Section 1: 10-K (10-K)

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2018

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 Number: 001-35808

READY CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**90-0729143**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1140 Avenue of the Americas, 7th Floor	
New York, NY	**10036**
(Address of principal executive offices)	(Zip Code)

(212) 257-4600
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.0001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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 ☒

As of June 30, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $296,481,510 based on the closing sales price of the registrant's common stock on June 30, 2017 as reported on the New York Stock Exchange.

On March 1, 2019, the registrant had a total of 32,124,966 shares of common stock, $0.0001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2019 annual meeting of stockholders are incorporated by reference into Part III of this annual report on Form 10-K.

TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	5
Item 1A. Risk Factors	21
Item 1B. Unresolved Staff Comments	69
Item 2. Properties	69
Item 3. Legal Proceedings	69
Item 4. Mine Safety Disclosures	70
PART II	71
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	71
Item 6. Selected Financial Data	73
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	74
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	104
Item 8. Financial Statements and Supplementary Data	109
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	178
Item 9A. Controls and Procedures	178
Item 9B. Other Information	178
PART III	179
Item 10. Directors, Executive Officers and Corporate Governance	179
Item 11. Executive Compensation	179
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	179
Item 13. Certain Relationships and Related Transactions and Director Independence	179
Item 14. Principal Accountant Fees and Services	179
PART IV	180
Item 15. Exhibits and Financial Statement Schedules	180
Item 16. Form 10-K Summary	183
SIGNATURES	184

FORWARD-LOOKING STATEMENTS

Except where the context suggests otherwise, the terms "Company," "we," "us" and "our" refer to Ready Capital Corporation and its subsidiaries. We make forward-looking statements in this annual report on Form 10-K within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. These forward-looking statements include information about possible or assumed future results of our operations, financial condition, liquidity, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "could," "would," "may," "potential" or the negative of these terms or other comparable terminology, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- our investment objectives and business strategy;
- our ability to obtain future financing arrangements;
- our expected leverage;
- our expected investments;
- estimates or statements relating to, and our ability to make, future distributions;
- our ability to compete in the marketplace;
- the availability of attractive risk-adjusted investment opportunities in small to medium balance commercial loans ("SBC loans"), loans guaranteed by the U.S. Small Business Administration (the "SBA") under its Section 7(a) loan program (the "SBA Section 7(a) Program"), mortgage backed securities ("MBS"), residential mortgage loans and other real estate-related investments that satisfy our investment objectives and strategies;
- our ability to borrow funds at favorable rates;
- market, industry and economic trends;
- recent market developments and actions taken and to be taken by the U.S. Government, the U.S. Department of the Treasury ("Treasury") and the Board of Governors of the Federal Reserve System, the Federal Depositary Insurance Corporation, the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac" and together with Fannie Mae, the "GSEs"), the Government National Mortgage Association ("Ginnie Mae"), Federal Housing Administration ("FHA") Mortgagee, U.S. Department of Agriculture ("USDA"), U.S. Department of Veterans Affairs ("VA") and the U.S. Securities and Exchange Commission ("SEC");
- mortgage loan modification programs and future legislative actions;
- our ability to maintain our qualification as a real estate investment trust ("REIT");
- our ability to maintain our exemption from qualification under the Investment Company Act of 1940, as amended (the "1940 Act" or "Investment Company Act");
- projected capital and operating expenditures;
- availability of qualified personnel;

- prepayment rates; and
- projected default rates.

Our beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control, including:

- factors described in this annual report on Form 10-K, including those set forth under the captions "Risk Factors" and "Business";
- applicable regulatory changes;
- risks associated with acquisitions;
- risks associated with achieving expected revenue synergies, cost savings and other benefits from the merger with ZAIS Financial Corp. ("ZAIS Financial") and the increased scale of our Company;
- general volatility of the capital markets;
- changes in our investment objectives and business strategy;
- the availability, terms and deployment of capital;
- the availability of suitable investment opportunities;
- our dependence on our external advisor, Waterfall Asset Management, LLC ("Waterfall" or the "Manager"), and our ability to find a suitable replacement if we or our Manager were to terminate the management agreement we have entered into with our Manager;
- changes in our assets, interest rates or the general economy;
- increased rates of default and/or decreased recovery rates on our investments;
- changes in interest rates, interest rate spreads, the yield curve or prepayment rates; changes in prepayments of our assets;
- limitations on our business as a result of our qualification as a REIT; and
- the degree and nature of our competition, including competition for SBC loans, MBS, residential mortgage loans and other real estate-related investments that satisfy our investment objectives and strategies.

Upon the occurrence of these or other factors, our business, financial condition, liquidity and consolidated results of operations may vary materially from those expressed in, or implied by, any such forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements apply only as of the date of this annual report on Form 10-K. We are not obligated, and do not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See Item 1A, "Risk Factors" of this annual report on Form 10-K.

PART I

Item 1. Business.

GENERAL

Overview

We are a multi-strategy real estate finance company that originates, acquires, finances, and services SBC loans, SBA loans, residential mortgage loans, and to a lesser extent, MBS collateralized primarily by SBC loans, or other real estate-related investments. Our loans range in original principal amounts up to $35 million and are used by businesses to purchase real estate used in their operations or by investors seeking to acquire small multi-family, office, retail, mixed use or warehouse properties. Our origination and acquisition platforms consist of the following four operating segments:

- ***SBC Originations***. We originate SBC loans secured by stabilized or transitional investor properties using multiple loan origination channels through our wholly-owned subsidiary, ReadyCap Commercial, LLC (“ReadyCap Commercial”). These originated loans are generally held-for-investment or placed into securitization structures. Additionally, as part of this segment, we originate and service multi-family loan products under Freddie Mac’s small balance loan program (the “Freddie Mac program”). These originated loans are sold.

- ***SBA Originations, Acquisitions and Servicing***. We acquire, originate and service owner-occupied loans guaranteed by the SBA under the SBA Section 7(a) loan program through our wholly-owned subsidiary, ReadyCap Lending, LLC (“ReadyCap Lending”). We hold an SBA license as one of only 14 non-bank Small Business Lending Companies (“SBLCs”) and have been granted preferred lender status by the SBA. In the future, we may originate SBC loans for real estate under the SBA 504 loan program, under which the SBA guarantees subordinated, long-term financing. These originated loans are either held-for-investment, placed into securitization structures, or sold.

- ***Loan Acquisitions***. We acquire performing and non-performing SBC loans and intend to continue to acquire these loans as part of our business strategy. We hold performing SBC loans to term, and we seek to maximize the value of the non-performing SBC loans acquired by us through proprietary loan modification programs. We typically acquire non-performing loans at a discount to their unpaid principal balance (“UPB”) when we believe that resolution of the loans will provide attractive risk-adjusted returns.

- ***Residential Mortgage Banking***. In connection with our merger with ZAIS Financial Corp. on October 31, 2016, we added a residential mortgage loan origination segment through its wholly-owned subsidiary, GMFS, LLC ("GMFS"). GMFS originates residential mortgage loans eligible to be purchased, guaranteed or insured by Fannie Mae, Freddie Mac, FHA, USDA and VA through retail, correspondent and broker channels. These originated loans are then sold to third parties.

Our objective is to provide attractive risk-adjusted returns to our stockholders, primarily through dividends and secondarily through capital appreciation. In order to achieve this objective, we intend to continue to grow our investment portfolio and we believe that the breadth of our full service real estate finance platform will allow us to adapt to market conditions and deploy capital in our asset classes and segments with the most attractive risk-adjusted returns.

We are organized and conduct our operations to qualify as a REIT under the Internal Revenue Code (“IRC”) of 1986, as amended (the “Code”). So long as we qualify as a REIT, we are generally not subject to U.S. federal income tax on our net taxable income to the extent that we annually distribute all of our net taxable income to stockholders. We are organized in a traditional umbrella partnership REIT (“UpREIT”) format pursuant to which we serve as the general partner of, and conduct substantially all of our business through Sutherland Partners, LP, or our operating partnership, which serves as our operating partnership subsidiary. We also intend to operate our business in a manner that will permit us to be excluded from registration as an investment company under the 1940 Act.

Our Path to Becoming a Public Company

Our history of acquiring SBC loans traces back to August 2007 when the Victoria series of funds ("Victoria Funds") made their initial acquisition of an equity tranche of an SBC loan securitization. The Victoria Funds were formed and managed by our Manager to invest in a range of loan products requiring active management to generate returns. Our business was operated as part of the Victoria Funds until November of 2011 at which time the Victoria Funds contributed substantially all of their SBC loans to our operating partnership in exchange for substantially all of the operating partnership's units, representing $371.5 million in assets and $262.2 million of equity capital. In November of 2013, we completed the private placement of shares of common stock and operating partnership units ("OP units"), pursuant to which we raised approximately $226 million of equity capital (the "2013 private placement"). Concurrently with the closing of the 2013 private placement, we engaged in a series of transactions, referred to as the REIT formation transactions, in order to allow us to conduct our business as a REIT for U.S. federal income tax purposes. As part of these transactions, we became a Maryland corporation.

On October 31, 2016, we completed our path to becoming a publicly traded company through our merger with and into a subsidiary of ZAIS Financial, with ZAIS Financial surviving the merger and changing its name to Sutherland Asset Management Corporation. Prior to and as a condition to the merger, ZAIS Financial disposed of its seasoned re-performing mortgage loan portfolio, such that upon the completion of the merger, ZAIS Financial's assets largely consisted of its GMFS origination subsidiary, cash, conduit loans, and residential mortgage backed securities ("RMBS"). Additionally, prior to the closing of the merger, ZAIS Financial completed a tender offer, purchasing 4,185,478 shares of common stock from existing ZAIS Financial stockholders at a purchase price of $15.37 per share. In connection with the merger, 25,870,420 shares of common stock were issued to our pre-merger common stockholders and 2,288,663 units in the operating partnership subsidiary ("OP units") were issued to our pre-merger OP unit holders. Our pre-merger stockholders held approximately 86% of our stockholders' equity as a result of the merger, with continuing ZAIS Financial stockholders holding approximately 14% of our stockholders' equity, on a fully diluted basis. We were designated as the accounting acquirer because of our larger pre-merger size relative to ZAIS Financial, the relative voting interests of our stockholders after consummation of the merger, and our senior management and board of directors continuing on after the consummation of the merger. Because we were designated as the accounting acquirer, our historical financial statements (and not those of ZAIS Financial) are the historical financial statements following the consummation of the merger and are included in this annual report on Form 10-K. On November 1, 2016, we began trading on the New York Stock Exchange ("NYSE") under ticker symbol "SLD".

On September 26, 2018, we filed Articles of Amendment to our charter (the "Articles of Amendment") with the State Department of Assessments and Taxation of Maryland, to change our name to Ready Capital Corporation. In addition, we amended and restated our bylaws and the second amended and restated agreement of limited partnership, effective September 26, 2018, each solely the reflect the name change.

In connection with the name change, our trading symbol on the NYSE changed from "SLD" to "RC" for shares of our common stock.

On November 7, 2018, the Company entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement") with Owens Realty Mortgage, Inc. ("ORM"), a specialty finance company that focuses on the origination, investment, and management of commercial real estate loans, primarily in the Western U.S. Pursuant to the Merger Agreement, the Company will acquire ORM in a stock-for-stock transaction, whereby each outstanding share of ORM common stock will be converted into the right to receive 1.441 shares of Company common stock, based on a fixed exchange ratio. The estimated total consideration transferred of $182.6 million represents the current value of the Company's common stock, adjusted for the exchange ratio, based on a November 7, 2018 closing price. Upon the closing of the transaction, which is conditioned on shareholder approval, Ready Capital stockholders will own approximately 72.4% of the combined company's stock, while Owens Realty Mortgage stockholders will own approximately 27.6% of the combined company's stock. The transaction is expected to close during the first quarter of 2019 and is subject to regulatory approvals and customary closing conditions. The stockholder base resulting from the acquisition of ORM is expected to enhance the trading volume and liquidity for our stockholders and support a greater level of institutional investor interest in our businesses.

Our Manager

We are externally managed and advised by Waterfall, an SEC registered investment adviser. Formed in 2005, Waterfall specializes in acquiring, managing, servicing and financing SBC and residential mortgage loans, as well as asset backed securities ("ABS") and MBS. Waterfall has extensive experience in performing and non-performing loan acquisition, resolution and financing strategies. Waterfall's investment committee is chaired by Thomas Capasse and Jack Ross, who serve as our Chief Executive Officer and President, respectively. Messrs. Capasse and Ross, who are co-founders of Waterfall, each have over 25 years of experience in managing and financing a range of financial assets, including having executed the first public securitization of SBC loans in 1993, through a variety of credit and interest rate environments. Messrs. Capasse and Ross have worked together in the same organization for more than 20 years. They are supported by a team of approximately 100 investment and other professionals with extensive experience in commercial mortgage credit underwriting, distressed asset acquisition and financing, SBC loan originations, commercial property valuation, capital deployment, financing strategies and legal and financial matters impacting our business.

We rely on Waterfall's expertise in identifying loan acquisitions and origination opportunities. Waterfall uses the data and analytics developed through its experience as an owner of SBC loans and in implementing loss mitigation actions to support its origination activities and to develop its loan underwriting standards. Waterfall makes decisions based on a variety of factors, including expected risk-adjusted returns, credit fundamentals, liquidity, availability of financing, borrowing costs and macroeconomic conditions, as well as maintaining our REIT qualification and our exclusion from registration as an investment company under the 1940 Act.

Our Investment Strategy and Market Opportunities Across Our Operating Segments

Our investment strategy is to opportunistically expand our market presence in our acquisition and origination segments and further grow our SBC securitization capabilities which serve as a source of attractively priced, match-term financing. Following the 2013 private placement transaction, we capitalized on the dislocation of the credit markets and depressed levels of available capital by acquiring SBC loans from distressed sellers at historically high risk-adjusted returns. Alongside the growth in our acquired loan portfolio and using our experience in underwriting and managing such loans, we built out our SBC and SBA origination capabilities and most recently added a residential agency mortgage origination component. As such, we have become a full-service real estate finance platform and we believe that the breadth of our business allows us to adapt to market conditions and deploy capital in our asset classes with the most attractive risk-adjusted returns.

Our acquisition strategy complements our origination strategy by increasing our market intelligence in potential origination geographies, providing additional data to support our underwriting criteria and offering securitization market insight for various product offerings. The proprietary database on the causes of borrower default, loss severity, and market information that we developed from our SBC loan acquisition experience has served as the basis for the development of our SBC and SBA loan origination programs. Additionally, our origination strategy complements our acquisition strategy by providing additional captive refinancing options for our borrowers and further data to support our investment analysis while increasing our market presence with potential sellers of SBC assets.

The following table illustrates certain information with respect to our four business segments as of December 31, 2018.

	Loan Acquisitions	SBC Originations	SBA Originations, Acquisitions and Servicing	Residential Mortgage Banking
Coordinating Affiliate / Manager	Waterfall	ReadyCap Commercial	ReadyCap Lending	GMFS
Strategy	SBC loan acquisition	SBC loan origination	SBA loan origination, acquisition and servicing	Residential mortgage origination and servicing
Gross Assets	$646.3 million	$1,606.2 million	$455.5 million	$260.5 million
% Equity Allocation	18.8%	54.9%	14.8%	11.5%
Personnel	136*	80	102	235

*Employees of Waterfall Asset Management

According to the Federal Reserve, the U.S. commercial mortgage market including multi-family residences, and nonfarm, nonresidential mortgages totaled approximately $4.2 trillion as of December 2018. The commercial mortgage market is largely bifurcated by loan size between “large balance” loans and “small balance” loans. Large balance commercial loans typically include those loans with original principal balances of at least $20 million and are primarily financed by insurance companies and commercial mortgage backed securities (“CMBS”) conduits. SBC loans typically include those loans with original principal amounts of between $500,000 and $35 million and are primarily financed by community and regional banks, specialty finance companies and loans guaranteed under the SBA loan programs.

SBC loans are used by small businesses to purchase real estate used in their operations or by investors seeking to acquire small multi-family, office, retail, mixed use or warehouse properties. SBC loans represent a special category of commercial mortgage loans, sharing both commercial and residential mortgage loan characteristics. SBC loans are typically secured by first mortgages on commercial properties or other business assets, but because SBC loans are also often accompanied by personal guarantees, aspects of residential mortgage credit analysis are utilized in the underwriting process. Most SBC loans are fully amortizing on a schedule of up to 30 years.

The table presented below illustrates a summary of how our Manager categorizes SBC loans compared to other real estate loan asset classes.

Asset Class	**Average Initial Principal Balance**	**Loan-to-value**	**Yield**
Residential housing	~ $225,000	~ 80%	~ 4.0%
Large balance commercial loans	>= $20.0 million	~ 65%	~ 4.0%
Small balance commercial loans	~ $2.0 million	~ 60%	~ 7.0%

We rely on our Manager’s expertise in identifying SBC loans for us to acquire. Our Manager will make decisions based on a variety of factors, including expected risk-adjusted returns, credit fundamentals, liquidity, availability of financing, borrowing costs and macroeconomic conditions, as well as maintaining our REIT qualification and our exclusion from registration as an investment company under the 1940 Act. Our investment decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different economic and capital market environments. As a result, we cannot predict the percentage of its equity that will be invested in any particular asset or strategy at any given time.

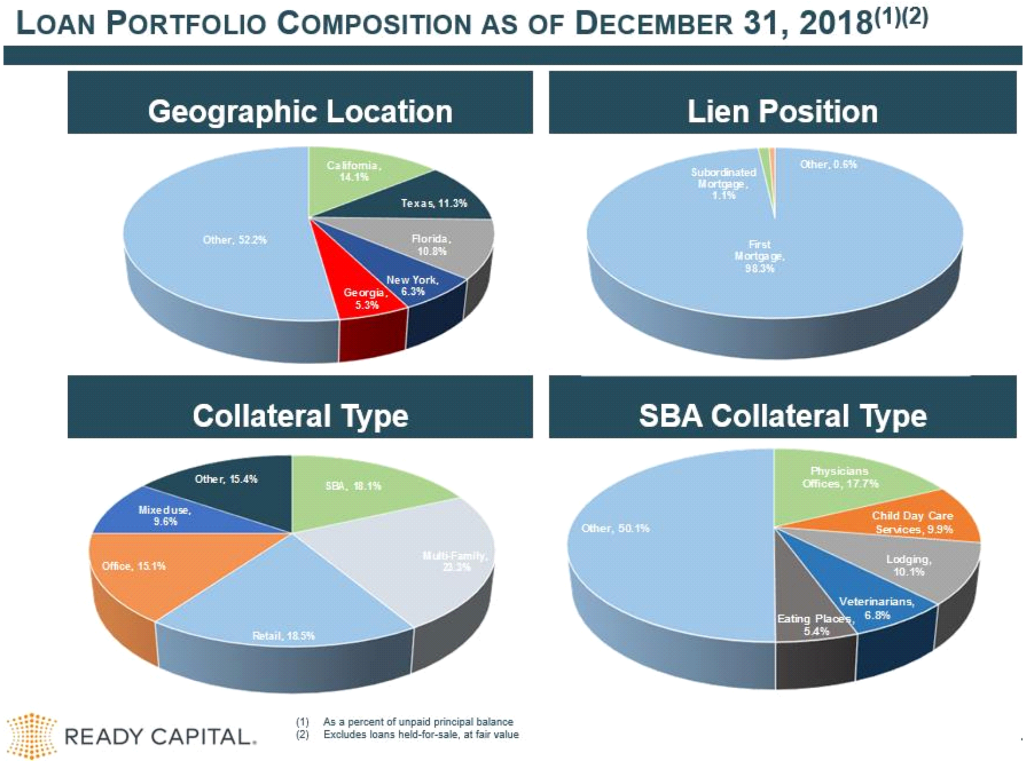
Our Loan Portfolio

The table below presents a summary of the sourcing of our loan assets as of December 31, 2018 (in thousands):

Loan Type (1)	**Segment**	**UPB**	**% of Total UPB**	**Carrying Amount** (2)	**% of Total Carrying Amount**	**Fair Value**	**% of Total Fair Value**
Acquired loans	Loan Acquisitions (3)	$ 572,942	22.1 %	$ 553,147	21.8 %	$ 560,083	21.8 %
Originated SBC loans	SBC Originations	787,973	30.5	800,072	31.5	796,329	31.0
Originated Freddie Mac loans	SBC Originations (4)	22,973	0.9	23,322	0.9	23,322	0.9
Originated Transitional loans	SBC Originations	668,353	25.8	664,733	26.2	671,132	26.1
Acquired SBA 7(a) loans	SBA Originations, Acquisitions and Servicing	357,977	13.8	320,274	12.6	346,524	13.5
Originated SBA 7(a) loans	SBA Originations, Acquisitions and Servicing (4)	109,402	4.2	106,722	4.2	105,035	4.1
Originated Residential Agency loans	Residential Mortgage Banking (4)	67,486	2.6	69,674	2.7	69,683	2.7
Total Loan portfolio		**$ 2,587,106**	**100.0 %**	**$ 2,537,944**	**100.0 %**	**$ 2,572,108**	**100.0 %**

(1) Includes Loan assets of consolidated variable interest entities ("VIEs").
(2) Excludes specific and general allowance for loan losses.
(3) Excludes real estate acquired in settlement of loans.
(4) Excludes MSR assets.

The charts presented below illustrates additional information related to the geographic concentration, collateral concentration, and lien type of our loan portfolio:



Our SBC Loan Acquisition Platform

Our SBC loan acquisition segment represents our investments in acquired SBC loans. We hold performing SBC loans to term, and we seek to maximize the value of the non-performing SBC loans acquired by us through proprietary loan modification programs. Where this is not possible, such as in the case of many non-performing loans, we seek to effect property resolution through the use of resolution alternatives to foreclosure.

Our Manager specializes in acquiring SBC loans that are sold by banks, including as part of bank recapitalizations or mergers, and from other financial institutions such as thrifts and non-bank lenders. Other sources of SBC loans include special servicers of large balance SBC ABS and CMBS trusts, the Federal Deposit Insurance Corporation, as receiver for failed banks, servicers of non-performing SBA Section 7(a) Program loans, and Community Development Companies originating loans under the SBA 504 program, GSEs, and state economic development authorities. Over the last several years, our Manager has developed relationships with many of these entities, primarily banks and their advisors. In many cases, we are able to acquire SBC loans through negotiated transactions, at times partnering with acquiring banks or private equity firms in bank acquisitions and recapitalizations. We believe that our Manager's experience, reputation and ability to underwrite SBC loans make it an attractive buyer for this asset class, and that its network of relationships will continue to produce opportunities for it to acquire SBC loans on attractive terms.

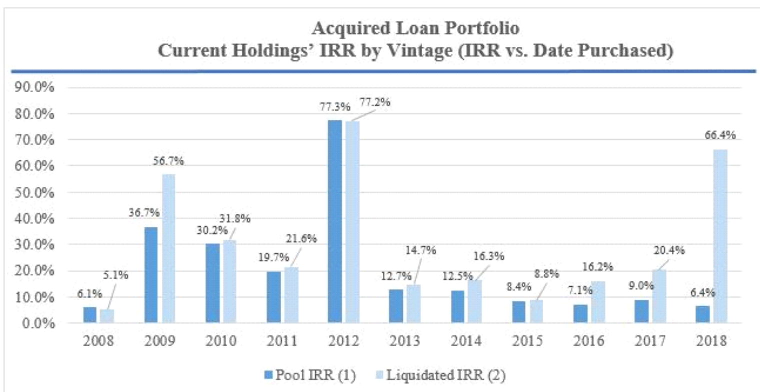
Competition for SBC loan asset acquisitions has been limited due to the special servicing expertise required to manage SBC loan assets due to the small size of each loan, the uniqueness of the real properties that collateralize the loans, licensing requirements, the high volume of loans needed to build portfolios, and the need to utilize residential mortgage credit analysis in the underwriting process. These factors have limited institutional investor participation in SBC loan acquisitions, which has allowed us to acquire SBC loans with attractive risk-adjusted return profiles.

The following table summarizes our loan acquisitions since 2008, including acquisitions prior to the formation of our operating partnership in November 2011 when our business was operated as part of the Victoria Funds, as of December 31, 2018:

Acquisition Year[(1)]	Purchased UPB (in thousands)	Cost (in thousands)	Liquidated UPB (in thousands)	Liquidated Cost (in thousands)	Current UPB (in thousands)	Amortized Cost of Remaining Loans (in thousands)
2008	$ 21,887	$ 16,197	$ 20,108	$ 14,784	$ 1,477	$ 1,069
2009	18,604	9,351	17,900	9,043	608	572
2010	158,449	61,459	155,400	59,780	2,441	1,687
2011	356,378	233,444	316,829	202,773	30,793	27,221
2012	203,956	134,136	202,032	133,335	1,621	491
2013	221,549	152,603	180,211	119,245	32,313	27,248
2014	347,809	224,607	287,503	178,487	48,684	35,733
2015	208,504	199,597	123,368	118,847	67,328	63,892
2016	139,724	136,771	74,309	72,992	49,155	47,983
2017	97,951	95,830	28,781	28,699	62,365	60,425
2018	371,804	372,875	64,357	63,474	288,078	289,769
Total	**$ 2,146,615**	**$ 1,636,870**	**$ 1,470,798**	**$ 1,001,458**	**$ 584,863**	**$ 556,092**

(1) Table includes real estate owned balances with current UPB of $11.9 million and a carrying value of approximately $2.9 million. Excludes general allowance for loan losses of $0.6 million.

The following chart sets forth certain information as of December 31, 2018 related to the unlevered yields on our acquired loan portfolio:



(1) Pool IRR represents the return earned on loans owned and the return earned on loans sold or paid down in full.
(2) Liquidiated IRR represents only the return earned on loans sold or have paid down in full and no longer owned.

The following table sets forth certain information as of December 31, 2018 related to our acquired loan portfolio (in thousands):

Contractual Status [(1)]	Original UPB	Current UPB	Average UPB	Carrying Value [(2)]	Average Cost	Weighted Average Interest Rate	Weighted Average Maturity
Current	$ 1,151,935	$ 541,796	$ 674	$ 527,933	$ 657	6.3 %	February 2027
30 - 59 days delinquent	9,364	5,444	340	4,749	297	6.5	November 2028
60 - 89 days delinquent	5,029	3,145	286	2,463	224	5.8	July 2027
90 - 179 days delinquent	11,671	8,278	443	5,437	320	6.3	August 2028
180 + days delinquent	19,969	10,131	326	4,831	297	6.6	January 2021
Bankruptcy	4,711	2,609	201	1,846	142	5.7	December 2024
Foreclosure	3,093	2,289	572	1,438	360	6.4	July 2031
Total	**$ 1,205,772**	**$ 573,692**	**$ 648**	**$ 548,697**	**$ 616**	**6.3 %**	**July 2026**

(1) Includes Loan assets of consolidated VIEs.
(2) Excludes specific and general allowance for loan losses.

Waterfall's extensive experience in securitization strategies for SBC loans dates to the first SBC ABS for performing loans and liquidating trusts for non-performing loans purchased from the Resolution Trust Corporation in 1993. We believe that in 2011, we were the first post-financial crisis issuer of SBC ABS and have since completed several SBC

bond issuances backed by newly originated and acquired SBC and SBA 7(a) loan assets. The following table summarizes our acquired loan securitization activities:

Deal Name	Asset Class	Issuance	Ratings		Bonds Issued (in $ millions)	Weighted Average Debt Cost
WVMT 2011-SBC1	SBC Acquired Loans - NPL	February 2011	NR[1]	$	40.5	7.0 %
WVMT 2011-SBC2	SBC Acquired Loans	March 2011	DBRS[2]		97.7	5.1
WVMT 2011-SBC3	SBC Acquired Loans - NPL	October 2011	NR[1]		143.4	6.4
SCML 2015-SBC4	SBC Acquired Loans - NPL	August 2015	NR[1]		125.4	4.0
SCMT 2017-SBC6	SBC Acquired Loans	August 2017	NR[1]		154.9	3.3
SCMT 2018-SBC7	SBC Acquired Loans	November 2018	NR[1]		217.0	4.7
Total				**$**	**778.9**	**4.8 %**

(1) Not rated.
(2) DBRS is an SEC-registered nationally recognized statistical rating organization.

Our Loan Origination Platforms

We originate SBC loans generally ranging in initial principal amount of between $500,000 and $35 million, and typically with a duration of six years at origination. Our origination platform, which focuses on first mortgage loans, provides conventional SBC mortgage financing for SBC properties nationwide through the following programs:

- *First mortgage loans*. Loans for the acquisition or refinancing of stabilized properties secured by traditional commercial properties such as multi-family, office, retail, mixed use or warehouse properties, which are often guaranteed by the property owners. The loans are typically amortizing and have maturities of five to twenty years.

- *Transitional loans*. Loans for the acquisition of properties requiring more substantial expenditures for stabilization, secured by traditional commercial properties such as multi-family, office, retail, mixed use or warehouse properties which may be guaranteed by the property owners. The loans are typically interest-only and have maturities of two to four years.

- *Freddie Mac loans*. Origination of loans ranging from $1 million to $5 million secured by multi-family properties through the recently launched Freddie Mac program. Loans are 90% guaranteed through the program. We sell qualifying loans to Freddie Mac, which, in turn, sells such loans to securitization structures. We are obligated to purchase the B-pieces secured by its underlying loans.

- *SBA loans*. Loans secured by real estate, machinery, equipment and inventory that are guaranteed, typically 75% under the SBA Section 7(a) Programs. SBA loans include personal guarantees of the borrower and are typically amortizing and have maturities of seven to twenty-five years.

Additionally, as a large regional mortgage lender, we are approved to originate and service Fannie Mae, Freddie Mac and Ginnie Mae eligible loans through the residential mortgage loan programs. These include prime, subprime and alternative-A and alternative-B mortgage loans, which may be adjustable-rate, hybrid and/or fixed-rate residential mortgage loans and pay option adjustable rate mortgage loans (“ARMs”).

Our origination platforms include the following segments: (i) SBC Originations (ii) SBA Originations and (iii) Residential Mortgage Originations.

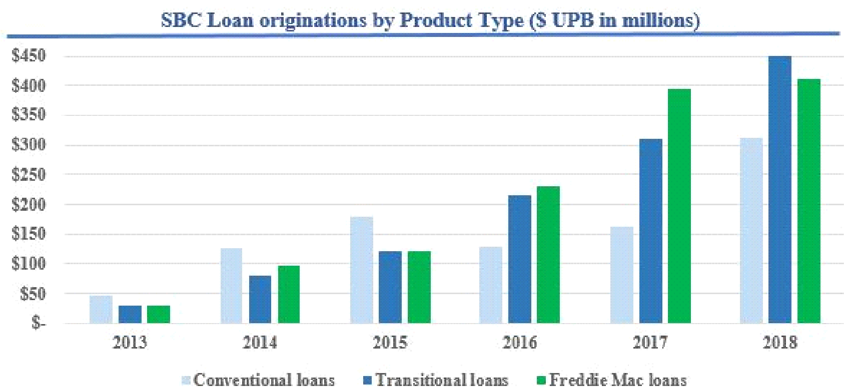
SBC Originations

We operate our SBC loan originations segment through ReadyCap Commercial. ReadyCap Commercial is a specialty-finance nationwide originator focused on originating commercial real estate mortgage loans through its conventional, agency multi-family and transitional loan programs. The following table summarizes the loan features of ReadyCap Commercial's three product types:

	Stabilized Conventional/Agency Commercial Real Estate Lending		Transitional, Value-Add and Event Driven Commercial Real Estate Lending
	First Mortgage Product	**Freddie Mac Product**	**Transitional Product**
Loan Purpose	Purchase, Cash-Out Refinance, Rate & Term Refinance, Transitional Lite	Purchase, Cash-Out Refinance, Rate & Term Refinance	Purchase, Cash-Out Refinance, Rate & Term Refinance, Bridge
Product Highlights	Stabilized Properties, Single-Tenants, Earn-Outs, Transitional-Lite	>= 90% Occupancy	Unstabilized Properties, Earn-outs, Rehab/Renovation, Construction, Lease Roll Issues, Vacancy Issues
Core Property Types	Multi-family, Mixed Use, Retail, Office, Industrial	Multi-family	Multi-family, Mixed Use, Retail, Office, Industrial
Loan Size	$750,000 - $10,000,000	$1,000,000 - $5,000,000	$5,000,000 - $35,000,000
Terms	2 - 10 Years	5 - 20 Years	< 5 Years
Amortization	20 - 30 Years	20 - 30 Years	Full Term Interest Only
Leverage	Up to 75% LTV	Up to 80% LTV	Up to 80% LTV
Take Out	Term Securitization	GSE Wrap Securitization	CLO Securitization
Origination Fees	Up to 1%	Up to 1%	Up to 1% & Up to 2% Exit Fee

(1) Bonds guaranteed by the GSEs.

Through December 31, 2018, we have originated more than $3.5 billion in SBC loans in 38 states since ReadyCap Commercial's inception in September 2012. The following chart summarizes our SBC conventional loan originations since ReadyCap Commercial's formation:



As of December 31, 2018, our originated SBC loans held in our portfolio had a UPB of $1,479.3 million and a carrying value of approximately $1,488.1 million. Our originated SBC loans, substantially all of which are currently classified as performing loans, represented approximately 57.2% of the UPB and 58.6% of the carrying value of our total loan portfolio as of December 31, 2018.

The following table summarizes our originated SBC loan securitization activities:

Deal Name	Asset Class	Issuance	Ratings		Bonds Issued (in $ millions)	Weighted Average Debt Cost
RCMT 2014-1	SBC Originated Conventional	September 2014	MDY(1) / DBRS	$	181.7	3.2%
RCMT 2015-2	SBC Originated Conventional	November 2015	MDY(1) / Kroll(2)		218.8	4.0%
FRESB 2016-SB11	Originated Agency Multi-family	January 2016	GSE Wrap(3)		110.0	2.8%
FRESB 2016-SB18	Originated Agency Multi-family	July 2016	GSE Wrap(3)		118.0	2.2%
RCMT 2016-3	SBC Originated Conventional	November 2016	MDY(1) / Kroll(2)		162.1	3.4%
FRESB 2017-SB33	Originated Agency Multi-family	June 2017	GSE Wrap(3)		197.9	2.6%
RCMF 2017-FL1	SBC Originated Transitional	August 2017	MDY(1) / Kroll(2)		198.8	L + 139 bps
FRESB 2018-SB45	Originated Agency Multi-family	January 2018	GSE Wrap		362.0	2.8%
RCMT 2018-4	SBC Originated Conventional	March 2018	MDY(1) / Kroll(2)		165.0	3.8%
RCMF 2018-FL2	SBC Originated Transitional	June 2018	MDY(1) / Kroll(2)		217.1	L + 121 bps
FRESB 2018-SB52	Originated Agency Multi-family	September 2018	GSE Wrap		505.0	2.9%
Total				**$**	**2,436.40**	**4.2%**

(1) Moody's is a rating agency and an SEC-registered nationally recognized statistical rating organization.
(2) Kroll Bond Rating Agency is a rating agency and an SEC-registered nationally recognized statistical rating organization.
(3) GSE wrap guarantee.

Additionally, ReadyCap Commercial has been approved by Freddie Mac as one of 11 originators and servicers for multi-family loan products under the Freddie Mac program. As of December 31, 2018, ReadyCap Commercial employs 80 people focused on originating and supporting the SBC loan origination business.

The SBC loan origination market is highly fragmented, with few dedicated lenders. Furthermore, we believe that as economic conditions continue to stabilize or strengthen, the volume of short-term loan extensions and restructurings of existing SBC loans will be reduced, resulting in increased opportunities for us to originate new SBC loans.

We believe that we have significant opportunity to originate SBC loans at attractive risk-adjusted returns. We believe that many banks have restrictive credit guidelines for our target assets. In addition, large banks are not focused on the SBC market and smaller banks only lend in specific geographies. We see an opportunity to earn an attractive risk spread premium by lending to borrowers that do not fit the credit guidelines of many banks. We believe that increased demand, coupled with the fragmentation of the SBC lending market, provides us with attractive opportunities to originate loans to borrowers with strong credit profiles and real estate collateral that supports ultimate repayment of the loans.

We expect to continue to source SBC loan originations through the following loan origination channels:

- *Direct and indirect lending relationships.* We will generate origination loan leads directly through our extensive relationships with commercial real estate brokers, bank loan officers and mortgage brokers that refer leads to our loan officers. To a lesser extent, we will also source loan leads through commercial real estate realtors, trusted advisors such as financial planners, lawyers, and certified public accountants ("CPAs") and through direct-to-the-borrower transactions.

- *Other direct origination sources for SBC loans.* From time to time, we may enter into strategic alliances and other referral programs with servicers, sub-servicers, strategic partners and vendors targeted at the refinancing of SBC loans.

SBA Origination, Acquisition and Servicing Platform

We operate our SBA loan origination, acquisition, and servicing segment through ReadyCap Lending. We acquire, originate and service owner-occupied loans guaranteed by the SBA under the SBA Section 7(a) Program through ReadyCap Lending's license, one of only 14 licensed non-bank SBLCs. In the future, we may also originate SBC loans for real estate under the SBA 504 loan program, pursuant to which the SBA guarantees subordinated, long-term financing. We believe investor demand for pass-through securities backed by the guaranteed portions of SBA Section 7(a) Program loans has been strong because the principal and interest payments are guaranteed by the full faith and credit of the U.S. Government. For this reason, we believe that SBA participating lenders that have sold the guaranteed portions of SBA Section 7(a) Program loans in recent years have been able to recognize attractive gains.

The SBA was created out of the Small Business Act in 1953. The SBA's function is to protect the interests of small businesses. The SBA classifies a small business as a business that is organized for profit and is independently owned and operating primarily within the United States with less than $15 million in tangible net worth and not more than $5 million in average after-tax net income. The SBA supports small businesses by administering several programs that provide loan guarantees against default on qualified loans made to eligible small businesses.

The SBA Section 7(a) Program is the SBA's primary program for providing financing for start-up and existing small businesses. The SBA typically guarantees 75% of qualified loans over $150,000. While the eligibility requirements of the SBA Section 7(a) Program vary depending on the industry of the borrower and other factors, the general eligibility requirements include the following: (i) gross sales of the borrower cannot exceed size standards set by the SBA (e.g., $30.0 million for limited service hospitality properties) or, alternatively, average net income cannot exceed $5.0 million for the most recent two fiscal years, (ii) liquid assets of the borrower and affiliates cannot exceed specified limits, (iii) tangible net worth of the borrower must be less than $15.0 million, (iv) the borrower must be a U.S. citizen or legal permanent resident and (v) the maximum aggregate SBA loan guarantees to a borrower cannot exceed $3.75 million. The table below provides information on the SBA Section 7(a) Program's key features, including its eligible uses, maximum loan amount, loan maturity, interest rate, guarantee fee, yearly fee and personal guarantee.

Key Feature	Program Summary

Table of Contents

Use of Proceeds	Fixed assets, working capital, financing of start-up or to purchase an existing business. Some debt payment allowed but lender's loan exposure may not be reduced with the proceeds.
Maximum Loan Amount	$5,000,000
Maturity	Five to seven years for working capital and up to 25 years for equipment and real estate. All other loan purposes have a maximum term of ten years.
Interest Rate	Negotiated between applicant and lender and is subject to maximums. The current maximums are Prime Rate plus 2.25% for maturities fewer than seven years and Prime Rate plus 2.75% for maturities of seven years or longer. Spreads on loans with an initial UPB below $50,000 have higher maximums.
Guaranty Fee	Based on the loan's maturity and the dollar amount guaranteed. The lender initially pays the guaranty fee and has the option to pass the expense on to the borrower at closing. A fee of 0.25% of the guaranteed portion of the loan is charged for loans with maturities of 12 months or less. For loans with maturities over 12 months, the fees are 2% for loans of $150,000 or less; 3% for loans of $150,001 to $700,000; 3.5% for loans over $700,000; and 3.75% for guaranteed portion over $1 million.
Yearly Fee	<