Granite Point Mortgage Trust, Inc.

Q4 2020 Financial Results Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning. My name is Chad, and I will be your conference facilitator. At this time, I would like to welcome everyone to Granite Point Mortgage Trust's fourth quarter and year-end 2020 financial results conference call. All participants will be in 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 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 year-end 2020 financial results. After my introductory comments, Jack will review our current business activities and provide a brief recap of market conditions. Steve Alpart will discuss our portfolio, and Marcin will highlight key items from our financial results.

The press release and financial tables associated with today's call were filed yesterday with the SEC, and our Form 10-K was filed this morning. 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, which are uncertain and outside of the company's control. Forward-looking statements reflect our views regarding future events and are typically associated with the use of words such as *anticipate, expect, estimate,* and *believe* or other similar expressions. 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, including our most recent 10-K and 10-Q reports, which may be obtained on the SEC's website at sec.gov. We do not undertake any obligation 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 to our fourth quarter and year-end 2020 earnings call. I'm joined today by Steve Alpart, our CIO and Co-Head of Originations; Marcin Urbaszek, our CFO; Steve Plust, our COO; and Peter Morral, our Co-Head of Originations and newly appointed Chief Development Officer. We hope everyone continues to be safe and healthy as we all navigate the ongoing impacts of the pandemic.

2020 was a challenging year for all on many fronts, particularly those arising from the global pandemic. Despite the disruptions to the overall economy and the commercial real estate market in particular, our strategy centered around delivering attractive risk-adjusted returns while providing significant downside protection, has been proving out, even through the severe market dislocations. Our defensively-positioned and well-diversified investment portfolio, consisting of 99% senior first mortgage floating-rate loans, has performed well despite the market turbulence. Through our active management of both sides of our balance sheet, since the onset of the pandemic, we have proactively delevered our financing facilities, improved our liquidity position, and worked with our borrowers to help them navigate business plan interruptions at their properties. We believe our performance last year, as evidenced by the $1.17 per share of distributable earnings generated by our business, has demonstrated the resilience of our investment and financing strategy during even the most volatile and uncertain markets.

Despite the significant challenges, we accomplished a great deal during 2020. Driven by the strong credit quality of our loans and our proactive asset management strategy, we received 99% of contractual interest payments and experienced no realized principal credit losses. We also benefited from our strong relationships with our financing partners and their trust in our conservative credit philosophy and the quality of our assets and borrowers. We worked proactively with our lenders to methodically delever our credit facilities. This deliberative approach enabled us to be patient and secure a $300 million flexible strategic financing commitment at attractive terms to better position the company to take advantage of emerging investment opportunities in the current environment and for future growth prospects as they develop.

With the enhanced liquidity and balance sheet stability, our Board reinstated our quarterly dividend in the second half of 2020, as our portfolio continued to generate strong earnings and cash flows. Additionally, in December, the Board declared a special cash dividend of $0.25 per common share, in addition to the regular quarterly dividend of $0.20 per share, reflecting the performance of our business. Lastly, we achieved a significant milestone by completing our transition to an internally-managed commercial mortgage REIT at the end of the year. Internalization carries many benefits including lower expenses, better transparency and alignment of interests with our stockholders, while achieving greater economies of scale as we grow our business.

Our actions last year were designed to position Granite Point for strong performance in 2021 and beyond. Our priorities for this year include redeploying our excess liquidity into attractive investments to support our earnings and dividends, further diversifying our funding sources and increasing the proportion of credit non-mark-to-market financing, and continuing the active management of our portfolio. We have already made notable progress towards these goals. Granite Point is re-entering the loan origination market, along with the improvement in the broader capital markets, including that for commercial real estate CLOs. There has been an accelerating uptick in real estate transaction and lending activity that has, so far, been predominantly focused on select property types but it is expanding.

Granite Point has an established reputation as a strong counterparty in the lending market and, as a result, over time, we've closed a meaningful number of repeat transactions with our borrowers. Over the last few years, we have proven our ability to generate a large volume of attractive investment opportunities meeting our underwriting and return criteria. While the origination volume in 2021, will depend on a variety of factors, we expect that the pace of our new originations will significantly depend on the amount of loan repayments we receive over the course of the year.

As we previously announced on February 4th, we entered into a new credit agreement with Goldman Sachs, which provided us with about $349 million of term-matched and non-mark-to-market financing, while repaying all previously outstanding borrowings on our Goldman Sachs repurchase facility. This transaction illustrates the strength of our lender relationships and the credit quality of our loans. It also brings the percentage of our credit non-mark-to-market financing to 51% of loan-level borrowings, which we expect to grow further over the course of the year. In addition, with respect to diversifying our funding sources, we've consistently viewed the CLO market as an attractive source of funding, providing us with non-mark-to-market, term-matched and non-recourse financing at a competitive cost of funds. Having been a repeat, well-respected issuer in the CLO market provides us with the ability to be opportunistic in our overall balance sheet management strategy. Subject to market conditions, we are positioned to and would anticipate accessing the CLO market during this year to further diversify our funding sources and improve our cost of funds, while increasing our non-mark-to-market borrowings.

The credit characteristics of our overall portfolio remain resilient. The ultimate credit outcome for our investments and other market participants will depend significantly on the recovery path of the overall economy and the commercial real estate sector in particular. We will continue to actively manage our investments and any potential credit events. We are pleased by the performance of our portfolio to-date, believe that there's a lot of value embedded in it, and are quite encouraged by the continuing support of collateral properties by our borrowers.

I'm very proud of our entire team's efforts and the resulting performance of our business last year. With the recent developments around COVID-19 vaccines and their distribution and the expectation of continued monetary and fiscal support, we are optimistic about the future ahead for the economy and commercial real estate, while understanding the ongoing near-term challenges. Our Board of Directors and the management team are excited about the future of Granite Point and are confident that we can deliver attractive returns for our stockholders' over time now as an internally managed REIT.

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

Stephen Alpart
Thank you, Jack, and thank you all for joining our call this morning. Over the course of 2020 and into early 2021, our portfolio has performed very well considering the major economic and real estate market challenges caused by the pandemic. Our interest collections have remained strong during 2020, running at about 99% of contractual payments through February. We ended the year with a portfolio outstanding principal balance of $3.9 billion across 103 loans, with about $500 million in future funding obligations, which account for only about 11% of our total commitments, reflecting the light-to-moderate transitional nature of the business plans we typically underwrite.

Our future funding obligations have declined over the course of the year as a result of fundings, repayments, limited opportunistic loan sales earlier last year, and select loan modifications that extinguish either a portion or all of the future funding commitments on amended loans. During the fourth quarter, we funded $51 million of loan balances on prior commitments, which brought our total fundings for the year to $239 million. We feel very comfortable with the level and pace of these future fundings and continue to finance them with our lenders.

As overall market sentiment stabilized and improved over the course of last year, we began to see transaction and financing activity slowly reemerge in the real estate sector on select property types, and these positive trends are further progressing in 2021. Consistent with these improving market conditions, our volume of loan repayments increased in the second half of the year, and we received about $195 million of payoffs in the fourth quarter alone, bringing our total repayments for the year to about $517 million. Given the significant market dislocations last year, we believe these repayments demonstrate the strength and quality of our portfolio. So far in the first quarter of this year, we have realized about $70 million of repayments and, though very hard to predict, we anticipate that the pace of our loan repayments in the near-term should be similar to what we have experienced over the last couple of quarters but below our historical pace of about 25% annually.

We remain highly-engaged with our borrowers and are working collaboratively with those experiencing delays in business plans resulting from the pandemic. During the fourth quarter, we modified 12 loans with an aggregate principal balance of about $685 million and deferred $4.2 million of interest, which was capitalized and added to principal. Most of these modifications are related to loans that have been previously amended, and we are gratified to see these borrowers continue to support their properties. In aggregate during 2020, we modified 46 loans with a total principal balance of about $1.8 billion and deferred and added to the principal balance approximately $8.6 million of interest income. As of December 31, 2020, we had 41 of these 46 loans remaining in our portfolio. Of these 41 loans, 11 had active interest deferrals at December 31st. As we discussed previously, most of our modifications involve a combination of payment deferrals, reallocation of reserve accounts, and, where appropriate, amendments to certain extension conditions, in conjunction with an additional equity investment by the sponsor at the time of the amendment and/or other forms of ongoing credit support. Our loans are secured by high-quality properties located in strong markets and owned by institutional sponsors with significant equity to protect. We will continue to work with them as we move forward.

While the real estate capital markets have decidedly begun to recover, we expect property fundamentals to follow but the pace and extent of the recovery to vary by sector and market. As a result, we are closely monitoring a few loans with an aggregate principal balance of about $240 million, most of which have been particularly affected by the pandemic. This group includes loans secured by a Minneapolis hotel, a mixed-used property in New York, a student housing property in Kentucky, and a retail property in California. The hotel loan is a $67 million senior loan collateralized by a well-located, fully renovated property. This hotel has been adversely affected by market conditions and the related significant decline in business travel. As a result, we downgraded this loan to a risk rating of five at the end of the year. We are in ongoing discussions with the borrower and are evaluating the variety of potential options. We remain in active communication with all of these borrowers and are monitoring the situations very closely. Overall, we feel very good about the credit quality of our well-diversified portfolio and believe that it will deliver strong results over time.

As Jack said earlier, we are now in a position to take advantage of new investment opportunities and have begun to evaluate new loan originations across property sectors. We are in the process of building our pipeline and assessing potential new loan investments and have begun quoting new transactions. We expect to be closing new loans at some point during the second quarter of 2021. Our pace of new loan originations in 2021 will largely depend on the volume of loan repayments and the availability of attractive investments meeting our desired return and credit characteristics. With that, I will now turn the call over to Marcin for a more detailed review of our financial results.

Marcin Urbaszek
Thank you, Steve. Good morning, everyone, and thank you for joining us today. Before I discuss our fourth quarter financial results, I'd like to highlight that, beginning with this quarter and similar to a number of our publicly traded commercial mortgage REIT peers, we have adopted distributable earnings as a key non-GAAP financial measure and as a replacement for core earnings. This is only a change in terminology and the calculation itself and reconciliation to GAAP earnings is the same as it was for core earnings.

Turning to our financial results, yesterday afternoon, we reported fourth quarter GAAP net income of $23.1 million, or $0.42 per basic share, which included $8.5 million, or $0.16 per share decrease in our CECL reserve and $2.6 million, or $0.05 per share, of additional restructuring charges related to our internalization process, which closed on December 31st. The decrease in our CECL reserves was mainly driven by the decline in the outstanding balance of our portfolio and somewhat improved macroeconomic forecast employed in our analysis. At year-end, our allowance for credit losses was $72.2 million, or $1.31 per share, and represented about 163 basis points of our total loan commitments.

For full year 2020, we reported a GAAP loss of $40.5 million, or $0.73 per basic share, which mainly reflects charges related to our internalization of $46.3 million, or $0.84 per share, and provision for credit losses of $53.7 million, or $0.97 per share recorded during the year. These items more than offset the strong earnings generated by our portfolio in 2020. Distributable earnings for the fourth quarter were $18.4 million, or $0.33 per share, and excluded the non-cash provision for credit loss benefit and the internalization-related restructuring charges. Our book value at year-end was $16.92 per common share, which was largely unchanged versus the prior quarter, and included $1.31 per share of cumulative impact of CECL. In December, our Board of Directors declared a regular common stock cash dividend of $0.20 per share and a non-recurring special cash dividend of $0.25 per share, both of which were paid in January of 2021. The special dividend was related to the distribution of a portion of our undistributed taxable income accumulated over the course of 2020.

Our net interest income for the fourth quarter decreased by about $6.5 million, or $0.12 per share, to $27.4 million, mainly for two reasons: first, our average portfolio balance declined quarter-over-quarter and second, our interest expense increased due to the first full quarter recognition of costs associated with our term loan financing, which closed late in September. For the full year, our net interest income improved by about $15.5 million from 2019, mainly driven by a decrease in interest expense as LIBOR declined significantly over the course of the year. In 2020, our interest income benefited from the LIBOR floors embedded in our loans, as our portfolio is 98% floating rate with an average floor of 156 basis points as of December 31st. About 87% of our loans have LIBOR floors of at least 1%. In the near-term, we expect to continue to profit from the wider net interest margin supported by the LIBOR floors. As we receive more loan repayments and originate new investments, our net interest spread is likely to compress over time as LIBOR floors on newly originated loans will be generally set closer to current rates, consistent with market standards.

Our total operating expenses declined significantly in Q4, mainly related to the recognition of the majority of internalization-related costs in the prior quarter. Going forward as an internally managed REIT, we will no longer incur any management or incentive fees. Instead, we will be reporting compensation related expenses beginning in the first quarter of 2021.

We ended the year with about $260 million in cash on hand and, as of March 3rd, had approximately $235 million in cash, plus our option to draw an additional $75 million in term loan proceeds through September of this year, which is subject to payment of an extension fee. Our total debt-to-equity leverage on December 31st was 3.2 times, largely unchanged from the prior quarter, and our recourse leverage, which excludes our CLOs, was at 2.2 times. Given current market conditions, we would anticipate our total leverage to be in the range of 3 to 3.5 times debt-to-equity depending on developments in our portfolio.

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

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

The first question will come from Doug Harter with Credit Suisse. Please go ahead.

Doug Harter
Thanks. You mentioned that you'd be re-entering the loan origination market. Can you just talk about your expectations for kind of deploying your capital position and the outlook for balances? Do you expect to kind of replace runoff or be able to net grow the portfolio? Just any thoughts on kind of how you view the outlook.

Jack Taylor
Hi, Doug. Thank you for joining us. This is Jack, and I'll be happy to answer that question. So far, as we mentioned, we've been focused on managing our portfolio and working with our borrowers and other counterparties. But with the increase in activity in the market fairly dramatically over the last month or so, we are quite comfortable going back in. With respect to the ramping up of our pipeline and the volume, I think we'll be replacing the runoff, and we will be looking for portfolio growth later on in the year.

Now, to be a little more specific, it is a moving target on the volume, because this can depend on a variety of factors. One, that we mentioned earlier is the prepayment rate. That will be a significant driver of the origination volume. As those loans repay, that will provide additional liquidity to make new loans to replace those.

We have provided estimates in prior years about our rate of prepayments, saying that, for portfolio, our experience over decades has been portfolio like this tends to repay at a rate of about 25% per year. Given the current situation, we would expect that to be a lower number. We've been experiencing it lower just to bracket it, even during last year albeit at the first couple of months were a more normal period. We were about half that volume against our normal pace. And so, it would be reasonable to assume we'd be between below half the volume and the 25% rate. But I think what we'll see as a transaction activity, refinancing and acquisitions, picks up during the course of the year, there'll be a gradual slope up in origination volumes. And then it'll be somewhere between call it the $500 million to $1 billion pace, probably more likely on the higher end.

Doug Harter
Great. And then, you mentioned hoping to kind of be able to issue a CLO this year, I guess, just how should we think about it? To the extent that you're able to issue, what financing would that replace? Would that replace warehouse lines? Would that replace kind of the senior secured that you entered into in September? Just thoughts on that.

Jack Taylor
It primarily would be new originations plus warehouse lines. It can and we're not signaling anything to the market, but it could also be partly refinancing of existing CLO debt. So, I would say that, primarily, it'll be warehouse lines. And right now, that market is quite strong. I'll point out a significant part to the pretty strong performance of the bridge loans in the existing CLO securitizations outstanding, including ours. And so, that the forward pipeline is strong. It's been

well met by a strong demand from the investor base, and it's actually even been opening up now to include more flexibility for ramp periods and also for reinvestment. So, it's quite positive set of developments for the overall market. And as I said earlier, we've always positioned ourselves to be repeat issuers in that market, and we'd hope to access that during the course of the year.

Doug Harter
Great. Thanks, Jack.

Jack Taylor
Thank you.

Operator
And the next question will be from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani
Yes. Thank you very much. Just starting with the cash flow statement, when I look at the fourth quarter, based on your 10-K, I calculate a negative $16 million of cash flow from operations with a negative $29 million or so working capital adjustment. So, I just want to make sure, does that include a payable to the external manager that would explain that difference, or is there anything else we should note that would have caused the cash flow in the fourth quarter to be negative?

Marcin Urbaszek
Hi, Jade. It's Marcin. Yes, there was a payable to the manager of $44.5 million in the fourth quarter and there's a couple of other items in there.

Jade Rahmani
Okay. So, I think that that's a non-recurring expense, and, therefore, cash flow from operations should be positive going forward.

Marcin Urbaszek
That would be the expectation, yes.

Jade Rahmani
And when we look historically at the management fees plus operating expenses and stock compensation, I think it was $10 million, $9.6 million in the fourth quarter. So, annualized, that would be $38.4 million. I think there could be some modest improvement to that. But for now, we're projecting around $40 million of G&A, about $35 million in operating expenses, and $5 million in stock compensation. Is that reasonable to assume as a run rate for the company at its current size?

Marcin Urbaszek
Look, it's hard to predict exactly what the numbers are going to be. When we announced the internalization, we said that we were anticipating kind of $30 to $35 million run rate of expenses, excluding the non-cash equity comp. I would say that the non-cash equity comp has been running around $5 million to $5.5 million a year. It may go up a little bit this year. So, I think you're probably in the ballpark, but there will be some variability on that.
Jade Rahmani

On the cash side, is there any increased asset management expenses or other back office functions, administrative expenses we should be expecting? Or is that inclusive in the $30 to $35 million that you've already put out there?

Marcin Urbaszek
No, that's inclusive of that. So, I would say on a net-net basis, apples to apples, the core run rate cash expenses should be lower this year than in prior years.

Jade Rahmani
Okay. I think I've asked Jack this on many of these past calls. Just given the management team's history in the business and now you're internally-managed, maybe you would be more open to other business strategies. Would you explore a CMBS conduit or perhaps an asset management vehicle? The stock is currently trading at about 65% of book value, one of the lowest of peers. So, clearly the market is looking at, number one, what the credit risk outlook is, but also, two, the current dividend yield. It's at a 7% yield, and peers, the average is about 8.5% or so. So, either the stock goes up because you raise the dividend, or perhaps there's some other accretive way to grow earnings. Wondering what your thoughts are on those two potential business lines.

Jack Taylor
Hi, Jade. Thank you. Yes, I do recall you having asked in the past, and I'm happy to answer now. We will, first and foremost, be looking at accessing, first off, the foundation for our growth, if you will, and our share price is protecting our existing credits, using our strong origination capabilities and redeploying the capital, improving our cost of funds and increasing earnings and dividends, and that should drive the share price.

And, by the way, proving out our credits, because we think that the portfolio is performing quite well and isn't recognized by the market yet. That's the foundation, though, for any other expansion. And we believe that the floating rate market for non-bank lenders is even more in demand, more important to commercial real estate finance now than it has been in the past. So, our primary focus will be there.

Having said all that, we will, over time, be looking at other opportunities. Peter Morral, he's on call with us and the rest of the team, will be taking a considered look at adjacent businesses. We're not signaling anything now. There's nothing specific to discuss. But now that we are in internally-managed REIT, we have greater flexibility to pursue any number of avenues of additional growth. The primary emphasis in the near-term will be on proving out our credits and increasing our earnings and dividends and focusing on our main book. And that'll be the strength from which we can utilize our really robust origination capabilities to expand our businesses.

Jade Rahmani
And have you gotten any inbound interest from asset managers looking to do potential joint ventures? Because perhaps in this current dislocated environment, there are outsized opportunities, some of which, candidly, could include the contribution of loans that, in the near term in the existing GPMT portfolio, you mentioned the $800 million on the watch list, could go through some turbulence, but the underlying assets can have a clear path to value creation. And given the LTV of the company could be an interesting investment opportunity. I've been amazed that the mortgage REITs this cycle have not bought back shares or been more creative in value creation strategies. And given you're one of the only internally-managed companies,

does taking any loans into REO, create the potential for outsized returns and maybe create joint ventures or some other strategies that can help reap the benefits for GPMT shareholders?

Jack Taylor
So, you had a lot in there, and let me address a couple of them, which I think are the essential ones. Sure, we've had some inbound inquiries. We do have the ability to provide outside capital sources with co-origination. Doesn't necessarily have to be joint ventures but we can provide access to hard to access markets. These are not things, unless you've built out an infrastructure and team for accessing these markets, these loans, these investments, it is very hard to access on a whole loan basis. So, we can pursue that. Yes, there's value creation opportunities, which is always on a case by case basis. But there may be times where, if a loan goes into REO, we think it's better to sell it off.

There will be times where I'm speculating by hypotheticals, but where we think it's better to hold and not to sell into the deepest profit of the market, or maybe the second deepest, maybe four or five months ago was third deepest. So, we have that flexibility to do all those things. We've done them in the past. We've worked through portfolios, and what we've learned is right on point to what you just asked, Jade, which is, there's no one answer to any particular part of your portfolio or even a particular asset. In times like this, you have to take a highly crafted, individualistic approach to each asset. But on your larger question, we are well in mind that we have a lot of value we can present to co-investors, for example. They want to join in a wealth with us, and we have that inbounding question.

Jade Rahmani
Thank you. The collections numbers you cited, which seem really strong, I'd say that I've asked every company the same thing. It's on contractual loan agreements, which have been modified, and I think you said that 46 loans have been modified. So, that's roughly half of the portfolio. Do you know what collections are relative to pre-COVID loans, granted that some have repaid and you guys have had strong repayments. But maybe if you could give a sense of what that statistic would look like pre-COVID?

Stephen Alpart
Hi, Jade. It's Steve. Good morning. I can give you a statistic for 2020 where we deferred about $8.6 million of interest payments. So, that's about 3.5% of total collections if we had not entered into those forbearance agreements. Pretty much all of those forbearance agreements were deferrals not waivers. Important to note that most of them were, as we discussed on prior calls, were partial forbearance and tended to be short-term, but for the year it was about $8.6 million.

Jade Rahmani
Okay. That's good to know. And what's the percentage of loans on nonaccrual currently?

Stephen Alpart
We currently have one relatively small loan on nonaccrual, and it's the one that we highlighted earlier, which is the New York mixed-use asset.

Jade Rahmani
Okay. Great. I'll get back in the queue in case there are other questions on the line.

Marcin Urbaszek
Jade, this is Marcin. I just want to clarify something. In your first question, you refer to a watch list of about $800 million. I'm not sure if that's how I would classify all those loans. I think not all

four rated loans are watch list loans. They obviously have some elevated risk in them, just because we put them as a four rating doesn't mean that we expect them to have a loss. I think if you want to think of a “watch list”, I would probably be more focused on the $200 something million of loans that Steve Alpart referred to in his prepared remarks, which we're obviously happy to discuss if anyone has any questions on that.

Jade Rahmani
Okay. Thanks very much.

Operator
And the next question will be from Charlie Arestia with JP Morgan. Please go ahead.

Charlie Arestia
Hi. Good morning, guys. Thanks for taking the questions. I wanted to ask about your repo facilities. I'm looking at the maturities coming up in the next few months that are disclosed in your 10-K. As you mentioned, the Goldman facility was refinanced in February but wondering if you can provide an update on those other facilities and just, more broadly, how conversations are going with your lenders. It seems anecdotally like the banks are pretty eager to increase utilization but just curious to get your take on that.

Marcin Urbaszek
Hi, Charlie. It's Marcin. Good morning. Thanks for joining us. I would definitely agree with your last statement. I think there's a sentiment in the banking community that is more bullish than it was. Banks are eager to get the business. So, we feel very good about that, and that's obviously part of the reason why we feel comfortable reentering the originations market, because, obviously, when you make a loan, you have to find a way to finance it. So, it's all good news on that front.

Regarding your question of maturities, Goldman has a maturity in May. We refinanced all those assets with this new agreement, which we think is a great non-mark-to-market financing for us. It provides much more flexibility on the balance sheet. That facility is still outstanding. We will decide whether to extend it or terminate it. It's likely we'll extend it to have more flexibility. The other two, Wells Fargo, we have an option to extend that facility, which we intend to exercise, and we are in active discussions with Morgan Stanley about extending that facility, as well. Again, we really haven't had any issues with our lenders in the past. We've always extended these facilities, and we are and in good standing and constructive dialogue with all of them. So, I wouldn't worry about any of those.

Charlie Arestia
Okay. Thanks, Marcin, I appreciate that. And then, really quickly on the hotel property that was downgraded to five. Was this purely an issue of the cash flows being disrupted by COVID? Maybe I'm focusing too much on the new information available that you guys disclosed. I'm just wondering if there's anything else there that we should be thinking about. And then, have you guys disclosed what the new maturity of that loan is?

Stephen Alpart
Hi. Good morning. It's Steve. I'll provide some some color on the hotel asset. So, I think some of this has already been disclosed, but it's a well located, recently renovated full service hotel in the Minneapolis market. Very strong institutional sponsorship with a significant equity investment. When we closed this loan, our sponsor had just completed a major renovation, so

the hotel looks really great. Business plan was to ramp operations as a rebranded hotel and, ultimately, sell the asset. When the pandemic began, as we saw across the whole country, hotel operations were impacted. This impacted this hotel. It impacted the entire Minneapolis market. Since then, the borrower here has continued to make a significant and ongoing financial commitment to the asset. But going to your question, just given the situation, it seems prudent to move the risk ranking from four to five in Q4. That notwithstanding, we continue to have very productive conversations with the borrower. And I want to just highlight that it's a very high-quality institutional asset and it's a beautifully renovated hotel.

Charlie Arestia
Thanks, Steve. Appreciate the color.

Stephen Alpart
Sure.

Operator
And the next question comes from Stephen Laws with Raymond James. Please go ahead.

Stephen Laws
Hi. Good morning. Marcin, to follow-up on Charlie's question, the new Goldman's facility, can you talk about the cost of that to get the more attractive characteristics? Just trying to think about how financing costs are going to trend here in the near-term, given the shift and mix or shifting financing facilities.

Steven Plust
Hi, Stephen. This is Steve Plust. Good morning. It's about a $450 million transaction. The coupon is LIBOR 361. It'll increase our cost of funds slightly, but it accomplished some very important things for us. It provides match-term, non-recourse, non-mark-to-market financing for the assets. About a third of the assets are hotel, and the other two-thirds are assets that I would say wouldn't traditionally conformed to a CLO. So, we're happy to put those assets on long-term non-recourse financing. And the structure also gives us the ability to pull out $100 million of the loans in the pool that we think do, in fact, conform to CLO profiles without any penalty. So, it's a very flexible structure for us and at a relatively modest cost of funds.

Stephen Laws
Great. Appreciate the color there, Steve. Kind of thinking about the portfolio returns dividend policy, Marcin, can you touch on what undistributed taxable income going forward to this year? And then, Jack, kind of how do you expect the Board to view the dividend policy, I know unintentional last year but maybe a more conservative in policy near-term are true up at the end of the year or more of a run rate dividend based on an outlook that can be sustained for 2021?

Marcin Urbaszek
Sure, Stephen. So, we rolled around $25 million of undistributed taxable income into this year. Obviously, we paid out a $0.25 special dividend, so, we have some additional flexibility vis-à-vis the dividend for this year. Our distributable earnings in Q4 was strong and covered the dividends quite nicely. So, look, the policy is to make sure that the dividend is sustainable, stable, and supported by core profitability of the business. We continuously discuss this with our Board as we try to assess the performance of the portfolio and capital markets and, obviously, the overall environment. So, I would say we feel pretty good about our earnings run rate.

Obviously, we may have some, as everybody else in this whole industry, some credit events here and there. They are hard to predict. But from a core profitability perspective, we feel pretty good in terms of where we are, and I think, over time, the dividend should closely track that once we go through the period of uncertainty.

Stephen Laws
Great. Thanks for the comments this morning.

Marcin Urbaszek
Thank you.

Operator
And the next question comes from Arren Cyganovich with Citi. Please go ahead.

Arren Cyganovich
Thanks. Just looking through your portfolio, you have a handful of loans that have now been marked to carrying values that are in excess of a couple of percent of the original principal value. These ones, just I guess, the hotel example that that you just marked down are created reserved for this quarter. How are you coming up with the valuations for the carrying values? And does this suggest that the value of that property now is through the principal amount? And is there not a ton of transactions to really follow to get a true value of that property. I'm just trying to think about the potential risk there and hear a little bit more about the process that you go through.

Marcin Urbaszek
Sure. The carrying value is a function of the various discounts and fees related to the property, as well as the reserves the CECL reserves that we have across the portfolio. We're required to have reserves across the board on all assets. So, that's part of our overall allowance analysis that we go through every quarter with the modeling exercise. Then we go through and review all the results of all the loans. So, primarily, those are the differences between principal and carrying value.

Arren Cyganovich
Yes, but the ones that are more drastically reduced, some of them are 10%, 12% of the reduction. I guess it suggests, given the initial LTVs that are in the 60s, that you would be pretty well protected for the most part. I guess the big discounts that you have associated with those, is that truly a function of what you view the collateral value to be or are there other things that are driving that bigger discount associated with those?

Marcin Urbaszek
It's a function of the overall analysis on the reserves, which, obviously, value and LTV is one of the inputs into the overall analysis and the model. I think if you just step back and think about, overall, how these reserves work and the ultimate performance of the portfolio, I think it's pretty safe to assume that the reserves tend to be concentrated in a subset of loans rather than evenly across the whole portfolio as all loans, and the loans have varying credit characteristics and different property types and things like that. So, again, it's a function of the analysis that we do where, obviously, value is one of the inputs, but it's not the only input. It's obviously cash flow and sponsorship, market and property type and a bunch of other inputs that we use.

Arren Cyganovich
Okay. Thank you.

Operator
And the next question is a follow-up from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani
Thank you very much. I think the big item on everyone's mind right now is interest rates, and I forgot to ask that. So, how do you think that changes the commercial real estate outlook? It sounds like you're seeing an uptick in transaction volumes, and you said select property types, which I assume means industrial and single-family rental, the invoke property types, and maybe multifamily, as well, due to rates. But overall, rates are up quite meaningfully. And it seems like there's the potential for rates rising further, especially if the stock market is signaling a strong economy. How does that change the way you're looking at the outlook for commercial real estate?

Jack Taylor
Hi, Jade. This is Jack. So, there is a general perception over market cycles that the horizon, the long end of interest rates will drive capitalization rates up. And, in fact, many of the statistics don't bear that out. I do think that for longer term, say 10-year fixed rate assets a rise in interest rates would put pressure on some refinancing, but it depends on when those loans were made, and how they're performing. The rise in rates is a function of the, I would say, tremendous support, both monetary and fiscal, that has been provided and is being provided to the markets and to the economy.

And we are looking at a support for commercial real estate through those actions. Let’s say it's a support both for the tenant base and for the operators and, ultimately, for the lenders and investors and securities that are backed by these loans. So, I would say that the rise in rates may be proportionally, because of the very, very small base it's gone up from, but we're not talking about tremendously high interest rates. And if the short end goes up, our portfolio, for example, benefits from that. But I will say that it's really all a function of the liquidity supply, which is a positive for commercial real estate all around, including as an inflation hedge.

Jade Rahmani
Thanks for that. Do you think that pricing in the CLO market has adjusted over the last couple of weeks?

Jack Taylor
Yes. Well, it firmed up quite a lot. It is, I would describe it in my maybe understated way is a vibrant market. And there's a lot of supply in the CLO market, especially compared to, say, the CMBS market currently. That's for a number of reasons. One being that the, I think I mentioned, the bridge loans that were put into CLOs have outperformed and are doing quite well. The structures of the preexisting CLO issuances are holding up well with very minimal losses. And when I refer to structures, there's a test and things like that, but the fundamental structure is that the issuer retains the embedded equity from the borrowers. So, let's call it the average loan is in at 65% LTV. There's that equity plus the retention of the bonds when beneath the investment grade by the issuer, providing a very strong alignment of interest. And this has been recognized by the outperformance, the positive structure has been recognized by the investor community. And so, while there's been a lot of issuance that has occurred already this year, and we expect to continue, it's being met by very robust demand, as well.

As people search for yield, this is considered a very attractive, secure place to get more yield. It requires some technical expertise and that's reward on the part of the investors, and that's rewarded with it. With respect to issuers like Granite Point, having all the costs, well inside of

LIBOR 200 with bond spreads, of the bonds themselves being in the say 115 to 120 range is a very positive environment.

Jade Rahmani
And sorry if I missed it. But in response to Stephen Laws' question, what did you say the cost of the Goldman's facility was?

Jack Taylor
It's around LIBOR 360. It's a little over a half point in fee, but, as Steve Plust pointed out and by the way, he was referring to the aggregate loan balance, the bond issuance, if you will, because it's just like a capital warehouse facility, the private CLO, some people refer to it as $349 million. And, as he pointed out, we're able to reduce that cost, if we so choose, by taking out over $100 million of those loans and put them into a CLO securitization issuance without prepay penalty.

Jade Rahmani
Okay. So, the cost would be LIBOR 10 basis points plus 360, so it's 370 and just amortize the 50 basis points of fees over three years or so?

Jack Taylor
Right. Yes, 55 basis points.

Jade Rahmani
So, it is 18 plus 370. So, the all-in cost is something like 390 basis points.

Jack Taylor
Right.

Jade Rahmani
Okay. So, I'm looking at a sheet of loan spreads that Cushman Wakefield nicely sends out. And when I look at floating rate, three-to-five-year mortgages on plain vanilla office at an over 65 basis points, the spreads are somewhere in 250 to 325 basis point range before fees. So, that seems pretty close to the cost of this Goldman's facility. Granted, your existing loan book has higher spreads than where we're currently at.

Stephen Alpart
Hi, Jade. It's Steve. Obviously, it depends tremendously on what type asset you're talking about. What we're seeing in the bridge space right now and it seems like a lot of folks are talking about coupons versus spreads, but we're probably seeing multifamily, depending on the deal, in the low to mid threes. We're probably seeing office, there was a lot of office product two months ago in the fours. Some of that now is in the threes, as well. But for the stuff that I think we're looking at, something in the twos or high threes is a little below what we're seeing right now.

Jack Taylor
And that's coupon before fees. Coupon before fees, with LIBOR floors that vary by deal, but let's just say 25 basis point LIBOR floor. Somewhere in that area.

Jade Rahmani
Okay. So, do you think that ROEs in the 10% to 12%, gross ROEs are achievable on a leverage basis?

Jack Taylor
Yes. There's obviously a lot of variables in terms of spreads and floors and fees and liability pricing. But I would say, when you put it all together, we're seeing levered returns that are probably at or near where they were pre-pandemic.

Jade Rahmani
Okay. Great. Thanks so much for taking all the questions. Really appreciate it.

Stephen Alpart
Sure. Thanks for joining.

Operator
Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Jack Taylor for any closing remarks.

Jack Taylor
Thank you, Chad, and thank you everybody for joining us today. We really appreciate you taking the time and spending your hour with us to hear about our company. I want to particularly wish everybody out there in the Granite Point community and beyond a very safe and healthy period of time going forward hopefully towards the final months or so of the pandemic. So, good health and prosperity to you all, and thank you again.

Operator
And thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.