# Granite Point Mortgage Trust Inc.

## Q4 2019 Financial Results Conference Call

## Tuesday, March 3, 2020, 10:00 A.M. Eastern

**CORPORATE PARTICIPANTS**

**Jack Taylor** – *President and Chief Executive Officer*

**Steve Alpart** – *Chief Investment Officer*

**Marcin Urbaszek** – *Chief Financial Officer*

**Steve Plust** – *Chief Operating Officer*

**Chris Petta** – *Investor Relations*

**PRESENTATION**

**Operator**
Good morning. My name is Kate and I will be the conference facilitator. At this time, I would like to welcome everyone to Granite Point Mortgage Trust's Fourth Quarter 2019 Financial Results Conference Call. All participants will be in listen-only mode. After the speakers' remarks, there will be a question-and-answer period.

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

**Chris Petta**
Thank you and good morning everyone. Thank you for joining our call to discuss Granite Point's fourth quarter 2019 financial results. With me on the call this morning are Jack Taylor, our President and CEO; Marcin Urbaszek, our CFO; Steve Alpart, our CIO; and Steve Plust, our COO.

After my introductory comments, Jack will review our business activities and a brief recap of market conditions. Steve Alpart will discuss our fourth quarter originations, our portfolio and pipeline. And Marcin will highlight key items from our financial results.

The press release and financial tables associated with today's call as well as our Form 10-Q were filed yesterday with the SEC. If you do not have a copy, you may find them on our website or on the SEC's website at sec.gov.

In our earnings release and slides, which are now posted in the Investor Relations' section of our website, we have provided a reconciliation of GAAP to non-GAAP financial measures. We urge you to review this information in conjunction with today's call. I would also like to mention that this call is being webcast and may be accessed on our website in the same location.

Before I turn the call over to Jack, I would like to remind you that remarks made by management during this conference call and the supporting slides may include forward-looking statements. Forward-looking statements reflects our views regarding future events and are typically associated with the use of words such as *anticipate, expect, estimate,* and *believe* or other such words.

We caution investors not to rely unduly on forward-looking statements. They imply risks and uncertainties and actual results may differ materially from expectations. We urge you to carefully consider the risks described in our filings with the SEC, which may be obtained on the SEC's website at sec.gov. We do not undertake any obligations to update or correct any forward-looking statements if later events prove them to be inaccurate.

I will now turn the call over to Jack.

**Jack Taylor**
Thank you, Chris, and good morning everyone. We would like to welcome you all and thank you for joining our fourth quarter and full year 2019 earnings call.

2019 was a very successful year for Granite Point. We had strong growth across the board, as we capitalized on attractive market opportunities. We grew our direct loan originations to a record $2 billion of total commitments, which was 27% higher than the prior year, while

maintaining our emphasis on credit underwriting and loan structuring. Our portfolio's outstanding principal balance increased to $4.3 billion, or 33% higher than year-end 2018. Our total portfolio commitments, inclusive of our future fundings, were over $5 billion at year-end. To support the growth of our investment portfolio, we expanded our funding sources, increased our financing capacity, extended the maturity of our liabilities, lowered our all-in cost of funds, restructured our covenants and strategically grew our equity capital base. Over the course of the year, we raised over $200 million of common equity above book value. We issued our second CRE CLO, financing $825 million of loans, at attractive terms, and secured additional matched-term, non-recourse and non-mark-to-market financing with a two-year reinvestment period. We added a new $150 million non-mark-to-market financing facility carrying favorable structure, cost of funds and advance rates. We generated higher overall earnings in 2019 despite a significant decline in short-term interest rates and lower lending spreads. Our net income for the year increased to $70.1 million, or 7.1% above 2018, and our core earnings grew to $74 million, or 13% from last year.

We closed our robust 2019 performance with a record level of origination activity and pace of capital deployment in the fourth quarter. We closed 11 new loans with total commitments of over $670 million, again illustrating the strong capabilities of our direct origination platform. We funded over $600 million of loan balances in the fourth quarter, which more than offset the $300 million of loan prepayments and again resulted in strong portfolio growth of over 7% versus the prior quarter.

With our record fourth quarter loan fundings and our forward pipeline of about $200 million of new loans, we have committed the majority of our investable capital. Going forward, we intend to maintain an appropriate level of liquidity, providing us with operational and funding flexibility as we close new loans and reinvest capital from loan repayments. We believe that the commercial real estate lending environment remains attractive and we continue to see a healthy flow of attractive investment opportunities meeting our credit quality and return thresholds. We fully intend to remain disciplined in accessing capital markets rationally and with a focus on generating attractive risk-adjusted returns to our shareholders over the long-term.

We are pleased with the strong ongoing credit performance of our portfolio, which at the end of 2019 consisted of 122 investments. Since the inception of our business in 2015, we have not realized any credit losses nor have we created any specific loan loss reserves. We continue to emphasize deploying capital into loan investments with attractive credit characteristics that are collateralized by high quality properties located in attractive markets with strong sponsors. Our investment strategy revolves around building a portfolio that is well-diversified and with an overall guiding philosophy of protecting investors' capital across market cycles.

The vast majority of our loans incorporate LIBOR floors as a partial offset to declining short-term rates. As we discussed on our last call, a significant portion of our portfolio was in older vintage investments with much lower LIBOR floors and less than 10% of our portfolio had LIBOR floors that were in the money going into the fourth quarter. As a result, further declines in short-term rates over the course of the quarter put pressure on our financial performance despite record loan funding activity and strong portfolio growth. Currently, about half of our LIBOR floors are in the money, which, for the time being, significantly alters our portfolio's sensitivity to further potential declines in short-term rates.

In summary, we had a strong 2019, making significant progress in executing our business plan while generating a record volume of direct loan originations, further improving the profile of our liabilities and strategically growing our company. We are excited about the future of our business and look forward to further successes in 2020 while focusing on generating attractive risk-adjusted returns for our shareholders over time.

Now, I will turn the call over to Steve Alpart to discuss our investment activity in more detail.

**Steve Alpart**

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

2019 represented a record year for our business in terms of loan production volume. We directly originated $2 billion of total loan commitments across 45 new investments, with an average loan size of about $45 million compared to an average size of $36 million in 2018. We would expect that our average loan size will continue to increase as we further grow our business, allowing us to realize efficiencies and additional benefits of larger scale. We funded a total of over $1.8 billion of loan balances in 2019, comprised of about $1.6 billion of initial fundings on the new loans and an additional $238 million of fundings from our pre-existing commitments. Our loan prepayments for the year totaled about $778 million, or about 24% of the outstanding principal balance of our portfolio at the end of 2018, which was largely in-line with our expectations considering the composition and seasoning of our loans.

Driven by record loan fundings and manageable prepayments, our portfolio balance increased by about 33% year-over-year to $4.3 billion, and $5 billion inclusive of our future funding commitments. Over the course of the year, the aggregate credit spread on our portfolio declined by about 60 basis points to L+426, driven by the spread compression on new investments combined with repayments of loans with higher historical yields. During 2019, we continued to see new loan spreads tighten. With the significant decline in short-term rates, we saw a leveling off of the spread compression in the later part of the year. Our portfolio continues to exhibit strong credit characteristics and is well-diversified across property types, markets and sponsors. The weighted average stabilized LTV across our portfolio is 64%, and senior loans comprise over 98% of our investments.

Over the last three months of 2019, we continued our strong momentum and had another record quarter in terms of loan originations and fundings. We closed 11 new loans with total commitments of over $670 million. We funded over $600 million of loan balances, which consisted of $516 million of initial fundings of new loans and about $86 million of fundings of our pre-existing loan commitments. Consistent with the theme for the full year, the newly-originated loans are secured by high quality properties, mainly in the office and multifamily sectors which comprised over 77% of Q4 originations, and have a well-balanced geographical exposure. Our fourth quarter originations have attractive credit characteristics, with experienced sponsors, a weighted average stabilized LTV of 67%, and a weighted average yield of LIBOR plus 349. During the fourth quarter, we realized about $300 million of prepayments and principal amortization, driven primarily by the further seasoning of our portfolio.

Turning to our forward pipeline, to date we have generated aggregate new loan commitments of about $200 million, which carry over $125 million of initial fundings. We expect these loans to close by the end of the first quarter, subject to the typical closing conditions. So far, we have funded over $125 million of loan balances, which includes funding of about $40 million from our prior commitments. Our pipeline includes loans collateralized by office, industrial and hotel properties, with strong credit profiles and an estimated weighted average yield in the low-to-mid 300s over LIBOR and a weighted average stabilized LTV below 60%. Additionally, we anticipate loan repayments in the first quarter of over $200 million. Since the end of the year, we have realized about $45 million of loan prepayments.

Looking further into 2020, we continue to see a strong flow of attractive lending opportunities. Considering our current balance sheet, our annual volume of originations will largely depend on the availability of investable capital as well as the overall economic environment and lending market conditions. Consistent with our prior experience, as our portfolio continues to season, we anticipate a pace of loan repayments of about 25%, plus or minus, of our portfolio's outstanding principal balance, or over $1 billion in 2020. However, the actual timing and volume of prepayments are difficult to predict and they will vary over time.

We are fortunate that after several years in business as a public company, and following our record year of production volume, Granite Point has a well-established presence in the commercial real estate lending market as a reliable lending counterparty to a strong roster of repeat borrowers and brokers, with a direct origination platform that can efficiently deploy significant amounts of capital into attractive lending opportunities. As we continue to execute on our strategy and grow our business in the future, we are confident that the franchise value we have created will accrue to our shareholders' benefit over time.

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

**Marcin Urbaszek**
Thank you, Steve, and good morning everyone. Thank you for joining us this morning.

Our originations and net loan fundings in the fourth quarter continued our strong portfolio growth and resulted in a healthy increase in net interest income of about 5% versus last quarter. Lower LIBOR and larger volume of loan repayments with higher historical spreads versus those on our newly originated loans resulted in our topline growth trailing that of our portfolio balances. The point of reference that $300 million of loan repayments we realized during the fourth quarter carried credit spreads of about 100 basis points wider than the loans we originated during the quarter. Despite the fact that the overall realized yield in our portfolio declined by about 40 basis points versus Q3, our net interest margin remained relatively stable, as our cost of funds also declined driven by short-term rates and lower financing spreads on new assets.

The increase in the net interest income of about $0.02 per share was largely offset by higher expenses, resulting in our net income of $17.7 million, or $0.32 per share and our core earnings of $18.7 million, or $0.34 per share remaining relatively unchanged versus the third quarter. The increase in our other operating expenses in Q4 was related to certain professional fees and slightly higher compensation costs. Our book value at December 31 was $18.58 per common share.

Turning to our liabilities, along with the growth of our portfolio, the outstanding balance on our credit facilities increased from $1.8 billion to over $2 billion. Our total borrowing capacity, inclusive of our option to upsize one of our facilities, remains unchanged at around $2.6 billion. Over the course of the fourth quarter, we deployed our excess liquidity from the prior period, which allowed us to grow the portfolio. Our total leverage, including the non-recourse, non-mark-to-market CLO debt, increased to around 3.3x debt-to-equity and our recourse leverage was at 2.2x. We would expect our total leverage to remain above 3.0x but not to significantly exceed 3.5x debt-to-equity as we originate new loans and redeploy our capital from repayments.

During the fourth quarter, we moved a $40 million loan into a risk category rating of 4. This and the other loan that we have risk rated “4” account for a little over 1% of our portfolio’s total committed balance. Movements up and down in our risk rankings are a regular part of the transitional lending business.

I’d like to end my remarks by briefly discussing the new accounting standard on current expected credit losses, or CECL. As you may know, CECL became effective for GPMT and other similar public companies on January 1, 2020, and requires lenders to record upfront a loss reserve that is an estimate of lifetime losses on all of our loans. This reserve cannot be ZERO with a few exceptions. Given the lack of loan losses or specific loss reserves since the inception of our business, we elected to use a loss-given-default analytical model combined with a subset of historical loan loss data licensed from Trepp LLC to help us estimate our initial CECL reserve. As disclosed in our 10-K, we expect to record an initial CECL reserve of approximately $18.5 million, or 37 basis points of our aggregate loan commitments, which equals to $0.34 per share impact on book value. Beginning with the first quarter of 2020, any adjustments to the CECL reserve will be reflected in our GAAP net income. For further discussion of the CECL topic please refer to our 10-K.

Thank you again for joining us today. I will now turn the call back to Jack for some additional remarks.

**Jack Taylor**

Thank you, Marcin. I wanted to address one additional topic related to our business. As you may have seen in our press release, we also announced yesterday that Granite Point has agreed to a process with its external manager, Pine River Capital Management L.P., to internalize the Company’s management function.

An Independent Committee of our Board of Directors has been negotiating the internalization on behalf of the Company. In connection with the completion of the internalization, the Company expects to continue to be managed by the current strong senior management team along with other personnel providing services to Granite Point, who are currently employed by Pine River, and to whom the Independent Committee expects to extend offers of employment.

Details are expected to be announced once finalized in several months, and a final agreement and definitive documentation are expected to be delivered and executed at that time. There is no further information we can provide at this time regarding the internalization process and as

directed by legal counsel, we are not in a position to respond to any questions related to this process. There can be no assurance that the internalization will be consummated.

Thank you again for joining us today and now I will ask the operator to open the call to questions.

**QUESTIONS AND ANSWERS**

**Operator**
We will now begin the question-and-answer session. To ask a question, you may press star (*), then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*), then two (2).

Our first question is from Jade Rahmani from KBW. Go ahead.

**Ryan Tomasello**
Good morning, everyone. This is Ryan on for Jade. Thanks for taking the questions. I was wondering if you could talk about the earnings outlook for 2020, based on the current portfolio, pipeline, your leverage expectations, as well as the near-term impact from LIBOR floors, particularly considering the Fed's move this morning. What is a reasonable assumption for the quarterly run rate of core EPS? And then as a follow-up, what is the Board's current thought with respect to the current dividend? Relative to your expected level of run rate earnings?

**Marcin Urbaszek**
Hi, Ryan this is Marcin. Good morning. Thanks for joining us and thank you for the questions. So there is a few questions here. I will take a couple and then I will have Steve Alpart address the LIBOR floor question.

First let me just correct. We obviously filed Form 10-K not 10-Q as we said earlier, apologies for that.

In terms of the run rate for earnings for the year it is hard to predict, our policy is not to provide any guidance on our earnings. It is hard to predict what the exact numbers may or may not be. As you can imagine, the portfolio moves around with prepayments and new fundings with short-term rates and spreads. It is really hard to predict. I will not be able to provide any guidance on that.

In terms of leverage, as you have seen, we ended the quarter with 3.3 times debt-to-equity roughly on a total leverage basis. We expect that our leverage will be between 3 and 3.5 over the course of the year as we manage our balance sheet and reinvest capital. Obviously, that may vary if we raise additional capital or if we have large volume of prepayments, I would think about 3 to 3.5 as our target.

In terms of the dividend, as we have discussed on our last call, obviously there are several factors that affect our profitability and ultimately the dividend going forward. Our focus remains on supporting our dividend through core profitability of the business over the long term, and the Board obviously has the ultimate decision-making power around the dividend.

The available returns in our market for our strategy, obviously are a big factor here. We are not oblivious to the fact that the returns have come down over the last couple of years. As we look at the forward returns and what we generate today that is a factor. As I mentioned on our last call, our first CLO, it is a static transaction that has significantly delevered since we issued it. It is something that we are looking at closely and we are taking some actions around that to improve the efficiency of that structure.

Additionally, as you know, we announced the process to internalize management. That will, as you can imagine, have some potential impact on the profitability and the dividend of the company. We are in constant discussions with our Board regarding the dividend level and we will announce any adjustments necessary as the Board sees them appropriate.

I will let Steve Alpart answer the LIBOR floor question.

**Steve Alpart**
Hi Ryan. Good morning. It is Steve. As Jack had mentioned in his prepared remarks that going into December, about 10% of our portfolio have LIBOR floors that are in the money. That number was about 36% by year-end, and we also mentioned on the call earlier that we are a little over 50% in the money, as of now.

About 98% of the portfolio has LIBOR floors, so there will be a positive short-term impact on those LIBOR floors continuing to kick into the extent that LIBOR continues to drop. Obviously, new loans that we are originating now will have lower LIBOR floors as LIBOR is coming down, but there will be a positive impact on the portfolio, to the extent that LIBOR continues to drop.

**Ryan Tomasello**
Thanks for all that color guys. Looking at the pipeline, I think you mentioned spreads in the low to mid 300s over LIBOR. Can you say where pre-expense ROIs are running today for the overall portfolio and the pipeline? And in general with the recent volatility we have seen, have spreads widen recently?

**Marcin Urbaszek**
In terms of returns, we continue to see returns in the low double-digit levered ROEs. Obviously, any specific return is depending on a specific asset leverage and financing that we have on that asset. As those returns obviously over the last couple of years have come down a little bit, we still see them in the mid-low double digits.

I will let Steve Alpart answer to the second part.

**Steve Alpart**
In terms of yield and I think Marcin just covered some of this, but we said in the call earlier that, for Q1 we are looking at a spread in the low to mid-300s over LIBOR plus or minus. That is always going to be a function of what specific deals we do in a particular quarter, and that could obviously vary, based on what closes by year-end, but that is kind of what we are seeing right now.

As far as predictions for 2020, particularly with the Fed move today, it is candidly hard to predict what might happen. We did see spread tightening over the last couple of years, as Marcin just mentioned, some of that not all of that was from LIBOR going up. Now that LIBOR has been going down, what we have seen that spreads seem to have stabilized and they have been kind of in a range, but there is a lot of factors at play. It really depends on any particular asset, the

deal size, the asset type, the location. Fundamentals remain strong, whether spreads will widen out, I think it remains to be seen.

**Ryan Tomasello**
Regarding credit, you highlighted the downgrade of a $40 million loan to a risk rating of 4. Any color there on the asset, the sponsor, the business plan and how that is evolved? And what led to the downgrade?

**Steve Alpart**
Ryan, it is Steve again. At 12/31, the overall credit quality of the portfolio was high. We have no loans that are impaired or on non-accrual status. We feel very good about credit quality overall. As far as your question about the specific loan in Q4, we risk ranked a loan that is secured by a newer vintage student housing property in Kentucky to a 4, because the property was behind on business plan and also other issues relating to the property.

As we always do, we are monitoring the asset. We are in preliminary discussions with the borrower. It is too early to go into further detail. Other than this loan and the other loan that Marcin referenced earlier, we have no other loans that are risk ranked 4 or 5. As Marcin also mentioned, this is just the nature of this business that some loans will perform according to plan, some will exceed, some will lag, but we are closely monitoring the entire portfolio and high level we have no major concerns on the credit quality or performance.

**Ryan Tomasello**
Thanks for taking the questions guys.

**Steve Alpart**
Thank you.

**Operator**
Our next question is from Doug Harter from Credit Suisse. Go ahead.

**Doug Harter**
Thanks. Marcin you mentioned that you had the higher G&A expense this quarter. Can you just talk about whether we should expect some of that to continue in the early parts of 2020, or if this was more one-off in nature?

**Marcin Urbaszek**
Hi, Doug, good morning. Thanks for joining us. As I said, some of the expense increase was related to certain professional fees. They were associated with the internalization process that we announced as well. It is hard to predict, but I would say, we may incur some additional costs related to this process over the next few months, but they obviously would be more of a nonrecurring nature.

As looking into the future, our overall expense structure will obviously depend on the outcome of the internalization process, but I would say for the time being for modeling purposes using Q4 as our near-term run rate, it is probably a decent assumption, but there will be some variability obviously quarter-to-quarter.

**Doug Harter**
All right and then as you look to at the options for the first CLO, can you just talk about how you are thinking about the options and whether sort of size of magnitude of potential savings from those options?

**Marcin Urbaszek**
Sure. This was a static deal when we issued it, we have a two-year non-call period on it, and we issued the first CLO in May. This deal would potentially come up in May of this year. There are a couple of different options that we can tackle this with, I really do not want to get into all the details around it. As you can imagine as the loans pay off in that deal, we financed over $800 million of loans. I would say somewhere around half of those loans have repaid. You can run the math as to how the leverage profile on these loans would change. There is definitely some capital that can be potentially released from those assets, which potentially may be accretive depending on the returns on the asset level returns from the new loans that we have put on. That is probably as far as I would go relating to that at this time.

**Doug Harter**
I guess just on that last comment, if you are able to relever some of those assets, would that change that 3 to 3.5 leverage guidance you gave for the overall company? Or is that sort of incorporated in there?

**Marcin Urbaszek**
I think it will depend on the type of leverage. I think considering our current leverage profile, I would say we are comfortable with the 3 to 3.5 and staying around 3.5. If we are able to add to our nonrecourse non-mark-to-market term-matched financing, which we believe can benefit the CLO market and other good credit counterparty for our lenders, we may potentially go beyond 3.5, but it will really depend on the structure of the leverage. We are very focused on risk management and managing our liabilities. For the time being 3 to 3.5 and depends on what happens in the future.

**Doug Harter**
Great. Thank you, Marcin.

**Marcin Urbaszek**
Thanks.

**Operator**
Our next question is from Stephen Laws from Raymond James. Go ahead.

**Stephen Laws**
Thank you. Good morning. A number of things have been hit on and I appreciate the guidance on spreads in the portfolio. With capital more or less fully invested here and given the current stock valuation, can you talk about options for raising additional money? Would you look at another convert offering or maybe other things you may consider along those lines?

**Jack Taylor**
Hi, Stephen this is Jack Taylor. Thank you for your question. Yes, we are not 100% invested. We still have capital that we will be using to manage through our loan fundings and our timing. We will, as we have said before, have an expectation of about 25% of our portfolio now that we have ramped up to be prepaying. We have originated about $3.6 billion of loans over the last two years and we are very comfortable to be able to do so with $1.5 billion to $2 billion of loans

per year, and as you are alluding to, with the stable economic conditions and the continuation of the attractive lending environment, our growth will be largely dependent on availability of additional investable capital.

We are working on certain things right now, I would say, away from the convert market that would release capital for us, that would allow for portfolio growth, but we are not able to go into any detail on that at this point.

**Stephen Laws**
Okay, great and kind of a follow up along those lines, as we think about the size of the portfolio or company and especially, it is a good time to touch on this, as you are going through the internalization, with $5 billion of total commitments for easy math three-year duration so kind of $1.7 billion kind of annual turnover. I know it is a little lower this year, but as we look forward. As an internally managed company, what type of annual production do you think you are capable of? I realize not much changing is from day-to-day with the employees, but how do you anticipate growing the company as you look at the outlook for managing a larger portfolio?

**Jack Taylor**
Well there are really two questions there. The team that is in place has been producing this large volume of originations and we can continue to do that. That is why I said a little earlier that really the limits are on the availability of investable capital. As this company grows and we intend to grow it, we will be incrementally adding personnel over time to handle a larger portfolio.

**Stephen Laws**
Great. Marcin on the financials, as I really think through the prepared remarks and the Q&A so far, you have hit on most of the key points moving the model, but I wanted to touch on CECL. From a GAAP standpoint going forward, how should we think about the CECL reserve going through the year with the portfolio, give or take stable in that kind of the current low-3s leverage? Is it going to increase a little bit on shorter duration assets from day one payoff and are replaced with longer duration? What else might drive the CECL reserve outside of a deterioration in your credit assumptions going forward?

**Marcin Urbaszek**
Good morning Stephen. Thank you for the question. I think, as you are well aware, a CECL reserve depends on a variety of different assumptions. Loan term and maturity is one of them. Obviously, overall credit profile of the assets is a major input into it as well as our expectations for the economic conditions over the projection period. It is really hard to say as to what is going to happen. I think you will have offsets happening with new loans coming in, older loans paying off. I think the weighted average duration of the portfolio, unless we grow it significantly is probably going to be relatively stable. But as of right now, barring any massive changes to the market environment, we do not expect the CECL reserve to change significantly, but there will be some variability quarter-to-quarter obviously as loans payoff because the total $18.5 million estimate for the reserve for the initial reserve obviously is a combination of loan specific reserves on every single asset. There will be some movement here and there, but I would not expect it to be very significant.

**Stephen Laws**
Great. Appreciate the comments. Thanks very much.

**Marcin Urbaszek**
Thank you.

**Operator**
Again, if you have a question, press star (*), then one (1).

Our next question is from Rick Shane from JP Morgan. Go ahead. Rick, Rick Shane?

Our next question is from Jade Rahmani from KBW. Go ahead.

**Ryan Tomasello**
Hi everyone. This is Ryan again on for Jade. Just regarding the broader business and the potential to add adjacent business lines, is management interested in creating or acquiring other silos to diversify capital deployment and the earnings profile? I guess what would come to mind would be the CMBS conduit business as well as potentially acquiring a GSE multifamily license.

**Jack Taylor**
Hi, this is Jack Taylor. Thank you. As we have discussed in the past, we are open to diversifying our business lines over time of the type that you were just mentioning and others. I would say that we are not currently moving towards anything like that in the near term, but it is something that we have had active discussions about over time, and we will continue to do so.

**Ryan Tomasello**
Okay and then, just regarding coronavirus, have you run through any liquidity scenarios in the case that this leads to a more significant and prolonged capital markets disruption and how that might impact the business?

**Marcin Urbaszek**
Hi, Ryan, it is Marcin. Obviously, yes, we manage our risk profile including our liabilities and liquidity on a conservative basis and we take different considerations into account, as it is appropriate. We have not seen any disruptions in the market. We have no issues funding our loans. Our lenders are happy to fund up with us. As you saw, they extended their commitments to us. We recently upsized a couple of our facilities. I feel pretty comfortable with the liquidity profile of the company, and we, obviously, look at our covenants, but in excess of that, we look at our near-term and medium-term commitments, what may or may not happen in the market. II would not have any specific concerns related to liquidity at this point.

**Ryan Tomasello**
Okay. Thanks for taking the follow-up.

**Operator**
Our next question is from Rick Shane from JP Morgan. Go ahead.

**Melissa Wedel**
Good morning. This is Melissa on for Rick today. Quick question about the repayment activity in the quarter. Wondering if there was any prepayment fee-related income that was realized during the quarter? And if you guys have any outlook as for prepayment income going forward?

**Marcin Urbaszek**
Hi, Melissa. Good morning. Thanks for joining us. This is Marcin. We recognized a little bit of prepayment income of about $95,000. I will say that, with the elevated level of prepays that we had last quarter, we definitely recognize some additional amortization of the loan discount fees, obviously. As they prepay early, we amortize those fees faster and recognize them quicker.

I would say the impact of that in our financials in Q4 was probably between $0.01 and $0.02, somewhere in that range, which is embedded in the interest income line. Going forward, as Steve said earlier, we estimate our prepays for the year of over $1 billion, just looking at our principal balance of the portfolio and assuming the 25% plus or minus run rate. There will, obviously, be variability to that number quarter-to-quarter, and it is really hard to predict which particular loan will prepay, which may have a prepayment fee with it.

We initially expected we would have still little bit more of prepayment income in the fourth quarter, for example, where one of the loans that had been delayed. As a result, that benefit evaporated. It is really hard to predict. I would say it is a part of our business that we will have prepayment fees here and there, but it is really hard to predict what they are going to be on a quarterly basis.

**Melissa Wedel**
Okay. Understood and then as a follow-up question, very much understand that you guys cannot talk about the process around internal management. I was wondering if you are able to touch on what was driving the decision to internalize the management. Thanks very much.

**Jack Taylor**
Hi.This is Jack. Actually, we can’t touch on anything having to do with the reasons for the process itself. We would ask you to wait until we are able to speak on this at a later time.

**Melissa Wedel**
Understood. Thank you.

**Jack Taylor**
Thank you.

**Operator**
This concludes our question-and-answer session.

I would now like to turn the conference back over to Jack Taylor for closing remarks.

**CONCLUSION**

**Jack Taylor**
Thank you. We would like to thank everyone for joining us today and for everyone's support of our business and we really appreciate it and we look forward to speaking with you all again soon.

**Operator**
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.