares of stock having par value is $5,000,000. If shares of one class of stock are classified or reclassified into shares of another class of stock pursuant to Section 6.2, 6.3 or 6.4 of this Article VI, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of stock of all classes that the Corporation has authority to issue shall not be more than the total number of shares of stock set forth in the first sentence of this paragraph. The Board of Directors, with the approval of a majority of the entire Board and without any action by the stockholders of the Corporation, may amend the Charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Corporation has authority to issue.

Section 6.2 Common Stock. Subject to the provisions of Article VII and except as may otherwise be specified in the Charter, each share of Common Stock shall entitle the holder thereof to one vote. The Board of Directors may reclassify any unissued shares of Common Stock from time to time into one or more classes or series of stock.

Section 6.3 Preferred Stock. The Board of Directors may classify any unissued shares of Preferred Stock and reclassify any previously classified but unissued shares of Preferred Stock of any series from time to time, in one or more classes or series of stock.

Section 6.4 Classified or Reclassified Shares. Prior to issuance of classified or reclassified shares of any class or series, the Board of Directors by resolution shall: (a) designate that class or series to distinguish it from all other classes and series of stock of the Corporation; (b) specify the number of shares to be included in the class or series; (c) set or change, subject to the provisions of Article VII and subject to the express terms of any class or series of stock of the Corporation outstanding at the time, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and (d) cause the Corporation to file articles supplementary with the State Department of Assessments and Taxation of Maryland ("SDAT"). Any of the terms of any class or series of stock set or changed pursuant to clause (c) of this Section 6.4 may be made dependent upon facts or events ascertainable outside the Charter (including determinations by the Board of Directors or other facts or events within the control of the Corporation) and may vary among holders thereof, provided that the manner in which such facts, events or variations shall operate upon the terms of such class or series of stock is clearly and expressly set forth in the articles supplementary or other Charter document.

Section 6.5 Stockholders' Consent in Lieu of Meeting. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting by consent, in writing or by electronic transmission, in any manner permitted by the MGCL and set forth in the Bylaws.

Section 6.6 Charter and Bylaws. The rights of all stockholders and the terms of all stock are subject to the provisions of the Charter and the Bylaws.

Section 6.7 Series A Preferred Stock. 114.4578 shares of Preferred Stock are classified and designated as shares of Series A Convertible Preferred Stock (the "Series A Preferred Stock"), with the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption set forth on Annex A hereto.

ARTICLE VII

RESTRICTION ON TRANSFER AND OWNERSHIP OF SHARES

Section 7.1 Definitions. For the purpose of this Article VII, the following terms shall have the following meanings:

Aggregate Stock Ownership Limit. The term "Aggregate Stock Ownership Limit" shall mean 9.8% in value of the aggregate of the outstanding shares of Capital Stock and 9.8% (in value or in number of shares, whichever is more restrictive) of any class or series of shares of Capital Stock, or such other percentage determined by the Board of Directors in accordance with Section 7.2.8 of the Charter.

Beneficial Ownership. The term “Beneficial Ownership” shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

Business Day. The term “Business Day” shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

Capital Stock. The term “Capital Stock” shall mean all classes or series of stock of the Corporation, including, without limitation, Common Stock and Preferred Stock.

Charitable Beneficiary. The term “Charitable Beneficiary” shall mean one or more beneficiaries of the Trust as determined pursuant to Section 7.3.6, provided that each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Constructive Ownership. The term “Constructive Ownership” shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

Excepted Holder. The term “Excepted Holder” shall mean any stockholder of the Corporation for whom an Excepted Holder Limit is created by the Charter or the Board of Directors pursuant to Section 7.2.7.

Excepted Holder Limit. The term “Excepted Holder Limit” shall mean for each Excepted Holder, provided that the affected Excepted Holder agrees to comply with the requirements established by the Board of Directors pursuant to Section 7.2.7 and, subject to adjustment pursuant to Section 7.2.8, the percentage limit established by the Board of Directors pursuant to Section 7.2.7.

Initial Date. The term “Initial Date” shall mean the earlier of (a) the date of the closing of the issuance of shares of Common Stock pursuant to an initial underwritten public offering of the Corporation or (b) the date on which the Corporation elects to qualify for federal income tax treatment as a REIT.

Market Price. The term "Market Price" on any date shall mean, with respect to any class or series of outstanding shares of Capital Stock, the Closing Price for such Capital Stock on such date. The "Closing Price" on any date shall mean the last reported sale price for such Capital Stock, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, for such Capital Stock, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if such Capital Stock is not listed or admitted to trading on the New York Stock Exchange, as reported on the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such Capital Stock is listed or admitted to trading or, if such Capital Stock is not listed or admitted to trading on any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer in use, the principal other automated quotation system that may then be in use or, if such Capital Stock is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such Capital Stock selected by the Board of Directors or, in the event that no trading price is available for such Capital Stock, the fair market value of the Capital Stock, as determined in good faith by the Board of Directors of the Corporation.

Person. The term "Person" shall mean an individual, corporation, partnership, limited liability company, estate, trust (including a trust qualified under Sections 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, and a group to which an Excepted Holder Limit applies.

Prohibited Owner. The term "Prohibited Owner" shall mean, with respect to any purported Transfer, any Person (other than an Excepted Holder or its Affiliates) who, but for the provisions of this Article VII, would Beneficially Own or Constructively Own shares of Capital Stock in violation of Section 7.2.1 and, if appropriate in the context, shall also mean any Person who would have been the record owner of the shares that the Prohibited Owner would have so owned.

Restriction Termination Date. The term "Restriction Termination Date" shall mean the first day after the Initial Date on which the Board of Directors determines pursuant to Section 5.7 of the Charter that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT or that compliance with the restrictions and limitations on Beneficial Ownership, Constructive Ownership and Transfers of shares of Capital Stock set forth herein is no longer required in order for the Corporation to qualify as a REIT.

Transfer. The term "Transfer" shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Capital Stock or the right to vote or receive dividends on Capital Stock, including (a) the granting or exercise of any option (or any disposition of any option), (b) any disposition of any securities or rights convertible into or exchangeable or exercisable for Capital Stock or any interest in Capital Stock or any exercise of any such conversion or exchange right and (c) Transfers of interests in other entities that result in changes in Beneficial or Constructive Ownership of Capital Stock; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms "Transferring" and "Transferred" shall have the correlative meanings.

Trust. The term "Trust" shall mean any trust provided for in Section 7.3.1.

Trustee. The term "Trustee" shall mean the Person unaffiliated with the Corporation and a Prohibited Owner, that is appointed by the Corporation to serve as trustee of the Trust.

Section 7.2 Capital Stock.

Section 7.2.1 Ownership Limitations. During the period commencing on the Initial Date and prior to the Restriction Termination Date, but subject to Section 7.4:

(a) Basic Restrictions.

(i) (1) No Person, other than an Excepted Holder, shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Aggregate Stock Ownership Limit and (2) no Excepted Holder shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Excepted Holder Limit for such Excepted Holder.

(ii) No Person shall Beneficially or Constructively Own shares of Capital Stock to the extent that such Beneficial or Constructive Ownership of Capital Stock would result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year), or otherwise failing to qualify as a REIT (including, but not limited to, Beneficial or Constructive Ownership that would result in the Corporation owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Corporation from such tenant would cause the Corporation to fail to satisfy any of the gross income requirements of Section 856(c) of the Code).

(iii) Any Transfer of shares of Capital Stock that, if effective, would result in the Capital Stock being beneficially owned by less than 100 Persons (determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock.

(b) Transfer in Trust. If any Transfer of shares of Capital Stock occurs which, if effective, would result in any Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a)(i) or (ii),

(i) then that number of shares of Capital Stock the Beneficial or Constructive Ownership of which otherwise would cause such Person to violate Section 7.2.1(a)(i) or (ii) (rounded to the nearest whole share) shall be automatically transferred to a Trust for the benefit of a Charitable Beneficiary, as described in Section 7.3, effective as of the close of business on the Business Day prior to the date of such Transfer, and such Person shall acquire no rights in such shares; or

(ii) if the transfer to the Trust described in clause (i) of this sentence would not be effective for any reason to prevent the violation of Section 7.2.1(a)(i) or (ii), then the Transfer of that number of shares of Capital Stock that otherwise would cause any Person to violate Section 7.2.1(a)(i) or (ii) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock.

(iii) To the extent that, upon a transfer of shares of Capital Stock pursuant to this Section 7.2.1(b), a violation of any provision of this Article VII would nonetheless be continuing (for example where the ownership of shares of Capital Stock by a single Trust would violate the 100 stockholder requirement applicable to REITs), then shares of Capital Stock shall be transferred to that number of Trusts, each having a distinct Trustee and a Charitable Beneficiary or Beneficiaries that are distinct from those of each other Trust, such that there is no violation of any provision of this Article VII.

Section 7.2.2 Remedies for Breach. If the Board of Directors or any duly authorized committee thereof shall at any time determine in good faith that a Transfer or other event has taken place that results in a violation of Section 7.2.1 or that a Person intends to acquire or has attempted to acquire Beneficial or Constructive Ownership of any shares of Capital Stock in violation of Section 7.2.1 (whether or not such violation is intended), the Board of Directors or a committee thereof shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or other event, including, without limitation, causing the Corporation to redeem shares, refusing to give effect to such Transfer on the books of the Corporation or instituting proceedings to enjoin such Transfer or other event; provided, however, that any Transfer or attempted Transfer or other event in violation of Section 7.2.1 shall automatically result in the transfer to the Trust described above, and, where applicable, such Transfer (or other event) shall be void ab initio as provided above irrespective of any action (or non-action) by the Board of Directors or a committee thereof.

Section 7.2.3 Notice of Restricted Transfer. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of shares of Capital Stock that will or may violate Section 7.2.1(a) or any Person who would have owned shares of Capital Stock that resulted in a transfer to the Trust pursuant to the provisions of Section 7.2.1(b) shall immediately give written notice to the Corporation of such event or, in the case of such a proposed or attempted transaction, give at least 15 days prior written notice, and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer on the Corporation's status as a REIT.

Section 7.2.4 Owners Required To Provide Information. From the Initial Date and prior to the Restriction Termination Date:

(a) every owner of more than five percent (or such lower percentage as required by the Code or the Treasury Regulations promulgated thereunder) of the outstanding shares of Capital Stock, within 30 days after the end of each taxable year, shall give written notice to the Corporation stating the name and address of such owner, the number of shares of Capital Stock Beneficially Owned and a description of the manner in which such shares are held. Each such owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Aggregate Stock Ownership Limit; and

(b) each Person who is a Beneficial or Constructive Owner of Capital Stock and each Person (including the stockholder of record) who is holding Capital Stock for a Beneficial or Constructive Owner shall provide to the Corporation such information as the Corporation may request, in good faith, in order to determine the Corporation's status as a REIT and to comply with requirements of any taxing authority or governmental authority or to determine such compliance.

Section 7.2.5 Remedies Not Limited. Subject to Section 5.7 of the Charter, nothing contained in this Section 7.2 shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its stockholders in preserving the Corporation's status as a REIT.

Section 7.2.6 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7.2, Section 7.3, or any definition contained in Section 7.1, the Board of Directors shall have the power to determine the application of the provisions of this Section 7.2 or Section 7.3 or any such definition with respect to any situation based on the facts known to it. In the event Section 7.2 or 7.3 requires an action by the Board of Directors and the Charter fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Section 7.1, 7.2 or 7.3. Absent a decision to the contrary by the Board of Directors (which the Board may make in its sole and absolute discretion), if a Person would have (but for the remedies set forth in Section 7.2.2) acquired Beneficial or Constructive Ownership of Capital Stock in violation of Section 7.2.1, such remedies (as applicable) shall apply first to the shares of Capital Stock which, but for such remedies, would have been Beneficially Owned or Constructively Owned (but not actually owned) by such Person, pro rata among the Persons who actually own such shares of Capital Stock based upon the relative number of the shares of Capital Stock held by each such Person.

Section 7.2.7 Exceptions.

(a) Subject to Section 7.2.1(a)(ii), the Board of Directors, in its sole discretion, may exempt (prospectively or retroactively) a Person from the Aggregate Stock Ownership Limit and may establish or increase an Excepted Holder Limit for such Person if:

(i) the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that no individual's Beneficial or Constructive Ownership of such shares of Capital Stock will violate Section 7.2.1(a)(ii);

(ii) such Person does not and represents that it will not own, actually or Constructively, an interest in a tenant of the Corporation (or a tenant of any entity owned or controlled by the Corporation) that would cause the Corporation to own, actually or Constructively, more than a 9.9% interest (as set forth in Section 856(d)(2)(B) of the Code) in such tenant and the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain this fact (for this purpose, a tenant from whom the Corporation (or an entity owned or controlled by the Corporation) derives (and is expected to continue to derive) a sufficiently small amount of revenue such that, in the opinion of the Board of Directors, rent from such tenant would not adversely affect the Corporation's ability to qualify as a REIT shall not be treated as a tenant of the Corporation); and

(iii) such Person agrees that any violation or attempted violation of such representations or undertakings (or other action that is contrary to the restrictions contained in Sections 7.2.1 through 7.2.6) will result in such shares of Capital Stock being automatically transferred to a Trust in accordance with Sections 7.2.1(b) and 7.3.

(b) Prior to granting any exception pursuant to Section 7.2.7(a), the Board of Directors may require a ruling from the Internal Revenue Service, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Corporation's status as a REIT. Notwithstanding the receipt of any ruling or opinion, the Board of Directors may impose such conditions or restrictions as it deems appropriate in connection with granting such exception.

(c) Subject to Section 7.2.1(a)(ii), an underwriter which participates in a public offering or a private placement of Capital Stock (or securities convertible into or exchangeable or exercisable for Capital Stock) may Beneficially Own or Constructively Own shares of Capital Stock (or securities convertible into or exchangeable or exercisable for Capital Stock) in excess of the Aggregate Stock Ownership Limit but only to the extent necessary to facilitate such public offering or private placement.

(d) The Board of Directors may only reduce the Excepted Holder Limit for an Excepted Holder: (1) with the written consent of such Excepted Holder at any time, or (2) pursuant to the terms and conditions of the agreements and undertakings entered into with such Excepted Holder in connection with the establishment of the Excepted Holder Limit for that Excepted Holder. No Excepted Holder Limit shall be reduced to a percentage that is less than the Aggregate Stock Ownership Limit.

Section 7.2.8 Increase or Decrease in Aggregate Stock Ownership Limit. Subject to Section 7.2.1(a)(ii), the Board of Directors may from time to time increase the Aggregate Stock Ownership Limit for one or more Persons and decrease the Aggregate Stock Ownership Limit for all other Persons; provided, however, that the decreased Aggregate Stock Ownership Limit will not be effective for any Person whose percentage ownership in Capital Stock is in excess of such decreased Aggregate Stock Ownership Limit until such time as such Person's percentage of Capital Stock equals or falls below the decreased Aggregate Stock Ownership Limit, but any further acquisition of Capital Stock in excess of such percentage ownership of Capital Stock will be in violation of the Aggregate Stock Ownership Limit; and provided further, that the new Aggregate Stock Ownership Limit would not allow five or fewer Persons to Beneficially Own more than 49.9% in value of the outstanding Capital Stock.

Section 7.2.9 Legend. Each certificate for shares of Capital Stock, if certificated, or any written statement of information in lieu of a certificate delivered to a holder of uncertificated shares of Capital Stock shall bear substantially the following legend:

> The shares represented by this certificate are subject to restrictions on Beneficial and Constructive Ownership and Transfer for the purpose, among others, of the Corporation's maintenance of its status as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Subject to certain further restrictions and except as expressly provided in the Corporation's charter, (i) no Person may Beneficially Own or Constructively Own shares of Capital Stock in excess of 9.8% in value of the aggregate of the outstanding shares of Capital Stock or 9.8% (in value or in number of shares, whichever is more restrictive) of any class or series of shares of Capital Stock, unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person (other than an Excepted Holder) may Beneficially Own or Constructively Own Capital Stock that would result in the Corporation being "closely held" under Section 856(h) of the Code or otherwise cause the Corporation to fail to qualify as a REIT; and (iii) any Transfer (other than Transfers by an Excepted Holder) of shares of Capital Stock that, if effective, would result in the Capital Stock being beneficially owned by less than 100 Persons (as determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock. Any Person who Beneficially or Constructively Owns or attempts to Beneficially or Constructively Own shares of Capital Stock which causes or will cause a Person to Beneficially or Constructively Own shares of Capital Stock in excess or in violation of the above limitations must immediately notify the Corporation in writing (or, in the case of an attempted transaction, give at least 15 days prior written notice). If any of the restrictions on Transfer or Constructive Ownership or Beneficial Ownership as set forth in (i) and (ii) above

are violated, the shares of Capital Stock in excess or in violation of the above limitations will be automatically transferred to a Trustee of a Trust for the benefit of one or more Charitable Beneficiaries. In addition, the Corporation may redeem shares upon the terms and conditions specified by the Board of Directors in its sole discretion if the Board of Directors determines that ownership or a Transfer or other event may violate the restrictions described above. Furthermore, upon the occurrence of certain events, attempted Transfers in violation of the restrictions described in (i) through (iii) above may be void ab initio. All capitalized terms in this legend have the meanings defined in the Charter of the Corporation, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Capital Stock on request and without charge. Requests for such a copy may be directed to the Secretary of the Corporation at its principal office.

Instead of the foregoing legend, the certificate or written statement of information delivered in lieu of a certificate, if any, may state that the Corporation will furnish a full statement about certain restrictions on transferability to a stockholder on request and without charge.

Section 7.3 Transfer of Capital Stock in Trust.

Section 7.3.1 Ownership in Trust. Upon any purported Transfer or other event described in Section 7.2.1(b) that would result in a transfer of shares of Capital Stock to a Trust, such shares of Capital Stock shall be deemed to have been transferred to the Trustee as trustee of a Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Trust pursuant to Section 7.2.1(b). The Trustee shall be appointed by the Corporation and shall be a Person unaffiliated with the Corporation and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Corporation as provided in Section 7.3.6.

Section 7.3.2 Status of Shares Held by the Trustee. Shares of Capital Stock held by the Trustee shall be issued and outstanding shares of Capital Stock. The Prohibited Owner shall have no rights in the shares held by the Trustee. The Prohibited Owner shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the shares held in the Trust.

Section 7.3.3 Dividend and Voting Rights. The Trustee shall have all voting rights and rights to dividends or other distributions with respect to shares of Capital Stock held in the Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee shall be paid by the recipient of such dividend or distribution to the Trustee upon demand and any dividend or other distribution authorized but unpaid shall be paid when due to the Trustee. Any dividend or other distribution so paid to the Trustee shall be held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights with respect to shares held in the Trust and, subject to Maryland law, effective as of the date that the shares of Capital Stock have been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; provided, however, that if the Corporation has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article VII, until the Corporation has received notification that shares of Capital Stock have been transferred into a Trust, the Corporation shall be entitled to rely on its share transfer and other stockholder records for purposes of preparing lists of stockholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of stockholders.

Section 7.3.4 Sale of Shares by Trustee. Within 20 days of receiving notice from the Corporation that shares of Capital Stock have been transferred to the Trust, the Trustee of the Trust shall sell the shares held in the Trust to a Person, designated by the Trustee, whose ownership of the shares will not violate the ownership limitations set forth in Section 7.2.1(a). Upon such sale, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 7.3.4. The Prohibited Owner shall receive the lesser of (1) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Trust (*e.g.*, in the case of a gift, devise or other such transaction), the Market Price of the shares on the day of the event causing the shares to be held in the Trust and (2) the price per share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares held in the Trust. The Trustee may reduce the amount payable to the Prohibited Owner by the amount of dividends and other distributions which have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 7.3.3 of this Article VII. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Corporation that shares of Capital Stock have been transferred to the Trustee, such shares are sold by a Prohibited Owner, then (i) such shares shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Prohibited Owner received an amount for such shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 7.3.4, such excess shall be paid to the Trustee upon demand.

Section 7.3.5 Purchase Right in Stock Transferred to the Trustee. Shares of Capital Stock transferred to the Trustee shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation may reduce the amount payable to the Prohibited Owner by the amount of dividends and other distributions which have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 7.3.3 of this Article VII. The Corporation may pay the amount of such reduction to the Trustee for the benefit of the Charitable Beneficiary. The Corporation shall have the right to accept such offer until the Trustee has sold the shares held in the Trust pursuant to Section 7.3.4. Upon such a sale to the Corporation, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner.

Section 7.3.6 Designation of Charitable Beneficiaries. By written notice to the Trustee, the Corporation shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Trust such that (i) the shares of Capital Stock held in the Trust would not violate the restrictions set forth in Section 7.2.1(a) in the hands of such Charitable Beneficiary and (ii) each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Section 7.4 NYSE Transactions. Nothing in this Article VII shall preclude the settlement of any transaction entered into through the facilities of the New York Stock Exchange or any other national securities exchange or automated inter-dealer quotation system. The fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article VII and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article VII.

Section 7.5 Enforcement. The Corporation is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of this Article VII.

Section 7.6 Non-Waiver. No delay or failure on the part of the Corporation or the Board of Directors in exercising any right hereunder shall operate as a waiver of any right of the Corporation or the Board of Directors, as the case may be, except to the extent specifically waived in writing.

ARTICLE VIII

AMENDMENTS

The Corporation reserves the right from time to time to make any amendment to the Charter, now or hereafter authorized by law, including any amendment altering the terms or contract rights, as expressly set forth in the Charter, of any shares of outstanding stock. All rights and powers conferred by the Charter on stockholders, directors and officers are granted subject to this reservation. Except as otherwise provided in the next sentence and except for those amendments permitted to be made without stockholder approval under Maryland law or by specific provision in the Charter, any amendment to the Charter shall be valid only if declared advisable by the Board of Directors and approved by the affirmative vote of a majority of all the votes entitled to be cast on the matter. However, any amendment to Article V, Section 5.8 or to this sentence of the Charter shall be valid only if declared advisable by the Board of Directors and approved by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter.

ARTICLE IX

LIMITATION OF LIABILITY

To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of directors and officers of a corporation, no present or former director or officer of the Corporation shall be liable to the Corporation or its stockholders for money damages. Neither the amendment nor repeal of this Article IX, nor the adoption or amendment of any other provision of the Charter or Bylaws inconsistent with this Article IX, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

THIRD: The amendment and restatement of the charter as hereinabove set forth have been duly advised by the Board of Directors and approved by the stockholders of the Corporation as required by law.

FOURTH: The current address of the principal office of the Corporation is as set forth in Article IV of the foregoing amendment and restatement of the charter.

FIFTH: The name and address of the Corporation's current resident agent are as set forth in Article IV of the foregoing amendment and restatement of the charter.

SIXTH: The number of directors of the Corporation and the names of those currently in office are as set forth in Article V of the foregoing amendment and restatement of the charter.

SEVENTH: The total number of shares of stock which the Corporation had authority to issue immediately prior to the foregoing amendment and restatement of the charter was 100,000,000, consisting of 95,000,000 shares of common stock, $0.01 par value per share, and 5,000,000 shares of preferred stock, $0.01 par value per share, 600 of which were classified and designated as Series A Convertible Preferred Stock. The aggregate par value of all authorized shares of stock having par value is $1,000,000.

EIGHTH: The total number of shares of stock which the Corporation has authority to issue pursuant to the foregoing amendment and restatement of the charter is 500,000,000, consisting of 450,000,000 shares of common stock, $0.01 par value per share, and 5,000,000 shares of preferred stock, $0.01 par value per share, 114.4578 of which are classified and designated as Series A Convertible Preferred Stock. The aggregate par value of all authorized shares of stock having par value is $5,000,000.

NINTH: The undersigned acknowledges these Articles of Amendment and Restatement to be the corporate act of the Corporation and as to all matters or facts required to be verified under oath, the undersigned acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment and Restatement to be signed in its name and on its behalf by its Chief Executive Officer and attested to by its Secretary on this 23rd day of April, 2012.

ATTEST:	ARES COMMERCIAL REAL ESTATE CORPORATION
/s/ Timothy B. Smith	By: /s/ John B. Bartling, Jr. (SEAL)
Name: Timothy B. Smith	Name: John B. Bartling, Jr.
Title: Vice President, Secretary and Senior Associate General Counsel	Title: Chief Executive Officer

ANNEX A

SERIES A CONVERTIBLE PREFERRED STOCK

1. *Certain Definitions*. Unless the context otherwise requires, the terms defined in this paragraph 1 shall have, for all purposes hereof, the meanings herein specified.

"**Additional Equity**" means any shares of Junior Stock, Parity Stock or Senior Stock issued after the first Issue Date.

"**Business Day**" means any day except a Saturday, a Sunday or a day on which banking institutions in New York, New York are not required to be open.

"**Common Stock**" means all shares now or hereafter authorized of any class of Common Stock of the Corporation and any other stock of the Corporation, howsoever designated, authorized after the first Issue Date, which has the right (subject always to prior rights of any class or series of Preferred Stock) to participate in the distribution of the assets and earnings of the Corporation without limit as to per share amount.

"**Conversion Date**" has the meaning set forth in subparagraph 5(e) below.

"**Conversion Notice**" has the meaning set forth in subparagraph 5(b) below.

"**Conversion Price**" means (a) if determined in connection with a pending or consummated IPO, the initial public offering price per share of Common Stock, as set forth in the final prospectus for the IPO filed with the Securities and Exchange Commission pursuant to Rule 424(b) promulgated under the Securities Act, or (b) if determined in connection with a pending or consummated Sale Transaction, the price per share attributable to the Common Stock in connection with the Sale Transaction.

"**Coverage Ratio**" of the Corporation, as of any date of determination, means the ratio, pro forma for the issuance of any Additional Equity and any associated transaction prompting such determination, of (a) the aggregate gross purchase price attributable to the then outstanding shares of Junior Stock to (b) the aggregate gross purchase price attributable to the then outstanding shares of Series A Preferred Stock, Parity Stock and Senior Stock, in each case excluding any accrued and unpaid dividends and dividends paid in kind (whether by the issuance of additional shares, an increase in liquidation preferences or otherwise).

"**Defaulting Holder**" means any holder of Series A Preferred Stock that has been deemed to be, and continues to be, a defaulting holder under section 1(c) of such holder's Subscription Agreement.

"**Dividend Payment Date**" means March 31, June 30, September 30 and December 31 of each year, beginning March 31, 2012.

"**Dividend Period**" means (a) the period beginning on the first Issue Date and ending on the first Dividend Payment Date and (b) each quarterly period between Dividend Payment Dates thereafter.

"**Estimated Conversion Price**" means (a) if determined in connection with a pending IPO, the range of the initial public offering price set forth in the marketing materials used in connection with the IPO, or (b) if determined in connection with a pending Sale Transaction, the price per share of Common Stock being paid in the Sale Transaction.

"**IPO**" means a *bona fide* underwritten public offering pursuant to an effective registration statement under the Securities Act, covering the offering and sale of the Common Stock.

"**Issue Date**" means the date that a share of Series A Preferred Stock is issued by the Corporation.

"**Junior Stock**" means (a) for purposes of paragraphs 2 and 6 below, the Common Stock and any other class or series of stock of the Corporation not entitled to receive any dividends in any Dividend Period unless all dividends required to have been paid or declared and set apart for payment on the Series A Preferred Stock shall have been so paid or declared and set apart for payment and (b) for purposes of paragraphs 3 and 6 below, any class or series of stock of the Corporation not entitled to receive any assets upon a Liquidation until the Series A Preferred Stock shall have received the entire amount to which such stock is entitled upon such Liquidation.

"**Liquidation**" means any termination, liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary; *provided that* neither the consolidation or merger of the Corporation into or with another entity or entities, nor the sale or transfer of all or substantially all of the assets of the Corporation to another entity or entities shall be deemed a Liquidation.

"**Liquidation Preference**" means the sum of (a) the Subscription Price, (b) any dividends per share added thereto pursuant to subparagraph 2(c) below and (c) any accrued and unpaid dividends per share.

"**Non-Converting Shares**" has the meaning set forth in subparagraph 5(c) below.

"**Parity Stock**" means (a) for purposes of paragraphs 2 and 6 below, any other class or series of stock of the Corporation entitled to receive payment of dividends on a parity with the Series A Preferred Stock and (b) for purposes of paragraphs 3 and 6 below, any other class or series of stock of the Corporation entitled to receive assets upon a Liquidation on a parity with the Series A Preferred Stock.

"**Permitted Dividends**" means dividends payable in shares of the class or series of stock of the Corporation upon which such dividends are declared or paid, or payable in shares of Common Stock with respect to Junior Stock other than Common Stock.

"**Prevailing Dividend Rate**" means (a) beginning on the first Issue Date through and including December 31, 2012, 10% per annum, (b) beginning on January 1, 2013 through and including December 31, 2013, 11% per annum, (c) beginning on January 1, 2014 through and including December 31, 2014, 12% per annum, and (d) beginning on January 1, 2015 and thereafter, 13% per annum; *provided*, *however*, that upon the occurrence of the Coverage Ratio exceeding 1.65:1, the Prevailing Dividend Rate, on a go forward basis after such occurrence shall be reduced to (w) for the period from the first Issue Date through and including December 31, 2012, 8% per annum, (x) for the period from January 1, 2013 through and including December 31, 2013, 9% per annum, (y) for the period from January 1, 2014 through and including December 31, 2014, 10% per annum, and (z) for the period from January 1, 2015 and thereafter, 11% per annum.

"**Record Date**" means, with respect to the dividend payable on March 31, June 30, September 30 and December 31, respectively, of each year, the preceding March 15, June 15, September 15 and December 15, or such other record date not more than 90 days preceding the applicable Dividend Payment Date designated by the Board of Directors with respect to the dividend payable on such respective Dividend Payment Date.

"**Redemption Date**" means the date fixed for redemption of the Series A Preferred Stock pursuant to paragraph 4 below or, if the Corporation shall default in the payment of the Redemption Price on such date, the date the Corporation actually makes such payment.

"**Redemption Notice**" has the meaning set forth in subparagraph 4(b) below.

"**Redemption Price**" means (a) in the case of shares of Series A Preferred Stock held by Defaulting Holders, the Subscription Price, and (b) in the case of all other shares of Series A

Preferred Stock, the sum of (i) the Liquidation Preference on the Redemption Date and (ii) an amount equal to a percentage of the Subscription Price, which percentage shall be no less than 5% and no more than 10% and shall be the lowest percentage that, when applied to the calculation of the Redemption Price, would result in such holder of Series A Preferred Stock receiving a total return (taking into account the Redemption Price, all dividends paid in cash to such holder and any other cash payments made to such holder of Series A Preferred Stock pursuant to the terms of the Series A Preferred Stock or pursuant to the terms of such holder's Subscription Agreement) on the Subscription Price of 14% unless such amount would be less than 5% of the Subscription Price (in which case 5% of the Subscription Price shall be added) or such amount would exceed 10% of the Subscription Price (in which case 10% of the Subscription Price shall be added).

"**Sale Transaction**" means a transaction (other than an IPO) that results in the Corporation receiving stock of a publicly traded company as a result of a consolidation or merger of the Corporation or the sale of substantially all of the Corporation's assets.

"**Securities Act**" means the Securities Act of 1933, as amended.

"**Senior Stock**" means (a) for purposes of paragraphs 2 and 6 below, any class or series of stock of the Corporation issued after the first Issue Date ranking senior to the Series A Preferred Stock in respect of the right to receive dividends, and (b) for purposes of paragraphs 3 and 6 below, any class or series of stock of the Corporation issued after the first Issue Date ranking senior to the Series A Preferred Stock in respect of the right to receive assets upon a Liquidation.

"**Subscription Agreement**" means, with respect to any holder of Series A Preferred Stock, the subscription agreement between the Corporation and such holder relating to such holder's commitment to purchase shares of Series A Preferred Stock.

"**Subscription Price**" means $50,000.00 per share.

"**Subsidiary**" means (a) a corporation more than 50% of the combined voting power of the outstanding Voting Stock of which is owned, directly or indirectly, by the Corporation, or by one or more Subsidiaries, or by the Corporation and one or more Subsidiaries, (b) a partnership of which the Corporation, or one or more other Subsidiaries, or the Corporation and one or more Subsidiaries, directly or indirectly, is the general partner and has the power to direct the policies management and affairs or (c) any other person (other than a corporation) in which the Corporation, or one or more Subsidiaries, or the Corporation and one or more Subsidiaries, directly or indirectly, has at least a majority ownership interest and power to direct the policies, management and affairs thereof.

"**Transaction Target Date**" means (a) if determined in connection with a pending IPO, the date that the IPO is expected to be consummated, or (b) if determined in connection with a pending Sale Transaction, the date that the Sale Transaction is expected to be consummated, in each case, as estimated by the Corporation.

"**Voting Stock**" means, with respect to any person, capital stock of such person that ordinarily has voting power for the election of directors (or persons performing similar functions) of such person, whether at all times or only so long as no senior class of securities has such voting power by reason of any contingency.

2. *Dividends*.

(a) Subject to the prior preferences and other rights of any Senior Stock, the holders of Series A Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors and declared by the Corporation out of funds legally available for that purpose, dividends at the Prevailing Dividend Rate, compounded quarterly as provided below, and no more. Such dividends shall begin to accrue on the Issue Date and shall be payable on each Dividend Payment Date, *provided that* if any such payment date is not a Business Day then such dividend shall be payable on the next Business Day. The dividends per share of Series A Preferred Stock for any full quarterly period shall be computed by multiplying the Prevailing Dividend Rate for such Dividend Period by the Liquidation Preference per share and dividing the result by four. Dividends payable for any period less than a full quarterly Dividend Period shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed for any period less than one month. Dividends shall be payable in cash to extent of available cash from earnings after payment of current liabilities and such reserves as the Board of Directors may establish in its sole discretion; *provided*, *however*, that cash dividends payable to a Defaulting Holder shall be retained by the Corporation until such time, if ever, that such holder ceases to be a Defaulting Holder. Dividends shall be paid to the holders of record of the Series A Preferred Stock as their names appear on the share register of the Corporation on the corresponding Record Date.

(b) If full cash dividends are not paid or made available to the holders of all outstanding shares of Series A Preferred Stock and of any Parity Stock, and funds available shall be insufficient to permit payment in full in cash to all such holders of the preferential amounts to which they are then entitled, the entire amount available for payment of cash dividends shall be distributed among the holders of the Series A Preferred Stock and of any Parity Stock ratably in proportion to the full amount to which they would otherwise be respectively entitled, and any remainder not paid in cash to the holders of the Series A Preferred Stock shall be added to the Liquidation Preference pursuant to subparagraph 2(c) below; *provided*, *however*, that cash dividends payable to a Defaulting Holder shall be retained by the Corporation until such time, if ever, that such holder ceases to be a Defaulting Holder.

(c) If, on any Dividend Payment Date, the holders of the Series A Preferred Stock (other than Defaulting Holders) shall not have received the full accrued dividends provided for in subparagraph 2(a) above, then the unpaid portion of such dividends (other than cash dividends payable to Defaulting Holders that have been retained by the Corporation pursuant to subparagraphs 2(a) and 2(b) above) shall be paid by adding such amount to the Liquidation Preference on the relevant Dividend Payment Date; *provided*, that any such addition to the Liquidation Preference shall not result in a Person Beneficially Owning or Constructively

Owning shares of Capital Stock in violation of Section 7.2.1(a) of the Charter in lieu of paying such dividend in cash..

(d) So long as any shares of Series A Preferred Stock shall be outstanding, the Corporation shall not (i) declare or pay any dividend or make any distribution on any Junior Stock, whether in cash, property or otherwise (other than Permitted Dividends), or (ii) purchase or redeem, or permit any Subsidiary to purchase or redeem any Junior Stock, or pay or make available any monies for a sinking fund for the purchase or redemption of any Junior Stock (other than a redemption, purchase or other acquisition of Junior Stock made for purposes of an employee incentive or benefit plan of the Corporation, or a redemption, purchase or other acquisition of Junior Stock, if such redemption, purchase or acquisition is necessary in order for the Corporation to qualify, or continue to qualify, as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended), unless all dividends to which the holders of Series A Preferred Stock (other than Defaulting Holders) shall have been entitled for all previous Dividend Periods shall have been paid (including by an increase in the Liquidation Preference pursuant to subparagraph 2(c) above) or declared and a sum of money sufficient for the payment thereof set apart.

3. *Distributions Upon Liquidation, Dissolution or Winding Up*. Upon a Liquidation, subject to the prior preferences and other rights of any Senior Stock, but before any distribution or payment shall be made to the holders of Junior Stock, the holders of the Series A Preferred Stock (other than Defaulting Holders) shall be entitled to be paid, to the extent possible the Liquidation Preference on the date of determination. If such payment shall have been made in full to the holders of the Series A Preferred Stock, and if payment shall have been made in full to the holders of any Senior Stock and Parity Stock of all amounts to which such holders shall be entitled, the remaining assets and funds of the Corporation shall be distributed among the holders of Junior Stock, according to their respective shares and priorities with shares of Series A Preferred Stock held by Defaulting Holders being entitled to be paid an amount equal to the Subscription Price and having the same rank and priority as shares of Common Stock. If, upon any such Liquidation, the net assets of the Corporation distributable among the holders of all outstanding shares of the Series A Preferred Stock and of any Parity Stock shall be insufficient to permit the payment in full to such holders of the preferential amounts to which they are entitled, then the entire net assets of the Corporation remaining after the distributions to holders of any Senior Stock of the full amounts to which they may be entitled shall be distributed among the holders of the Series A Preferred Stock (other than Defaulting Holders) and of any Parity Stock ratably in proportion to the full amounts to which they would otherwise be respectively entitled.

4. *Optional Redemption by the Corporation*.

(a) The Series A Preferred Stock shall not be redeemed in whole or in part prior to June 30, 2012. On and after July 1, 2012, the Series A Preferred Stock may be redeemed by the Corporation in cash at any time in whole (but not in part) at the option of the Corporation, at the Redemption Price as of the Redemption Date; *provided*, that any such redemption shall not result in a Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a) of the Charter.

(b) A notice of the Corporation's intent to redeem the Series A Preferred Stock (the "**Redemption Notice**") shall be sent by or on behalf of the Corporation, by first class mail, postage prepaid, to the holders of record of the shares to be redeemed at their respective addresses as they shall appear on the records of the Corporation, not less than five days nor more than 60 days prior to the Redemption Date (i) notifying such holders of the election of the Corporation to redeem such shares and (ii) stating the expected date of redemption and the Redemption Price payable as of such date. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series A Preferred Stock except as to the holder to whom notice was defective or not given.

(c) If a Redemption Notice shall have been given as hereinbefore provided, and the Corporation shall not default in the payment of the Redemption Price, then each holder of shares called for redemption shall be entitled to all preferences and relative and other rights accorded herein until and including the Redemption Date. From and after the Redemption Date the shares called for redemption shall no longer be outstanding, and all rights of the holders of such shares shall cease and terminate, except the right of the holders of such shares to receive the Redemption Price to be paid hereunder.

(d) For the avoidance of doubt, nothing in this Section 4 shall prohibit the Corporation from effecting the, and the Corporation shall to the extent not prohibited by law be entitled at any time and from time to time to, repurchase in the open market, in privately negotiated transactions or through tender offers or other transactions any amount of the then outstanding shares of Series A Preferred Stock that it desires to repurchase at such sums and on such conditions as shall be negotiated between or among the Corporation and one or more holders of Series A Preferred Stock.

5. *Conversion Rights*. The Series A Preferred Stock shall be convertible into Common Stock as follows:

(a) *Automatic Conversion*. Each outstanding share of Series A Preferred Stock (other than Non-Converting Shares) shall automatically be converted, without any further act of the Corporation or its stockholders, into fully paid and nonassessable shares of Common Stock upon the consummation of an IPO or Sale Transaction in accordance with this subparagraph 5; *provided*, that such automatic conversion shall not result in a Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a) of the Charter.

(b) *Conversion Notice*. Not less than 15 Business Days prior to the Transaction Target Date, the Corporation shall send or cause to be sent, by first class mail, postage prepaid, or by electronic delivery (including by facsimile and electronic mail) to the holders of record of the Series A Preferred Stock, at their respective addresses as they shall appear on the records of the Corporation, a notice that the Corporation expects the Series A Preferred Stock to automatically convert into Common Stock pursuant to subparagraph 5(a) above (the "**Conversion Notice**"). The Conversion Notice shall state (i) the Transaction Target Date and (ii) Estimated Conversion Price. In the event that the IPO or Sale Transaction is not consummated within 90 days after the Transaction Target Date, prior to any automatic conversion, the Corporation shall send or cause to be sent, by first class mail, postage prepaid, or by electronic delivery (including by facsimile and electronic mail) to the holders of record of the Series A Preferred Stock, at their respective addresses as they shall appear on the records of the Corporation, a new Conversion Notice with a revised Transaction Target Date and Estimated Conversion Price.

(c) *Election for Optional Redemption*. Holders of Series A Preferred Stock (other than Defaulting Holders) may elect to have their shares of Series A Preferred Stock redeemed, in whole or in part, in lieu of being converted pursuant to subparagraph 5(a) above, by delivering a signed notice of such an election, by first class mail, postage prepaid, or by electronic delivery (including by facsimile and electronic mail) to the Corporation within 10 Business Days after the date of the Conversion Notice (or an amended Conversion Notice), which notice shall (i) state the name of such holder, as it appears on the records of the Corporation, (ii) state the total number of shares of Series A Preferred Stock held by such holder and (iii) state the number of shares of Series A Preferred Stock that such holder elects to have redeemed in lieu of being converted pursuant to subparagraph 5(a) above (the "**Non-Converting Shares**"); *provided*, that such optional redemption shall not result in a Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a) of the Charter. Upon the consummation of an IPO or Sale Transaction, the Non-Converting Shares shall be redeemed by the Corporation at the Redemption Price on the Conversion Date using proceeds from the IPO or Sale Transaction.

(d) *Conversion Price*. Each share of Series A Preferred Stock (other than Non-Converting Shares) shall be converted into a number of shares of Common Stock determined by dividing (i) the Liquidation Preference as of the Conversion Date by (ii) the Conversion Price; *provided*, *however*, that shares of Series A Preferred Stock held by Defaulting Holders shall be converted into a number of shares of Common Stock determined by dividing (i) the Subscription Price by (ii) the Conversion Price.

(e) *Mechanics of Conversion*. Upon the consummation of an IPO or Sale Transaction, the outstanding shares of Series A Preferred Stock (other than Non-Converting Shares) shall be converted automatically without any further action by the holders of such shares. Conversion shall be deemed to have been effected on the date of the consummation of the IPO or Sale Transaction (the "**Conversion Date**"). The person in whose name the shares of Common Stock are to be issued shall be deemed to have become a holder of record of such Common Stock on the applicable Conversion Date.

As promptly as practicable after the Conversion Date, the Corporation shall deliver to each former holder of Series A Preferred Stock (other than Non-Converting Shares) (i) a certificate or certificates for the number of full shares of Common Stock to which such holder is entitled or, at the Corporation's option, confirmation of the book entry into the stock ledger of the Corporation for the number of full shares of Common Stock issuable to such holder upon conversion of the Series A Preferred Stock and (ii) a check or cash with respect to any fractional interest in a share of Common Stock as provided in subparagraph 5(f) below.

(f) *Fractional Shares*. No fractional shares of Common Stock or scrip shall be issued upon conversion of shares of Series A Preferred Stock. If more than one share of Series A Preferred Stock shall be surrendered for conversion at any one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Series A Preferred Stock so surrendered. Instead of any fractional shares of Common Stock that would otherwise be issuable upon conversion of any shares of Series A Preferred Stock, the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to that fractional interest of the Conversion Price.

(g) *Costs*. The Corporation shall pay all documentary, stamp, transfer or other transactional taxes attributable to the issuance or delivery of shares of Common Stock upon conversion of any shares of Series A Preferred Stock; *provided that* the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares in a name other than that of the holder of the shares of Series A Preferred Stock in respect of which such shares are being issued, and no such issue or delivery shall be made unless and until the person requesting such issuance has paid to the Corporation the amount of any such tax, or has established to the reasonable satisfaction of the Corporation that such tax has been or will be paid.

6. *Voting Rights*.

(a) The holders of Series A Preferred Stock shall have no voting rights except as set forth herein.

(b) Without the consent of the holders of at least a majority of the shares of Series A Preferred Stock then outstanding, given in writing or by electronic transmission or by vote at a meeting of the holders of the Series A Preferred Stock called for such purpose, the Corporation will not amend, alter or repeal any provision of the Charter, including the terms of the Series A Preferred Stock (in any such case, whether by merger, consolidation or otherwise), if such action materially and adversely affects the rights, preferences or privileges of the Series A Preferred Stock; *provided*, *however*, with respect to such action, so long as the Series A Preferred Stock remains outstanding with the terms thereof materially unchanged or the holders of shares of Series A Preferred Stock receive equity securities of the successor or survivor of such action with substantially identical rights as the Series A Preferred Stock, taking into account that the Corporation may not be the surviving entity or the surviving entity may not be a corporation, such action shall not be deemed to materially and adversely affect such rights, preferences or privileges of the Series A Preferred Stock and in such case the holders of shares of Series A Preferred Stock shall not have any voting rights with respect to such action unless the number of authorized shares of Series A Preferred Stock is increased to a number greater than 125; *provided*, *further*, that Defaulting Holders shall not be entitled to any voting rights and shares of Series A Preferred Stock held by Defaulting Holders shall be excluded in calculating whether a majority of the shares of Series A Preferred Stock have consented.

(c) Without the consent of the holders of at least a majority of the shares of Series A Preferred Stock then outstanding, given in writing or by electronic transmission or by vote at a meeting of the holders of the Series A Preferred Stock called for such purpose, the Corporation will not issue shares of any other class of Parity Stock that would result in the Coverage Ratio being less than 1:1; provided, however, that Defaulting Holders shall not be entitled to any voting rights and shares of Series A Preferred Stock held by Defaulting Holders shall be excluded in calculating whether a majority of the shares of Series A Preferred Stock have consented.

(d) Without the consent of the holders of at least a majority of the shares of Series A Preferred Stock then outstanding, given in writing or by electronic transmission or by vote at a meeting of the holders of the Series A Preferred Stock called for such purpose, the Corporation will not issue shares of any other class of Senior Stock; provided, however, that Defaulting Holders shall not be entitled to any voting rights and shares of Series A Preferred Stock held by Defaulting Holders shall be excluded in calculating whether a majority of the shares of Series A Preferred Stock have consented. Notwithstanding anything to the contrary herein, no consent of the holders of the Series A Preferred Stock shall be required for the Corporation to issue any indebtedness, other than indebtedness that is convertible into a class of Senior Stock.

7. *Exclusion of Other Rights*. The shares of Series A Preferred Stock shall not have any preferences or relative, participating, optional or other special rights, other than those specifically set forth herein. The shares of Series A Preferred Stock shall have no preemptive or subscription rights.

8. *Headings of Subdivisions*. The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

9. *Severability of Provisions*. If any right, preference or limitation of the Series A Preferred Stock set forth in the terms thereof (as may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other rights, preferences and limitations set forth in the terms thereof (as so amended) which can be given effect without the invalid, unlawful or unenforceable right, preference or limitation shall, nevertheless, remain in full force and effect, and no right, preference or limitation herein set forth shall be deemed dependent upon any other such right, preference or limitation unless so expressed herein.

10. *Status of Reacquired Shares*. Shares of Series A Preferred Stock which have been issued and reacquired in any manner shall (upon compliance with any applicable provisions of the laws of the State of Maryland) have the status of authorized and unissued shares of Preferred Stock, undesignated as to series, and, subject to the provisions hereof, may be redesignated and reissued by the Board of Directors.

Exhibit 10.1
EXECUTION VERSION

SECOND AMENDMENT TO MASTER REPURCHASE AGREEMENT

This **SECOND AMENDMENT TO MASTER REPURCHASE AGREEMENT** (this "Amendment") is made as of this 4th day of August, 2020 (this "Amendment"), by and between **ACRC LENDER ML LLC**, a Delaware limited liability company ("Seller"), and **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation (together with its permitted successors and assigns, "Buyer"). Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Repurchase Agreement (as defined below and as amended hereby).

RECITALS

WHEREAS, Seller and Buyer are parties to that certain Master Repurchase Agreement (as amended by that certain First Amendment to Master Repurchase Agreement dated as of August 4, 2017, as amended hereby and as further amended, restated, supplemented or otherwise modified and in effect from time to time, the "Repurchase Agreement"), dated as of August 13, 2014;

WHEREAS, in connection with the Repurchase Agreement, Seller and Buyer entered into that certain fee letter, dated as of August 13, 2014 (as amended by that certain First Amendment to Fee Letter, dated as of August 4, 2017, that certain Second Amendment to Fee Letter, dated as of the date of this Amendment, and as may be further amended, restated, supplemented or otherwise modified and in effect from time to time, the "Fee Letter");

WHEREAS, ARES Commercial Real Estate Corporation, a Maryland corporation ("Guarantor"), delivered for the benefit of Buyer that certain Guaranty, dated as of August 13, 2014 (as amended by that certain Amendment to Guaranty, dated as of September 22, 2016, and as may be further restated, supplemented or otherwise modified and in effect from time to time, the "Guaranty");

WHEREAS, Seller and Buyer each desire to make certain modifications to the Repurchase Agreement pursuant to the terms and conditions of this Amendment;

WHEREAS, it is a condition to the effectiveness of this Amendment, that Guarantor executes the Reaffirmation of Guarantor (attached hereto as Exhibit A); and

NOW THEREFORE, in consideration of the foregoing recitals, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE 1
AMENDMENTS TO REPURCHASE AGREEMENT

(a) Article 2 of the Repurchase Agreement is hereby amended by deleting the following defined term: "Prime Rate".

(b) Article 2 of the Repurchase Agreement is hereby amended by adding the following defined terms in the appropriate alphabetical order therein:

"Alternative Rate Index" shall have the meaning specified in Section 3(g) of this Agreement.

"Beneficial Ownership Certification" shall mean a certification regarding beneficial ownership meeting the requirements of the Beneficial Ownership Regulation.

"Beneficial Ownership Regulation" shall mean 31 C.F.R. § 1010.230.

"Division" shall mean, with respect to any limited liability company or limited partnership organized under the laws of the State of Delaware, any (a) division of such Person into two or more Persons (whether or not the original Person survives such division) or (b) creation, or reorganization into, one or more series, in each case, as contemplated under the laws of the State of Delaware, including, without limitation, Section 18-217 of the Delaware LLC Act or Section 17-220 of the Delaware Limited Partnership Act.

"Legacy Transaction" shall mean any Transaction with respect to which the Purchase Date occurred prior to the Second Amendment Closing Date.

"Second Amendment Commitment Fee" shall have the meaning specified in the Fee Letter.

"Second Amendment Closing Date" shall mean August 4, 2020.

(c) The definition of "Applicable Amortization Percentage" set forth in Article 2 of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

"Applicable Amortization Percentage" shall mean, with respect to any Purchased Asset, (i) during the period commencing on the Second Amendment Closing Date and ending on August 13, 2022, the product of (x) 1.00 times (y) the Purchase Price Percentage for such Purchased Asset, (ii) during the period commencing on August 14, 2022 and ending on August 13, 2023, the product of (x) 1.075 times (y) the Purchase Price Percentage for such Purchased Asset, and (iii) during the period commencing on August 14, 2023 and ending on January 13, 2024, the product of (x) 1.15 times (y) the Purchase Price Percentage for such Purchased Asset. Notwithstanding anything contained in this Agreement to the contrary, in no event shall the Applicable Amortization Percentage apply or be deemed to apply to any payments hereunder to cure a Margin Deficit or to any partial or full prepayment of the applicable Repurchase Price(s) in connection with the cure of any Credit Event.

(d) The definition of "Cash Sweep Trigger Period" set forth in Article 2 of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

"Cash Sweep Trigger Period" shall mean (a) the period commencing on and including the occurrence of a Debt Yield Cash Sweep Trigger Event until such time, if any, as a Debt Yield Cash Sweep Trigger Cure shall have occurred with respect to such Debt Yield Cash Sweep Trigger Event (and provided that no additional Debt Yield Cash Sweep Trigger Event shall have occurred and be continuing) and (b) the period commencing on and including January 13, 2024 until the Facility Termination Date.

(e) Clause (ii) of the definition of "Credit Event" set forth in Article 2 of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

> (A) the Aggregate Purchase Price Debt Yield for all Purchased Assets is less than (a) for the period commencing on the Amendment Closing Date and ending on the initial Facility Termination Date (*i.e.*, August 13, 2022), 7.5%, (b) for the period commencing on August 14, 2022 and ending on August 13, 2023, 8.5%, and (c) for the period commencing on August 14, 2023 and ending on August 13, 2024, 9.5%; or
>
> (B) the Aggregate Purchase Price Loan to Value Ratio for all Purchased Assets equals more than 60%; or

(f) Clause (iii) of the definition of "Credit Event" set forth in Article 2 of the Repurchase Agreement is hereby amended by deleting the phrase "Prime Rate" and inserting the phrase "Alternative Rate Index" in its place.

(g) Sub-clause (iv)(A) of the definition of "Credit Event" set forth in Article 2 of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

> (A) at any time on or prior to February 13, 2021, if the aggregate Repurchase Price of all Hotel Purchased Assets exceeds 25% of the Facility Outstanding;
>
> (B) at any time after February 13, 2021, if the aggregate Repurchase Price of all Hotel Purchased Assets exceeds 20% of the Facility Outstanding; or

(h) The definition of "Debt Yield Cash Sweep Trigger Event" set forth in Article 2 of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

> "<u>Debt Yield Cash Sweep Trigger Event</u>" shall mean such time, if any, as the Aggregate Purchase Price Debt Yield for all Purchased Assets is (a) at any time during the period commencing on the Amendment Closing Date and ending on the initial Facility Termination Date (*i.e.*, August 13, 2022), equal to or greater than 7.0% (it being acknowledged and agreed that in the event that the Aggregate Purchase Price Debt Yield is less than 7.5% during such period that the same shall constitute a Credit Event under clause (ii)(A) of the definition thereof) but less than 7.5%, (b) at any time during the period commencing on August 14, 2022 and ending on August 13, 2023, equal to or greater than 8.0% (it being acknowledged and agreed that in the event that the Aggregate Purchase Price Debt Yield is less than 8.5% during such period that the same shall constitute a Credit Event under clause (ii)(A) of the definition thereof) but less than 8.5%, and (c) at any time during the period commencing on August 14, 2023 and ending on August 13, 2024, equal to or greater than 9.0% (it being acknowledged and agreed that in the event that the Aggregate Purchase Price Debt Yield is less than 9.5% during such period that the same shall constitute a Credit Event under clause (ii)(A) of the definition thereof) but less than 9.5%.

(i) The definition of "Debt Yield Cash Sweep Trigger Cure" set forth in Article 2 of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

"Debt Yield Cash Sweep Trigger Cure" shall mean (a) with respect to any Debt Yield Cash Sweep Trigger Event referenced in clause (a) of the definition thereof, in the event that as of any date subsequent to the occurrence of such Debt Yield Sweep Trigger Event and prior to the initial Facility Termination Date (*i.e.*, August 13, 2022), the Aggregate Purchase Price Debt Yield is equal to or greater than 7.5%, (b) with respect to any Debt Yield Cash Sweep Trigger Event referenced in clause (b) of the definition thereof, in the event that as of any date subsequent to the occurrence of such Debt Yield Sweep Trigger Event and prior to August 13, 2023, the Aggregate Purchase Price Debt Yield is equal to or greater than 8.5%, and (c) with respect to any Debt Yield Cash Sweep Trigger Event referenced in clause (c) of the definition thereof, in the event that as of any date subsequent to the occurrence of such Debt Yield Sweep Trigger Event and prior to August 13, 2024, the Aggregate Purchase Price Debt Yield is equal to or greater than 9.5%.

(j) The definition of "Facility Termination Date" set forth in Article 2 of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

"Facility Termination Date" shall mean the earliest of (i) August 13, 2022 (or if such day is not a Business Day, the next succeeding Business Day); provided, that if all of the Facility Extension Conditions shall be timely satisfied, the Facility Termination Date may, at the option of Seller, be extended for two (2) additional twelve (12) month periods following the initial Facility Termination Date to August 13, 2023 and August 13, 2024, respectively (or if either such day is not a Business Day, the next succeeding Business Day) as provided in Section 3(d) of this Agreement, and (ii) the date on which Buyer terminates this Agreement pursuant to Section 14(b)(ii)(D) of this Agreement.

(k) The definition of "LIBOR" set forth in Article 2 of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

"LIBOR" shall mean, with respect to each Pricing Rate Period, the rate (expressed as a percentage per annum and rounded upward, if necessary, to the next nearest 1/1000 of 1%) for deposits in U.S. dollars, for a one-month period, that appears on Reuters Screen LIBOR01 (or the successor thereto) as of 11:00 a.m., London time, on the related Pricing Rate Determination Date. If such rate does not appear on Reuters Screen LIBOR01 as of 11:00 a.m., London time, on such Pricing Rate Determination Date, Buyer shall request the principal London office of any four major reference banks in the London interbank market selected by Buyer to provide such bank's offered quotation (expressed as a percentage per annum) to prime banks in the London interbank market for deposits in U.S. dollars for a one-month period as of 11:00 a.m., London time, on such Pricing Rate Determination Date for amounts of not less than the Repurchase Price of the Transaction. If at least two such offered quotations are so provided, LIBOR shall be the arithmetic mean of such quotations (rounded upward, if necessary, to the nearest 1/1000 of 1%). If fewer than two such quotations are so provided, Buyer shall request any three major banks in New York City selected by Buyer to provide such bank's rate (expressed as a percentage per annum) for loans in U.S. dollars to leading European banks for a one-month period as of approximately 11:00 a.m., New York City time on the applicable Pricing Rate Determination Date for amounts of not less than the Repurchase Price of the Transaction. If at least two such rates are so provided, LIBOR shall be the arithmetic mean of such rates (rounded upward, if necessary, to the nearest 1/1000 of 1%). The LIBOR shall be determined by Buyer or its agent, which determination shall be conclusive absent manifest error. Notwithstanding the foregoing, in no event shall LIBOR be less than (A) with respect to any Legacy Transaction, the "LIBOR Floor" set forth on Annex A to the Fee Letter with respect to the related Legacy Transaction and (B) with respect to any Transaction other than a Legacy Transaction, the greater of (I) 0.25% and (II) the product of (x) 75% and (y) the index rate floor as set forth in the related Purchased Asset Documents.

(l) The definition of "Seller Hedging Documents" set forth in Article 2 of the Repurchase Agreement is hereby amended by deleting the phrase "increases in LIBOR" and inserting the phrase "increases in LIBOR or the Alternative Rate Index" in its place.

(m) Section 3(g) of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

(g) If prior to the first day of any Pricing Rate Period with respect to any Transaction, (i) Buyer shall have determined in its sole discretion that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining LIBOR for such Pricing Rate Period, including, without limitation, because LIBOR is not available or published on a current basis and such circumstances are unlikely to be temporary, (ii) the administrator of the LIBOR screen rate, the agency or authority administering LIBOR, or a Governmental Authority having jurisdiction over Buyer, has made a public statement identifying a specific date after which LIBOR or the LIBOR screen rate shall no longer be made available, or used for determining the interest rate of loans, (iii) LIBOR is no longer a widely recognizable benchmark rate for newly originated or amended syndicated loans, credit facilities or repurchase facilities in the United States market, or (iv) LIBOR determined or to be determined for such Pricing Rate Period will not adequately and fairly reflect the cost to Buyer (as determined and certified by Buyer) of making or maintaining Transactions during such Pricing Rate Period, Buyer shall give written notice thereof to Seller as soon as practicable thereafter. If such notice is given, the Pricing Rate with respect to such Transaction for such Pricing Rate Period, and for any subsequent Pricing Rate Periods until such notice has been withdrawn by Buyer, shall be a per annum rate (such rate, the "Alternative Rate"), which shall be equal to the rate set forth in a floating rate index selected by Buyer in its sole discretion (the "Alternative Rate Index"), plus a spread consistent with prevailing market standards adopted by Buyer for similar transactions with similarly situated counterparties as determined by Buyer in its sole discretion. Notwithstanding the foregoing, in no event shall the Alternative Rate Index be less than (A) with respect to any Legacy Transaction, 0.25% and (B) with respect to any Transaction other than a Legacy Transaction, the greater of (I) 0.25% and (II) the product of (x) 75% and (y) the index rate floor as set forth in the related Purchased Asset Documents.

(n) Section 12 of the Repurchase Agreement is hereby amended by adding the following new Section 12(v) immediately after Section 12(u):

(v) Beneficial Ownership Certification. Seller shall at all times either (i) ensure that the Seller has delivered to Buyer a Beneficial Ownership Certification, if applicable, and that the information contained therein is true and correct in all respects or (ii) deliver to Buyer an updated Beneficial Ownership Certification within five (5) Business Days following the date on which the information contained in any previously delivered Beneficial Ownership Certification, to Seller's knowledge, ceases to be true and correct in all respects. To the extent Seller believes that it is excluded from the requirements of the Beneficial Ownership Regulation, Seller shall certify as such and provide the specific exclusion relied on.

(o) Section 13(m) of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

(m) It shall not seek its dissolution, liquidation or winding up, in whole or in part, or suffer any consolidation or merger with respect to itself or suffer any Change of Control, nor shall Seller adopt, file or effect a Division;

(p) Paragraph (b)(ii)(A) of Exhibit IV of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

(A) the Aggregate Purchase Price Debt Yield for all Purchased Assets is (a) for the period commencing on the Amendment Closing Date and ending on the initial Facility Termination Date (*i.e.*, August 13, 2022), 7.5% or greater, (b) for the period commencing on August 14, 2022 and ending on August 13, 2023, 8.5% or greater, and (c) for the period commencing on August 14, 2023 and ending on August 13, 2024, 9.5% or greater; and

(q) Paragraph (b)(ii)(B) of Exhibit IV of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

(B) the Aggregate Purchase Price Loan to Value Ratio for all Purchased Assets is equal to or less than 60%; or

(r) Paragraph (b)(iii) of Exhibit IV of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

(iii) [the aggregate Repurchase Price of all Hotel Purchased Assets is less than or equal to 25% of the Facility Outstanding;][the aggregate Repurchase Price of all Hotel Purchased Assets is less than or equal to 20% of the Facility Outstanding];

ARTICLE 2
FEES AND EXPENSES; CONDITIONS

(a) Seller agrees to pay Buyer's reasonable actual out-of-pocket costs and expenses incurred by Buyer in connection with this Amendment, including reasonable fees and expenses of legal counsel to Buyer incurred in connection with this Amendment, in accordance with Section 1(d) of the Repurchase Agreement.

(b) As a condition precedent to the effectiveness of this Amendment, Seller shall deliver to Buyer (i) a customary corporate, authority, due execution and enforceability opinion of external counsel with regard to this Amendment, the Second Amendment to the Fee Letter and the Reaffirmation of Guarantor and (ii) a bring-down of the safe harbor opinion delivered on the Closing Date, in each case in form and substance reasonably acceptable to Buyer.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

Seller represents and warrants to Buyer, as of the date of this Amendment, as follows:

(i) all representations and warranties made by it in Article 10 of the Repurchase Agreement (other than those representations and warranties which were disclosed in writing to Buyer with respect to any Purchased Asset prior to the Purchase Date thereof) are true and correct in all material respects;

(ii) it is duly authorized to execute and deliver this Amendment and has taken all necessary action to authorize such execution, delivery and performance;

(iii) the person signing this Amendment on its behalf is duly authorized to do so on its behalf;

(iv) the execution, delivery and performance of this Amendment will not violate (i) any Requirement of Law applicable to it or (ii) its organizational documents or any agreement by which it is bound or by which any of its assets are affected, in each case, to the extent that such conflict or breach would have a material adverse effect upon Seller's ability to perform its obligations hereunder or under the Transaction Documents;

(v) the execution, delivery and performance of this Amendment will not be in conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under, or result in the creation or imposition of any lien of any nature whatsoever upon any of the property or assets of Seller;

(vi) except for those obtained or filed on or prior to the date hereof, Seller is not required to obtain any consent, approval or authorization from, or to file any declaration or statement with, any governmental authority or other agency in connection with or as a condition to the execution, delivery or performance of this Amendment;

(vii) this Amendment is a legal and binding obligation of Seller and is enforceable against Seller in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to the enforcement of creditors' rights and subject, as to enforceability, to general principals of equity, regardless whether enforcement is sought in a proceeding in equity or at law; and

(viii) this Amendment has been duly executed and delivered by it.

ARTICLE 4
REAFFIRMATION, RATIFICATION AND ACKNOWLEDGMENT

Seller hereby (i) ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, and each grant of security interests and liens in favor of Buyer, under each Transaction Document to which it is a party, (ii) agrees and acknowledges that such ratification and reaffirmation is not a condition to the continued effectiveness of such Transaction Documents, and (iii) agrees that neither such ratification and reaffirmation, nor Buyer's solicitation of such ratification and reaffirmation, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or reaffirmation from Seller and/or Guarantor with respect to any subsequent modifications to the Repurchase Agreement, Fee letter or the other Transaction Documents. The Repurchase Agreement (as amended hereby) and the other Transaction Documents shall remain in full force and effect and is hereby ratified and confirmed.

ARTICLE 5
GOVERNING LAW

THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AND THE OBLIGATIONS, RIGHTS, AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS WITHOUT REGARD TO THE CONFLICT OF LAWS DOCTRINE APPLIED IN SUCH STATE (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

ARTICLE 6
MISCELLANEOUS

(a) Except as expressly amended or modified hereby, the Repurchase Agreement, the Fee Letter, the Guaranty and the other Transaction Documents shall each be and shall remain in full force and effect in accordance with their terms. Each reference in the Repurchase Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Repurchase Agreement and each reference in the other Transaction Documents to the "Repurchase Agreement", "thereunder", "thereof" or words of like import referring to such Repurchase Agreement shall mean and be a reference to the Repurchase Agreement (as amended hereby).

(b) This Amendment may not be amended or otherwise modified, waived or supplemented except as provided in the Repurchase Agreement.

(c) This Amendment, the Repurchase Agreement, the Fee Letter, the Guaranty and the other Transaction Documents contain the entire agreement of the parties hereto and thereto in respect of the transactions contemplated hereby and thereby, and all prior agreements among or between such parties, whether oral or written are superseded by the terms of this Amendment, the Repurchase Agreement, the Fee Letter, the Guaranty and the other Transaction Documents. This Amendment contains a final and complete integration of all prior expressions by the parties with respect to the subject matter hereof and shall constitute the entire agreement among the parties with respect to such subject matter, superseding all prior oral or written understandings.

(d) Wherever possible, each provision of this Amendment shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Amendment shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Amendment.

(e) This Amendment and all covenants, agreements, representations and warranties made herein shall survive the consummation by Buyer of the Transactions, and shall continue in full force and effect so long as all or any of the obligations are outstanding and unpaid unless a longer period is expressly set forth herein or in the Transaction Documents. Whenever in this Amendment any of the parties hereto is referred to, such reference shall be deemed to include the legal representatives, and permitted successors and assigns of such party. All covenants, promises and agreements in this Amendment, by or on behalf of Seller and Guarantor, shall inure to the benefit of the legal representatives and permitted successors and assigns of Buyer in accordance with Article 19 of the Repurchase Agreement.

(f) This Amendment may be executed in counterparts, each of which so executed shall be deemed to be an original, but all of such counterparts shall together constitute but one and the same instrument.

(g) The headings in this Amendment are for convenience of reference only and shall not affect the interpretation or construction of this Amendment.

(h) This Amendment is a Transaction Document executed pursuant to the Repurchase Agreement and shall be construed, administered and applied in accordance with the terms and provisions of the Repurchase Agreement.

(i) Nothing contained herein shall affect or be construed to affect any lien, charge or encumbrance created by any Transaction Document or the priority of any such lien, charge or encumbrance over any other liens, charges or encumbrances.

(j) Except as specifically set forth in this Amendment, the execution, delivery and effectiveness of this Amendment shall not (i) limit, impair, constitute a waiver by, or otherwise affect any right, power or remedy of Buyer under the Repurchase Agreement, the Fee Letter, the Guaranty or any other Transaction Document, (ii) constitute a waiver of any provision in the Repurchase Agreement, the Fee Letter, the Guaranty or in any of the other Transaction Documents or of any Default or Event of Default that may have occurred and be continuing or, (iii) except as set forth herein, alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Repurchase Agreement, the Fee Letter, the Guaranty or in any of the other Transaction Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

(k) Notwithstanding anything to the contrary set forth in this Amendment or the Transaction Documents regarding the terms applicable to Legacy Transactions, the terms and conditions (including, without limitation, Pricing Rate and LIBOR or Alternative Rate Index determination) with respect to the Transaction commonly known as The Arch Purchased Asset shall be governed by the terms and conditions of the related Confirmation.

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed as of the date first above written.

<u>SELLER</u>:

ACRC LENDER ML LLC

By: /s/ Anton Feingold
Name: Anton Feingold
Title: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

BUYER:

METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation

By: MetLife Investment Management, LLC,
a Delaware limited liability company,
its investment manager

By: /s/ Jiawei Ding
Name: Jiawei Ding
Title: Authorized Signatory and Director

__ACKNOWLEDGED AND AGREED BY__**:**

ARES COMMERCIAL REAL ESTATE CORPORATION, as Guarantor

By: /s/ Anton Feingold

Name: Anton Feingold

Title: Vice President

Exhibit 10.2

REAFFIRMATION OF GUARANTOR

REAFFIRMATION

dated as of August 4, 2020

Reference is made to that certain Guaranty (as amended pursuant to that certain Amendment to Guaranty dated as of September 22, 2016 and as may be further amended, restated, supplemented or otherwise modified from time to time, the "Guaranty"), dated as of August 13, 2014, made by **ARES COMMERCIAL REAL ESTATE CORPORATION**, a Maryland corporation (the "Guarantor"), delivered for the benefit of **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation ("Buyer"). Guarantor hereby acknowledges receipt of copies of:

(a) that certain Second Amendment to Master Repurchase Agreement, dated as of the date hereof (the "MRA Amendment"), by and between ACRC Lender ML LLC ("Seller") and Buyer and acknowledged and agreed to by Guarantor, amending that certain Master Repurchase Agreement, dated as of August 13, 2014 (as amended, the "Repurchase Agreement"), by and between Seller and Buyer; and

(b) that certain Second Amendment to Fee Letter, dated as of the date hereof (the "Fee Letter Amendment" and together with the MRA Amendment, the "Amendments"), by and between Seller and Buyer, amending that certain Fee Letter, dated as of August 13, 2014 (as amended, the "Fee Letter"), by and between Seller and Buyer.

Guarantor hereby reaffirms the terms and conditions of the Guaranty, and acknowledges and agrees that the Guaranty remains in full force and effect and is hereby reaffirmed, ratified and confirmed.

Guarantor hereby represents and warrants that: (a) all representations and warranties by such Guarantor contained in the Guaranty are true and correct in all respects as of the date hereof (unless such representation or warranty expressly relates to an earlier date in which case such representation or warranty shall be true and correct as of such earlier date), (b) no event has occurred and is continuing which constitutes an Event of Default under the Repurchase Agreement, the Fee Letter or any other Transaction Document, or any event that but for notice or lapse of time or both would constitute an Event of Default, and (c) no change, occurrence, or development exists that, individually or in the aggregate, could reasonably be expected to have a material adverse effect on the validity or enforceability of the Guaranty or on the ability of Guarantor to perform its obligations thereunder.

Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Repurchase Agreement.

THIS REAFFIRMATION OF GUARANTOR (THIS "REAFFIRMATION") SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AND THE OBLIGATIONS, RIGHTS, AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS WITHOUT REGARD TO THE CONFLICT OF LAWS DOCTRINE APPLIED IN SUCH STATE (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

This Reaffirmation may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Reaffirmation by facsimile or by electronic mail in a “.pdf” file shall be effective as delivery of a manually executed counterpart of this Reaffirmation.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

IN WITNESS WHEREOF, the undersigned executed this Reaffirmation as of the day first written above.

ARES COMMERCIAL REAL ESTATE CORPORATION, as Guarantor

By: /s/ Anton Feingold

Name: Anton Feingold

Title: Vice President

<u>ACCEPTED AND AGREED BY</u>:

METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation, as Buyer

By: MetLife Investment Management, LLC,
a Delaware limited liability company,
its investment manager

By: /s/ Jiawei Ding
Name: Jiawei Ding
Title: Authorized Signatory and Director

Exhibit 31.1

Certification of Chief Executive Officer
of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, Bryan Donohoe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ares Commercial Real Estate Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ Bryan Donohoe

Bryan Donohoe
Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer
of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, Tae-Sik Yoon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ares Commercial Real Estate Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ Tae-Sik Yoon

Tae-Sik Yoon
Chief Financial Officer and Treasurer

Exhibit 32.1

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to
18 U.S.C Section 1350

In connection with the Quarterly Report on Form 10-Q of Ares Commercial Real Estate Corporation (the “Company”) for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Bryan Donohoe, as Chief Executive Officer of the Company, and Tae-Sik Yoon, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2020

/s/ Bryan Donohoe

Bryan Donohoe
Chief Executive Officer

/s/ Tae-Sik Yoon

Tae-Sik Yoon
Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.