Granite Point Mortgage Trust
Q2'26 Earnings Call
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Presenters
Jack Taylor - President, CEO & Director
Steve Alpart - VP, Chief Investment Officer & Co-Head of Originations
Blake Johnson - VP, CFO & Treasurer
Chris Petta – Head of Investor Relations

Q&A Participants
Chris Muller - Citizens JMP Securities
Marissa Lobo - UBS

Operator
Good morning. My name is Alicia and I'll be your conference facilitator. At this time, I'd like to welcome everyone to Granite Point Mortgage Trust's Second Quarter 2026 Financial Results Conference Call. All participants will be on a listen only mode. After the speakers' remarks, there will be a question-and-answer period. Please note today's call is being recorded.

I would now like to turn the call over to Chris Petta, Head of Investor Relations for Granite Point.

Chris Petta
Thank you, and good morning, everyone.

Thank you for joining our call to discuss Granite Point's second quarter 2026 financial results. With me on the call this morning are Jack Taylor, our President and Chief Executive Officer, Steve Alpart, our Chief Investment Officer and Co-Head of Originations, Blake Johnson, our Chief Financial Officer; Peter Morral, our Chief Development Officer and Co-Head of Originations; and Ethan Lebowitz, our Chief Operating Officer.

After my introductory comments, Jack will provide a brief recap of market conditions and review our current business activities. Steve will discuss our portfolio, and Blake will highlight key items from our financial results. The press release, financial tables, and earnings supplemental associated with today's call were filed yesterday with the SEC, along with our Form 10-Q, and are available in the Investor Relations section of our website. I would like to remind you that remarks made by management during this call and the supporting slides may include forward-looking statements, which are uncertain and out of the company's control. Forward-looking statements reflect our views regarding future events and are subject to uncertainties that could cause actual results to differ materially from expectations. Please see our filings with the SEC for a discussion of some of the risks that could affect results. We do not undertake any obligation to update any forward-looking statements.

We will also refer to certain non-GAAP measures on this call. This information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. The reconciliation of these non-GAAP financial measures to the most comparable GAAP measures can be found in our earnings release and slides, which are available on our website.

I'll now turn the call over to Jack.

Jack Taylor
Thank you, Chris, and good morning, everyone. We would like to welcome you and thank you for joining Granite Point's Second Quarter 2026 Earnings Call.

U.S. commercial real estate credit continued to benefit from improving fundamentals and extended its positive trajectory during the second quarter. Geopolitical developments tied to the Iran conflict are influencing the U.S. capital markets, as energy prices, along with tariffs, have sharpened investors' focus on inflation and contributed to greater uncertainty about the direction of interest rates. As a result, property values are facing potential headwinds as expectations are shifting from pricing near-term interest rate cuts to rate hikes. Nevertheless, capital continues to flow into commercial real estate assets. Debt markets have remained competitive, and lending spreads have continued a trend of tightening, helping to mitigate a potential rise in short-term rates that could impact refinancings.

During the quarter, loan demand generally broadened due to a pickup in acquisitions. Banks have been reporting net increases in commercial real estate loan demand for the first time since 2022. The CMBS market continues to be strong, with issuance on pace to surpass last year's post-GFC record volumes. The increase in acquisition volumes was driven by portfolio and entity-level mega-deals, while the Iran war and other contributors to volatility in some instances paused and delayed individual asset sales, reducing volumes. Nevertheless, fundamentals and liquidity continue to improve in many office markets, which is a constructive sign for resolving legacy office loans.

Our reserves increased during the quarter, due to an increase in our general reserve caused in part by a more negative macroeconomic forecast utilized in our general reserve model, increases in the specific reserves in some situations involving a change of circumstances at the collateral or borrower level, and in others where it was a result of more particular price discovery as processes proceeded. We will go into greater detail on these items. We do expect our nearer-term resolutions to offset much of these increases.

Granite Point remains focused on our primary objective of resolving our legacy loans. Following on the activities of the first quarter, which included two large loan repayments and the sale of a

B-note secured by a hotel at a price somewhat above par, during the second quarter, we completed the resolution of the Chicago retail loan above our carrying value, realized an office loan repayment, and successfully sold two participation interests in debt secured by an office property in Dallas, Texas, for a price in the low 90s. These participation interests included a larger subordinate interest and an accompanying much smaller senior interest. These actions also furthered our goals of reducing higher-cost debt. With respect to our two REO assets, we continue to make progress on maximizing value with the goal of exiting these properties opportunistically.

As we continue to focus on our objectives, one of which is to lower our cost of funds, more recently, as announced in a recent press release, we refinanced the assets that were in our two-legacy CLOs by extending and upsizing the JPMorgan financing facility, which reduced the cost of funds on these assets from SOFR plus 238 to SOFR plus 200. We are pleased to achieve this refinancing with one of our key lending partners at a favorable cost of funds, which also substantiates underlying value in these loan assets which constitute a large subset of our portfolio.

Taken together, we believe our initiatives are strengthening Granite Point's financial position and enhancing our ability to create long-term shareholder value. The Board and management believe that the company's current market valuation does not fully reflect the underlying value of Granite Point and its assets, and we remain actively focused on narrowing that gap. We intend to do so in a variety of ways, including disciplined execution, resolving our legacy assets in a value-maximizing manner, reducing our cost of capital, maintaining balance sheet flexibility, and positioning the company to redeploy capital into attractive new investments.

I would now like to turn the call over to Steve to discuss our portfolio of activities in more detail.

Steve Alpart
Thank you, Jack, and thank you all for joining our second quarter earnings call.

We ended the quarter with $1.5 billion in total loan portfolio commitments, inclusive of $1.4 billion in outstanding principal balance and about $57 million of future fundings, which accounts for only about 4% of total commitments. Our loan portfolio remains diversified across regions and property types and includes 38 investments with an average UPB of about $37 million and a weighted average stabilized LTV of 66% at origination. As of June 30th, our portfolio weighted average risk rating remained stable at 3.2, quarter-over-quarter. The realized loan portfolio yield for the second quarter was 6%, which excluding non-accrual loans, would be 7.4%, or 1.4% higher.

We had an active quarter of loan repayments, resolutions, paydowns, amortization, and loan participation sales totaling about $160 million. During the second quarter, we had a repayment of a $37 million loan secured by an office property in Richmond, Virginia. This property had been a strong performing property in a solid office market. However, until recently we had not seen much liquidity in this market, either debt or equity. As Jack mentioned earlier, we are now seeing expanded capital available for office assets. In addition, we sold two interests in debt secured by a strong performing, well-occupied office property in Dallas, Texas, totaling $31 million. We achieved the final resolution on the $76 million Chicago retail loan via a property sale. We had about $8 million in future fundings and other investments, resulting in a net loan portfolio reduction of about $122 million for the second quarter.

We'll now provide some color on the remaining risk-rated 5 loans. At June 30th, we had five such loans with a total UPB of about $253 million. Three of the five are in active sales processes that we anticipate may be completed over the coming quarters.

At quarter end, we downgraded a $65 million loan collateralized by a 384,000-square-foot office property in the San Diego CBD from a risk rating of 4 to a rating of 5. The office property was purchased by a West Coast institutional owner for a major hotel redevelopment strategy. This owner made a major equity investment in the property, as did the major hotel brand separately. However, more recently, as a result of rising construction costs and elevated financing costs, the sponsor believes that the original business plan may be difficult to achieve at this time, and as a result, we downgraded this loan from a 4 rating to a 5 rating. We are in discussions with the borrower and pursuing several potential resolution alternatives.

Regarding the $27 million Tempe hotel and retail loan, which we've discussed in prior quarters, we've been in active dialogue with the borrower and are reviewing resolution alternatives, which we expect will involve a sale of the property.

The property securing the Atlanta multifamily loan, which we've also discussed in prior quarters, is now under contract with a hard deposit with a targeted close in the near term.

We are in discussions with the borrower on the $15 million New Haven hotel loan, and as we mentioned last quarter, we expect to resolve this loan via a property sale by the borrower over the next couple of quarters.

The last 5-rated loan is the $93 million Minneapolis office loan, where we are working collaboratively with current ownership to take the property back as REO in the nearer term. Resolving these remaining 5-rated loans remains a top priority.

At quarter end, we had two loans with a combined UPB of $68 million, which have risk ratings of 4 that are on non-accrual status. We are reviewing resolution alternatives for each of these loans and will provide additional information as the situations progress.

Turning to the REO assets, we continue to have positive leasing momentum at the suburban Boston property and remain actively engaged with our partner and other third parties on several value-enhancing repositioning opportunities. The Miami Beach office property is a Class A asset located in a strong market. We are having positive leasing discussions with a variety of existing and new tenants, will prudently invest in the property, and continue to review alternatives targeting the sale of the property during the second half of 2026.

As we shared in prior quarters, our plan is to remain focused on repayments and resolutions. Along with resolving the 5-rated and other non-accrual loans, the REO assets provide additional capital that can be unlocked and redeployed into higher-earning investments. In the interim, we expect our portfolio balance will trend lower until we restart our origination efforts to take advantage of attractive investment opportunities and begin to regrow our portfolio.

I will now turn the call over to Blake to discuss our financial results.

Blake Johnson
Thank you, Steve. Good morning, everyone, and thank you for joining us today.

Turning to our financial results. For the second quarter, we reported a GAAP net loss attributable to common stockholders of $62 million, or negative $1.29 per basic common share, which includes a provision for credit losses of $47 million and an impairment loss on REO of $6.1 million, and a distributable loss of $37.7 million, or negative $0.79 per basic common share. Our book value as of June 30th was $5.70, a decline of $1.35 from 1Q.

Our aggregate CECL reserve at June 30th was about $166 million, which is approximately $17 million higher than last quarter. The $10 million increase in our specific reserve is largely due to one new risk-rated 5 loan, partially offset by the write-off associated with one loan resolution during the quarter. The $7 million increase in our general reserve was driven by downgraded macroeconomic forecasts in our CECL model and changes in loan attributes in our investment portfolio. Approximately 78% of our total allowance was allocated to individually assessed loans. As of quarter end, we had about $253 million of principal balance on risk-rated 5 loans with specific CECL reserves of about $120 million, representing 47.4% of the unpaid principal balance. We believe we are appropriately reserved, and further resolutions should meaningfully reduce our total CECL reserve balance.

Turning to liquidity and capitalization, we ended the quarter with about $58 million of unrestricted cash and total leverage of 1.9x. During the quarter, we extended the Citibank and Morgan Stanley repurchase facilities by approximately one year and extended the secured credit facility to December 2027, including reducing its cost of funds by 25 basis points. After quarter end, we refinanced our legacy CLOs by upsizing and extending the JPMorgan repurchase facility. As of a few days ago, we carried about $35.7 million in cash. Our funding mix remains well diversified and stable, and we continue to have very constructive relationships with our financing counterparties, who know our assets very well, as evidenced by their recent extensions. We expect to expand our financing capacity once we return to originating new loans.

Lastly, as Jack mentioned earlier, the refinance of our legacy CLO assets and upsize of the JPMorgan repurchase facility will reduce our cost of funds and interest expense. We expect the weighted average cost of funds for those refinanced assets to decrease to SOFR plus 200 from SOFR plus 238 as of June 30. The 38-basis-point improvement in the cost of funds will decrease our interest expense by approximately $2 million on an annualized basis using the June 30 CLO outstanding balance of $521 million. As we look forward, we continue to believe the best use of our capital is to continue paying down our higher-cost debt, resolving our remaining non-accrual loans and REO, and regrowing our investment portfolio.

I will now ask the operator to open the line for questions.

Operator
Thank you. We will now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Thank you. Our first question comes from the line of Chris Muller with Citizens Capital Markets. Please proceed.

Chris Muller
Hi, thanks for taking my questions. And sorry if I missed some of this, but I was jumping around calls this morning. But I guess on the San Diego loan that was downgraded, can you guys just give a little more detail on that? What's occupancy? And it sounds like it might be a redevelopment, so maybe it's not occupied as we sit today, and just any timelines on r resolution there you could share would be helpful.

Steve Alpart
Hey, Chris. Good morning. It's Steve Alpart. Thanks for joining the call. So you mentioned that you may have joined a little bit late. So what we just mentioned on the earlier call is that, look, we downgraded this loan. It's a $65 million loan. It's a 384,000-square-foot office property in the San Diego CBD. The property was purchased by a West Coast institutional owner. Original business plan was a major hotel redevelopment strategy. They partnered with a prominent hotel brand, and the development also potentially including residential and retail components.

We mentioned earlier also that the borrower and the brand each made pretty significant equity investments in the property. But more recently, they said that because of the impact of rising construction costs, also elevated financing costs, they feel that the original business plan is more difficult.

So it was really kind of the cumulative effect of those factors that led them to say that, at least even though they were putting in equity until very recently, that they're not going to put more equity into the property behind our loan. So that was really the catalyst for the movement of the loan from a 4 to a 5 rating during the quarter.

You asked about the occupancy. This was originally designed as an office building. The occupancy is, I'll just say, very low intentionally because the current strategy is to reposition as hotel or hotel with mixed-use. So it was originally a low-occupied office building for redevelopment. So that's I guess that's the answer to your question on occupancy.

As far as timing and next steps, look, we're in discussions with the borrower. They are engaged, they are cooperative, and we're looking at a number of resolution alternatives, but I would say it's early days to get into timelines.

Chris Muller
Got it. And then maybe changing gears a little bit to the Miami REO, I see that was moved to held for sale. Are you guys getting any interest from buyers on that asset? And could a sale on that one be done by the end of the year?

Steve Alpart
Yes, we have been looking at alternatives. The focus has been on leasing. We have gotten good leasing traction. This happens to be in a very strong and robust market. We are now under contract on that property sale, and we are targeting a sale during the second half of this year.

Chris Muller
Got it. And maybe just changing gears a little bit, so maybe just touching on the dividend, you guys made some comments about the portfolio that is probably going to continue to trend a little bit lower until you can restart the origination engine. So how are you guys thinking about the dividend versus just preserving as much capital as you can through that period?

Jack Taylor
I'll address that. This is Jack. Nice to speak with you, Chris. We do evaluate quarter-to-quarter all our uses of capital, including the dividend. It is a Board decision with recommendation from management. And as we move forward, we will, as we always do, look at the competing uses of capital, including the dividend. We've not made that determination as of this moment.

Chris Muller
Got it. I appreciate that, and I figured that was the answer I was going to get, but figured I'd ask, anyway. I appreciate you guys taking the questions today.

Jack Taylor
Thank you, Chris.

Operator
Thank you. Our next question comes from the line of Marissa Lobo with UBS. Please proceed.

Marissa Lobo

Good morning. Thanks for taking the question. Just was hoping you could review the liquidity position post the CLO refi, just looking at cash of $35 million on August 3rd. Can you just talk through that with funding commitments and active sale processes and your minimum liquidity buffer?

Blake Johnson
Morning, Marissa, this is Blake. Thank you for the question. I'll take a first pass at answering this, and then I can pass it to Jack to provide some more color. But, yes, as of quarter end we held around $58.5 million of cash. And then as of the other day, we held around $35.7 million, so roughly around a $23 million change.

As far as the CLO refi goes, we did actually reduce our borrowings there, so part of this change from that $23 million is largely from $12 million of reduced borrowings.

We also had some fees associated with the refinance as well, in addition to the upsize. And then we also had fees associated with other facilities, which resulted in a total of around $4 million. The combination of those two is around $16 million for the month. The rest of the change is largely attributed to things that we see on a recurring basis. So spending money in our REO, for example, future fundings, that sum to around $2.8 million. And depending on the quarter, we see around $3 million to $4 million a month.

The other one that was unique in the month of July was we had the dividend payment go out the door to common and preferred. That was around $6 million.

Marissa Lobo
Got it. Thank you.

Jack Taylor
Are you done, Blake?

Blake Johnson
I am, Jack, yes.

Jack Taylor
I'll just add we added disclosure in our 10-Q in a footnote relating to the secured financing agreements, which basically does two things. Just right below our statement of how we are in compliance with four financial covenants, the disclosure sets out two things. First, a favorable change to our most restrictive minimum tangible net worth covenant from $600 million to $500 million and a favorable change to the minimum unrestricted cash covenant from $30 million to $20 million.

It also outlines a plan to mitigate the possibility of temporarily falling below $20 million of unrestricted cash that could occur later this year between the third and fourth quarters. It's a footnote per prescriptive GAAP rules. And so it does not include all the other items that could release capital, which we're working on, because it doesn't fit in with the prescriptive rules, such as repayments of certain assets that we believe are likely to occur in the coming months or other mitigants or levers available to us, such as, say, like a loan sale. We do not believe that we will have a temporary fall below our minimum cash of $20 million, and we will remain in compliance with the covenants.

Marissa Lobo
Okay, great. I appreciate that detail. And just thinking about peer commentary on resolutions and some non-performing loans facing volatile bids with rising return expectations from buyers, can you give us color on what you're seeing and how your marks reflect that? If it's appraisal, or should we expect more mark-to-market deterioration?

Jack Taylor
Steve, do you want to address that, and then I can follow up?

Steve Alpart
Sure, I think I heard a couple of questions there. Part of it I think was on the marks, and was part of it what we're seeing in the market? I just want to make sure I understand.

Marissa Lobo
Yes, correct. Yeah, just to understand whether the marks are more appraisal-based or just reflecting some of the realities of buyers' return expectations.

Steve Alpart
Sure. Okay, understood. Thank you for the clarification. Yeah, so I would say, earlier in the process, it's typically going to be appraisal-based. And then, to the extent there's an active resolution process, which particularly for the 5s, some of the 4-rated loans, as we get more information, it's a very prescriptive process.

So I would say earlier with appraisal-based, if you're in the market on a sale or other process and you're taking in more information, for example, if you're taking in bids at some point that'll become more relevant. And I think you've heard a lot of commentary this quarter there's a lot of capital in the market, particularly debt capital. Equity capital is very selective in many cases, I would say, particularly for office and some of these more complicated situations.

So we've seen processes where you get 20 or more real bidders showing up, and there'll be some outliers, but there's a really well-defined market. And then there's other cases where you start a process, and at the end, there's only a handful of bidders. So depending what happens with those bidders, it can really move around a lot.

And with the movement in rates and some of the interest rate volatility, that is impacting pricing in some cases. You've seen return requirements drift off. That has an impact on values. So basically, as we go through a process, then that will become more impactful to our reserves than the appraisal.

Marissa Lobo
Makes sense. Thank you for taking the questions.

Steve Alpart
Sure.

Operator
Thank you. There are no further questions at this time. I'd like to turn the floor back over to Jack Taylor for any closing remarks.

Jack Taylor
Thank you, Operator, for assisting us today. I want to thank everybody on the team for all the hard work that you've been doing to get the refinancing done and other activities that we've been engaged in. We are all working very hard to pursue repayments.

We have good visibility on repayments coming through, and we are actively working on the resolutions that we've discussed and are optimistic that many of those are going to come through as we set out in our prepared remarks and commentary. Thank you, everybody, for joining us, and we wish you a good day.

Operator
This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.