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, 2022

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, a 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 13(a) of the Exchange 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 November 1, 2022
Common stock, $0.01 par value	54,442,649

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

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, 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 several factors, including those 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, 2021 ("2021 Annual Report"). In addition, some of the statements in this quarterly report 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;
- global economic trends and economic conditions, including heightened inflation, slower growth or recession, changes to fiscal and monetary policy, higher interest rates, currency fluctuations and challenges in the supply chain;
- the ongoing impact of the COVID-19 pandemic, on our business and the United States and global economies;
- the ongoing 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;
- the impact of Russia's invasion of Ukraine and the international community's response which created, and may continue to create, substantial political and economic disruption, uncertainty and risk;
- 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, maintain, repay or refinance 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 replacement of the London Interbank Offered Rate ("LIBOR") on our operating results;
- 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; 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," "could," "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 risks, uncertainties and other factors set forth in Part I, Item 1A. "Risk Factors" in our 2021 Annual Report and the other information included in our 2021 Annual Report 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.

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, 2022 (unaudited)	December 31, 2021
ASSETS		
Cash and cash equivalents	$ 77,297	$ 50,615
Loans held for investment ($930,603 and $974,424 related to consolidated VIEs, respectively)	2,508,609	2,414,383
Current expected credit loss reserve	(46,060)	(23,939)
Loans held for investment, net of current expected credit loss reserve	2,462,549	2,390,444
Real estate owned held for sale, net	—	36,602
Investment in available-for-sale debt securities, at fair value	27,730	—
Other assets ($2,539 and $2,592 of interest receivable related to consolidated VIEs, respectively; $131,662 and $128,589 of other receivables related to consolidated VIEs, respectively)	159,610	154,177
Total assets	$ 2,727,186	$ 2,631,838
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Secured funding agreements	$ 847,697	$ 840,047
Notes payable	104,411	50,358
Secured term loan	149,153	149,016
Collateralized loan obligation securitization debt (consolidated VIEs)	822,319	861,188
Secured borrowings	—	22,589
Due to affiliate	4,879	4,156
Dividends payable	19,196	16,674
Other liabilities ($1,387 and $570 of interest payable related to consolidated VIEs, respectively)	12,454	9,182
Total liabilities	1,960,109	1,953,210
Commitments and contingencies (Note 9)		
STOCKHOLDERS' EQUITY		
Common stock, par value $0.01 per share, 450,000,000 shares authorized at September 30, 2022 and December 31, 2021 and 54,438,363 and 47,144,058 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	537	465
Additional paid-in capital	812,050	703,950
Accumulated other comprehensive income	11,379	2,844
Accumulated earnings (deficit)	(56,889)	(28,631)
Total stockholders' equity	767,077	678,628
Total liabilities and stockholders' equity	$ 2,727,186	$ 2,631,838

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,	
	2022	2021	2022	2021
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue:				
Interest income	$ 45,633	$ 34,023	$ 117,619	$ 95,587
Interest expense	(18,362)	(12,669)	(43,851)	(35,900)
Net interest margin	27,271	21,354	73,768	59,687
Revenue from real estate owned	—	5,850	2,672	12,271
Total revenue	27,271	27,204	76,440	71,958
Expenses:				
Management and incentive fees to affiliate	3,868	3,175	10,608	8,693
Professional fees	842	480	2,720	1,880
General and administrative expenses	1,416	1,119	4,617	3,470
General and administrative expenses reimbursed to affiliate	1,011	773	2,641	2,313
Expenses from real estate owned	—	5,339	4,309	12,458
Total expenses	7,137	10,886	24,895	28,814
Provision for current expected credit losses	19,485	6,367	26,659	(756)
Gain on sale of real estate owned	—	—	2,197	—
Income before income taxes	649	9,951	27,083	43,900
Income tax expense, including excise tax	5	—	208	593
Net income attributable to common stockholders	$ 644	$ 9,951	$ 26,875	$ 43,307
Earnings per common share:				
Basic earnings per common share	$ 0.01	$ 0.21	$ 0.53	$ 1.06
Diluted earnings per common share	$ 0.01	$ 0.21	$ 0.52	$ 1.05
Weighted average number of common shares outstanding:				
Basic weighted average shares of common stock outstanding	54,415,545	46,957,339	50,753,915	40,840,453
Diluted weighted average shares of common stock outstanding	54,846,756	47,209,469	51,193,238	41,120,751
Dividends declared per share of common stock	$ 0.35	$ 0.35	$ 1.05	$ 1.05

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income attributable to common stockholders	$ 644	$ 9,951	$ 26,875	$ 43,307
Other comprehensive income:				
Realized and unrealized gains (losses) on derivative financial instruments	(866)	(98)	8,679	19
Unrealized gains (losses) on available-for-sale debt securities	(144)	—	(144)	—
Comprehensive income	$ (366)	$ 9,853	$ 35,410	$ 43,326

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		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2020	33,442,332	$ 329	$ 497,803	$ —	$ (25,117)	$ 473,015
Sale of common stock	7,000,000	70	100,800	—	—	100,870
Offering costs	—	—	(188)	—	—	(188)
Stock-based compensation	35,509	—	521	—	—	521
Other comprehensive income	—	—	—	263	—	263
Net income	—	—	—	—	15,740	15,740
Dividends declared	—	—	—	—	(14,248)	(14,248)
Balance at March 31, 2021	40,477,841	399	598,936	263	(23,625)	575,973
Sale of common stock	6,500,000	65	101,725	—	—	101,790
Offering costs	—	—	(164)	—	—	(164)
Stock-based compensation	23,280	—	497	—	—	497
Other comprehensive income	—	—	—	(146)	—	(146)
Net income	—	—	—	—	17,615	17,615
Dividends declared	—	—	—	—	(16,528)	(16,528)
Balance at June 30, 2021	47,001,121	464	700,994	117	(22,538)	679,037
Offering costs	—	—	(52)	—	—	(52)
Stock-based compensation	700	—	428	—	—	428
Other comprehensive income	—	—	—	(98)	—	(98)
Net income	—	—	—	—	9,951	9,951
Dividends declared	—	—	—	—	(16,523)	(16,523)
Balance at September 30, 2021	47,001,821	464	701,370	19	(29,110)	672,743
Sale of common stock	137,237	1	2,118	—	—	2,119
Offering costs	—	—	(32)	—	—	(32)
Stock-based compensation	5,000	—	494	—	—	494
Other comprehensive income	—	—	—	2,825	—	2,825
Net income	—	—	—	—	17,154	17,154
Dividends declared	—	—	—	—	(16,675)	(16,675)
Balance at December 31, 2021	47,144,058	465	703,950	2,844	(28,631)	678,628
Sale of common stock	190,369	2	2,872	—	—	2,874
Offering costs	—	—	(9)	—	—	(9)
Stock-based compensation	78,009	—	766	—	—	766
Other comprehensive income	—	—	—	7,614	—	7,614
Net income	—	—	—	—	16,201	16,201
Dividends declared	—	—	—	—	(16,740)	(16,740)
Balance at March 31, 2022	47,412,436	467	707,579	10,458	(29,170)	689,334
Sale of common stock	7,000,000	70	103,323	—	—	103,393
Offering costs	—	—	(190)	—	—	(190)
Stock-based compensation	25,927	—	699	—	—	699
Other comprehensive income	—	—	—	1,931	—	1,931
Net income	—	—	—	—	10,031	10,031
Dividends declared	—	—	—	—	(19,198)	(19,198)
Balance at June 30, 2022	54,438,363	537	811,411	12,389	(38,337)	786,000
Offering costs	—	—	(34)	—	—	(34)
Stock-based compensation	—	—	673	—	—	673
Other comprehensive income	—	—	—	(1,010)	—	(1,010)
Net income	—	—	—	—	644	644
Dividends declared	—	—	—	—	(19,196)	(19,196)
Balance at September 30, 2022	54,438,363	$ 537	$ 812,050	$ 11,379	$ (56,889)	$ 767,077

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,	
	2022	2021
	(unaudited)	(unaudited)
Operating activities:		
Net income	$ 26,875	$ 43,307
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of deferred financing costs	5,713	7,111
Accretion of discounts, deferred loan origination fees and costs	(7,878)	(5,979)
Stock-based compensation	2,138	1,446
Depreciation of real estate owned	—	674
Provision for current expected credit losses	26,659	(756)
Amortization of derivative financial instruments	(607)	—
Gain on sale of real estate owned	(2,197)	—
Changes in operating assets and liabilities:		
Other assets	(9,831)	(16,728)
Due to affiliate	723	797
Other liabilities	472	408
Net cash provided by (used in) operating activities	42,067	30,280
Investing activities:		
Issuance of and fundings on loans held for investment	(584,605)	(877,950)
Principal repayment of loans held for investment	500,852	299,021
Receipt of origination fees	7,359	4,636
Purchases of capitalized additions to real estate owned	—	(86)
Proceeds from sale of real estate owned	38,227	—
Purchases of available-for-sale debt securities	(27,872)	—
Payments under derivative financial instruments	2,085	(700)
Net cash provided by (used in) investing activities	(63,954)	(575,079)
Financing activities:		
Proceeds from secured funding agreements	225,192	611,515
Repayments of secured funding agreements	(217,543)	(711,054)
Proceeds from notes payable	105,000	13,008
Repayments of notes payable	(51,110)	(27,880)
Repayments of secured term loan	—	(50,000)
Repayments of secured borrowings	(22,715)	—
Payment of secured funding costs	(3,000)	(9,734)
Proceeds from issuance of debt of consolidated VIEs	—	540,471
Repayments of debt of consolidated VIEs	(40,748)	(40,982)
Dividends paid	(52,611)	(41,901)
Proceeds from sale of common stock	106,267	202,660
Payment of offering costs	(163)	(293)
Net cash provided by (used in) financing activities	48,569	485,810
Change in cash and cash equivalents	26,682	(58,989)
Cash and cash equivalents, beginning of period	50,615	74,776
Cash and cash equivalents, end of period	$ 77,297	$ 15,787

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of September 30, 2022
(in thousands, except share and per share data, percentages and as otherwise indicated)
(unaudited)

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, self storage, student housing, residential, senior-living 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, 2021 filed with the SEC.

Refer to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021 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 unaudited consolidated interim 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 unaudited consolidated interim 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.

The unaudited consolidated 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 for any other interim period or that ultimately may be achieved for the year ending December 31, 2022.

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. Global macroeconomic conditions, including heightened inflation, changes to fiscal and monetary policy, higher interest rates, currency fluctuations, labor shortages and challenges in the supply chain, coupled with the war in Ukraine and the ongoing effects of the novel coronavirus ("COVID-19") pandemic, have the potential to negatively impact the Company and its borrowers. These current macroeconomic conditions may continue or aggravate and could cause the United States economy or other global economies to experience an economic slowdown or recession. We anticipate our business and operations could be materially adversely affected by a prolonged recession in the United States or other major global economy.

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, 2022, however, uncertainty over the global economy and the Company's business, makes any estimates and assumptions as of September 30, 2022 inherently less certain than they would be absent the current and potential impacts of current macroeconomic conditions. 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 16 included in these consolidated financial statements for further discussion of the Company's VIEs.

Cash and Cash Equivalents

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.

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

Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* requires the Company to reflect current expected credit losses (“CECL”) on both the outstanding balances and unfunded commitments on loans held for investment and requires consideration of a broad 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 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.

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 actively 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.

Available-for-Sale Debt Securities

The Company acquires debt securities that are collateralized by mortgages on CRE properties primarily for short-term cash management and investment purposes. On the acquisition date, the Company designates investments in CRE debt securities as available-for-sale. Investments in CRE debt securities that are classified as available-for-sale are carried at fair value. Unrealized holding gains and losses for available-for-sale debt securities are recorded each period in other comprehensive income ("OCI"). The Company uses a specific identification method when determining the cost of a debt security sold and the amount of unrealized gain or loss reclassified from accumulated other comprehensive income (loss) into earnings.

Available-for-sale debt securities that are in an unrealized loss position are evaluated on a quarterly basis to determine whether declines in the fair value below the amortized cost basis qualify as other than temporary impairment ("OTTI"). The OTTI assessment is performed at the individual security level. In assessing whether the entire amortized cost basis of each security will be recovered, the Company will compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered and an OTTI shall be considered to have occurred.

Available-for-sale debt securities 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 debt security is placed on non-accrual status. Interest payments received on non-accrual securities may be recognized as income or applied to principal depending upon management's judgment regarding collectability of the debt security. Non-accrual debt securities are restored to accrual status when past due principal and interest are paid and, in management's judgment, are likely to remain current.

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 the (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.

Derivative Financial Instruments

Derivative financial instruments are classified as either other assets (gain positions) or other liabilities (loss positions) in the Company's consolidated balance sheets at fair value. These amounts may be offset to the extent that there is a legal right to offset and if elected by management.

On the date the Company enters into a derivative contract, the Company designates each contract as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability, or cash flow hedge, or as a derivative instrument not to be designated as a hedging derivative, or non-designated hedge. For all derivatives other than those designated as non-designated hedges, the Company formally documents the hedge relationships and designation at the contract's inception. This documentation includes the identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and an evaluation of the effectiveness of its hedged transaction.

The Company performs a formal assessment on a quarterly basis on whether the derivative designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in the value or cash flows of the hedged items. Changes in the fair value of derivative contracts are recorded each period in either current earnings or OCI, depending on whether the derivative is designated as part of a hedge transaction and, if so, the type of hedge transaction. For derivatives that are designated as cash flow hedges, the effective portion of the unrealized gains or losses on these contracts is recorded in OCI. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued and the changes in fair value of the instrument are included in current earnings prospectively. The Company does not enter into derivatives for trading or speculative purposes.

Revenue Recognition

Interest income is accrued based on the outstanding principal amount and the contractual terms of each loan or debt security. 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. For available-for-sale debt securities, premiums or discounts are amortized or accreted into interest income 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 that was sold in March 2022. Revenue from the operation of the hotel property was recognized when guestrooms were occupied, services had been rendered or fees had been earned. Revenues were recorded net of any discounts and sales and other taxes collected from customers. Revenues consisted 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 and debt securities as compared to its use of debt leverage. The Company includes interest income from its loans and debt securities 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, 2022 and 2021, interest expense is comprised of the following ($ in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	**2021**	**2022**	**2021**
Secured funding agreements	$ 9,889	$ 4,308	$ 21,358	$ 11,327
Notes payable (1)	869	368	1,854	1,841
Securitization debt	8,469	5,414	18,411	14,858
Secured term loan	1,772	844	5,256	2,982
Secured borrowings	257	1,469	845	4,350
Other (2)	(2,894)	266	(3,873)	542
Interest expense	$ 18,362	$ 12,669	$ 43,851	$ 35,900

(1) Excludes interest expense on the $28.3 million note payable, which was secured by a hotel property that was 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.

(2) Represents the net interest expense recognized from the Company's derivative financial instruments upon periodic settlement.

Comprehensive Income

Comprehensive income consists of net income and OCI that are excluded from net income.

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. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848),* to clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. ASU No. 2020-04 and ASU No. 2021-01 are effective for all entities and may be adopted retrospectively as of any date from the beginning of any interim period that includes or is subsequent to March 12, 2020 or prospectively to new modifications through December 31, 2022. The Company elected to adopt the new guidance and, for the modifications that have occurred to date, the adoption of the guidance has not had a material impact on the Company's consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the accounting guidance on troubled debt restructurings ("TDRs") for creditors in ASC 310-40 and amends the guidance on "vintage disclosures" to require disclosure of current period gross write-offs by year of origination. The ASU also updates the requirements related to accounting for credit losses under Topic 326 and adds enhanced disclosures for creditors with respect to loan refinancing and restructurings for borrowers experiencing financial difficulty. ASU 2022-02 supersedes the accounting guidance for TDRs for creditors in its entirety and requires entities to evaluate all receivable modifications to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. The Company elected to adopt the ASU for modifications occurring prospectively beginning in the first quarter of 2022.

3. LOANS HELD FOR INVESTMENT

As of September 30, 2022, the Company's portfolio included 70 loans held for investment, excluding 139 loans that were repaid, sold or converted to real estate owned since inception. The aggregate originated commitment under these loans at closing was approximately $2.9 billion and outstanding principal was $2.5 billion as of September 30, 2022. During the nine months ended September 30, 2022, the Company funded approximately $601.8 million of outstanding principal and received repayments of $503.9 million of outstanding principal as described in more detail in the tables below. As of September 30, 2022, 90.8% of the Company's loans have LIBOR or Secured Overnight Financing Rate ("SOFR") floors, with a weighted average floor of 0.92%, calculated based on loans with LIBOR or SOFR floors. References to LIBOR or "L" are to 30-day LIBOR and references to SOFR or "S" are to 30-day SOFR (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, 2022 and December 31, 2021 ($ in thousands):

	As of September 30, 2022				
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Unleveraged Effective Yield		Weighted Average Remaining Life (Years)
Senior mortgage loans	$ 2,470,545	$ 2,488,199	7.3 % (2)	7.7 % (3)	1.4
Subordinated debt and preferred equity investments	38,064	38,834	13.3 % (2)	13.3 % (3)	3.1
Total loans held for investment portfolio	$ 2,508,609	$ 2,527,033	7.4 % (2)	7.8 % (3)	1.4

	As of December 31, 2021				
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Unleveraged Effective Yield		Weighted Average Remaining Life (Years)
Senior mortgage loans	$ 2,397,655	$ 2,411,718	5.3 % (2)	5.4 % (3)	1.5
Subordinated debt and preferred equity investments	16,728	17,394	13.7 % (2)	13.7 % (3)	4.0
Total loans held for investment portfolio	$ 2,414,383	$ 2,429,112	5.4 % (2)	5.5 % (3)	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, 2022 and December 31, 2021 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, 2022 and December 31, 2021 as weighted by the total outstanding principal balance of each interest accruing loan (excludes loans on non-accrual status as of September 30, 2022 and December 31, 2021).

A more detailed listing of the Company's loans held for investment portfolio based on information available as of September 30, 2022 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	IL	$151.5	$151.3	L+3.60%		7.1%		Mar 2023		I/O	
Multifamily	NY	129.1	127.6	S+3.90%		7.4%		Jun 2025		I/O	
Office	Diversified	117.4	117.4	S+3.75%		7.2%		Jan 2023		I/O	
Multifamily	TX	100.0	99.1	S+3.50%		6.9%		Jul 2025		I/O	
Industrial	IL	96.9	96.4	L+4.55%		8.1%		May 2024		I/O	
Mixed-use	FL	84.0	84.0	L+4.25%		7.4%		Feb 2023		I/O	
Office	AZ	77.4	76.8	L+3.50%		7.0%		Oct 2024		I/O	
Mixed-use	NY	75.0	74.5	L+3.65%		7.2%		Jul 2024		I/O	
Residential Condominium	FL	70.7	70.4	L+5.25%		9.0%		Jul 2023		I/O	
Office	NC	69.2	69.1	L+4.25%		7.7%		Mar 2023	(5)	P/I	(6)
Residential Condominium	NY	67.8	67.2	S+8.95%		13.8%		Oct 2023		I/O	(8)
Multifamily	TX	67.5	67.0	L+2.85%		6.4%		Dec 2024		I/O	
Multifamily/Office	SC	67.0	66.8	L+2.90%		6.3%		Nov 2024		I/O	
Office	NC	66.1	65.6	S+3.65%		7.1%		Aug 2024		I/O	
Office	NY	65.9	65.3	L+3.85%		7.4%		Aug 2025		I/O	
Office	IL	61.0	61.0	L+3.75%		7.1%		Dec 2022		I/O	
Mixed-use	CA	58.7	58.5	(9)		9.7%		Jan 2024		I/O	
Office	IL	56.9	56.0	S+3.95%		—%	(10)	Jun 2023	(10)	I/O	
Self Storage	NJ	55.5	55.5	L+3.80%		6.9%		Feb 2024		I/O	
Hotel	Diversified	49.9	49.8	L+8.60%	(11)	12.8%		Dec 2022	(11)	P/I	(6)

Office	GA	48.5	48.5	L+3.05%	6.8%	Dec 2022	I/O
Hotel	CA	40.0	39.9	L+4.12%	7.8%	Jan 2023	I/O
Hotel	OR/WA	39.9	39.8	L+3.45%	9.7%	Nov 2022 (7)	I/O
Hotel	CA	39.4	38.9	S+4.20%	7.7%	Mar 2025	I/O
Mixed-use	CA	37.9	37.9	L+4.10%	7.8%	Mar 2023	I/O
Mixed-use	TX	35.3	35.2	S+3.85% (12)	7.2%	Sep 2024 (12)	I/O
Hotel	IL	35.0	30.5	S+4.00%	—% (13)	May 2024 (13)	I/O
Student Housing	CA	34.5	34.5	S+3.95%	7.0%	Jul 2023 (14)	I/O
Office	CA	32.9	32.9	L+3.35%	7.1%	Nov 2022	I/O
Multifamily	CA	31.7	31.5	L+2.90%	6.3%	Dec 2025	I/O
Hotel	NY	30.7	30.2	S+4.40%	8.0%	Mar 2026	I/O
Office	IL	30.2	30.1	L+3.80%	7.6%	Jan 2023	I/O
Multifamily	PA	29.4	29.3	L+3.00%	6.4%	Dec 2022	I/O
Industrial	FL	25.5	25.4	L+2.90%	6.3%	Dec 2025	I/O
Industrial	CO	24.6	24.5	(15)	10.9%	Feb 2023	I/O
Industrial	NJ	23.3	23.1	L+3.75%	7.6%	May 2024	I/O
Multifamily	WA	23.1	23.0	L+2.90%	6.2%	Nov 2025	I/O
Office	CA	22.8	22.8	L+3.40%	6.8%	Nov 2023	I/O
Office	MA	22.3	21.5	S+3.75%	7.7%	Apr 2025	I/O
Multifamily	TX	22.1	21.9	L+2.50%	6.0%	Oct 2024	I/O
Industrial	CA	19.6	19.5	L+3.75%	7.5%	Mar 2023	I/O
Student Housing	AL	19.5	19.4	L+3.85%	7.4%	May 2024	I/O
Multifamily	WA	18.7	18.7	L+3.00%	6.6%	Mar 2023	I/O
Self Storage	NJ	17.6	17.3	S+2.90%	6.7%	Apr 2025	I/O
Self Storage	PA	17.6	17.4	L+2.90%	6.3%	Dec 2025	I/O
Residential	CA	14.3	14.3	13.00%	—% (16)	May 2021 (16)	I/O
Self Storage	PA	13.8	13.7	L+3.05%	6.6%	Oct 2024	I/O
Self Storage	MD	12.5	12.4	L+3.05%	6.5%	Oct 2024	I/O
Self Storage	WA	11.3	11.1	S+2.90%	6.7%	Mar 2025	I/O
Industrial	TX	10.3	10.3	L+5.25%	8.8%	Dec 2024	I/O
Self Storage	WA	10.2	10.2	L+3.05%	6.5%	Oct 2024	I/O
Industrial	FL	9.5	9.4	L+4.75%	9.4%	Nov 2024	I/O
Self Storage	MO	9.0	8.9	L+3.05%	6.5%	Oct 2024	I/O
Self Storage	MA	8.5	8.5	L+2.90%	6.2%	Dec 2024	I/O
Industrial	PA	8.0	8.0	L+5.50%	9.0%	Sep 2024	I/O
Self Storage	TX	8.0	8.0	L+2.90%	6.3%	Aug 2024	I/O
Self Storage	MA	7.7	7.6	L+2.90%	6.2%	Nov 2024	I/O
Industrial	PA	7.0	6.9	L+5.90%	9.4%	Nov 2024	I/O
Industrial	TN	6.7	6.6	L+5.50%	9.0%	Nov 2024	I/O
Self Storage	MA	6.4	6.4	L+2.90%	6.3%	Oct 2024	I/O
Self Storage	MO	6.4	6.4	L+3.00%	6.3%	Dec 2023	I/O
Industrial	FL	5.9	5.9	S+5.90%	9.3%	Feb 2025	I/O
Self Storage	NJ	5.9	5.9	L+2.90%	6.5%	Jul 2024	I/O
Self Storage	IL	5.6	5.6	L+3.00%	6.5%	Dec 2023	I/O
Industrial	FL	4.7	4.6	S+5.75%	9.2%	Mar 2025	I/O
Self Storage	TX	2.9	2.9	L+2.90%	6.2%	Sep 2024	I/O
Industrial	AZ	2.7	2.7	L+5.90%	9.4%	Oct 2024	I/O
Industrial	GA	1.3	1.3	L+5.25%	8.8%	Sep 2024	I/O
Subordinated Debt and Preferred Equity Investments:							
Multifamily	SC	20.6	20.4	S+9.53%	13.0%	Sep 2025	I/O
Office	NJ	18.2	17.6	12.00%	13.6%	Jan 2026	I/O
Total/Weighted Average		$2,527.0	$2,508.6		7.4%		

(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 14 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 or SOFR as of September 30, 2022 or the LIBOR or SOFR 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, 2022 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) In March 2022, the borrower exercised a one-year extension option in accordance with the loan agreement, which extended the maturity date on the senior North Carolina loan to March 2023.

(6) Amortization began on the senior North Carolina loan, which had an outstanding principal balance of $69.2 million as of September 30, 2022 and the senior diversified loan, which had an outstanding principal balance of $49.9 million as of September 30, 2022, in April 2022 and October 2021, respectively. The remainder of the loans in the Company's portfolio are non-amortizing through their primary terms.

(7) In May 2022, the Company and the borrower entered into a modification and extension agreement to, among other things, extend the maturity date on the senior Oregon/Washington loan from May 2022 to November 2022.

(8) This senior mortgage loan refinanced the previously existing $53.3 million senior mortgage loan that was held by the Company.

(9) At origination, the California loan was structured as both a senior and mezzanine loan with the Company holding both positions. The senior loan, which had an outstanding principal balance of $45.0 million as of September 30, 2022, accrues interest at a per annum rate of L + 3.80% and the mezzanine loan, which had an outstanding principal balance of $13.7 million as of September 30, 2022, accrues interest at a per annum rate of 18.00%.

(10) Loan was on non-accrual status as of September 30, 2022 and the Unleveraged Effective Yield is not applicable. In May 2022, the Company and the borrower entered into a modification and extension agreement to, among other things, amend the interest rate from L + 3.95% to S + 3.95% and extend the maturity date on the senior Illinois loan from June 2022 to June 2023. For the three months ended September 30, 2022, the Company received $0.7 million of interest payments in cash on the senior Illinois loan that was recognized as a reduction to the carrying value of the loan and the borrower is current on all contractual interest payments.

(11) In September 2022, the Company and the borrower entered into a modification and extension agreement to, among other things, amend the interest rate from L + 3.60% to L + 8.60% and extend the maturity date on the senior diversified loan from September 2022 to December 2022.

(12) In September 2022, the Company and the borrower entered into a modification and extension agreement to, among other things, amend the interest rate from L + 3.75% to S + 3.85% and extend the maturity date on the senior mixed-use loan from September 2022 to September 2024.

(13) Loan was on non-accrual status as of September 30, 2022 and the Unleveraged Effective Yield is not applicable. In March 2022, the Company and the borrower entered into a modification and extension agreement to, among other things, amend the interest rate from L + 4.40% to S + 4.00% and extend the maturity date on the senior Illinois loan from May 2022 to May 2024. For the three and nine months ended September 30, 2022, the Company received in cash and recognized $0.5 million and $0.9 million, respectively, of interest income on the senior Illinois loan and the borrower is current on all contractual interest payments. However, the senior Illinois loan is currently in default due to the failure of the borrower to make certain contractual reserve deposits by the May 2022 due date.

(14) In May 2022, the borrower exercised a one-year extension option in accordance with the loan agreement, which extended the maturity date on the senior California loan to July 2023.

(15) At origination, the Colorado loan was structured as a senior loan and in January 2022, the Company also originated the mezzanine loan. The senior loan, which had an outstanding principal balance of $20.8 million as of September 30, 2022, accrues interest at a per annum rate of L + 6.75% and the mezzanine loan, which had an outstanding principal balance of $3.8 million as of September 30, 2022, accrues interest at a per annum rate of S + 8.50%.

(16) Loan was on non-accrual status as of September 30, 2022 and the Unleveraged Effective Yield is not applicable. As of September 30, 2022, the senior California loan, which is collateralized by a residential property, is in maturity default due to the failure of the borrower to repay the outstanding principal balance of the loan by the May 2021 maturity date. As of September 30, 2022, the Company has elected to assign a specific CECL reserve on the senior California loan. See Note 4 included in these consolidated financial statements for more information.

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, indicated that due to the impact of the COVID-19 pandemic, they could be unable to timely execute their business plans, have experienced cash flow pressure, 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. These modifications included deferrals or capitalization of interest, amendments in extension, future funding or performance tests, extension of the maturity date, repurposing of reserves or covenant waivers on loans secured by properties directly or indirectly impacted by the COVID-19 pandemic.

For the nine months ended September 30, 2022, the activity in the Company's loan portfolio was as follows ($ in thousands):

Balance at December 31, 2021	$	2,414,383
Initial funding		522,653
Origination fees and discounts, net of costs		(8,423)
Additional funding		77,033
Amortizing payments		(2,405)
Loan payoffs		(502,508)
Origination fee and discount accretion		7,876
Balance at September 30, 2022	$	2,508,609

Except as described above, as of September 30, 2022, all loans held for investment were paying in accordance with their contractual terms. As of September 30, 2022, the Company had three loans held for investment on non-accrual status with a carrying value of $100.8 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 given current macroeconomic and geopolitical conditions and the ongoing effects of the COVID-19 pandemic; however, the financial impact on the Company of current circumstances is 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 as of September 30, 2022 increased compared to the current estimate of expected credit losses as of June 30, 2022 primarily due to changes to the loan portfolio and the impact of the current macroeconomic environment on certain assets, including rising inflation, geopolitical uncertainty, rapidly rising interest rates and the ongoing effects of the COVID-19 pandemic, partially offset by shorter average remaining loan term and loan repayments during the three months ended September 30, 2022. The CECL Reserve takes into consideration the assumed impact of macroeconomic conditions on CRE properties and is not specific to any loan losses or impairments on the Company's loans held for investment, unless the Company determines that a specific reserve is warranted for a select asset.

As of September 30, 2022, the Company's CECL Reserve for its loans held for investment portfolio is $51.9 million or 186 basis points of the Company's total loans held for investment commitment balance of $2.8 billion and is bifurcated between the CECL reserve (contra-asset) related to outstanding balances on loans held for investment of $46.1 million and a liability for unfunded commitments of $5.8 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.

During the three months ended September 30, 2022, the senior mortgage loan on a residential property located in California with a principal balance of $14.3 million was downgraded to a risk rating of "5". As such, as of September 30, 2022, this loan was assessed individually and the Company has elected to assign a specific CECL reserve of $2.4 million on the loan based on the Company's estimate of proceeds available from the anticipated sale of the collateral property less the estimated cost to sell the property. This specific CECL reserve is included in the Company's total CECL reserve.

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, 2022 was as follows ($ in thousands):

Balance at June 30, 2022	$	27,613
Provision for current expected credit losses		18,447
Write-offs		—
Recoveries		—
Balance at September 30, 2022 (1)	$	46,060
Balance at December 31, 2021 (1)	$	23,939
Provision for current expected credit losses		22,121
Write-offs		—
Recoveries		—
Balance at September 30, 2022 (1)	$	46,060

(1) 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, 2022 was as follows ($ in thousands):

Balance at June 30, 2022 (1)	$	4,808
Provision for current expected credit losses		1,038
Write-offs		—
Recoveries		—
Balance at September 30, 2022 (1)	$	5,846
Balance at December 31, 2021 (1)	$	1,308
Provision for current expected credit losses		4,538
Write-offs		—
Recoveries		—
Balance at September 30, 2022 (1)	$	5,846

(1) 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 and principal loss

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

As of September 30, 2022, 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):

	2022	2021	2020	2019	2018	Prior	Total
Risk rating:							
1	$ 13,526	$ 5,579	$ —	$ —	$ —	$ —	$ 19,105
2	139,539	414,343	—	83,976	22,788	34,460	695,106
3	294,077	534,318	325,242	172,278	118,875	100,930	1,545,720
4	67,200	—	—	63,009	86,505	17,640	234,354
5	—	—	—	—	14,324	—	14,324
Total	$ 514,342	$ 954,240	$ 325,242	$ 319,263	$ 242,492	$ 153,030	$ 2,508,609

Accrued Interest Receivable

The Company elected not to measure a CECL 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, 2022 and December 31, 2021, interest receivable of $14.0 million and $17.1 million, respectively, 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 of the date of the deed in lieu of foreclosure, the Company did not expect to complete a sale of the hotel property within the next twelve months and thus, the hotel property was considered held for use, and was carried at its estimated fair value at acquisition and was 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.

On November 8, 2021, the Company entered into a Purchase and Sale Agreement to sell the hotel property to a third party for $40.0 million and the sale closed on March 1, 2022. As such, as of December 31, 2021, the hotel property was classified as real estate owned held for sale in the Company's consolidated balance sheet. For the three months ended March 31, 2022, the Company recognized a $2.2 million gain on the sale of the hotel property as the net carrying value of the hotel property as of the March 1, 2022 sale date was lower than the net sales proceeds received by the Company. The gain on the sale of the hotel property is included within gain on sale of real estate owned in the Company's consolidated statements of operations. As of December 31, 2021, 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. In connection with the sale of the hotel property, the Company provided a senior mortgage loan to the buyer of the hotel property. The initial advance funded under such loan was $30.7 million, with up to another $25.0 million of additional loan proceeds to be available for future advances to cover a portion of the anticipated property renovation plan costs, provided certain conditions are satisfied. At closing, the buyer contributed $12.9 million of equity into the purchase. Additionally, the buyer is required to fund an additional $8.7 million of equity associated with the anticipated property renovation plan costs.

The following table summarizes the Company's real estate owned as of December 31, 2021 ($ in thousands):

Land	$ 10,200
Buildings and improvements	24,281
Furniture, fixtures and equipment	4,506
	38,987
Less: Accumulated depreciation	(2,385)
Real estate owned, net	$ 36,602

For the three and nine months ended September 30, 2022, the Company did not incur depreciation expense. For the three and nine months ended September 30, 2021, the Company incurred depreciation expense of $225 thousand and $674 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 CNB Facility, the MetLife 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, 2022 and December 31, 2021, the outstanding balances and total commitments under the Financing Agreements consisted of the following ($ in thousands):

	September 30, 2022		December 31, 2021	
	Outstanding Balance	Total Commitment	Outstanding Balance	Total Commitment
Secured Funding Agreements:				
Wells Fargo Facility	$ 353,920	$ 450,000 (1)	$ 399,528	$ 450,000 (1)
Citibank Facility	273,269	325,000	192,970	325,000
CNB Facility	—	75,000	—	75,000
MetLife Facility	20,648	180,000	20,648	180,000
Morgan Stanley Facility	199,860	250,000	226,901	250,000
Subtotal	$ 847,697	$ 1,280,000	$ 840,047	$ 1,280,000
Notes Payable	$ 105,000	$ 105,000	$ 51,110	$ 51,755
Secured Term Loan	$ 150,000	$ 150,000	$ 150,000	$ 150,000
Total	$ 1,102,697	$ 1,535,000	$ 1,041,157	$ 1,481,755

(1) The maximum commitment for the Wells Fargo Facility (as defined below) may be increased to up to $500.0 million at the Company's option, subject to the satisfaction of certain conditions, including payment of an upsize fee.

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 $450.0 million. The maximum commitment may be increased to up to $500.0 million at the Company's option, subject to the satisfaction of certain conditions, including payment of an upsize fee. 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 funding period of the Wells Fargo Facility expires on December 14, 2022, subject to one 12-month extension at the Company's option, which, if exercised, would extend the funding period to December 14, 2023. The initial maturity date of the Wells Fargo Facility is December 14, 2022, 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, 2025. Advances under the Wells Fargo Facility accrue interest at a per annum rate equal to the sum of one-month LIBOR or SOFR plus a pricing margin range of 1.50% to 2.75%, subject to certain exceptions.

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. In January 2022, the Company amended the Citibank Facility to, among other things, extend the initial maturity date and funding availability period to January 13, 2025, 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 January 13, 2027. Advances under the Citibank Facility accrue interest at a per annum rate equal to the sum of one-month LIBOR or SOFR plus an indicative pricing margin range of 1.50% to 2.10%, subject to certain exceptions. Prior to the January 2022 amendment, the Company incurred 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 was utilized. Subsequent to the January 2022 amendment, the Company incurs a non-utilization fee of 25 basis points per annum on the average daily positive difference between the maximum advances approved by Citibank and the actual advances outstanding on the Citibank Facility. For the three months ended September 30, 2022, the Company did not incur a non-utilization fee. For the nine months ended September 30, 2022, the Company incurred a non-utilization fee of $11 thousand. For the three and nine months ended September 30, 2021, the Company incurred a non-utilization fee of $162 thousand and $496 thousand, respectively. 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 $75.0 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 2022, the Company exercised a 12-month extension option on the CNB Facility to extend the maturity date to March 10, 2023. Since November 12, 2021, advances under the CNB Facility accrue interest at a per annum rate equal to the sum of, at the Company's option, either (a) SOFR (with a 0.35% floor) plus 2.65% or (b) a base rate (which is the highest of a prime rate, the federal funds rate plus 0.50%, or Daily Simple SOFR plus 1.00%) plus 1.00%; provided that in no event shall the interest rate be less than 2.65%. Prior to November 12, 2021, 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 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%. 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, 2022, the Company incurred a non-utilization fee of $72 thousand and $212 thousand, respectively. For the three and nine months ended September 30, 2021, the Company incurred a non-utilization fee of $28 thousand and $96 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 July 2022, the Company exercised a 12-month extension option on the MetLife Facility to extend the initial maturity date to August 13, 2023, 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 of the MetLife Facility to August 13, 2024. Advances under the MetLife Facility accrue interest at a per annum rate equal to the sum of one-month LIBOR or SOFR plus a spread of 2.50%, subject to certain exceptions. For a period of nine months subsequent to August 2020, 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, was waived. For the three and nine months ended September 30, 2022, the Company incurred non-utilization fee of $62 thousand and $183 thousand, respectively. For the three and nine months ended September 30, 2021, the Company incurred a non-utilization fee of $62 thousand and $100 thousand, respectively. The non-utilization fee is included within interest expense in the Company’s consolidated statements of operations.

Morgan Stanley Facility

The Company is party to a $250.0 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. On March 21, 2022, ACRC Lender MS LLC, a subsidiary of the Company and Morgan Stanley entered into the Second Amendment to Master Repurchase and Securities Contract to modify the interest rate provisions in the Morgan Stanley Facility such that financings under the Morgan Stanley Facility in connection with loans pledged to the Morgan Stanley Facility after December 31, 2021 will utilize SOFR. Advances under the Morgan Stanley Facility generally accrue interest at a per annum rate equal to the sum of one-month LIBOR or SOFR 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 were party to two separate non-recourse note agreements with the lenders referred to therein, consisting of (1) a $28.3 million note that was closed in June 2019, which was secured by a hotel property located in New York that was recognized as real estate owned in the Company’s consolidated balance sheets and (2) a $23.5 million note that was closed in November 2019, which was secured by a $34.6 million senior mortgage loan held by the Company on a multifamily property located in South Carolina.

The $28.3 million note was repaid in full in conjunction with the sale of the hotel property that was recognized as real estate owned on March 1, 2022. See Note 5 for further details. The maturity date of the $28.3 million note was June 10, 2024, subject to one 6-month extension, which if exercised would have extended the maturity date to December 10, 2024. The loan was subject to prepayment at any time. Advances under the $28.3 million note accrued interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 3.00%.

In June 2022, the Company repaid the $23.5 million note in full. The initial maturity date of the $23.5 million note was September 5, 2022, subject to two 12-month extensions, which if exercised would have extended the maturity date to September 5, 2024. Advances under the $23.5 million note accrued interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 3.75%.

In July 2022, ACRC Lender CO LLC, a wholly owned subsidiary of the Company entered into a Credit and Security Agreement with Capital One, National Association, as administrative agent and collateral agent, and the lender referred to therein. The Credit and Security Agreement provides for a $105.0 million recourse note (together with the two non-recourse note agreements discussed above, the “Notes Payable”). The $105.0 million note is secured by a $133.0 million senior mortgage loan held by the Company on a multifamily property located in New York and is fully and unconditionally guaranteed by the Company pursuant to a Guaranty of Recourse Obligation. The initial maturity date of the $105.0 million note is July 28, 2025, 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 July 28, 2027. The $105.0 million note accrues interest at a per annum rate equal to the sum of one-month SOFR plus a spread of 2.00%. As of September 30, 2022, the total outstanding principal balance of the note was $105.0 million.

Secured Term Loan

The Company and certain of its subsidiaries are party to a $150.0 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"). In November 2021, the Company amended the Secured Term Loan to, among other things, (1) increase the commitment amount to $150.0 million, which was fully drawn on the closing date of the amendment, net of an original issue discount equal to 0.50% of the commitment amount, (2) extend the maturity date of the Secured Term Loan to November 12, 2026 and (3) update the interest rate on advances under the Secured Term Loan to the following fixed rates: (i) 4.50% per annum until May 12, 2025, (ii) after May 12, 2025 through November 12, 2025, the interest rate increases 0.125% every three months and (iii) after November 12, 2025 through November 12, 2026, the interest rate increases 0.250% every three months. Prior to the November 2021 amendment, advances under the Secured Term Loan accrued 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%. During the 12-month extension period beginning December 22, 2020, the spread on advances under the Secured Term Loan increased every three months by 0.125%, 0.375% and 0.750% per annum, respectively, beginning after the third-month of the extension period. As of September 30, 2022, the total outstanding principal balance of the Secured Term Loan was $150.0 million.

The total original issue discount on the Secured Term Loan 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 both the three and nine months ended September 30, 2022, the estimated per annum effective interest rate of the Secured Term Loan, which is equal to the fixed interest rate plus the accretion of the original issue discount and associated costs, was 4.6%. For the three and nine months ended September 30, 2021, the estimated per annum effective interest rate of the Secured Term Loan, which was equal to LIBOR plus the spread plus the accretion of the original issue discount and associated costs, was 5.5% and 5.3%, respectively.

7. SECURED BORROWINGS

A subsidiary of the Company was party to a secured borrowing arrangement related to a transferred loan that was closed in February 2020. 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, was 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 Company's consolidated balance sheets. The initial maturity date of the $24.4 million secured borrowing was May 5, 2023, subject to one 12-month extension, which may have been exercised at the transferee's option, which, if exercised, would have extended the maturity date to May 5, 2024. Advances under the $24.4 million secured borrowing accrued interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.50%. In July 2022, the $30.5 million loan was fully repaid and thus, the $24.4 million secured borrowing liability was derecognized.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, which includes interest rate swaps and interest rate caps, on certain borrowing transactions to manage its net exposure to interest rate changes and to reduce its overall cost of borrowing. These derivatives may or may not qualify as cash flow hedges under the hedge accounting requirements of FASB ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). Derivatives not designated as cash flow hedges are not speculative and are used to manage our exposure to interest rate movements. See Note 2 included in these consolidated financial statements for additional discussion of the accounting for designated and non-designated hedges.

The use of derivative financial instruments involves certain risks, including the risk that the counterparties to these contractual arrangements do not perform as agreed. To mitigate this risk, the Company only enters into derivative financial instruments with counterparties that have appropriate credit ratings and are major financial institutions with which the Company and its affiliates may also have other financial relationships.

The following tables detail our outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk as of September 30, 2022 and December 31, 2021 (notional amount in thousands):

	As of									
	September 30, 2022					December 31, 2021				
Interest Rate Derivatives	Number of Instruments	Notional Amount	Rate[(1)]	Index	Weighted Average Maturity (Years)	Number of Instruments	Notional Amount	Rate[(1)]	Index	Weighted Average Maturity (Years)
Interest rate swaps	1	$460,000	0.2075%	LIBOR[(2)]	0.6	1	$700,000	0.2075%	LIBOR[(2)]	1.0
Interest rate caps	0[(3)]	—	—	—	—	1	220,000	0.5000%	LIBOR	1.0

(1) Represents fixed rate for interest rate swaps and strike rate for interest rate caps.
(2) Subject to a 0.00% floor.
(3) In March 2022, the Company re-calibrated its net exposure to interest rate changes by terminating its interest rate cap derivative, which had a notional amount of $170.0 million on the termination date and a strike rate of 0.50%. For the three months ended March 31, 2022, the Company recognized a $2.0 million realized gain within OCI in conjunction with the termination of the interest rate cap. In accordance with ASC 815, the realized gain will be recognized within current earnings over the remaining original term of the interest rate cap derivative as it was designated as an effective hedge. For the three and nine months ended September 30, 2022, the Company recognized a realized gain of $354 thousand and $622 thousand, respectively, through a reduction in interest expense, on the termination of the interest rate cap within current earnings.

The following table summarizes the fair value of our derivative financial instruments ($ in thousands):

	Fair Value of Derivatives in an Asset Position[(1)] as of		Fair Value of Derivatives in a Liability Position[(2)] as of	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Derivatives designated as hedging instruments:				
Interest rate derivatives	$ 10,181	$ 2,979	$ —	$ —

(1) Included in other assets in the Company's consolidated balance sheets.
(2) Included in other liabilities in the Company's consolidated balance sheets.

9. COMMITMENTS AND CONTINGENCIES

As further discussed in Note 2, the impact of the current macroeconomic and geopolitical conditions on the Company's business is uncertain. As of September 30, 2022, there were no contingencies recorded on the Company's consolidated balance sheets as a result of such conditions or the ongoing effects of the COVID-19 pandemic, however, if global market conditions worsen, it could adversely affect the Company's business, financial condition and results of operations.

As of September 30, 2022 and December 31, 2021, 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, 2022	December 31, 2021
Total commitments	$ 2,784,902	$ 2,662,853
Less: funded commitments	(2,527,033)	(2,429,112)
Total unfunded commitments	$ 257,869	$ 233,741

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, 2022, the Company is not aware of any legal claims that could materially impact its business, financial condition or results of operations.

10. 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 offered and sold, 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, were 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, 2022, the Company sold an aggregate of 190,369 shares of the Company's common stock under the Equity Distribution Agreement at an average price of $15.33 per share. The sales generated net proceeds of approximately $2.9 million. On June 30, 2022, the Company filed a new registration statement on Form S-3 with the SEC, which became effective on July 26, 2022; however, the "at the market offering" program is currently unavailable.

Stock Repurchase Program

On July 26, 2022, the Company's Board of Directors approved a stock repurchase program of up to $50.0 million, which is expected to be in effect until July 26, 2023, or until the approved dollar amount has been used to repurchase shares (the "Repurchase Program"). Pursuant to the Repurchase Program, the Company may repurchase shares of its common stock in amounts, at prices and at such times as it deems appropriate, subject to market conditions and other considerations, including all applicable legal requirements. Repurchases may include purchases on the open market or privately negotiated transactions, under Rule 10b5-1 trading plans, under accelerated share repurchase programs, in tender offers and otherwise. The Repurchase Program does not obligate the Company to acquire any particular amount of shares of its common stock and may be modified or suspended at any time at its discretion. The Company did not conduct any repurchases under the Repurchase Program during the three months ended September 30, 2022.

Equity Offerings

On May 17, 2022, the Company entered into an underwriting agreement (the "Underwriting Agreement"), by and among the Company, ACREM, and Morgan Stanley & Co. LLC, Wells Fargo Securities, LLC, Citigroup Global Markets Inc. and UBS Securities LLC, as joint book running managers for the offering and 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 7,000,000 shares of the Company's common stock, par value $0.01 per share. The public offering closed on May 20, 2022 and generated net proceeds of approximately $103.2 million, after deducting transaction expenses.

Equity Incentive Plan

On April 23, 2012, the Company adopted an equity incentive plan, which was amended and restated in June 2018 (as further amended, the "Amended and Restated 2012 Equity Incentive Plan"). In February 2022, the Company's board of directors authorized, and in May 2022, the Company's stockholders approved, the first amendment to the Amended and Restated 2012 Equity Incentive Plan, which among other things, increased the total number of shares of common stock the Company may grant thereunder to 2,490,000 shares. Pursuant to the Amended and Restated 2012 Equity Incentive Plan, as amended by the first amendment, 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 three-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 the Company's 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, 2022:

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, 2021	16,640	25,373	497,161	539,174
Granted	24,780	—	—	24,780
Vested	(18,674)	(25,373)	(79,156)	(123,203)
Forfeited	—	—	(12,064)	(12,064)
Balance at September 30, 2022	22,746	—	405,941	428,687

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
2022	6,609	—	4,286	10,895
2023	14,052	—	169,608	183,660
2024	1,668	—	141,994	143,662
2025	417	—	90,053	90,470
2026	—	—	—	—
Total	22,746	—	405,941	428,687

11. 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, 2022 and 2021 ($ in thousands, except share and per share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Net income attributable to common stockholders	$ 644	$ 9,951	$ 26,875	$ 43,307
Divided by:				
Basic weighted average shares of common stock outstanding:	54,415,545	46,957,339	50,753,915	40,840,453
Weighted average non-vested restricted stock and RSUs	431,211	252,130	439,323	280,298
Diluted weighted average shares of common stock outstanding:	54,846,756	47,209,469	51,193,238	41,120,751
Basic earnings per common share	$ 0.01	$ 0.21	$ 0.53	$ 1.06
Diluted earnings per common share	$ 0.01	$ 0.21	$ 0.52	$ 1.05

12. 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 FL3 CLO Securitization and FL4 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 prior to the sale of the hotel on March 1, 2022.

The income tax provision for the Company and the TRSs consisted of the following for the three and nine months ended September 30, 2022 and 2021 ($ in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Current	$ 5	$ (35)	$ 28	$ 437
Deferred	—	—	—	—
Excise tax	—	35	180	156
Total income tax expense, including excise tax	$ 5	$ —	$ 208	$ 593

For the three months ended September 30, 2022, the Company did not incur any expense for U.S. federal excise tax. For the nine months ended September 30, 2022, the Company incurred an expense of $180 thousand for U.S. federal excise tax. For the three and nine months ended September 30, 2021, the Company incurred an expense of $35 thousand and $156 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 tax 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, 2022, tax years 2018 through 2022 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.

13. 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.

Recurring Fair Value Measurements

Derivative Financial Instruments

The Company is required to record derivative financial instruments at fair value on a recurring basis in accordance with GAAP. The fair value of interest rate derivatives was estimated using a third-party specialist, based on contractual cash flows and observable inputs comprising credit spreads.

Available-for-Sale Debt Securities

The Company designates investments in CRE debt securities as available-for-sale on the acquisition date of such CRE debt securities. The Company is required to record investments in available-for-sale debt securities at fair value on a recurring basis in accordance with GAAP. During the three months ended September 30, 2022, the Company acquired three CRE debt securities for an aggregate purchase price of $27.9 million, which consisted of floating rate, investment grade rated debt securities that had a weighted average coupon of SOFR plus 2.47%. The Company's available-for-sale debt securities have a contractual maturity greater than 10 years from the purchase date.

As of September 30, 2022, the Company had three CRE debt security investments designated as available-for-sale debt securities. As of December 31, 2021, the Company had no CRE debt security investments. The following table summarizes the Company's investments in available-for-sale debt securities as of September 30, 2022 ($ in thousands):

	Face Amount	Amortized Cost	Unamortized Discount	Unrealized Gain (Loss), Net
Available-for-sale debt securities	$ 28,000	$ 27,874	$ 126	$ (144)

The fair value of available-for-sale debt securities was estimated using third-party broker quotes, which provide valuation estimates based upon contractual cash flows, observable inputs comprising credit spreads and market liquidity.

The following tables summarize the financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021 ($ in thousands):

	As of September 30, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Interest rate derivatives	$ —	$ 10,181	$ —	$ 10,181
Available-for-sale debt securities	$ —	$ 27,730	$ —	$ 27,730
Financial liabilities:				
Interest rate derivatives	$ —	$ —	$ —	$ —

	As of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Interest rate derivatives	$ —	$ 2,979	$ —	$ 2,979
Financial liabilities:				
Interest rate derivatives	$ —	$ —	$ —	$ —

As of September 30, 2022 and December 31, 2021, the Company did not have any nonfinancial assets or liabilities required to be recorded at fair value on a recurring basis.

Nonrecurring Fair Value Measurements

The Company was required to record real estate owned, a nonfinancial asset, at fair value on a nonrecurring basis in accordance with GAAP. Real estate owned consisted 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 was recorded at fair value at acquisition using Level 3 inputs and is evaluated for indicators of impairment on a quarterly basis. Real estate owned was 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, 2022, the Company did not have any financial assets or liabilities or nonfinancial assets or liabilities required to be recorded at fair value on a nonrecurring basis. As of December 31, 2021, 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, 2022 and December 31, 2021, 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, 2022		December 31, 2021	
	Level in Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Loans held for investment	3	$ 2,508,609	$ 2,495,532	$ 2,414,383	$ 2,408,463
Financial liabilities:					
Secured funding agreements	2	$ 847,697	$ 847,697	$ 840,047	$ 840,047
Notes payable	3	104,411	103,530	50,358	51,110
Secured term loan	3	149,153	136,790	149,016	150,000
Collateralized loan obligation securitization debt (consolidated VIEs)	3	822,319	794,427	861,188	863,403
Secured borrowings	3	—	—	22,589	22,715

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, taking into consideration various factors including discount rates, actions of other lenders and comparable market quotes and recent trades for similar products.

14. 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.

On July 26, 2022, the Company and ACREM entered into an Amended and Restated Management Agreement to incorporate the provisions of prior amendments, the material terms of which have been previously disclosed, update its investment guidelines and to make certain clarifying changes regarding eligible expense reimbursements.

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 10 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 defined in the Management Agreement 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. On April 25, 2022, the Company and ACREM entered into an amendment to the Management Agreement to (a) exclude $2.4 million of net income associated with the sale of the real estate owned property for the three months ended March 31, 2022 and to (b) include $2.0 million of net income associated with the Company's gain on the termination of its interest rate cap derivative for the three months ended March 31, 2022, in each case, with respect to Core Earnings for the three months ended March 31, 2022. Core Earnings is defined in the Management Agreement and is used to calculate the incentive fees the Company pays to ACREM. For the three and nine months ended September 30, 2022, the Company incurred incentive fees of $855 thousand and $2.2 million, respectively. For the three and nine months ended September 30, 2021, the Company incurred incentive fees of $572 thousand and $1.9 million, 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 April 25, 2023, 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, 2022 and 2021 and amounts payable to the Company's Manager as of September 30, 2022 and December 31, 2021 ($ in thousands):

	Incurred				**Payable**	
	For the three months ended September 30,		**For the nine months ended September 30,**		**As of**	
	2022	**2021**	**2022**	**2021**	**September 30, 2022**	**December 31, 2021**
Affiliate Payments						
Management fees	$ 3,013	$ 2,602	$ 8,430	$ 6,770	$ 3,013	$ 2,613
Incentive fees	855	572	2,178	1,923	855	830
General and administrative expenses	1,011	773	2,641	2,313	1,011	703
Direct costs(1)	1	4	40	(3)	—	10
Total	$ 4,880	$ 3,951	$ 13,289	$ 11,003	$ 4,879	$ 4,156

(1) For the three and nine months ended September 30, 2022 and 2021, 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, 2022 and December 31, 2021, the total outstanding principal balance for co-investments held by the Company was $209.0 million and $158.3 million, respectively.

Loan Purchases From Affiliate

An affiliate of the Company's Manager maintains a $200.0 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. In addition, from time to time, the Company may purchase loans, including participations in loans, from other Ares Management managed investment vehicles. Loans purchased by the Company from the Ares Warehouse Vehicle or other Ares Management managed investment vehicles 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.

15. DIVIDENDS AND DISTRIBUTIONS

The following table summarizes the Company's dividends declared during the nine months ended September 30, 2022 and 2021 ($ in thousands, except per share data):

Date Declared	Record Date	Payment Date	Per Share Amount	Total Amount
July 29, 2022	September 30, 2022	October 17, 2022	$ 0.35 (1)	$ 19,196
May 3, 2022	June 30, 2022	July 15, 2022	0.35 (1)	19,198
February 15, 2022	March 31, 2022	April 14, 2022	0.35 (1)	16,740
Total cash dividends declared for the nine months ended September 30, 2022			$ 1.05	$ 55,134
July 30, 2021	September 30, 2021	October 15, 2021	$ 0.35 (1)	$ 16,523
May 4, 2021	June 30, 2021	July 15, 2021	0.35 (1)	16,528
February 17, 2021	March 31, 2021	April 15, 2021	0.35 (1)	14,248
Total cash dividends declared for the nine months ended September 30, 2021			$ 1.05	$ 47,299

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(1) Consists of a regular cash dividend of $0.33 and a supplemental cash dividend of $0.02.

16. 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 investments in the CLO Securitizations (as defined below), which are considered to be variable interests in VIEs.

CLO Securitizations

On January 11, 2019, ACRE Commercial Mortgage 2017-FL3 Ltd. (the "FL3 Issuer") and ACRE Commercial Mortgage 2017-FL3 LLC (the "FL3 Co-Issuer"), both wholly-owned indirect subsidiaries of the Company, entered into an Amended and Restated Indenture (the "FL3 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 "FL3 Notes") issued by the FL3 Issuer and $52.9 million of preferred equity in the FL3 Issuer (the "FL3 CLO Securitization"). The FL3 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 FL3 Issuer.

As of September 30, 2022, the FL3 Notes were collateralized by interests in a pool of 15 mortgage assets having a total principal balance of $427.2 million (the "FL3 Mortgage Assets") that were closed by a wholly-owned subsidiary of the Company and approximately $129.8 million of receivables related to repayments of outstanding principal on previous mortgage assets. As of December 31, 2021, the FL3 Notes were collateralized by interests in a pool of 16 mortgage assets having a total principal balance of approximately $451.6 million that were closed by a wholly-owned subsidiary of the Company and approximately $105.4 million of receivables related to repayments of outstanding principal on previous mortgage assets. On April 13, 2021, the FL3 Issuer and the FL3 Co-Issuer entered into a First Supplement to Amended and Restated Indenture (the "2021 Amended Indenture") with Wells Fargo Bank, National Association, as advancing agent and note administrator, and Wilmington Trust, National Association, as trustee, which governs the FL3 CLO Securitization. The purpose of the 2021 Amended Indenture was to, among other things, extend the reinvestment period to March 31, 2024. During the reinvestment period, the Company may direct the FL3 Issuer to acquire additional mortgage assets meeting applicable reinvestment criteria using the principal repayments from the FL3 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 FL3 Mortgage Assets to the Issuer is governed by a Mortgage Asset Purchase Agreement between the Seller and the FL3 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 FL3 Issuer and FL3 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 "FL3 Offered Notes") to a third party. The Company retained (through one of its wholly-owned subsidiaries) approximately $58.5 million of the FL3 Notes and all of the $52.9 million of preferred equity in the FL3 Issuer, which totaled $111.4 million. The Company, as the holder of the subordinated FL3 Notes and all of the preferred equity in the FL3 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.

On January 28, 2021, ACRE Commercial Mortgage 2021-FL4 Ltd. (the "FL4 Issuer") and ACRE Commercial Mortgage 2021-FL4 LLC (the "FL4 Co-Issuer"), both wholly owned indirect subsidiaries of the Company, entered into an Indenture (the "FL4 Indenture") with ACRC Lender LLC, a wholly owned subsidiary of the Company (the "Seller"), as advancing agent, Wells Fargo Bank, National Association, as note administrator, and Wilmington Trust, National Association, as trustee, which governs the issuance of approximately $603.0 million principal balance secured floating rate notes (the "FL4 Notes") and $64.3 million of preferred equity in the FL4 Issuer (the "FL4 CLO Securitization"). For U.S. federal income tax purposes, the FL4 Issuer and FL4 Co-Issuer are disregarded entities.

As of September 30, 2022, the FL4 Notes were collateralized by interests in a pool of 13 mortgage assets having a total principal balance of approximately $503.4 million (the "FL4 Mortgage Assets") that were closed by a wholly-owned subsidiary of the Company and approximately $1.9 million of receivables related to repayments of outstanding principal on previous mortgage assets. As of December 31, 2021, the FL4 Notes were collateralized by interests in a pool of 17 mortgage assets having a total principal balance of approximately $522.8 million that were closed by a wholly-owned subsidiary of the Company and approximately $23.2 million of receivables related to repayments of outstanding principal on previous mortgage assets. During the period ending in April 2024 (the "Companion Participation Acquisition Period"), the FL4 Issuer may use certain principal proceeds from the FL4 Mortgage Assets to acquire additional funded pari-passu participations related to the FL4 Mortgage Assets that meet certain acquisition criteria.

The sale of the FL4 Mortgage Assets to the FL4 Issuer is governed by a FL4 Mortgage Asset Purchase Agreement between the Seller and the FL4 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 FL4 CLO Securitization, the FL4 Issuer and FL4 Co-Issuer offered and issued the following classes of FL4 Notes to third party investors: Class A, Class A-S, Class B, Class C, Class D and Class E Notes (collectively, the “FL4 Offered Notes”). A wholly owned subsidiary of the Company retained approximately $62.5 million of the FL4 Notes and all of the $64.3 million of preferred equity in the FL4 Issuer, which totaled $126.8 million. The Company, as the holder of the subordinated FL4 Notes and all of the preferred equity in the FL4 Issuer, has the obligation to absorb losses of the FL4 CLO Securitization, since the Company has a first loss position in the capital structure of the FL4 CLO Securitization. During the three months ended September 30, 2022, the Company paid down $29.7 million of the FL4 Offered Notes.

The FL3 CLO Securitization and the FL4 CLO Securitization are collectively referred to as the “CLO Securitizations.” As the directing holder of the CLO Securitizations, the Company has the ability to direct activities that could significantly impact the CLO Securitizations’ economic performance. ACRES is designated as special servicer of the CLO Securitizations 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 Securitizations’ 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 Securitizations’ 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 each of the CLO Securitizations; thus, the CLO Securitizations are consolidated into the Company’s consolidated financial statements.

The CLO Securitizations are consolidated in accordance with FASB ASC Topic 810 and are structured as pass through entities that receive 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 Securitizations are restricted and can only be used to fulfill the obligations of the respective CLO Securitizations. Additionally, the obligations of the CLO Securitizations 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 Securitizations 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 Securitizations are 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 structures. As such, the risk associated with the Company’s involvement in the CLO Securitizations are limited to the carrying value of its investment in each of the entities. As of September 30, 2022, the Company’s maximum risk of loss was $238.2 million, which represents the carrying value of its investments in the CLO Securitizations.

17. 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, 2022, except as disclosed below.

The Company’s Board of Directors declared a regular cash dividend of $0.33 per common share and a supplemental cash dividend of $0.02 per common share for the fourth quarter of 2022. The fourth quarter 2022 and supplemental cash dividends will be payable on January 18, 2023 to common stockholders of record as of December 30, 2022.

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

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 originally dated April 25, 2012, and amended and restated on July 26, 2022, 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 2022:

- ACRE purchased a $17.6 million senior mortgage loan on a self storage property located in New Jersey from a third party.
- ACRE purchased an $11.5 million senior mortgage loan on a self storage property located in Washington from a third party.
- ACRE originated a $20.6 million mezzanine loan on a multifamily property located in South Carolina.
- ACRE purchased a AAA rated CRE debt security with a face amount of $18.0 million from a third party.
- ACRE purchased a AAA rated CRE debt security with a face amount of $5.0 million from a third party.
- ACRE purchased a AAA rated CRE debt security with a face amount of $5.0 million from a third party.
- A wholly owned subsidiary of ACRE closed a $105.0 million note financing, which is secured by a $133.0 million senior mortgage loan held by ACRE on a multifamily property located in New York and is fully and unconditionally guaranteed by ACRE pursuant to a Guaranty of Recourse Obligation. The initial maturity date of the $105.0 million note is July 28, 2025, 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 to July 28, 2027. Advances under the $105.0 million note accrue interest at a per annum rate equal to the sum of one-month SOFR plus a spread of 2.00%.
- ACRE's Board of Directors approved a stock repurchase program of up to $50.0 million, which is expected to be in effect until July 26, 2023, or until the approved dollar amount has been used to repurchase shares (the "Repurchase Program"). Pursuant to the Repurchase Program, ACRE may repurchase shares of its common stock in amounts, at prices and at such times as it deems appropriate, subject to market conditions and other considerations, including all applicable legal requirements.

Trends Affecting Our Business

Global markets continued to see volatility during the third quarter, fueled by further tightening of monetary policy and geopolitical uncertainty. In response to heightened inflation, the Federal Reserve continues to raise interest rates, which has created further uncertainty for the economy and for our borrowers. These current macroeconomic conditions may continue or aggravate and could cause the United States economy or other global economies to experience an economic slowdown or recession. We continue to monitor the uncertainty surrounding inflation and rising interest rates; however, the full impact that these factors may have on our business remains uncertain.

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.

Stock Repurchase Program

On July 26, 2022, our Board of Directors approved a stock repurchase program of up to $50.0 million, which is expected to be in effect until July 26, 2023, or until the approved dollar amount has been used to repurchase shares (the “Repurchase Program”). Pursuant to the Repurchase Program, we may repurchase shares of our common stock in amounts, at prices and at such times as we deem appropriate, subject to market conditions and other considerations, including all applicable legal requirements. Repurchases may include purchases on the open market or privately negotiated transactions, under Rule 10b5-1 trading plans, under accelerated share repurchase programs, in tender offers and otherwise. The Repurchase Program does not obligate us to acquire any particular amount of shares of our common stock and may be modified or suspended at any time at our discretion. We did not conduct any repurchases under the Repurchase Program during the three months ended September 30, 2022.

Loans Held for Investment Portfolio

As of September 30, 2022, our portfolio included 70 loans held for investment, excluding 139 loans that were repaid, sold or converted to real estate owned since inception. As of September 30, 2022, the aggregate originated commitment under these loans at closing was approximately $2.9 billion and outstanding principal was $2.5 billion. During the nine months ended September 30, 2022, we funded approximately $601.8 million of outstanding principal and received repayments of $503.9 million of outstanding principal. As of September 30, 2022, 90.8% of our loans have LIBOR or SOFR floors, with a weighted average floor of 0.92%, calculated based on loans with LIBOR or SOFR floors. References to LIBOR or “L” are to 30-day LIBOR and references to SOFR or “S” are to 30-day SOFR (unless otherwise specifically stated).

Other than as set forth in Note 3 to our consolidated financial statements included in this quarterly report on Form 10-Q, as of September 30, 2022, 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, 2022 ($ in thousands):

	As of September 30, 2022				
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Unleveraged Effective Yield		Weighted Average Remaining Life (Years)
Senior mortgage loans	$ 2,470,545	$ 2,488,199	7.3 % (2)	7.7 % (3)	1.4
Subordinated debt and preferred equity investments	38,064	38,834	13.3 % (2)	13.3 % (3)	3.1
Total loans held for investment portfolio	$ 2,508,609	$ 2,527,033	7.4 % (2)	7.8 % (3)	1.4

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(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, 2022 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, 2022 as weighted by the total outstanding principal balance of each interest accruing loan (excludes loans on non-accrual status as of September 30, 2022).

Critical Accounting Estimates

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. These 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 estimates as disclosed in Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2021 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.

RECENT DEVELOPMENTS

Our Board of Directors declared a regular cash dividend of $0.33 per common share and a supplemental cash dividend of $0.02 per common share for the fourth quarter of 2022. The fourth quarter 2022 and supplemental cash dividends will be payable on January 18, 2023 to common stockholders of record as of December 30, 2022.

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, 2022 and 2021 ($ in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Total revenue	$ 27,271	$ 27,204	$ 76,440	$ 71,958
Total expenses	7,137	10,886	24,895	28,814
Provision for current expected credit losses	19,485	6,367	26,659	(756)
Gain on sale of real estate owned	—	—	2,197	—
Income before income taxes	649	9,951	27,083	43,900
Income tax expense, including excise tax	5	—	208	593
Net income attributable to common stockholders	$ 644	$ 9,951	$ 26,875	$ 43,307

The following tables set forth select details of our consolidated results of operations for the three and nine months ended September 30, 2022 and 2021 ($ in thousands):

Net Interest Margin

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Interest income	$ 45,633	$ 34,023	$ 117,619	$ 95,587
Interest expense	(18,362)	(12,669)	(43,851)	(35,900)
Net interest margin	$ 27,271	$ 21,354	$ 73,768	$ 59,687

For the three months ended September 30, 2022 and 2021, net interest margin was approximately $27.3 million and $21.4 million, respectively. For the three months ended September 30, 2022 and 2021, interest income of $45.6 million and $34.0 million, respectively, was generated by weighted average earning assets of $2.6 billion and $2.3 billion, respectively, offset by $18.4 million and $12.7 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 and the Morgan Stanley Facility (individually defined below and collectively, the "Secured Funding Agreements"), Notes Payable (as defined below), the Secured Term Loan, Secured Borrowings and securitization debt (as defined below) were $1.9 billion for the three months ended September 30, 2022 and $1.7 billion for the three months ended September 30, 2021. The increase in net interest margin for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 primarily relates to an increase in our weighted average earning assets and weighted average borrowings for the three months ended September 30, 2022, the benefit received from our interest rate hedging derivative contracts for the three months ended September 30, 2022, the benefit received from the increase in LIBOR and SOFR rates on our loans held for investment for the three months ended September 30, 2022 and the impact of the accelerated recognition of deferred fees and prepayment penalties received from borrowers related to loans that were repaid during the three months ended September 30, 2022.

For the nine months ended September 30, 2022 and 2021, net interest margin was approximately $73.8 million and $59.7 million, respectively. For the nine months ended September 30, 2022 and 2021, interest income of $117.6 million and $95.6 million, respectively, was generated by weighted average earning assets of $2.5 billion and $2.1 billion, respectively, offset by $43.9 million and $35.9 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 was recognized as real estate owned in our consolidated balance sheets), the Secured Term Loan, Secured Borrowings and securitization debt were $1.9 billion for the nine months ended September 30, 2022 and $1.6 billion for the nine months ended September 30, 2021. The increase in net interest margin for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 primarily relates to an increase in our weighted average earning assets and weighted average borrowings for the nine months ended September 30, 2022, the benefit received from our interest rate hedging derivative contracts for the nine months ended September 30, 2022, the benefit received from the increase in LIBOR and SOFR rates on our loans held for investment for the nine months ended September 30, 2022 and the impact of the accelerated recognition of deferred fees and prepayment penalties received from borrowers related to loans that were repaid during the nine months ended September 30, 2022.

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, 2022, there was no revenue from real estate owned as we closed the sale of the hotel property to a third party on March 1, 2022. For the three months ended September 30, 2021, revenue from real estate owned was $5.9 million. For the nine months ended September 30, 2022 and 2021, revenue from real estate owned was $2.7 million and $12.3 million, respectively. Revenues consisted of room sales, food and beverage sales and other hotel revenues. The decrease in revenue from real estate owned for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 is primarily due to the nine months ended September 30, 2022 only including two months of hotel operations. In connection with the sale of the hotel property, we provided a senior mortgage loan to the buyer of the hotel property. The initial advance funded under such loan was $30.7 million, with up to another $25.0 million of additional loan proceeds to be available for future advances to cover a portion of the anticipated property renovation plan costs, provided certain conditions are satisfied. At closing, the buyer contributed $12.9 million of equity into the purchase. Additionally, the buyer is required to fund an additional $8.7 million of equity associated with the anticipated property renovation plan costs.

Operating Expenses

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Management and incentive fees to affiliate	$ 3,868	$ 3,175	$ 10,608	$ 8,693
Professional fees	842	480	2,720	1,880
General and administrative expenses	1,416	1,119	4,617	3,470
General and administrative expenses reimbursed to affiliate	1,011	773	2,641	2,313
Expenses from real estate owned	—	5,339	4,309	12,458
Total expenses	$ 7,137	$ 10,886	$ 24,895	$ 28,814

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 months ended September 30, 2022 compared to the three months ended September 30, 2021 and the cause of the decrease in operating expenses for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

Related Party Expenses

For the three months ended September 30, 2022, related party expenses included $3.9 million in management and incentive fees due to our Manager pursuant to the Management Agreement, which consisted of $3.0 million in management fees and $0.9 million in incentive fees. For the three months ended September 30, 2022, related party expenses also included $1.0 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, 2021, related party expenses included $3.2 million in management and incentive fees due to our Manager pursuant to the Management Agreement, which consisted of $2.6 million in management fees and $0.6 million in incentive fees. For the three months ended September 30, 2021, 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, 2022 compared to the three months ended September 30, 2021 primarily relates to an increase in our weighted average stockholders' equity for the three months ended September 30, 2022 as a result of the public offering of 7,000,000 shares of our common stock in May 2022, which generated net proceeds of approximately $103.2 million. The increase in incentive fees for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, primarily relates to our Core Earnings (as defined below) for the twelve months ended September 30, 2022 exceeding the 8% minimum return by a higher margin than the twelve months ended September 30, 2021. "Core Earnings" is defined in the Management Agreement 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 three months ended September 30, 2022 compared to the three months ended September 30, 2021 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 and the inclusion of additional eligible expense reimbursements per the Amended and Restated Management Agreement that became effective during the three months ended September 30, 2022.

For the nine months ended September 30, 2022, related party expenses included $10.6 million in management and incentive fees due to our Manager pursuant to the Management Agreement, which consisted of $8.4 million in management fees and $2.2 million in incentive fees. For the nine months ended September 30, 2022, related party expenses also included $2.6 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, 2021, related party expenses included $8.7 million in management and incentive fees due to our Manager pursuant to the Management Agreement, which consisted of $6.8 million in management fees and $1.9 million in incentive fees. For the nine months ended September 30, 2021, 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, 2022 compared to the nine months ended September 30, 2021 primarily relates to an increase in our weighted average stockholders' equity for the nine months ended September 30, 2022 as a result of the public offering of 7,000,000 shares of our common stock in March 2021, which generated net proceeds of approximately $100.7 million, the public offering of 6,500,000 shares of our common stock in June 2021, which generated net proceeds of approximately $101.6 million and the public offering of 7,000,000 shares of our common stock in May 2022, which generated net proceeds of approximately $103.2 million. The increase in incentive fees for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 primarily relates to our Core Earnings for the twelve months ended September 30, 2022 exceeding the 8% minimum return by a higher margin than the twelve months ended September 30, 2021. On April 25, 2022, ACRE and ACREM entered into an amendment to the Management Agreement to (a) include a $2.4 million adjustment to reverse the impact of accumulated depreciation following the sale of the real estate owned property for the three months ended March 31, 2022 and to (b) include a $2.0 million adjustment to include the realized gain from the termination of the interest rate cap derivative for the three months ended March 31, 2022, in each case, with respect to Core Earnings for the three months ended March 31, 2022. Core Earnings is defined in the Management Agreement and is used to calculate the incentive fees the Company pays to ACREM. The increase in allocable general and administrative expenses due to our Manager for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 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 and the inclusion of additional eligible expense reimbursements per the Amended and Restated Management Agreement that became effective during the nine months ended September 30, 2022.

Other Expenses

For the three months ended September 30, 2022 and 2021, professional fees were $0.8 million and $0.5 million, respectively. The increase in professional fees for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 primarily relates to an increase in our use of third-party professionals due to changes in transaction activity year over year. For the three months ended September 30, 2022 and 2021, general and administrative expenses were $1.4 million and $1.1 million, respectively. The increase in general and administrative expenses for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 primarily relates to an increase in stock-based compensation expense due to new restricted stock and restricted stock unit grants awarded after September 30, 2021.

For the nine months ended September 30, 2022 and 2021, professional fees were $2.7 million and $1.9 million, respectively. The increase in professional fees for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 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, 2022 and 2021, general and administrative expenses were $4.6 million and $3.5 million, respectively. The increase in general and administrative expenses for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 primarily relates to an increase in stock-based compensation expense due to restricted stock and restricted stock unit awards granted after September 30, 2021.

Expenses From Real Estate Owned

For the three and nine months ended September 30, 2022 and 2021, 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,	
	2022	**2021**	**2022**	**2021**
Hotel operating expenses	$ —	$ 4,694	$ 3,631	$ 10,539
Interest expense on note payable	—	420	678	1,245
Depreciation expense	—	225	—	674
Expenses from real estate owned	$ —	$ 5,339	$ 4,309	$ 12,458

For the three months ended September 30, 2022, there were no expenses from real estate owned as we closed the sale of the hotel property to a third party on March 1, 2022. For the three months ended September 30, 2021, hotel operating expenses were $4.7 million. Hotel operating expenses consisted 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 included housekeeping and front office wages and payroll taxes, reservation systems, room supplies, laundry services and other costs. Food and beverage expense primarily included the cost of food, the cost of beverages and associated labor costs. Other operating expenses included 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. For the three months ended September 30, 2021, interest expense on our note payable was $0.4 million. For the three months ended September 30, 2021, depreciation expense was $0.2 million.

For the nine months ended September 30, 2022 and 2021, hotel operating expenses were $3.6 million and $10.5 million, respectively. The decrease in hotel operating expenses for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 is primarily due to the nine months ended September 30, 2022 only including two months of hotel operations. For the nine months ended September 30, 2022 and 2021, interest expense on our note payable was $0.7 million and $1.2 million, respectively. The decrease in interest expense on our note payable for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 is primarily attributed to the nine months ended September 30, 2022 only including two months of hotel operations. This was partially offset by the accelerated recognition of deferred costs for the nine months ended September 30, 2022 due to the repayment of our note payable in conjunction with the sale of the hotel property to a third party on March 1, 2022. For the nine months ended September 30, 2022, no depreciation expense was incurred as the hotel property was classified as real estate owned held for sale effective in November 2021. For the nine months ended September 30, 2021, depreciation expense was $0.7 million.

Provision for Current Expected Credit Losses

For the three months ended September 30, 2022 and 2021, the provision for current expected credit losses was $19.5 million and $6.4 million, respectively. The increase in the provision for current expected credit losses for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 is primarily due to changes to the loan portfolio and the impact of the current macroeconomic environment on certain assets, including rising inflation, geopolitical uncertainty, rapidly rising interest rates and the ongoing effects of the COVID-19 pandemic, partially offset by shorter average remaining loan term and loan repayments during the three months ended September 30, 2022.

For the nine months ended September 30, 2022 and 2021, the provision for current expected credit losses was $26.7 million and $(0.8) million, respectively. The increase in the provision for current expected credit losses for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 is primarily due to changes to the loan portfolio and the impact of the current macroeconomic environment on certain assets, including rising inflation, geopolitical uncertainty, rapidly rising interest rates and the ongoing effects of the COVID-19 pandemic, partially offset by shorter average remaining loan term and loan repayments during the nine months ended September 30, 2022.

The current expected credit loss reserve (“CECL Reserve”) takes into consideration our estimates relating to the impact of macroeconomic conditions on CRE properties and is not specific to any loan losses or impairments on our loans held for investment, unless the Company determines that a specific reserve is warranted for a select asset. 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 macroeconomic and geopolitical conditions and the ongoing effects of the COVID-19 pandemic.

Gain on Sale of Real Estate Owned

For the nine months ended September 30, 2022, we recognized a $2.2 million gain on the sale of the hotel property that was recognized as real estate owned as the net carrying value of the hotel property as of the March 1, 2022 sale date was lower than the net sales proceeds received by the Company.

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 equity 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.

We expect our primary sources of cash to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities for at least the next 12 months and thereafter for the foreseeable future. Due to the impact of the COVID-19 pandemic, in 2020 and to a lesser extent for the periods following, we experienced borrowers unable to pay interest and principal payments timely, including at the maturity date of the borrower's loan. 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 proactively engaged in discussions with certain of our lenders in 2020 and to a lesser extent in periods following to modify the terms of our borrowings on certain assets within these facilities, in order to, among other things, reduce the amounts we are borrowing against such assets and/or increase the borrowing spreads. As a result of current macroeconomic and geopolitical conditions and the ongoing risks of COVID-19, there is no guarantee that borrowers will be able to pay interest and principal payments timely. 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.

Subject to maintaining our qualification as a REIT and our exemption from registration under 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 June 30, 2022, we filed a registration statement on Form S-3 with the SEC, which became effective on July 26, 2022, 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. 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 (i) reinvestment provisions in our FL3 CLO Securitization, which allows us to replace mortgage assets in our FL3 CLO Securitization which have repaid and (ii) future funding acquisition provisions in our FL4 collateralized loan obligation securitization debt ("FL4 CLO Securitization", together with our FL3 CLO Securitization, our "CLO Securitizations"), which allows us to use mortgage asset repayment funds to acquire additional funded pari-passu participations related to the mortgage assets then-remaining in our FL4 CLO Securitization; each subject to the satisfaction of certain reinvestment or acquisition conditions, which may include receipt of a Rating Agency Confirmation and investor approval. There can be no assurance that the conditions for reinvestment or acquisition will be satisfied and whether our CLO Securitizations will acquire any additional mortgage assets or funded pari-passu participations. In addition, our CLO Securitizations contain certain senior note overcollateralization ratio tests. To the extent we fail to meet these tests, amounts that would otherwise be used to make payments on the subordinate securities that we hold will be used to repay principal on the more senior securities to the extent necessary to satisfy any senior note overcollateralization ratio and we may incur significant losses. Our sources of liquidity may be impacted to the extent we do not receive cash payments that we would otherwise expect to receive from the CLO Securitizations if these tests were met.

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

We have commitments to fund various senior mortgage loans, as well as subordinated debt and preferred equity investments in our portfolio. 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.

As of November 1, 2022, we had approximately $156 million in liquidity including $81 million of unrestricted cash and $75 million of availability under secured funding agreements.

At the Market Stock Offering Program

On November 22, 2019, we entered into an equity distribution agreement (the “Equity Distribution Agreement”), pursuant to which we offered and sold, from time to time, shares of our 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, were 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, 2022, we sold 190,369 shares of common stock under the Equity Distribution Agreement. On June 30, 2022, we filed a new registration statement on Form S-3 with the SEC, which became effective on July 26, 2022; however, the “at the market offering” program is currently unavailable.

Equity Offerings

On May 17, 2022, we entered into an underwriting agreement (the “Underwriting Agreement”), by and among us, ACREM, and Morgan Stanley & Co. LLC, Wells Fargo Securities, LLC, Citigroup Global Markets Inc. and UBS Securities LLC, as joint book running managers for the offering and 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 7,000,000 shares of our common stock, par value $0.01 per share. The public offering closed on May 20, 2022 and generated net proceeds of approximately $103.2 million, after deducting transaction expenses.

Cash Flows

The following table sets forth changes in cash and cash equivalents for the nine months ended September 30, 2022 and 2021 ($ in thousands):

	For the nine months ended September 30, 2022	For the nine months ended September 30, 2021
Net income	$ 26,875	$ 43,307
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	15,192	(13,027)
Net cash provided by (used in) operating activities	42,067	30,280
Net cash provided by (used in) investing activities	(63,954)	(575,079)
Net cash provided by (used in) financing activities	48,569	485,810
Change in cash and cash equivalents	$ 26,682	$ (58,989)

During the nine months ended September 30, 2022 and 2021, cash and cash equivalents increased (decreased) by $26.7 million and $(59.0) million, respectively.

Operating Activities

For the nine months ended September 30, 2022 and 2021, net cash provided by operating activities totaled $42.1 million and $30.3 million, respectively. For the nine months ended September 30, 2022, adjustments to net income related to operating activities primarily included the provision for current expected credit losses of $26.7 million, accretion of discounts, deferred loan origination fees and costs of $7.9 million, amortization of deferred financing costs of $5.7 million, change in other assets of $9.8 million and gain on sale of real estate owned of $2.2 million. For the nine months ended September 30, 2021, adjustments to net income related to operating activities primarily included the provision for current expected credit losses of $0.8 million, accretion of discounts, deferred loan origination fees and costs of $6.0 million, amortization of deferred financing costs of $7.1 million and change in other assets of $16.7 million.

Investing Activities

For the nine months ended September 30, 2022 and 2021, net cash used in investing activities totaled $64.0 million and $575.1 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 and purchases of available-for-sale debt securities exceeding the cash received from principal repayment of loans held for investment and from the sale of real estate owned for the nine months ended September 30, 2022.

Financing Activities

For the nine months ended September 30, 2022, net cash provided by financing activities totaled $48.6 million and primarily related to proceeds from our Secured Funding Agreements of $225.2 million, proceeds from our Notes Payable of $105.0 million and proceeds from the sale of our common stock of $106.3 million, partially offset by repayments of our Secured Funding Agreements of $217.5 million, repayments of our Notes Payable of $51.1 million, repayments of debt of consolidated VIEs of $40.7 million and dividends paid of $52.6 million. For the nine months ended September 30, 2021, net cash provided by financing activities totaled $485.8 million and primarily related to proceeds from our Secured Funding Agreements of $611.5 million, proceeds from the issuance of debt of consolidated VIEs of $540.5 million and proceeds from the sale of our common stock of $202.7 million, partially offset by repayments of our Secured Funding Agreements of $711.1 million, repayments of our Notes Payable of $27.9 million, repayments of our Secured Term Loan of $50.0 million, repayments of debt of consolidated VIEs of $41.0 million and dividends paid of $41.9 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, 2022					December 31, 2021				
	Total Commitment	Outstanding Balance	Interest Rate	Maturity Date		Total Commitment	Outstanding Balance	Interest Rate	Maturity Date	
Secured Funding Agreements:										
Wells Fargo Facility	$ 450,000	$ 353,920	Base Rate[1]+1.50 to 2.75%	December 14, 2022	(2)	$ 450,000	$ 399,528	LIBOR+1.50 to 2.75%	December 14, 2022	(2)
Citibank Facility	325,000	273,269	Base Rate[1]+1.50 to 2.10%	January 13, 2025	(3)	325,000	192,970	LIBOR+1.50 to 2.25%	January 13, 2022	(3)
CNB Facility	75,000	—	SOFR+2.65%	March 10, 2023	(4)	75,000	—	SOFR+2.65%	March 10, 2022	(4)
MetLife Facility	180,000	20,648	Base Rate[1]+2.10 to 2.50%	August 13, 2023	(5)	180,000	20,648	LIBOR+2.10 to 2.50%	August 13, 2022	(5)
Morgan Stanley Facility	250,000	199,860	Base Rate[1]+1.50 to 3.00%	January 16, 2023	(6)	250,000	226,901	LIBOR+1.50 to 3.00%	January 16, 2023	(6)
Subtotal	$ 1,280,000	$ 847,697				$ 1,280,000	$ 840,047			
Notes Payable	$ 105,000	$ 105,000	SOFR+2.00%	July 28, 2025	(7)	$ 51,755	$ 51,110	LIBOR+3.00 to 3.75%	(7)	
Secured Term Loan	$ 150,000	$ 150,000	4.50%	November 12, 2026	(8)	$ 150,000	$ 150,000	4.50%	November 12, 2026	(8)
Total	$ 1,535,000	$ 1,102,697				$ 1,481,755	$ 1,041,157			

(1) The base rate is LIBOR for loans pledged prior to December 31, 2021 and SOFR for loans pledged subsequent to December 31, 2021.

(2) 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. The maximum commitment may be increased to up to $500.0 million at our option, subject to the satisfaction of certain conditions, including payment of an upsize fee.

(3) In January 2022, we amended the Citibank Facility to, among other things, extend the initial maturity date and funding availability period to January 13, 2025, subject to two 12-month extensions, each of which may be exercised at our option provided that certain conditions are met and applicable extension fees are paid.

(4) In March 2022, we exercised a 12-month extension option on the secured revolving funding facility with City National Bank (the "CNB Facility").

(5) In July 2022, we exercised a 12-month extension option on the revolving master repurchase facility with Metropolitan Life Insurance Company (the "MetLife Facility"). The MetLife Facility is subject to one 12-month extension, which may be exercised at our option provided that certain conditions are met and applicable extension fees are paid.

(6) 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.

(7) A wholly owned subsidiary of ours is party to a Credit and Security Agreement with the lender referred to therein, which provides for a $105.0 million note (the "Notes Payable"). The $105.0 million note is subject to two 12-month extensions at our option provided that certain conditions are met and applicable extension fees are paid. A consolidated subsidiary of ours was party to a $23.5 million note agreement with the lender referred to therein. In June 2022, the $23.5 million note was repaid in full and not extended. The outstanding principal on the note at the time of repayment was $22.8 million. In March 2022, the $28.3 million note, which was secured by a hotel property located in New York that was recognized as real estate owned in our consolidated balance sheets, was repaid in full and not extended. The outstanding principal on the note at the time of repayment was $28.3 million.

(8) 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 November 12, 2026 and the interest rate on advances under the Secured Term Loan are the following fixed rates: (i) 4.50% per annum until May 12, 2025, (ii) after May 12, 2025 through November 12, 2025, the interest rate increases 0.125% every three months and (iii) after November 12, 2025 through November 12, 2026, the interest rate increases 0.250% every three months.

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, 2022, 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, 2022, the carrying amount and outstanding principal of our CLO Securitizations was $822.3 million and $824.1 million, respectively. See Note 16 to our consolidated financial statements included in this quarterly report on Form 10-Q for additional terms and details of our CLO Securitizations.

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 4.5-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 macroeconomic and geopolitical conditions, including the ongoing 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 or SOFR 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 and debt service requirements under 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 elect to make a portion of the Required Distribution in the form of a taxable stock distribution or distribution of debt securities.

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, financing, real estate and inflation 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, or borrowers may not be able to repay principal upon the loan maturity or qualify for loan extensions due to macroeconomic and geopolitical conditions, which include rising interest rates, and the ongoing impact of the COVID-19 pandemic. 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 macroeconomic and geopolitical conditions and 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 have entered into or 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 discussed above, 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, which may be mitigated by borrower purchased interest rate caps.

Interest Rate Effect on Net Income

Our interest income and expense will generally change directionally with index rates. The impact of declining interest rates may be mitigated by interest rate floors and the impact of rising or declining interest rates may be mitigated by certain hedging transactions that we have entered into or may enter into in the future. 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 or SOFR as of September 30, 2022, (2) no change in the outstanding principal balance of our loans held for investment portfolio and borrowings as of September 30, 2022 and (3) no change in the notional amount of the interest rate swap agreement entered into as of September 30, 2022 ($ in millions):

Change in 30-Day LIBOR or SOFR	Increase/(Decrease) in Net Income
Up 100 basis points	$11.0
Up 50 basis points	$5.5
LIBOR or SOFR at 0 basis points	$(14.9)

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 or hedging transactions. 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 Floor Risk

We primarily originate or acquire floating rate mortgage and mortgage-related assets. Some of these mortgage assets may be subject to interest rate floors. Similarly, some of our borrowing costs may be subject to interest rate floors. 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 index rates, changes in credit spreads and other factors. In general, in a rising interest rate environment, whether due to increases in index rates or credit spreads, the estimated fair value of our fixed-rate investments would generally be expected to decrease; conversely, in a decreasing interest rate environment, whether due to decreases in index rates or credit spreads, the estimated fair value of our fixed-rate investments would generally be expected to increase. Also, in general, in a widening credit spread environment, the estimated fair value of our floating rate investments would generally be expected to decrease. However, in a compressing credit spread environment, the estimated fair value of our floating rate investments may not increase, particularly if prepayment restrictions are not in place and our floating rate investments are fully prepayable. As market volatility increases or liquidity decreases, the fair value of our investments and liabilities 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 Securitizations are applied sequentially, first used to pay down the senior notes in the CLO Securitizations. We will not receive any proceeds from the repayment of loans in the CLO Securitizations until all senior notes are repaid in full.

Financing Risk

We borrow funds under our Financing Agreements to finance our target assets. 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. In addition, our CLO Securitizations contain certain senior note overcollateralization ratio tests. To the extent we fail to meet these tests, amounts that would otherwise be used to make payments on the subordinate securities that we hold will be used to repay principal on the more senior securities to the extent necessary to satisfy any senior note overcollateralization ratio and we may incur significant losses. Our sources of liquidity may be impacted to the extent we do not receive cash payments that we would otherwise expect to receive from the CLO Securitizations if these tests were met. 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 has had, and continues to have, particularly adverse impact on industries whose properties serve as collateral for some of our portfolio of loan investments. For example, increased demand for work-from-home arrangements, resulting from the COVID-19 pandemic, may adversely impact the operations of office properties. 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 but adverse changes in inflation or changes in inflation expectations can lead to lower returns on our investments than originally anticipated. 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, 2022. Based upon that evaluation and subject to the foregoing, our principal executive officer and principal financial officer concluded that, as of September 30, 2022, 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, 2022 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, 2022, we were not subject to any material pending legal proceedings. If the current macroeconomic and geopolitical 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

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021. You should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K 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.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1) ($ in thousands)
July 1, 2022 - July 31, 2022	—	$—	—	$50,000
August 1, 2022 - August 31, 2022	—	—	—	50,000
September 1, 2022 - September 30, 2022	—	—	—	50,000
Total	—		—	

(1) On July 26, 2022, our Board of Directors approved the Repurchase Program of up to $50 million of our common stock which is expected to be in effect until July 26, 2023, or until the approved dollar amount has been used to repurchase shares. As of September 30, 2022, $50 million remained available for future purchases of our common stock under the Repurchase

Program. The Repurchase Program does not obligate us to acquire any particular amount of shares of our common stock and may be modified or suspended at any time at our discretion.

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. (1)
3.2*	Amended and Restated Bylaws of Ares Commercial Real Estate Corporation. (2)
10.1*	Amended and Restated Management Agreement, dated July 26, 2022, between Ares Commercial Real Estate Management LLC and Ares Commercial Real Estate Corporation. (3)
10.2*	Credit and Security Agreement, dated July 28, 2022, by and among Capital One, National Association, as administrative agent and a lender, and ACRC Lender Co LLC, as borrower. (4)
10.3*	Guaranty of Recourse Obligations, dated July 28, 2022, by and among Capital One, National Association, as administrative agent, and Ares Commercial Real Estate Corporation, as guarantor. (5)
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
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

* Previously filed

(1) Incorporated by reference to Exhibit 3.1 to the Company's Form 10-K (File No. 001-35517), filed on March 1, 2016.

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

(3) Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q (File No. 001-35517), filed on July 29, 2022.

(4) Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q (File No. 001-35517), filed on July 29, 2022.

(5) Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q (File No. 001-35517), filed on July 29, 2022.

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: November 2, 2022	By: /s/ Bryan Donohoe Bryan Donohoe *Chief Executive Officer* *(Principal Executive Officer)*
Date: November 2, 2022	By: /s/ Tae-Sik Yoon Tae-Sik Yoon *Chief Financial Officer and Treasurer* *(Principal Financial and Accounting Officer)*

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: November 2, 2022

/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: November 2, 2022

/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, 2022 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: November 2, 2022

/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.