

Granite Point Mortgage Trust, Inc.
Fourth Quarter and Full Year 2023 Financial Results Conference Call
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Presenters

Jack Taylor, President and Chief Executive Officer

Marcin Urbaszek, Chief Financial Officer

Steve Alpart, Chief Investment Officer, Co-Head of Origination

Peter Morral, Chief Development Officer, Co-Head of Originations

Steve Plust, Chief Operating Officer

Chris Petta, Investor Relations

Q&A Participants

Steve DeLaney - Citizens JMP

Stephen Laws - Raymond James

Doug Harter - UBS

Jade Rahmani - KBW

Operator

Good morning. My name is Donna, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Granite Point Mortgage Trust's Fourth Quarter and Full Year 2023 Financial Results Conference Call. All participants will be on 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 call over to Chris Petta with Investor Relations for Granite Point. Please go ahead.

Chris Petta

Thank you and good morning, everyone. Thank you for joining our call to discuss Granite Point's Fourth Quarter and Full Year 2023 financial results. With me on the call this morning are Jack Taylor, our President and Chief Executive Officer; Marcin Urbaszek, our Chief Financial Officer; Steve Alpart, our Chief Investment Officer and Co-Head of Origination, Peter Morral, our Chief Development Officer and Co-Head of Originations; and Steve Plust, our Chief Operating Officer.

After my introductory comments, Jack will provide a brief recap of market conditions and review our current business activities. Steve Alpart will discuss our portfolio, and Marcin will highlight key items from our financial results and capitalization.

The press release, financial tables and earnings supplemental associated with today's call were filed yesterday with the SEC and are available in the Investor Relations section of our website. We expect to file our Form 10-K in the coming weeks.

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 outside 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 our 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. A 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 will 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 us for Granite Point's Fourth Quarter and Full Year 2023 Earnings Call.

2023 was another challenging year for the commercial real estate industry for both, property owners and lenders. Transaction volumes have remained extremely low, high interest rates have continued to increase the cost of capital, pressuring property values across sectors. They have also created low visibility for market participants about the future cost of capital and so further reduced liquidity in the sector. And into 2023, we communicated our cautious approach to the market while putting more emphasis on maintaining higher liquidity and proactively managing our portfolio to protect our balance sheet and investor's capital. Our team has decades of experience managing various real estate lending businesses through market volatility caused by various economic credit and interest rate cycles. As such, we firmly believe that during challenging periods like today, emphasizing balance sheet stability and protecting the downside is the prudent strategy, both to effectively navigate market uncertainty and to position the business for future success and growth opportunities, even though such steps pressure the company's returns and profitability in the near term.

In mid-2022, with the expectation of continued federal reserve actions and the resulting impact on commercial real estate fundamentals and valuations, we shifted our strategy from new loan originations to increasing liquidity to further diversifying our funding sources and to proactively managing our portfolio by, collaboratively, working with our borrowers. We're pleased to report that in using this approach, we have accomplished a number of our goals in navigating the market challenges. We have reduced our leverage to one of the lowest levels in the industry and well below our target range. We realized a significant volume of loan repayments, paydowns and

resolutions, totaling over \$725 million last year, illustrating the liquidity embedded in our portfolio. And we resolved several nonaccrual loans, as we addressed select credit issues. Our proactive balance sheet management strategy also enabled us to repay, with cash, two convertible bond maturities, totaling over \$275 million, within 10 months of each other, the latest of which was in October of 2023, as we did not want to access the capital markets during this challenging period. We have also opportunistically deployed capital into our own securities, as part of our flexible capital allocation strategy, and given the attractive relative value. Over the course of 2023, we repurchased about 2 million shares of our common stock, representing some 3.8% of our shares outstanding, generating book value accretion of about \$0.35 per common share. We currently have a little over 4 million shares remaining under our existing authorization, and we intend to remain opportunistic with respect to any future buyback activity.

We believe that despite the significant market challenges our industry has faced over the last couple of years, our granular senior floating rate loan portfolio has delivered relatively attractive returns benefiting from higher short-term rates and diversification across property types, many markets and many sponsors, who generally remain supportive of their investments. Although transaction volumes have remained subdued across the real estate market, our portfolio has benefited from its broad diversification and middle market focus. And as I mentioned earlier, we realized a strong pace of loan repayments, last year, of over 20% of our portfolio. The loan payoffs have been across property types, the largest of which or about 35% was related to loans collateralized by office properties. In fact, over the last couple of years, our exposure to office loans has significantly declined by over \$500 million, or about 30%, primarily due to repayments and paydowns and also select loan resolutions. Many of our repayments have come from loans that have been previously amended to allow borrowers more time to progress on their business plans and complete their exits through either property sales or refinancing. This illustrates the benefit of working with our borrowers. The pace of repayments remains volatile and uncertain, and we will continue to manage our business accordingly.

While we believe our conservative underwriting has helped our portfolio performance, given the severity of market challenges, we are not immune to experiencing select credit issues, which we continue to proactively address, including the resolution of the San Diego office loan in the fourth quarter. As we progress on various resolution strategies for certain loans, during the fourth quarter, we downgraded two loans from a risk rating of four to a risk rating of five. Both of Baton Rouge mixed-use retail and office assets and the Chicago office assets are in various stages of resolutions involving potential property sales by their sponsors, which Steve will address shortly. Our GAAP results include additional credit loss provisions mainly related to the five rated loans, while our overall fourth quarter CECL reserve was 4.7% of total commitments versus about 4.9%, last quarter.

Overall market sentiment has improved somewhat over the past months, following the recent shift in the Fed stance pointing to anticipated reductions in the federal funds target rate during 2024, and we believe that sentiment and activity will likely continue to improve, particularly during the second half of the year. However, the continued strength in the labor market and

consumer spending supporting the overall performance of the U.S. economy may impact the timing of such interest rate cuts, which may further delay the recovery in the commercial real estate market. Although we have seen a modest pickup in transaction volumes in the industry, we believe the future path of macro trends remains uncertain. Fundamental performance across property types continues to be uneven, and high interest rates all contribute to continued constrained liquidity in the real estate market. As such, in the near to medium term, we will continue to emphasize maintaining higher liquidity, working with our borrowers to facilitate repayments and resolving our nonaccrual loans, given their meaningful impact on our returns. We believe that these actions, over time, will help improve our run rate profitability, while positioning us to redeploy our capital into attractive investments and grow our portfolio, as the real estate market stabilizes.

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

Steve Alpart

Thank you, Jack, and thank you, all, for joining our call this morning.

We ended the fourth quarter with total portfolio commitments of \$2.9 billion and an outstanding principal balance of about \$2.7 billion, with about \$160 million of future fundings accounting for only about 6% of total commitments. Our portfolio remains well-diversified across regions and property types and include 73 loan investments with an average size of about \$37 million. Our loans continued to benefit from higher short-term interest rates, and deliver an attractive income stream and carry a generally favorable credit profile with a weighted average stabilized LTV at origination of 64%. Our realized portfolio yield for the fourth quarter was about 8.3%, net of the impact of the nonaccrual loans, which we estimate to have been about 90 basis points. During the fourth quarter, we funded \$15 million of existing loan commitments and upsizes and one new loan for about \$49 million related to the previously disclosed resolution of the risk rated five San Diego office loan. So far in the first quarter, we have funded about \$7 million of existing commitments.

During 2023, we realized over \$725 million of loan payoffs, including over \$255 million in the fourth quarter, consisting of full loan repayments, principal paydowns and select loan resolutions. About 35% of the repayment volume was related to office properties, and about 28% were multifamily assets with the balance allocated primarily between hotel and industrial loans. Despite the broader market challenges, our volume of loan repayments has been relatively healthy, including from office assets, as we have benefited from some more liquidity in the middle market and our broad portfolio diversification, across primary and secondary markets. Given the market uncertainty, repayments are hard to predict. In the near term, we anticipate our loan portfolio balance to trend lower, as we maintain our cautious stance and continue to prioritize meeting higher levels of liquidity. Interest rates follow the current consensus path and decline in the second half of the year. We would anticipate some continued improvement in the

commercial real estate capital markets, with the real estate markets improving, transaction volumes increasing and repayment levels normalizing.

While higher interest rates have generally benefited our returns and those of our industry, increased capital costs and reduced liquidity have negatively affected certain borrowers and, in turn, the performance of several of our loans. During the fourth quarter, we downgraded two loans from risk rankings of four to five, including an \$86 million senior loan collateralized by a mixed-use retail and office property in Baton Rouge, Louisiana, and an \$80 million senior loan secured by an office property with a retail component in Chicago. We have been monitoring these assets for some time, and both are in various stages of potential resolutions. Borrower on the Baton Rouge loan has launched a sale process for the property. The process remains ongoing, and while it is difficult to predict the timing and ultimate outcome, we hope to reach a potential resolution in the next couple of quarters. The borrower on the Chicago property is also in negotiations to potentially sell the asset. However, the process is in its early stages. In addition, during the quarter, we also moved to a risk ranking of four, a smaller \$26 million senior loan secured by an office property located in Boston, that has been negatively impacted by the ongoing soft leasing environment in that market. We are in active discussions with the borrower on this asset, as we evaluate potential next steps with respect to this loan. These actions, along with the repayments realized in the fourth quarter, resulted in a portfolio weighted average risk ranking of 2.8 as of December 31, compared to 2.7 in the prior period.

As we previously disclosed, during the quarter, we resolved a nonaccrual \$93 million San Diego office loan through a coordinated deed-in lieu transaction and a sale of the property to a new buyer, while providing \$49 million senior floating rate acquisition loan to the new ownership, who invested meaningful cash equity into the transaction. We worked, collaboratively, over many months with our previous borrower and the new owner to bring this transaction to a successful conclusion and in the process, created an attractive earning asset at a reset basis. As we discussed on our last call, during the quarter, we also opportunistically sold a \$31.8 million senior loan, collateralized by an office property located in Dallas. These two resolutions resulted in losses, most of which had been previously accounted for in our book value, through our CECL reserves.

Considering the impact the nonperforming loans have on our run rate profitability, we are actively pursuing various resolution paths for these assets to allow us to redeploy our capital and improve our operating results. The borrower on a \$28 million Minneapolis hotel loan has been conducting a sale process for the property, and that process remains ongoing. We are in active discussions with the sponsors on the \$37 million L.A. mixed-use office and retail loan and the \$93 million Minneapolis office loan regarding next steps and potential resolutions, both of which are likely to take longer than some of the other assets we are looking to resolve, given local market conditions. With respect to the REO office property in Phoenix, we are actively asset managing the property, which continues to generate modestly positive operating income. We continue to evaluate potential next steps, including a sale process. We're pleased with our progress to date

on these assets and remain focused on resolving all the nonperforming loans. We're also pleased that the majority of our borrowers remain committed to their assets.

I will now turn the call over to Marcin for a more detailed review of our financial results and capitalization.

Marcin Urbaszek

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

Yesterday afternoon, we reported a fourth quarter GAAP net loss of \$17.1 million, or \$0.33 per basic share, which includes a provision for credit losses of \$21.6 million, or \$0.42 per basic share, mainly related to certain risk rated five loans. Distributable loss for the quarter was \$26.4 million, or \$0.52 per basic share, including a write-off of \$33.3 million, or \$0.65 per basic share related to the resolution of our San Diego office loan we disclosed in December. Distributable earnings before realized losses was \$7 million, or \$0.14 per basic share, and reflects the impact of loan repayments and additional loans placed on nonaccrual status, during the quarter.

Our book value at December 31 was \$12.91 per common share, a decline of about \$0.37 per share, or about 2.7% from Q3. The decrease was primarily due to the loan loss provision, the impact of which was partially offset by our accretive repurchases of 1 million common shares during the quarter, which we estimate benefited book value by about \$0.16, per share.

Our CECL reserve at year-end was about \$137 million, or \$2.71 per share, representing about 4.7% of our portfolio commitments, as compared to about \$149 million, or 4.9% of total commitments, last quarter. The modest change in our CECL reserve was mainly related to the write-off of the allowance related to the San Diego asset, loan repayments and slightly better macro assumptions used in estimating the general reserve, partially offset by additional specific allowance recorded on the two new risk rated five loans. Two thirds of our total CECL reserve, or about \$90 million, is allocated to certain individually assessed loans, which implies an estimated loss severity of about 27%. As of year-end, we had about \$450 million of loans on nonaccrual status, most of which are in various stages of resolutions. The additional loans that were placed on nonaccrual accounted for over \$5 million of interest income during the fourth quarter. Given the impact our nonperforming assets have on run rate profitability, we anticipate our earnings to be below our dividend in the near term. As we make progress on resolving these assets, we believe the company's profitability should improve over time, though the exact timing and ultimate outcomes remain difficult to predict.

Turning to liquidity and capitalization. We ended the quarter with over \$188 million of unrestricted cash, and our total leverage continued to modestly decline to 2.1x in Q4 from 2.2x in Q3, mainly due to loan payoffs and repayment of the convertible notes in October, which was partially offset by an additional \$100 million in borrowings related to an upsizing of the JPMorgan facility, during the quarter.

Our funding mix remains well diversified and stable, and we enjoy continued support from our lenders, highlighting the strength of these long-standing relationships. Following the repayment of our convertible notes, we have no corporate debt maturities remaining. As of a few days ago, we carried about \$170 million in unrestricted cash.

I would like to thank you again for joining us today, and we will now open the call for questions.

Operator

Thank you. The floor is now open for questions. If you would like to ask a question, please press “*” and “1” on your telephone keypad, at this time. A confirmation tone will indicate your line is in the question queue. You may press “*” and “2”, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star key. Once again, that is “*” and “1” to register a question, at this time.

Today's first question is coming from Steve DeLaney of Citizens JMP. Please go ahead.

Steve DeLaney

Good morning, everyone, thanks for taking the question. Steve Alpart, you mentioned in your comments a Boston loan, I believe you indicated it was downgraded to a five. Was that an event that took place here in the first quarter of 2024? It's not listed on Page 11 on the 5-rated loans, as of year-end.

Steve Alpart

Hey, Steve, good morning, thanks for joining our call, this morning. That loan was downgraded in the fourth quarter from a three to a four, not to a five.

Steve DeLaney

Okay. Got it. And that leads me to my next question was kind of like what's left in 4-rated loans, given the transition that you had to a couple of 5s in the fourth quarter. I believe it was you that said the 4s were 7% of the portfolio, which sounds like it could be about \$200 million. How many loans are in that four bucket, currently?

Steve Alpart

Sure. There are four loans, Steve, in the four bucket, as of December 31st.

Steve DeLaney

Okay. Great. That's helpful. Thank you very much. Okay, and I guess this is just kind of a general comment, but hearing you talk about your liquidity and retaining cash and Marcin's comments about near-term earnings coming in below the dividend. And we model that as, well, simply because of some assumed losses impacting distributable EPS. Jack, I guess I'll direct this to you. You have been using your buyback. Looking at where things stand now, would it not make sense for the Board to consider trimming the dividend? The yield now is mid-teens or higher today,

would you trim the dividend and allocate more of that cash capital into buying back the shares down here less than 50% of book. Just curious about your thoughts on that suggestion.

Jack Taylor

Steve, this is Jack, and it's good to speak with you, and thank you for joining us. Sure, I'll answer that. And first, I'll start out by saying it's our policy and our goal to provide an attractive income stream through the dividend to our stockholders. And dividend sustainability and the desire for it to be supported by our expectations for the run rate operating profitability is a key in our mind.

And that's also with a view of the long-term profitability. Given the really uncertain environment, making projections is really pretty difficult and the estimates is very challenging. And we recognize that during this period and other periods of credit challenges, we and others in the industry may under earn the dividend for a period of time, especially as we work on resolving the nonaccrual loans, as you pointed out.

As we mentioned in our prepared remarks, we anticipate that our earnings will be below the current dividend in the near term and as we resolve these nonperforming assets. And they have, as we pointed out, a meaningful drag on our profitability.

Now we don't anticipate that, we certainly don't anticipate that to be a permanent situation. But we don't know how long that is going to take and how long the resolutions will take. So management, along with our Board, will continue to evaluate the company's dividend in respect to future quarters. And the dividend is, of course, ultimately a decision of the Board. But all these factors we're taking into account, including what you were saying about stock buybacks and our flexible capital strategy allows us, as we have in the past. And we have authorization for it to take advantage of what we consider to be a very deep discount against value in our stock buybacks.

Steve DeLaney

Right. I appreciate that, Jack. Can you say what the remaining buyback authorization was, as of the end of '23?

Jack Taylor

I believe we have \$4 million. Yes, we have 4 million of buyback authorization remaining. I think it's a little bit more, but it's something like 4.1 million shares.

Steve DeLaney

Okay, great, that's helpful. Okay, well, thanks for the comments.

Jack Taylor

Thank you.

Operator

Thank you. The next question is coming from Stephen Laws of Raymond James. Please go ahead.

Stephen Laws

Hi, good morning.

Jack Taylor

Good morning.

Stephen Laws

A couple of questions around the NPLs. I guess first, and Steve Alpart, I appreciate the color as you ran through them. Certainly, it seems like you said LA mixed-use and the Minneapolis office maybe are going to be longer resolutions. But as you try to bucket the others that you went through, any thoughts on which ones could be resolved first half 2024, which ones maybe second half? Or is there a way to somewhat kind of force rank what can be addressed sooner rather than later, as you think about those loans?

Steve Alpart

Sure. Hey, Stephen, good morning, thanks for joining our call. Good to talk to you. So yes, as we said earlier, the LA mixed-use and the Minneapolis office asset, just given what's happening in those two markets, we think that those are probably take a little bit longer than some of the others. The Baton Rouge mixed-use, just to come to a quick march here, that borrower launched a sale process to sell the property. That process is ongoing, as we speak. It's difficult in this market to predict timing, but that's when I would say we hope to resolve in the next couple of quarters. The Chicago office deal, which has a retail component, as well, we're working with that borrower. They are in negotiations to potentially sell the property. It's in the early stages. We're hopeful for a resolution. I would probably characterize that one as more intermediate term. Again, the timing is hard to predict. Just as an FYI, we have no other office exposure in that market. The Minneapolis hotel loan, that borrower is also conducting a sale process, also ongoing. We'll evaluate next steps with them once they have more feedback which, hopefully is soon. Again, timing is hard to predict, but that one is also ongoing.

The Phoenix REO asset, we've talked on some prior quarters that the configuration lays out well for potential conversion to residential. So there's some optionality, whether it's multifamily, whether it's office, we're actively managing that one, right now. We're evaluating next steps that could include a potential sale process, and we'll share more information on that one as it develops.

Stephen Laws

Great. And then I guess as a follow-up to those, will we see you offer any buyers kind of seller financing or financing all the new assets the way you did with San Diego? Or are there certain assets that you don't want to have exposure to, going forward? How do you think about the willingness to provide financing to the ultimate buyer in the sales process?

Steve Alpart

Sure. So, it's something that we've done in the past. It's something in the toolkit. We can do it where it's necessary, certainly where it's necessary to facilitate a sale. In this market, particularly for some of these assets on the office lending market obviously is difficult. So, we would probably expect for a lot of these office resolutions that we're probably going to be providing some type of financing, that's not necessarily the case. We didn't provide any financing on the Dallas office note sale. So, it's something we can do, case by case. We've done it. We'll evaluate it, case by case.

Stephen Laws

Great. And then lastly, maybe for Marcin. When you think about the NPLs and financing that might be in place, can you talk about what the drag on run rate earnings are? Is there some way to quantify that, as far as once you get some resolutions and you're able to pay off the associated financing, kind of what the potential benefit is as you look at those assets?

Marcin Urbaszek

Sure, good morning, Stephen, thank you for joining us. I would say the biggest impact from those assets, and as I said in prepared remarks, it's over \$400 million of them as of the end of the year. They're financed sort of in a variety of different ways. But I would say most of the impact from resolutions would come from potentially turning them into earning assets, as Steve Alpart just talked about if we decide to provide financing or sort of repaying some of the expense of debt, but it's pretty meaningful. As you heard us say, they sort of accounted for about 90 basis points of yield from an interest income perspective, so that's pretty meaningful. So, it's sort of hard to quantify depending on which resolution happens on which loan, but it's in double digits in earnings per share per quarter, for sure.

Stephen Laws

Yeah, that's what I was getting to. I appreciate the color on that. Thanks for your comments this morning.

Marcin Urbaszek

Thank you.

Jack Taylor

Thank you, Stephen.

Operator

Thank you. The next question is coming from Doug Harter of UBS. Please go ahead.

Doug Harter

Thanks. Can you talk about your upcoming 2024 maturities just in the context of helping us get comfortable that you have in the current risk ratings have your arms around potential new problems?

Steve Alpart

Hey, Doug, good morning, it's Steve, thanks for joining the call. So, as we look out into 2024, 2025, I think we have a pretty good handle. Some of these loans will pay off in the normal course. You saw last year in 2023 and 2022. We've had pretty good repayment pace on these loans. So, some of these loans will continue to just pay off in the normal course. Some of them will extend as of right. Some of them won't qualify for an extension, some of them may be coming up on a final maturity. I think that's a question you're getting at.

We have a playbook for working for resolving these loans. In general, if something is coming up and we've got a good borrower, doing all the right things, and they're financially committed to the asset, we'll come up with a plan to potentially give more time to get loan pay downs, to get debt service reserves replenished, to try and create some kind of a win-win situation. And what I just described will handle the bulk of it. And then there will be a smaller cohort of loans, the 5s, for example, where we have to kind of take a different approach. And that may be a note sale, could be a property sale, it can be working with our borrowers to sell the property. Going to the earlier question, case by case, we can provide seller financing. So it's kind of a range of outcomes or range of tools that we have. We're obviously very focused on this.

The tone with our borrowers for the majority of our assets is very positive. People are still putting money into these deals. But look, we recognize the environment is challenging for a lot of these loans, particularly office loans. And that's why you've seen us increase our CECL reserve, which I think are about doubled since Q4 2022. It's something we're very focused on.

Doug Harter

Great. And then kind of how are you thinking about your current liquidity, how much of that with no corporate debt maturities, how much of that liquidity could be used for buyback versus how much do you need to save for potential defensive portfolio actions?

Jack Taylor

Hi, Doug. This is Jack. Good to speak with you. Thank you for joining us. Well, we've been maintaining a focus on keeping an elevated level of liquidity. And even during that period of time, we have deployed some into purchasing our shares. And so, we don't predict when we might and when, but we have the ability to do so. and we'll remain opportunistic with respect to that. We've had tremendous success so far with providing ourselves with more financial liquidity in our asset management of our loan portfolio addressing potential credit events. And we're going to as we've said in our prepared remarks, we're going to maintain that position. As said in prior calls, we've stated that our general goal is to maintain about 10% to 15% of our capital base in cash. Now that obviously varies quarter-to-quarter, and we're currently north of that. But given the market dynamics, we believe it's prudent to keep it elevated, but we'll remain opportunistic with respect to managing our balance sheet.

And if there are opportunities to further approve our capitalization, we'll consider them like we've done in the past. And if there's opportunities to deploy the capital in accretive ways, we'll do that, as well.

Doug Harter

Great, thank you, Jack.

Operator

Thank you. The next question is coming from Jade Rahmani of KBW. Please go ahead.

Jade Rahmani

Thank you very much. Since we won't have the 10-K for some time, could you please provide the balance of nonperforming loans and nonaccrual loans? I guess the 10-Q had total loans past due as of September 30 of \$231.8 million and nonaccrual loans of \$165.9 million. So just looking for an update on those two numbers.

Marcin Urbaszek

Sure, good morning, Jade. Thank you for joining us. Thank you for the question. As I mentioned in my prepared remarks, given the sort of the downgrades that we had at the end of the year, we had about \$450 million of loans that are nonaccrual status.

Jade Rahmani

And do you have the nonperforming loans and the total past due?

Marcin Urbaszek

That's pretty much the same number.

Jade Rahmani

Okay. Has there been any change, so far this year, in terms of credit?

Jack Taylor

Jade, let me ask you if you could clarify, are you saying over the past 12 months or since the beginning of Jan 1?

Jade Rahmani

Since Jan 1.

Jack Taylor

Yeah, well, we've had no update to the risk rankings or report that we just gave. I would say that we're observing a couple of things in the market, and from our borrowers there's nothing official to report as a post Jan 1 event.

But what I would say is that we have a subset of the borrowers are watching the Fed even more closely in terms of the calibration of how much more money to put in and for how long. There's just general fatigue throughout the market, we believe, including some of our borrowers.

Steve Alpart can talk to this in the multifamily sector. We know that there's increasing concern, in general, about the multifamily sector in the market. We're still seeing a pretty good response from our borrowers and the performance of our properties. And given our locations and our sponsors we're not troubled by that portfolio. But that's what I would answer your question.

Jade Rahmani

Okay. That's good to hear. Steve, did you want to provide any additional color on that question, or perhaps multifamily?

Steve Alpart

Sure. No, I guess on multifamily, Jade, we talked about this on our, call last quarter. I'm commenting specifically on the multifamily. It's still generally stable and healthy in the markets that we're in, including in the Sunbelt, which is I think where there's a lot of concern about heightened new supply, which we obviously see. We have assets in places like the Carolinas. They're doing fine, Savannah doing well, Birmingham, very little new supply. So, the supply even of the Sunbelt is not uniform. We are watching some of the markets in Texas.

We've seen, and you've heard on some of the other calls about over building in Austin. We're not in Austin. We definitely have seen rent growth slow, but our business plans aren't primarily based on rent growth. Our business plans are usually based on doing a value-add renovation, looking to get rent bumps. We still are seeing that borrowers are getting rent bumps. It may not be exactly what was underwritten, but we think that if you turn the rent roll one or two times, they're likely to get there. I Would not be surprised to see some multifamily assets fall a little bit behind plan. But what we're seeing, so far, is that we just think it will just maybe take an extra year or two. And we didn't do a ton of loans at the peak. We did some; we didn't do a ton. And the loans that we were doing, call it, second half of '21 or early 2022, we were increasing our kind of exit debt yield, so the leverage was probably down five or ten points.

The borrowers have a good amount of equity to protect. So, I think the general trend on multifamily is stable and positive. But we are seeing the headlines, and we are all watching it very carefully.

Jade Rahmani

Thanks very much. Since they're older originations, could you give an update on the Illinois multifamily origination, date is 12/19 and also New York mixed use since it's quite a large loan, \$96 million, origination is 12/18. Those risk-rated three loans, is there any reserve against those? And what's going on with those plans? Should we expect any potential loss on those two?

Steve Alpart

Yeah they're both risk ranked three. The first thing you mentioned was the Illinois multifamily is actually a two. Is it one in particular you're looking at?

Jade Rahmani

Yeah, last quarter, it was about \$109 million carrying value.

Steve Alpart

Got it. Okay. Right. Got that one. No real specific update on that one. That one is doing fine. I would say it is directionally on plan. The New York mixed-use one, that one is office with ground floor retail, the retail is largely leased. The business plan really revolves around leasing up the office space. The sponsors put in more capital to support the asset. It's currently ranked a four, it's really about leasing up the office space.

Jade Rahmani

Is there a reserve against that? Because this is a really old origination. So I mean, if the office is still trying to lease up, what are the risks that there's going to be an impairment on this? And what's the reserve held against it at this point?

Marcin Urbaszek

Hey, Jade. Yeah, this loan obviously has a reserve on it. It's part of our general pool being risk rated four. I think it's safe to assume that it has a higher reserve than some of the other assets that are in the pool. It is a loan that we are obviously watching closely given it is New York and what's going on here. And it's hard to predict what may or may not happen here, but it is definitely given that it's a 4-rated loan. It's obviously on our critical watch list, and we're watching it closely, and we'll see what happens there.

Jade Rahmani

Okay, thanks. And then the general reserve, I can't think of any others, I may be wrong though, but I can't think of any others that have taken the general reserves down by the magnitude that you all have. And I know there's management discretion. The macroeconomic variables are unemployment and interest rates. Clearly, those improved in the fourth quarter. Interest rates are up this year, but management has discretion. So why take it down with headwinds still in the market?

Marcin Urbaszek

Thanks for the question. It's a function of movement in the portfolio. Obviously, as there are some downgrades from four to five and some of the 4-rated loans may have some higher reserves, like I said earlier than the rest of the pool as they sort of migrate. That reserve sort of migrates from the general to specific, so that's part of it. Repayments is another part and sort of the general movement within the portfolio. So we remain cautious.

Our general pool is still close to 2%. But as the portfolio sort of shifts and continues to sort of run off a little bit and you have some of these downgrades, I think we have seen, to a varying degree, sort of across the peer group where sort of you have that migration between the general and the specific pool in general, and that's what you would expect as sort of the cycle continues.

Jade Rahmani

Okay. That's good color. That makes sense because the specific reserves did increase, and then there were repayments. So, probably movement out of the general into the specific and then movement decline in the general due to loans that paid off.

Marcin Urbaszek

Correct.

Jade Rahmani

Alright, thanks for taking the questions.

Marcin Urbaszek

Thank you.

Operator

Thank you. At this time, I'd like to turn the floor back over to Mr. Taylor for closing comments.

Jack Taylor

Thank you, Operator, and thank you everybody for joining our call. And as I always I want to thank our investors for their support and our team for their hard work, and we look forward to speaking with you again next quarter. Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event, you may disconnect your lines or log off the webcast at this time, and enjoy the rest of your day.