

**BLACKSTONE MORTGAGE TRUST Second Quarter 2020 Investor Call
July 29, 2020 at 9:00 a.m. ET**

Coordinator: Good day, everyone, and welcome to the Blackstone Mortgage Trust second quarter 2020 investor call. My name is Leslie, and I'm the event manager. During the presentation, your lines will remain on listen only, and if you require assistance at any time, please dial zero on your telephone and a coordinator will be happy to assist you. If you wish to submit a question, it is the star, then one, on your telephone. Record your name and leave your question. And I'd also like to advise all parties that the conference is being recorded for replay purposes, and I would like to hand you over to Weston Tucker, Head of Investor Relations. Please go ahead, Weston.

Weston Tucker: Great. Thanks, Leslie, and good morning, everyone, and welcome to Blackstone Mortgage Trust's second quarter conference call. I'm joined today by Mike Nash, Executive Chairman, Steve Plavin, Chief Executive Officer, Jonathan Pollack, Global Head of Real Estate Debt Strategies, Tony Marone, Chief Financial Officer, and Doug Armer, Executive Vice President, Capital Markets. Katie Keenan is out on maternity leave currently.

This morning we filed our 10-Q and issued a press release with a presentation of our results, which are available on our website, and have been filed with the SEC. I'd like to remind everyone that today's call may include forward-looking statements, which are uncertain and outside of the company's control. Actual results may differ materially. For a discussion of some of the risks that could affect results, please see the risk factor section of our most recent 10-K and 10-Q reports. We do not undertake any duty to update forward-looking statements. We will also refer to certain non-GAAP measures on this call, and for reconciliations, you should refer to the press release and our 10-Q.

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So a quick recap of our results. We reported GAAP net income per share of \$0.13 for the second quarter, while core earnings were \$0.62 per share. Two weeks ago we paid a dividend of \$0.62 per share with respect to the second quarter. If you have any questions following today's call, please let me know. And with that, I'll now turn things over to Steve.

Steve Plavin: Thanks, Weston. BXMT's key advantages, namely, our portfolio of senior loans, a well-capitalized balance sheet, and a market-leading real estate franchise, continue to provide strength and stability. We had another great quarter of portfolio income, with 100% of scheduled interest collected, driving \$0.62 of core earnings, in line with previous quarters.

This performance is a testament to the caliber of the underlying real estate, the quality of our borrowers, and the proactive approach of our dedicated asset management team. We further strengthened our balance sheet in the quarter by accessing both the debt and equity markets to raise \$607 million of new capital, increasing our liquidity by 60% to \$1.3 billion.

We added a new term loan B tranche at accretive pricing, and issued common stock at a premium to book value, underscoring BXMT's superior access to the capital markets amid a challenging backdrop for commercial mortgage REITs.

In the broader markets, there was some more significant recovery, including the reopening of the CMBS market. With our increased liquidity, we are very well-positioned to take advantage of the improved outlook and growth in origination opportunities, as well as to protect our portfolio in the event of a prolonged period of disruption. And while we are optimistic about the benefits of this broader capital

markets recovery, we remain vigilant and proactive on the asset management side, working closely with our borrowers, especially on those assets most impacted by COVID-19.

With this wide-ranged activity in BXMT, the resources of Blackstone's market-leading real estate platform continue to provide us with great advantages. Blackstone's global real estate ownership, along with the ongoing investing activity of this \$167 billion AUM business, provide real-time data and insights into every market where we are active as a lender, in addition to unrivaled operating expertise.

This connectivity across the platform helps us to create our existing high-quality loan portfolio, and is now helping us to manage that portfolio and evaluate new opportunities. Our sponsors have stepped up and provided great support for their loans. Many of these sponsors are institutionally backed, repeat borrowers that have protected their assets with additional cash investment.

With our active and collaborative management, we expect continued strong performance across our loan portfolio, with a 64% origination LTV.

While we believe that our senior lending strategy and proactive asset management will continue to translate to credit outperformance, we will not be completely immune to the impact of COVID-19. In Q2, we increased our CECL reserve by \$57 million, primarily related to two specific properties directly impacted by the pandemic, one New York City hotel and one transitional New York City rent-regulated apartment building. In each case it was a combination of COVID-related and asset-specific challenges that led to the impairments.

Our exposure to similarly impacted properties is limited. Our total New York City hotel exposure is three loans, representing 3% of the portfolio. The two additional loans each have lower leverage, 50 to 60% at the time of origination. Our total loans backed by New York City regulated multi-family properties accounts for less than 1% of our portfolio.

As we look forward now relative to a quarter ago, I wanted to share a few additional observations. Our Q2 repayments exceeded our Q2 future advances, all of which were financed as expected by our lenders. With transaction activity slowly resuming, we expect repayments to continue to be a source of liquidity. We also expect to see our pipeline build. Many of our market-leading sponsors have dry powder to invest in new opportunities, and we are standing by to support them.

We have capitalized BXMT for the road ahead, for both the continuing recovery, with the potential opportunity to make new loans, and for the possibility that the recovery will be prolonged for certain assets and markets.

In conclusion, fueled by our second quarter capital raising and backed by our \$18 billion senior loan portfolio, we have established both staying power and fire power at BXMT, ideal positioning for the current environment. And with that, I'll turn the call over to Tony.

Tony Marone: Thank you, Steve, and good morning, everyone. As we review BXMT's performance this quarter, you will see positive results in terms of core earnings, liquidity, and balance sheet stability, notwithstanding the isolated valuation impacts that Steve mentioned earlier.

Let's start with earnings, where we reported GAAP net income of \$0.13 per share, and core earnings of \$0.62 per share, both of which benefited significantly from interest rate floors embedded in our loan agreements, as LIBOR and other benchmark rates declined to near zero levels during the quarter.

Looking specifically at USD LIBOR, our most common floating rate index by far, we had \$8.8 billion of

loans with active floors as of 6/30 at an average rate of 1.47%, which we expect will continue generating incremental earnings going into 3Q as well.

The primary difference between this quarter's GAAP net income and core earnings is the \$57 million or \$0.41 per share increase in our current expected credit loss, or CECL reserve, which was driven by the two loans Steve referenced in his remarks. Similar to our treatment of the general CECL reserve we recorded last quarter, these loan-specific provisions are excluded from core earnings until they are realized, and at this point, we may still see a future recovery above the current mark.

Further, as a result of the CECL provisions we recorded in 2Q, these loans will be accounted for under the cost recovery method going forward, which essentially defers all income recognition and reflects any cash interest received as a reduction to the asset's carrying value on our balance sheet.

Overall, our portfolio continues to be strong, with 100% interest collection through July, including the two loans where we took a reserve. We had an active quarter on the asset management front, completing thirteen loan modifications that generally required additional borrower equity or contained other lender favorable terms, reflecting the collaborative nature of these conversations with our borrowers and their continued support of their assets. As always, we draw on the deep experience and resources of Blackstone's broader real estate platform, as we re-underwrite these loans and evaluate our borrowers' positions.

Our \$18 billion portfolio size was roughly flat quarter over quarter, as \$386 million of repayments slightly outpaced \$317 million in loan fundings. Our weighted-average risk rating remained at 3.0 on a 5-point scale, the same level as 3/31, with no new 4 rated loans this quarter.

Our portfolio continues to benefit from a weighted-average origination LTV of 64%, reflecting the significant equity our well-capitalized institutional borrowers have invested in these assets.

One of our key focus areas during the quarter has been to build on our strong liquidity position, providing us the resources to address future cash needs, as well as originate new loans. We ended the quarter with \$1.3 billion of liquidity, almost entirely held in cash. We increased liquidity this quarter by nearly a half billion dollars, driven by our successful term loan B and common stock issuance during the quarter.

Our new term loan B raised a net \$315 million. It's coterminous with our existing term loan in 2026, and priced at LIBOR plus 4.75%, with a 1% floor. We raised a net \$278 million from our common stock offering during the quarter, which priced slightly above book, and added \$0.06 to our 2Q book value per share.

We also continue to focus on the stability of the right-hand side of our balance sheet, which has no corporate debt maturing until 2022, with 96% of our asset level financing term-matched to the underlying collateral.

Further, 30% of our asset level financing is through non-debt structures, either syndications or securitizations, and we have reached agreements with our seven largest credit facility lenders, covering 84% of our outstanding borrowings, to temporarily suspend credit mark provisions for the loans in those collateral pools that have been more heavily impacted by COVID-19.

As part of these credit facility modifications, we've pledged \$414 million of previously unencumbered assets, which modestly reduced the advance rate under these facilities.

We closed the quarter with a debt to equity ratio of only 2.6 times, down from 2.8 times at 3/31, as we

further de-levered our balance sheet during the quarter.

As we move into the second half of 2020, we will continue to benefit from the key pillars we have in place, with incremental earnings power through our LIBOR floors, market-leading asset management capabilities, and a stable balance sheet with ample liquidity. Thank you for your support, and with that, I will ask the operator to open the call to questions.

Weston Tucker: And Leslie will read instructions for the Q&A, but if I could just remind all the analysts please to limit your initial questions just to one question and one follow-on question, and if you have any further, to rejoin the queue. Thanks. Go ahead with the instructions, Leslie.

Coordinator: Thank you, everyone. Your question and answer session will now begin. If you do wish to ask a question, if you star, then one, on your telephone. If you want to withdraw your question, it's star, two. And just to remind you, if you wish to ask a question, it's star, then one, on your telephone.

And your first question comes from Don Fandetti from Wells Fargo. You're live in the call, Don. Please go ahead.

Don Fandetti: Yes. Good morning. So Steve, how do you – I mean, obviously, you have a lot of cash on hand, and made some good defensive moves. How do you balance offense in this kind of environment? Because it's still a high-risk situation in the markets and for your company. Do you think it makes more sense just to kind of be defensive for a while, or like what are your plans, and how do you think about that?

Steve Plavin: Hey, Don. Great question. I think – no, our capital raising was really about the opportunity to return to offense, as well as to maintain an appropriately conservative posture through the COVID-19 disruption period. So you saw the magnitude of cash that we raised, and \$1.3 billion is the highest level of liquidity we've ever had. So we really feel well-positioned both to get back onto offense, and there's not a lot of loan demand, yes, but we do expect to see loan demand increase through the second half of the year.

But we're also very well-positioned for defense. We obviously have a lot of liquidity to defend our book and to do whatever is necessary to carry our portfolio through. So we feel that we're, again, ideally positioned for both offense and defense, that we've struck the right balance.

Don Fandetti: And can you talk about the New York hotel property that you reserved for, tell what's going on the ground there, and also, is occupancy increasing at the hotels in your portfolio? And can you just give us a sense on are any of these at break-even level? Are you seeing improvement at the underlying asset?

Steve Plavin: Well, let me first talk about the New York City hotel. It was a 2018 acquisition loan by a real estate opportunity fund, so there's a lot of equity in the transaction. But with the COVID impacts on demand and operating costs, the hotel's facing an extended period of operating deficits that need to be funded. So we're in discussions with the borrower about the path forward on the asset. There's no agreement yet, but we're still engaged with the borrower.

I would say as it relates to hotel performance generally, I mean, we haven't really seen the beginning of the comeback yet. Some of the hotels will open, and in cases – we are seeing midscale and economy and drive-to hotels pick up in performance, but we haven't seen that across the portfolio broadly. And I think we're cautious, given the potential second wave of COVID-19.

So it's a little early to predict the recovery, but ultimately, the long-term prospects for the hotels are favorable.

Coordinator: Okay. Thank you. Your next question comes from Doug Harter from Credit Suisse. You're live in the call, Doug. Please go ahead.

Doug Harter: Thanks. I'm just – again, on the liquidity, you talked about kind of the pipeline and building but not really there yet. Can you help us size kind of what the lending opportunity might be like in the second half, and then kind of with that, in this current environment, how you would think about what the kind of minimum level of liquidity that you would want to hold, versus kind of the current \$1.3 that you have?

Steve Plavin: Well, as we think about the opportunity, it's really about positioning. It's really about having liquidity to take advantage of the opportunity that exists. And we're also sort of moderating the pace of repayments as we look at our portfolio.

But we do think that having the liquidity is something that will give us really significant advantage. There's not a lot of lenders in our segment that are really positioned – that have repositioned themselves to make loans as the market recovers. So it's difficult to predict what the size of the opportunity will be, but we want to be positioned to capitalize on it, no matter what its magnitude, and we obviously have the ability with our \$18 billion portfolio and the large scale of the company to be a really significant participant in the resumption of loan demand that we expect to see in the coming period.

Doug Harter: Got it. And then just a follow-up. Has there been any sense yet on a sort of transaction – do you get a sense as to kind of what the spreads or returns on incremental loans might look like, compared to the kind of pre-March?

Steve Plavin: It's still a little early to make that determination. I will say spreads in general are wider. Leverage on the loans that we're seeing is generally lower. And again, it's what we would expect to see coming out of a period of volatility, and why we wanted to recharge our capital base, to take advantage of what we think will be really good opportunities to make new loans in the early stages of the resumption of loan demand. So that's our expectation. We'll see what happens as the pipeline builds over the next couple of quarters, but we do think it'll be a very favorable environment, and that we'll be well-positioned to take advantage of it.

Doug Harter: Thanks.

Coordinator: Okay. Thank you. Your next question comes from the line of Steve DeLaney from JMP Securities. Please go ahead. You're live in the call.

Steven DeLaney: Hey. Good morning, everyone. And first, thank you for the additional data point. You gave the weighted average LIBOR floor of 1.7, and I think we've been trying to get that number out of you for the last year or two, so we appreciate it.

Repayments for the quarter, about 2% of the total book. I just wondered if you have any visibility that you can share with us as far as what we might see over the second half of this year. Thanks.

Steve Plavin: Hey, Steve. It's really difficult to predict what the repayments will be for the second half, but I do think with the reopening of the CMBS market, we're seeing a little bit more transaction activity generally, and that will ultimately lead to some more repayments. We were I think pleasantly surprised in the quarter that our repayments exceeded our fundings. So I think you'll see the repayments to be a

meaningful contributor to our liquidity, but not nearly at the historic pace until we get much more of a regular-way market.

So I think on the margins, they'll add liquidity, but the game changer on liquidity was the capital that we raised.

Steven DeLaney: Sure. Okay. Thanks. Yeah. So you're saying that – I think that you've got some maybe three year old loans that are reaching a point of stability that they might be able to eke into a ten year fixed loan, I think is what I'm hearing there, but not so much what Jade used to always refer to as bridge to bridge. You think people are pretty much sitting with their existing lenders in terms of the borrowers' attitudes?

Steve Plavin: Yeah. Well, I think when you think about it, if you're an owner of an asset and you're thinking about is this a good time to sell, is this a good time to refinance, and so you'll sell when you think that the transaction market's accommodative to your assets, and there'll be good asset demand.

On the borrowing side, you're looking at what a refinancing could look like. Generally, with our loans, our take out is the sale, because we're financing opportunity funds' business plans, and when they achieve stabilization, they typically sell and then go and return the money to their investors.

It's still a little bit early for it to be I think an attractive selling environment, but again, the opening of the CMBS market makes it possible for buyers to finance acquisitions, which will ultimately help lead to the reopening of that market. So except for the assets that are most heavily impacted by the pandemic, the signs are favorable in terms of the resumption of transaction activity, more refinance activity, which will lead to more origination opportunities for us, and also more repayments.

Steve DeLaney: All right. Thank you for the comments.

Steve Plavin: Sure. Thanks for the question.

Coordinator: Thank you. Your next question comes from Jade Rahmani from KBW. You're live in the call. Please go ahead.

Jade Rahmani: Thank you very much. On the New York multi-family loan that you took a reserve on, I wanted to ask you if you could give a sense as to how the reserve was bifurcated between the increased capital costs in the current environment to operate multi-family versus the impact of rent regulations. And also, what drove – the magnitude of reserve seems pretty high. This was a 65% LTV loan, so a 28% reserve is pretty high and implies something like a 50% decline in the asset value. So perhaps you can give some color on that asset.

Steve Plavin: Sure, Jade. This is a 2014 acquisition loan on a rent-regulated multi-family asset with a plan to improve units and to increase rents. And they were still relatively early in that plan in 2019 when the rent regs were changed. There had been some renovation, some improvement, but still very much in the middle of what the ultimate outcome would be for the asset.

So first, in 2019, you had the impact that limited the upside achievable on that kind of business plan. So it was no longer – the owners were no longer able in the current environment to make capital investments in the units and get high ROI benefits from those investments in terms of higher rent levels on the units. So that was really the impact of that 2019 regulation. It was pretty significant also. It really curtailed the upside that was achievable in these kinds of business plans.

The added impact – I think what we're seeing now is the general downward pressure from COVID in terms of city center apartment rents. So we've seen – the city lost a season. The employee base that would typically come in from schools and everybody that would move to the city to start new jobs, it just didn't happen this year. And so we're definitely seeing reduced demand for apartments and increased occupancy, pretty significant.

And so for the market rate units here, which I think we thought had much better prospects pre-COVID, you know, the pressure on rent level and occupancy level really impacted the near-term and intermediate-term potential for the asset. We do have – we do believe that the long-term prospects for this market are good, but it's going to take a while to work our way out of the current pandemic-impacted operating environment for the city and apartments.

Jade Rahmani: And just a follow-on, with respect to New York City exposure overall, how are you thinking about that? Within the office space, it's about 20% of the portfolio. Within the hotel space, it's about 27%, although only a few loans. Could you comment on the outlook for New York City?

Steve Plavin: Yeah. Sure. I think as it relates to the city, obviously, there's a lot of near-term pressure in the city. I mean, we're ultimately long-term believers that this market is a good place to be, and once we get through the pandemic, we believe that, again, that New York City will recover, and, again, capital flows typically return to New York City first, and so we've been focused always in our lending on asset selection within the city. We like the major markets, but very important to select the right asset.

The majority of our assets are in Hudson Yard, Midtown West, and the office sector. They're newer assets, assets that appeal to the new economy, to where the new talent wants to work and live. And we've avoided the commodity office in Midtown that's under the most pressure.

So we're confident that because of the asset selection and because of the strong sponsorship, that our office loans will perform well.

As it relates to hotels, obviously, a big impact on demand and a longer road out from COVID and from the city being shut down. We, again, one of the benefits that we'll see in hotel is going to be a hard stop to the supply wave that existed in New York. There was a lot of hotel construction over the last two years. That's all going to stop. And we do expect the supply of hotel rooms to be down as much as 10 to 15% from hotels that don't reopen post-COVID.

So supply side is going to be benefited from what's going on, and so we think that will ultimately to the benefit of the owners that can get through to the other side. And we're confident in the case of our other hotel loans, given the sponsorship, the lower leverage, the cash investment from those sponsors so far, that they'll see those assets through the pandemic, and they'll ultimately be strong performers.

Coordinator: Okay. Thank you. And your next question comes from the line of Rick Shane from JP Morgan. You're live in the call. Please go ahead.

Charlie Arestia: Hey. Good morning, everyone. This is Charlie Arestia actually on for Rick today. I was wondering at kind of a high level what your thoughts are around maturity defaults on loans that are coming due in the near-term, and how you're looking to manage that, given that I'm assuming more loans than usual are probably looking to exercise those embedded extension options.

Steve Plavin: It's a great question. We don't have a lot of near-term maturities. Only a very small percentage of our portfolio, less than 10%, has final maturities over the next year. It's interesting. What we'll see is in some cases that some of the interim maturities will have extension tests that won't be met,

and what we've seen is very strong sponsor performance around that. We've had tremendous cash investment in our assets during the period of impact. On assets that are most impacted, we've had over \$175 million of additional equity investment from sponsors that wasn't required in the initial loans. We had – our loan in Rosslyn is one of our ten largest loans, about a \$750 million loan. The sponsor paid down the loan by over \$100 million in order to comply with his extension test in the second quarter.

So we're seeing strong performance from all loans as it relates to both interim and final maturities. And so we think that – I don't think the maturity – that the maturity issue will find its way into the loan problem. I do think it'll help create liquidity in our portfolio, and that as we get closer to maturities, the borrowers will be willing to stretch a little bit more in terms of what's acceptable for their exit.

But the discussions we've had about maturities in the interim has been very favorable, and again, it's really boosted the performance of our loans, with additional cash coming in.

Charlie Arestia: Okay. Got it. That's really helpful color. Thank you. And then just secondly, unrelated, are you guys seeing any divergence in collateral performance in the international portfolio versus your US assets?

Steve Plavin: Great question. No, I think we're seeing very good performance of our assets internationally. The office market in London continues to hold up well. We have a number of transitional office buildings that have continued to lease through this stage. Our assets in Spain have begun to recover in terms of an activity standpoint, as we get through the initial wave of the pandemic.

So I feel like our European assets are well-positioned. Like our US assets, there's a ton of sponsor equity. They're concentrated in major markets, and the long-term prospects in all these markets continue to be favorable. So we're hoping that there'll be some new opportunities in the European market as it relates to new business as well. We haven't seen a lot of loan demand yet, but again, as we see the terms of new mortgages improve, more pressure from opportunity funds to start to invest their capital, we do expect to see more opportunity funds in Europe as well as in the US, and we're excited about that opportunity.

Charlie Arestia: Thanks so much for taking the question.

Steve Plavin: You're welcome.

Coordinator: Thank you. Your next question comes from Stephen Laws from Raymond James. You're live in the call. Please go ahead.

Stephen Laws: Hi. Good morning. First, I saw that you modified a number of the credit facilities. I believe the debt's at 84% to eliminate I believe it was near term credit marks, or suspend those for a period of time. Can you talk about what you had to give in order to get those modifications? Did you agree to lower advance rates or higher cost of those facilities? Or kind of what was the tradeoff in order to modify those credit facilities?

Doug Armer: Hey, Stephen, it's Doug. I'll take that one. Tony mentioned that we had pledged some additional collateral, just north of \$400 million of senior mortgage loans that were in our portfolio. In addition to that, we did make some cash payments, just north of \$200 million. And so that constituted the deleveraging essentially of those facilities, in return for which we got the suspension of credit marks through year end, and additional asset management flexibility, which I think is important relative to the loan modifications and the asset management initiatives in our portfolio.

We didn't change the rates on those facilities, and we didn't otherwise alter the terms. As a reminder, those are long-term, match-funded credit facilities, as part of our match-funded liability structure overall.

Stephen Laws: Great. Just wanted to understand the tradeoff. Thanks for that, Doug. And thinking about the business plans behind the assets that you lend against, can you provide any color – have there been – and I guess this would apply more to heavy transitional or construction, but have there been any material changes since COVID hit in March to alter those business plans for the better for the post-COVID world, maybe moving away from one floor being the kitchen, back to a kitchenette on every single floor in an office, or more offices versus open space? Can you talk about how active these developers are with regards to their business plans and any modifications that they've already made and had approved by Blackstone over the last four to five – four months, I guess?

Steve Plavin: Yeah, great question. And I think as it relates to the construction-heavy transitional deals generally, I think most of those have proceeded on course. We're very comfortable in the new construction about delivery timeframes for tenets. We have very significant pre-leasing in our construction and transitional loan portfolio. And so I think – a few of the cities which had construction shutdowns, we continue to feel very good about, again, meeting all the relevant timetables.

As it relates to modifications and space utilization and design, we've seen a little bit of that, some with some of the – with the flexible office companies, we're able to adapt more quickly. But we've seen landlords in pre-built space look to create more distance, less density, rethink some of the collaboration spaces, at least for the time being.

I haven't seen anything that I would put into the category of permanent change, but just changes to make the space and its design more reflective of the immediate environment, the immediate challenges in terms of occupying office space. We'll see what that means long-term, if any of these changes affect density long-term, or the thoughts in terms of how tenants are going to occupy space.

But for us, by having highly skilled operating partners and owners, they're able to very quickly adapt to accommodate their tenants' current needs, and so we have seen that in the portfolio. And it's a real benefit for us to have such a high standard of asset, sophisticated sponsors who are very much on top of what's going on in the market.

Stephen Laws: Great. I appreciate your comments on that. Thanks, Steve. I've got one more question, but I'll queue back up. Appreciate it.

Coordinator: Thank you. And your final question comes from George Bahamondes from Deutsche Bank. Please go ahead. You're live in the call.

George Bahamondes: Hi. Good morning. Hey. Good morning. I had a follow-up on the CECL reserves for the quarter and how we should think about reserves being recorded going forward. So can you provide some additional context around the CECL reserves and how they're recorded? I know you mentioned revenue generation, headwinds, and high operating costs as key drivers, and I'd assume that there are a few assets that are facing revenue generation and operating cost headwinds in this environment. So what's the performance threshold that assets need to hit before a CECL reserve is recorded? Is it triggered when loan modification discussions begin? Is there a certain debt service coverage threshold that needs to be met? I'd assume it depends on the situation, but any incremental color on kind of how we should think about this going forward? Because I'd imagine you are seeing headwinds across your current assets in this environment. So any additional context would be helpful. Thank you.

Tony Marone: Sure. This is Tony. And you're right. It is situational. There is some general technical guidance that I could give you. I'd say there's two specific provisions under the GAAP accounting rules that you would look to, you know, a valuation test to see if your LTV is north of 100%.

One is – you mentioned modifications. If you have a modification that under the rules is considered a troubled debt restructuring, which you could think of as where you're just kicking the can down the road, something we saw a lot of out of the global financial crisis, that would be as opposed to the types of modifications we highlighted earlier that are more collaborative, and there's some give and some get, and we're working together with our borrowers. So that would be one instance where the rules say you have to test for an incremental CECL reserve specific to that asset. We did not have any of those this quarter.

And the other scenario would be where you look at the terms of your loan, and the word that the accounting rules use is probable, is that it is not probable that you will collect all of your principal and interest due under your loan. Now that's the technical term. That's very situational. What does probable mean? It's a higher threshold than more likely than not, so it's more than 50%, but it doesn't have to be all the way at the high 90%.

So you would look at the loans on a case by case basis, and you would look at things like are they missing interest payments, which as we noted earlier, we don't have that in our portfolio. Are they in breach of covenants or in technical default, also things we don't have in our portfolio. Are there conversations with the borrower that would indicate that he may have a very near-term change in circumstance?

And so there's a little bit of a gray area in terms of when exactly you trip the probable threshold. When we looked at our portfolio this quarter, as you can see from the results, we felt like we hit it two times, in particular, looking at some of the conversations as we flipped over quarter end into July, which shed some light on the 6/30 balance sheet.

But looking at the rest of the portfolio, we felt that we had not tripped that threshold on our other assets, and so at the time, we just have the two loans. That's – I know that was a mouthful of accounting rules, but that gives you a little bit around what would trigger that as we go forward.

George Bahamondes: Great. That's helpful color, and good for me today. Thank you.

Coordinator: Thank you. That was your final question, and I would like to hand back to Weston Tucker for final remarks.

Weston Tucker: Okay. Great. Thanks, everyone, for your time this morning, and please let me know after this call if you have any follow-up questions.

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