Blackstone

Mortgage Trust

Final Transcript

Blackstone Mortgage Trust, Inc.: 4Q 2019 Earnings Call

February 12, 2020/10:00 a.m. ET

SPEAKERS

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Douglas N. Armer – Executive Vice President, Capital Markets

Katie Keenan – President

Weston Tucker – Head of Investor Relations

ANALYSTS

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Rick Shane – JP Morgan

Jade Rahmani – KBW

Steven Laws – Raymond James

Arren Cyganovich – Citi

Coordinator Good day, everyone. Welcome to the Blackstone Mortgage Trust Fourth Quarter and Full Year 2019 Conference Call. My name is Leslie, and I'm the event manager. During the presentation, your lines will remain on listen only. [Operator instructions].

Now, I'd like to hand you over to your host for today, Weston Tucker. Please go ahead.

W. Tucker Great. Thanks, Leslie. Good morning, and welcome to Blackstone Mortgage Trust's Fourth Quarter Conference Call. I'm joined today by Steve Plavin, Chief Executive Officer; Tony Marone, Chief Financial Officer; Doug Armer, Executive Vice President, Capital Markets; and Katie Keenan, Executive Vice President, Investments.

Last night, we filed our 10-K 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. 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-K.

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A quick recap of our results. We reported GAAP net income per share of $0.59 for the fourth quarter while Core Earnings were $0.68 per share. Last month, we paid a dividend of $0.62 in respect to the fourth quarter. If you have any questions following today's call, please let me know.

With that, I'll now turn things over to Steve.

S. Plavin Thanks, Weston, and good morning, everyone. An excellent fourth quarter capped another strong year for BXMT. We originated $3 billion of loans in the quarter and $8.6 billion for the year. In

2019, we grew our portfolio by $2.1 billion to $17.9 billion, while maintaining an origination LTV of 64%.

The growth in our loan portfolio helped drive full-year Core Earnings to $2.70 per share, which produced 109% coverage of our dividend. The strong coverage reflects our focus in the quality of the dividend, which was generated solely from our senior lending business, and we retain the excess earnings, which contributed to our increase in book value during the year.

Our portfolio growth over the past two years has come from targeting larger loans, where there's not only less competition but also higher quality real estate, markets and sponsorship. Blackstone equity vehicles own almost everywhere we lend and the larger scale real estate securing our loans is most comparable to what's in these vehicles, which is when the competitive advantages of being part of Blackstone's global real estate platform are most powerful.

Because of the emphasis on larger scale assets, the average value of the real estate underlying each of our directly originated loans exceeds $350 million. A great example of our large loan strategy is a $724 million refinancing of Hudson Commons, a newly completed building in the Hudson Yards submarket of Manhattan that we closed in the fourth quarter. Other origination highlights include a $470 million loan on an office complex undergoing redevelopment in West LA, a $342 million construction loan on a mixed-use project in midtown Atlanta, and $238 million of loans in the Walker & Dunlop JV.

Our London-based origination team continues to source excellent opportunities in European major markets and closed $609 million of loans in the quarter. 38% of our entire 2019 production were loans in Europe, highlighted by the €1.2 billion acquisition financing for Henderson Park of the Dublin-based Green REIT portfolio. Although loan demand remains more episodic in Europe than in the US, the quality of the opportunities is excellent. The market-leading Blackstone Europe Real Estate franchise provides us with great reach and competitive advantage. We expect continued strong contributions from our lending business there.

As for the origination climate more broadly, we expect to see transaction activity pick up from here, though election uncertainty could impact the pace later in the year. Credit quality in the major markets we target remains constructive, particularly with the larger scale assets and sponsors. We see healthy tenant demand continuing from the strong economy and growth in technology, life sciences, and content creation.

The real estate opportunity funds that comprise the most active segment of our client base have over $120 billion of dry powder in their investment vehicles, and the deployment of that equity should drive originations. In addition, with spreads tight, borrowers will be looking to take advantage of accretive refinancings, which will also help increase our production.

To kick off our 2020 originations, we have $1.4 billion of loans that closed post-quarter end, or are in the closing process.

The balance sheet growth we've achieved has significantly improved our ability to access a wide array of efficiently-priced capital markets alternatives. To fund our 2019 portfolio expansion, we raised $377 million of equity during the year at an average book multiple of 1.3x, added $3.7 billion of incremental credit facility capacity on improved terms and executed our first corporate term loan, which we subsequently increased to a total of $747 million and repriced tighter.

We are in the process of closing a $1.5 billion CLO to refinance a portion of our balance sheet assets, with non-mark to market and non-recourse financing. The CLO is innovatively structured to improve both its cost efficiency and our asset management flexibility, and we get the added benefit of recharging our credit facility capacity while improving our liability structure.

Our execution on the right side of the balance sheet has enabled us to continually lower our cost of capital and build a higher quality, lower risk loan portfolio. Our overall performance demonstrates the virtue of our simple senior mortgage business model. In a period of declining yields around the world, BXMT was a stable, high quality dividend and continued to deliver excellent returns to investors.

Before I turn the call over to Tony, I wanted to share some exciting news about our leadership. We are promoting Katie Keenan to President of BXMT. Two years ago as our growth was accelerating, we augmented the BXMT team by having Katie, a highly productive originator, divide her time between originations and BXMT management. Katie is a supremely talented strategic thinker and leader within our debt business and her inclusion to BXMT management was game-changing for me and our team.

With the company continuing to grow in scale, complexity and potential, Katie will further increase her focus on BXMT. This promotion is very well deserved, a recognition of Katie's great accomplishments and ability and the importance of her expanded role. Katie will maintain a few key origination relationships, but her top priority will be working with me and the rest of our leadership team to maximize REIT performance.

I've never seen an organization that recruits and develops talent like Blackstone. It is key to the great investment success the firm has achieved. Katie, recruited into our real estate debt business eight years ago, exemplifies this capability and her expanded BXMT role as president is a win for our management team and our shareholders.

And with that, I'll congratulate Katie and turn the call over to Tony.

T. Marone Thank you, Steve, and congratulations, Katie. This quarter's results cap off another year of strong performance for BXMT, characterized by continued positive performance in our key metrics, with strong earnings supporting an attractive dividend, and growing book value, further increased scaling of our loan portfolio while maintaining healthy credit metrics, and a stable balance sheet with efficiently-priced and well-structured financings to support our business.

We generated GAAP net income of $0.59 per share and Core Earnings of $0.68 during 4Q, bringing our 2019 full-year GAAP earnings to $2.35 per share with $2.70 of Core Earnings. Looking at 2019 results, we saw consistent earnings generation from our predominantly floating rate senior lending business, despite year-over-year declines in LIBOR from 2.5% to 1.8%, and generally tighter lending spreads.

We have benefited from active LIBOR floors on 34% of our loans, which helped mitigate the decline in floating rates as well as our match funded financing model, which ties our floating rate loans to floating rate liabilities. In addition, we continue to benefit from periodic earnings generation from prepayment fees, which contributed $0.04 to our 4Q earnings and $0.08 for the full year. We maintained a stable and high quality $0.62 dividend throughout 2019, which was 109% covered by our Core Earnings.

Lastly, we increased book value by $0.62 during 2019 as we continued our track record of issuing equity at a premium to book value, which effectively reduces our cost of capital and increases our competitive advantage when pricing new loans.

During the fourth quarter, we closed 17 loans, totaling $3 billion of originations, bringing our 2019 volume to $8.6 billion across 48 loans, our second largest year of direct originations. We had net fundings of $1.4 billion during 4Q and $2.1 billion during 2019, bringing our total loan portfolio to a record $17.9 billion, up 13% from last year. Our 2019 direct originations had an average size of $232 million, reflecting our continued focus on large loans where we have a competitive advantage. Notably, we also sourced 39% of this year's originations outside the US, highlighting the global scale of our lending business and the benefit of Blackstone's broader real estate platform.

We continue to realize the benefits of funding previously originated loans as a component of our growing portfolio, with $767 million funded this year, up $113 million or 17% from 2018. Consistent with our mandate as a senior lender, we have not sacrificed credit as our business continues to grow and our 2019 originations have a weighted-average LTV of 65%, right in line with our overall portfolio LTV of 64% as of year-end. We continue to see 100% performance in our loan portfolio with an average risk rating of 2.8 out of 5, in line with prior periods.

The right-hand side of our balance sheet continued to support our lending activity in 2019, with our inaugural term loan issuance and $3.7 billion of new or expanded credit facilities. Notably, in 4Q, we upsized our term loan by $250 million to $747 million and reduced pricing 25 basis points to LIBOR + 225, reflecting the strong secondary trading and the initial term loan we issued in April, and a further indication of general market support for our business.

As Steve mentioned, we continued our capital markets activity in January with the pricing of our second $1.5 billion CLO, with an average cash coupon of LIBOR + 113, down 8 basis points from the

$1 billion CLO we issued in 2017. We closed 2019 with liquidity of $751 million and total debt to equity of 3.0x, which we reduced in January as the proceeds of our CLO repaid outstanding credit facilities and further diversified our access to capital.

I will conclude my remarks with a brief discussion of the current expected credit losses, or CECL accounting standard, which was effective for BXMT and similar sized public companies on January 1st of 2020. Last quarter we noted that CECL requires all lenders to record an estimated life of loan loss reserve against all loans in their portfolio and with few exceptions this reserve cannot be zero. To determine our CECL reserve, we augmented our track record of no realized losses across the $42 billion of loans we have originated since our senior lending business launch in 2013, with securitized loan data we licensed from Trepp LLC. Although securitized loans are not perfectly comparable to the high quality loans we make at BXMT, we've tailored our approach to focus on Trepp's loss data for loans that are most similar to our business model, which is focused on large senior mortgage loans to quality assets located in major markets.

We've primarily elected to use the weighted average remaining maturity method to estimate our CECL reserve, which applies this historical loan loss experience against the loans in our portfolio over their expected tenor, including future funding obligations. In certain instances, for loans with unique credit characteristics, we may instead use the probability-weighted model that considers the likelihood of default and expected loss given default for each unique loan.

We expect to record a modest CECL reserve of approximately $17.6 million or $0.13 per share in our first quarter of 2020 results, which will run through our balance sheet as a reduction of book value. This CECL reserve will modulate in future periods through an adjustment to net income, as our portfolio expands or contracts, the credit quality and risk attributes of our loans improves or declines, or overall market conditions strengthen or weaken. We will provide further disclosure of our CECL reserve next quarter when this new accounting standard has been fully adopted, and our initial reserve calculations have been finalized.

Thank you for your support. With that, I will ask the operator to open the call to questions.

Coordinator Thank you, and thank you, everyone. Your question-and-answer session will now begin. [Operator instructions]. Your first question comes from the line of Rick Shane from JPMorgan. Please go ahead, Rick. You're live in the call.

R. Shane Thank you so much. Thanks for taking my question. Look, you touched on the CECL reserve methodology. You have adopted the WARM methodology approach. I am curious when you go through that how sensitive your reserve levels are to LTV, both at inception and on a mark to market or real-time basis, and if that's going to be the primary factor that drives changes to the reserve level.

T. Marone Sure. I don't know that I would focus on LTV per se as something that would move in small increments period over period. What will really drive the CECL reserve, to your point, is our overall credit quality of our loans and the type of loans that we make. So, as long as we're making the types of loans that has been our business model, focused on the major markets, major asset classes, larger loans, which would comp to historical reference data that has had relatively few losses, when you look over time, I think that would be the main driver.

If you thought what could move our reserve, it would be more if we shifted the type of loans that we make. To the same point, if there was a significant market move because CECL does have an element of looking at the macroeconomic environment and a little bit of a look forward, if you saw significant market deterioration where we felt like our loans were starting to be more at risk of loss, that would adjust the CECL reserve as well. But, I highlight that to think less of it as some 5% move in LTV would have a one-for-one impact to CECL. It's a little bit more directional as opposed to direct arithmetic.

R. Shane Got it. We have the context of looking at this from not only our mortgage REIT coverage but also from our consumer finance coverage. And the consumer finance companies have indicated that they do expect that there will be greater volatility related to reserve levels from CECL. It sounds to me like given both the granularity of your portfolio, the level of credit protection that you don't necessarily expect that same level of volatility in the mortgage REIT sector.

T. Marone I would agree with that. I think if you look at some of the things we've seen from the banks that have put out somewhat more voluminous CECL disclosures, especially coming out of the 4Q earning season, the area that CECL is more impactful for generally, and that I would expect would have more volatility generally, are the things like credit card loans, auto loans, residential mortgage loans, where it's much more of a macro asset class and therefore you're going to ebb and flow with markets, to a larger degree. You hit the right word, the granularity of our portfolio, the stickiness of our assets, it means that although we will have more volatility than we did before CECL, of course, I don't think it will bounce around as much as you would see in those other asset classes.

R. Shane Got it. Okay. Thanks very much, and Katie, congratulations.

K. Keenan Thank you.

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

D. Harter Thank you. Can you talk about how you view liquidity to fund the pipeline that you talked about and how the completion of the CLO will impact that number?

D. Armer We reported $750-plus million of liquidity at year-end. I think I mentioned last quarter and it's true this quarter as well that there's probably several hundred million dollars of what I would call shadow liquidity behind that number in terms of financings that are in process, one of which would be the CLO and the advance rate on the CLO was higher than the advance rate on the credit facilities that were previously financing those assets.

So, I think from a liquidity position, we're in very good shape to fund the forward pipeline and an additional $2 billion to $3 billion of portfolio growth, given our current capitalization.

D. Harter And then I guess as things like the CLO get completed with better advance rates, I mean, I guess how does that influence or impact your view on overall portfolio leverage?

D. Armer I wouldn't say that it influences our view on overall portfolio leverage very much. I think we start from the assets in terms of determining what we think is an appropriate leverage level in our business. We've talked about the potential for increased leverage on our balance sheet as we deploy the capital that we've been raising and grow into the larger portfolio. I think those dynamics remain largely unchanged.

What we like about the CLO, and Steve referenced this, is that it is non-mark to market and non-recourse. So, all else equal, I think having more integrity in our balance sheet and our liability structure, longer liabilities, would allow us from a risk management point of view to tolerate the higher end of the range of leverage that we've talked about over the years. But fundamentally, we really look at our attachment and detachment point relative to the underlying real estate and we think that we're very conservatively levered and we don't think we're going to change that strategy going forward.

D. Harter Great. Thank you, Doug.

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

S. Delaney Thanks. Congratulations, Katie, and to everyone for a strong quarter and year. I would like to ask about loan spreads. At September 30, the weighted-average spread over LIBOR was 334 basis points and I was wondering if you had handy what the weighted spread was on the fourth quarter originations. Thanks.

T. Marone We don't have that number in front of us, but I think we might have mentioned that in previous calls. By the way, we're happy to give it to you subsequently if that's helpful for your model. I think we mentioned in previous calls that at any given quarter the spreads may move slightly, they're very idiosyncratic to what originations we happen to close in that quarter and what repayments happen to come in that quarter and also the financing side of it also moves around. So, your net ROI that you're generating on the loans is fairly consistent, even though the top line may move around. There's a bottom line that moves around as well, but we can get you that number.

S. Delaney Sure, obviously the quality of the property, size of the loan, great point. Over the last couple years, we've just heard a lot about going back two years about spread pressure. It seems to me anyway that on the last couple earnings calls, we're not hearing as much from companies on spreads, and maybe it's because the financing is improving as well. But, we'll stay tuned on that.

Floors, obviously, are helping you now. I think I understood you say 34% are active. Can you share with us what the weighted-average LIBOR floor was for the portfolio at December 31st?

D. Armer We don't disclose that particular detail. I think what's actually important is what the shape of the curve, if you will, is of the floors rather than the weighted-average. It's ultimately a somewhat complicated picture in that you have to factor in our overall LIBOR exposure relative to our liabilities and the leverage on the balance sheet. You can tell from the chart in our earnings release that we're very well-positioned vis-à-vis rates. We benefit both from increasing rates and also decreasing rates.

But, you can't sort of calculate that based on the weighted-average level. You have to look at the full picture. And so, what we try and do is get that picture across with that table in the earnings release, rather than focus on the one data point that I think could be a little bit misleading in isolation.

S. Delaney Great point. That table is very helpful because even if I had the weighted-average floor, obviously the age of the loans is also an important factor in that dynamic. Thank you for your comments.

D. Armer It is a moving target.

S. Delaney Yes. Thank you.

Coordinator Thank you. Your next question comes from the line of Arren Cyganovich. You're live in the call, Arren. Please go ahead.

A. Cyganovich I just was wondering if you could talk a little bit about the largest loan that you made, the refinancing of Hudson Commons. The yield on there, the spread on that is L+275. Are you able to finance that at a lower level than what your average rate is for your existing facilities? I think it's like L+179. Just like if you were using your L+179, it looks like the leverage, even if you put 4x on that, it'd still be below a 7% return on that.

K. Keenan Yes, the great thing about the range of opportunities we have in the lending space is we can correlate our financing costs to the risk profile and the overall credit characteristics of the loan. So, Hudson Commons was a deal that we really liked for all the reasons that Steve mentioned in the initial remarks. It is one of the less transitional loans that we've done historically and a very high quality, institutional quality asset. And, as a result of that, we are able to hit the very low end of our range of credit facility financing and achieve an ROI on that particular loan that's consistent with what we achieve generally in the portfolio.

A. Cyganovich Okay, got it. Can you just talk a little bit about the competitive environment in general? Are you seeing any particular geographies or asset classes that are under a little bit more pressure across the country?

K. Keenan As far as the competitive environment, I think that it continues to be competitive but our advantages continue to bear fruit, as we can see in the origination volumes. The most important one of that, which is we're able to access loans that are much larger than many of the other active lenders out there. I think you're going to see that from some of the disclosure we had in the release. And, as a result of that, it tends to be a space where there are just less players and we're able to have better outcomes when we're trying to target the types of loans that we've done historically.

We also have our very deep borrower relationships which continue to compound every year, and that allows us to maintain the competitive advantages of accessing the type of pipeline that fits our investment strategy. So, I think that overall we continue to see a relatively benign competitive environment for our specific strategy and I think that our originations over time have shown the outcome of that.

A. Cyganovich Okay, thank you.

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

J. Rahmani Thanks very much. I was wondering if you could comment on what drove the elevated repayments in the quarter, if there were any loans that were outsized that contributed to that and what your expectations are for either the first quarter or for the full year.

S. Plavin I think we had some large loans repaid but we have a balance sheet full of large loans. Repayments have been pretty calm through the prior portion of the year, so it was just inevitable that we have a quarter at some point where we get more elevated repayments.

I don't think the length or the profile of our loans has changed. If anything through our active asset management we've been able to extend the duration of our loans. I think that's one of the things that caused some of the delay in prepayment and the back-ending of during the year.

So, as I look forward, I think we'll see a 30%-ish plus or minus of our portfolio repaid. It's very difficult to predict. We have about 90 to maybe 120 days visibility on repayments. But, we're still anticipating portfolio growth and again, repayments and the floating rate loans are just part of life. They would be a much bigger issue if they weren't repaying.

J. Rahmani And, in terms of the asset management process, are you tracking the lifecycle of these loans and what these borrowers are refinancing into? Could you give any color on whether they are refinancing into permanent fixed rate financings on stabilized underwriting or if they're refinancing into other floating rate types of structures?

S. Plavin Great question. A lot of the take-outs of our loans are property sales. When you think about the opportunistic and value-add fund sponsors that are our client-base, on a buy-fix-sell business plan, when they achieve the end of their business plan, the success, the asset at that point in time is generally sold because a lot of these sponsors are utilizing finite life investment vehicles, and it's a sale at the end, not a refi.

We typically don't get refi'd out by other floating rate lenders that look like us. We're generally able to hold on to our loans. We're efficiently priced and we're able to be proactive and try and make a compelling reason for our borrowers to stay with us. For the generational holders, occasionally they will move to either a permanent loan or a much lower financing than what we're able to provide. In the case of a New York City asset, one of our New York City assets was refinanced at 160 over LIBOR because it had gone from about 30% leased to about 90% leased during its life. But, generally, it's a property sale that takes us out.

J. Rahmani And is that close to 100%? The core of the question I was thinking that Blackstone historically has such a great history in securitization and BXMT has proven to be an innovator in that space, why not construct the securitization vehicle that could offer borrowers a permanent refinance and be the manager of that vehicle, sort of repaying that relationship, extended duration of that income and add fees, which would be accretive to BXMT?

And another related question would be if BXMT would consider launching a CMBS conduit? There's been somewhat of a shakeout in that sector and I think an institutional known name like Blackstone would go over really well in that space and could also add retained earnings for the benefit of shareholders, would be accretive, and given the size of the portfolio wouldn't add much additional income volatility or risk.

S. Plavin I appreciate the creativity, Jade, and the question. The part of the real estate finance universe that works best in our business historically has been the floating rate portion of the universe. So, we're always looking to see if there's ways that we could extend the duration of our loans and provide more other solutions for our sponsors than we currently do. Some of the ideas that were in part of your question are things that we think about all the time.

In the floating rate business we're able to maintain a much larger portion of the loan, net of our financing, than what you're able to achieve in the fixed rate market. And so, it's one of the considerations that we think about when we think about leverage.

But securitization, I think will be an increasingly important part of the right side of our balance sheet. You saw the innovation of our CLO. We've tapped the single borrower market. I think we'll continue to do that when we see appropriate opportunities, and obviously we're a very significant player in that market. You're right. We'll use all the tools to finance the company as efficiently as possible and also to extend the duration of our assets.

I appreciate the ideas and the questions and all those things that you're talking about in terms of extending the life and providing more solutions to our clients are things that we look to do all the time.

J. Rahmani Thank you. I wanted to ask on CECL, were there any loans that required a specific idiosyncratic reserve such as perhaps in the New York multifamily deals? Any specific reserves required?

T. Marone Sure. There are a handful of loans as I mentioned that we just termed as unique loans where we felt like the reference data that we had available to us, both from our own experience over the past six years and the market data that we were able to license from Trepp that just didn't comp well for various reasons. There's a handful of them. I think there was five off the top of my head. We aren't giving details on loan-by-loan so I wouldn't get into that component.

But, I would say as it relates to the broader CECL reserve, the reserves that those loans attracted is not significantly different from the reserves that we took generally based on the market data that we referenced. It was more of a difference in approach, and we wanted to adopt a policy that gave us the flexibility, should we have other idiosyncratic loans in the future that maybe would warrant a larger reserve or a smaller reserve, that didn't comp to our market data, that we had that flexibility. Based on the Jan 1 math, the ones that we did run through that separate process really came out pretty much consistent with the rest of the group.

J. Rahmani And, how is the Spanish NPL deal, how is that treated?

T. Marone Again, I think that would be a candidate for the loans that comp less well to the market data that we have. So that's a case where we would be able to take advantage of our policy, having the primary focus on comping to market data but allowing us to look at some of those loans individually. So, that's a good example of where we were able to utilize that component of our policy.

J. Rahmani Do construction loans generally have a higher or lower CECL reserve? Because, one of the interesting dynamics is that there's a lot more hurdles for releasing of funds in highly transitional or construction types of investments. So, proceeds are advanced through stages, where the private sector needs to meet performance hurdles. That can theoretically require a lower reserve, but on the other hand, the lease-up risk is much greater, thereby creating higher potential loss severity. So, were construction loans subject to a higher CECL reserve?

T. Marone It's a fair question and you did highlight some of the pros and cons that would go into it. I would say to your point—well, first of all, I don't think we drew a hard line of a construction loan versus a transitional loan because as you know they both have some element of that forward flow to them. The way CECL works is you do take into account your unfunded loan balance. So all else equal, the CECL reserve on a funded loan would be higher for a loan with a significant future funding because you're taking into account the potential future loss on the loan you haven't funded yet. So, all else equal, those would be marginally higher.

I think going back to one of the comments in the opening questions that I made is the primary driver of the CECL reserves for us is less so the tenor point, although in the math that does come out to play. But, it's the credit quality that underlies the loans, the low LTV, major market, significant asset class, in particular some of our more transitional and construction loans we tend to have even lower LTVs than average, so that further makes the point.

But, I'd say the driving force behind our CECL reserve and the approach that we took and the math that we did was the stability of the assets, the markets that we are lending in, the granularity of our portfolio and while on the margins definitely the math under CECL would penalize future fundings pound for pound more than a fully funded loan, that isn't the main thing that moves the needle for us. It's really more of the credit quality and the asset class.

J. Rahmani And lastly, was the dataset, CMBS Trepp data a subset of that overlaid for large loans in major markets? How far back did you look? Did you look just subsequent to the financial crisis or did you look at prior commercial real estate cycles?

T. Marone The data that we licensed from Trepp, which I think is going to be what you'll hear on most of these earnings calls in our space, goes back to the late '90s. So, it is pre-crisis. It picks up the boom and the bust years.

We licensed the entire database, which is north of 200,000 loans, $3 trillion loans in total. Most of that are conduit loans, which have higher loss rates because that's where you're more buying the market, to the earlier comment again about what we've seen—consistent with what we've seen from the banks where CECL was more impactful for things like auto, resi, middle market lending. So, we focused our analysis on the subset of the Trepp data, which is to say the SASB and large loan securitizations, which we think are more comparable, although still not perfectly comparable to our loans. They tend to be larger. They tend to be in better markets. We're not part of a conduit flow lending business so we thought that that was the most comparable component. And so, that's what we focused on.

J. Rahmani Sorry, one more if I could squeeze it in, a question from an investor, which was around the election in Ireland and what risk that implies, if any, to your exposure there.

K. Keenan Sure, so I think we're definitely monitoring the outcomes there. It's too soon to tell exactly what the impacts will be, given that the government is still being formed. But, I think from our perspective the investment we have in Ireland is all in the form of Project Gloss which is the loan we talked about last quarter. That is a 96% leased stabilized office portfolio with long lease terms, eight-year weighted average life to it to generally multinational corporations. So, our view is that our particular collateral in the market will be relatively insulated.

J. Rahmani Great. Thanks very much.

Coordinator Thank you. Your last question comes from the line of Steven Laws from Raymond James. You're live in the call, Steven. Please go ahead.

S. Laws A lot of the CECL stuff has already been covered clearly, but I did have one question with regards to the go-forward impact and the duration assumptions behind the day one impact. If I understand it correctly, then, your day one impact you look at the remaining duration on your loans, so something this quarter may be a couple month duration for the initial impact and when that capital is recycled or redeployed, it'll come in three or four, some longer duration. So, as the portfolio turns over from the day one impact, should we expect that CECL reserve to increase as a percentage of UPB?

T. Marone It's a fair question, and you're right, so we are looking at forward duration and so your day one impact there are some three-month loans in there and six-month loans and nine-month loans. I think, though, it will be much more of a treadmill than you might be thinking because although the three-month loans will go away, and perhaps be replaced with three-year loans, also every other loan will get three months shorter in tenor. So, it's going to be more of a treadmill and I think what will drive it more is if we're generally seeing not per se because of the quarterly turnover of the portfolio, if generally we're making longer loans or generally there's more unfunded that are penalizing us the way the math works a little bit more, as a general point as opposed to a quarterly turnover point, I think you'd see the move there, but I think the actual tenor point will be a pretty muted impact.

S. Laws Great. Again, kind of competitively, does this impact the competitive market at all? I mean, regulated financials obviously have capital ratios they're watching, being forced to take reserves on unfunded commitments maybe something that is not of their interest. So, I know it's a short timeline, but do you expect to see any change in behavior from regulated financial competitors with construction loans? Have you seen any yet? Any thoughts around that?

K. Keenan We really haven't. I think that as far the specific types of loans that we're targeting and our competitors are targeting, I wouldn't expect CECL in particular to drive that strategy.

S. Laws Great. I think everything else I had has been covered, so I appreciate the opportunity to ask these questions. Thank you.

Coordinator Thank you. And now, I'd like to hand back to Weston Tucker for final remarks.

W. Tucker Thanks, everyone, for joining us today and please follow-up with me after the call if you have any further questions.

[END OF CALL]