

Resource Capital Corp.
Form 10-K/A
March 21, 2014

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

FORM 10-K/A
(Amendment No. 1)
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 1-32733

RESOURCE CAPITAL CORP.
(Exact name of registrant as specified in its charter)
Maryland
(State or other jurisdiction of
incorporation or organization)

20-2287134
(I.R.S. Employer
Identification No.)

712 5th Avenue, 12th Floor, New York, New York 10019
(Address of principal executive offices) (Zip code)

(212) 506-3870
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$.001 par value	New York Stock Exchange
8.50% Series A Cumulative Redeemable Preferred Stock	New York Stock Exchange
8.25% Series B Cumulative Redeemable Preferred Stock	New York Stock Exchange

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the closing price of such stock on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2013) was approximately \$741,905,398.

The number of outstanding shares of the registrant’s common stock on February 26, 2014 was 128,420,570 shares.

Explanatory Note

This Amendment No. 1 (this "Amendment") to the Annual Report on Form 10-K filed on March 3, 2014 (the "Original Annual Report") of Resource Capital Corp. (the "Company") is being filed solely for the purpose of correcting certain inadvertent errors appearing in the Original Annual Report (i) in the Number of Positions as Collateral column in the Repurchase and Credit Facilities tables appearing in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments in Real Estate" (ii) in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - CRE - Term Repurchase Facilities" and (iii) in Exhibit 12.1.

Except as described above, no other changes have been made to the Original Annual Report. We have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Annual Report.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications of our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this Amendment. This Amendment should be read in conjunction with the Original Annual Report and our other filings with the Securities and Exchange Commission.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information to assist you in understanding our financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report. This discussion contains forward-looking statements. Actual results could differ materially from those expressed in or implied by those forward-looking statements. Please see "Forward-Looking Statements" and "Risk Factors" in this report for a discussion of certain risks, uncertainties and assumptions associated with those statements.

We are a diversified real estate investment trust that is primarily focused on originating, holding and managing commercial mortgage loans and other commercial real estate-related debt and equity investments. We also make other commercial finance investments. We are organized and conduct our operations to qualify as a real estate investment trust, or REIT, under Subchapter M of the Internal Revenue Code of 1986, as amended. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategies. We invest in a combination of real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We have financed a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and have sought to mitigate interest rate risk through derivative instruments.

We are externally managed by Resource Capital Manager, Inc., or the Manager, an indirect wholly-owned subsidiary of Resource America, Inc. (NASDAQ: REXI), or Resource America, a specialized asset management company that uses industry-specific expertise to evaluate, originate, service and manage investment opportunities through its commercial real estate, financial fund management and commercial finance operating segments. As of September 30, 2013, Resource America managed approximately \$16.6 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance the purchase of those assets, from management of assets and from hedging interest rate risks. We generate revenues from the interest and fees we earn on our whole loans, A notes, B notes, mezzanine debt, commercial mortgage-backed securities, or CMBS, bank loans, other asset-backed securities, or ABS, and structured note investments. We also generate revenues from the rental and other income from real properties we own, from management of externally originated bank loans and from our investment in an equipment leasing business. Historically, we have used a substantial amount of leverage to enhance our returns and we have financed each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments is a significant part of our expenses. Our net income depends on our ability to control these expenses relative to our revenue. In our bank loan, CMBS and ABS portfolios, we historically have used warehouse facilities as a short-term financing source and CDOs and CLOs, and, to a lesser extent, other term financing as long-term financing sources. In our commercial real estate loan portfolio, we historically have used repurchase agreements as a short-term financing source, and CDOs and, to a lesser extent, other term financing as long-term financing sources. Our other term financing has consisted of long-term match-funded financing provided through long-term bank financing and asset-backed financing programs, depending upon market conditions and credit availability. During December 31, 2013, the economic environment continued to be more positive in the United States, which resulted in several positive operating developments for us. Our ability to access the capital markets continued to improve, as evidenced by our common stock offering in April 2013, resulting in proceeds to us of \$114.5 million, and by the success of our dividend reinvestment and share purchase program, or DRIP, which raised \$19.2 million. In addition, we supplemented our common equity issuances with issuances of preferred stock through an at-the-market program which resulted in proceeds of \$56.8 million in 2013. We also completed a 6.0% convertible notes offering in October 2013 with proceeds of \$111.1 million. This brought our total proceeds raised through our capital markets efforts to \$301.6 million in 2013, after underwriting discounts and commissions and other offering expenses.

Although economic conditions in the United States have improved, previous conditions in real estate and credit markets continue to affect both us and a number of our commercial real estate borrowers. Over a period of several years, we entered into loan modifications with respect to 17 of our outstanding commercial real estate loans. During the past three years, we have added to our provision for loan losses to reflect the effect of these conditions on our borrowers and have recorded both temporary and other than temporary impairments in the market valuation of CMBS and ABS in our investment portfolio. However, during 2012 and into December 31, 2013, the improved economic conditions led to a stabilization in the credit quality of our portfolio and, as a result, our provision for loan losses has decreased significantly for 2013. We expensed provisions of \$3.0 million for the year ended December 31, 2013 as compared to provisions of \$16.8 million for the year ended December 31, 2012. Our asset impairments have increased slightly, we recognized asset impairments of \$863,000 for the year ended December 31, 2013 as compared to \$180,000 for the year ended December 31, 2012. We also saw a marked improvement in other comprehensive income with respect to our available for sale securities portfolio and interest rate derivatives, which declined to a loss of \$14.0 million at December 31, 2013 from a loss of \$27.1 million at December 31, 2012. While we believe we have appropriately valued the assets in our investment portfolio at December 31, 2013, we cannot assure you that further impairments will not occur or that our assets will otherwise not be adversely affected by market conditions.

Beginning in 2011, we began to see a loosening of the credit markets and were able to take advantage of the situation by establishing several new financing arrangements, a trend that continued in 2012 when we closed two financing facilities totaling \$250.0 million with Wells Fargo Bank and in 2013 when we closed a \$200.0 million financing facility with Deutsche Bank AG, or DB. We continue to engage in discussions with potential financing sources about providing commercial real estate term financing to augment and cautiously grow our loan and security portfolio. We have expanded our borrowings with the use of term and additional repurchase agreements and are using them primarily to finance newly underwritten commercial real estate loans and the purchase of highly rated CMBS. We anticipate replacing these short-term borrowings with longer term financing in the form of securitization borrowings as we did with our newest commercial real estate, or CRE securitization, a \$307.8 million CLO in December 2013. We expect to be able to continue the growth in our CRE portfolio to a critical amount required to access the securitization markets again during 2014. However, we caution investors that even as financing through the credit markets becomes more available, we may not be able to obtain economically favorable terms.

In terms of our investments and investment portfolio growth, we continued to see increased opportunities to deploy our capital. Beginning in October 2010 through December 31, 2013, we have underwritten 51 new CRE loans for a total of \$664.2 million, some of which were financed by using capital recycled through our two real estate CDO securitizations. The balances were financed through our CRE term facilities and our new CRE securitization. We also purchased 48 newly underwritten CMBS for \$164.3 million beginning in February 2011 through December 31, 2013, all of which were financed with a Wells Fargo facility. We also purchased eight CMBS bonds for \$32.4 million that were financed by our two CRE CDOs beginning in February 2011 through December 31, 2013. In addition, we purchased 19 CMBS bonds for \$79.7 million that were financed by short-term repurchase agreements and also purchased 14 CMBS bonds for \$75.3 million where no debt financing sources were utilized. We have used recycled capital in our bank loan CLO structures to make new investments at discounts to par. We expect that the reinvested capital and related discounts will produce additional income as the discounts are accreted into interest income. In addition, the purchase of these investments at discounts allows us to build collateral in the CLO structures since we receive credit in these structures for these investments at par. From net discounts of approximately \$27.1 million at December 31, 2012, we recognized income of approximately \$10.0 million in our bank loan CLO portfolio for 2013 and expect to accrete approximately \$1.7 million into income in calendar year 2014. However, we have no further capacity in two of our bank loan collateralized loan obligation issuers, or CLOs, and two real estate CDOs have ended their reinvestment periods. We continue to have reinvestment capacity in one bank loan CLO where the reinvestment period continues to May 2014. We intend to use the existing capacity in our CMBS and CRE term credit facilities with Wells Fargo of \$50.9 million and \$207.6 million, respectively, and with Deutsche Bank of \$200.0 million, as of February 28, 2014 to help finance new CRE and CMBS investments.

Conversely, we also saw a decline in our commercial finance assets, our bank loan portfolio as two of our CLOs were liquidated in 2013 and two of our CLOs have matured and as the collateral assets pay down, the proceeds are used to

pay down the associated debt. This trend has seen our net interest income from bank loans decline substantially in 2013. We expect to mitigate this trend by deploying capital into our middle-market lending business, which loans are similar in nature to bank loans, and in our growing commercial real estate lending platform.

Due to these recent developments, our increased ability to access credit markets, our recent capital markets efforts and our investment of a significant portion of our available unrestricted and restricted cash balances during 2013, we expect to continue to modestly increase our net interest income into 2014. However, because we believe that economic conditions in the United States are fragile, and could be significantly harmed by occurrences over which we have no control, we cannot assure you that we will be able to meet our expectations, or that we will not experience net interest income reductions.

On October 31, 2013, we, through RCC Residential, Inc., our newly-formed taxable REIT subsidiary, acquired a residential mortgage origination company, Primary Capital Advisors LC, or PCA, an Atlanta based firm for \$7.6 million in cash. In addition, a key employee of PCA was granted approximately \$800,000 in shares of our common stock that was subsequently accounted for as compensation. The shares of common stock were issued in a private transaction exempt from registration under Section 4(2) of the Securities Act of 1933, as amended. Of the \$7.6 million cash consideration, \$1.8 million was set aside in an escrow account as a contingency for potential purchase price adjustments. Our acquisition of PCA represents a return to the residential mortgage investment market, by providing us with our first residential mortgage origination platform. We intend to cautiously expand this business over the next 12 to 15 months while adding infrastructure, staff and new technology.

In the latter half of 2013, we provided a middle market lending operation operated by our Manager with funds to invest on our behalf. These funds were derived from proceeds of sales from a partial liquidation of our trading portfolio. Our first investments were in bank loans purchased in the secondary market; however, in December 2013, we closed on a self-originated loan. We expect to grow this business in 2014, which will help mitigate the revenues lost as a result of the liquidation and run-off of several bank loan CLOs.

As of December 31, 2013 and 2012, we had invested 83% of our portfolio in CRE assets, 15% in commercial bank loans and 2% in other assets.

Results of Operations

Our net income allocable to common shares for the year ended December 31, 2013 was \$39.2 million, or \$0.33 per share (basic and diluted) as compared to net income allocable to common shares of \$63.2 million, or \$0.71 per share (basic and diluted) for the year ended December 31, 2012, and as compared to net income allocable to common shares of \$37.7 million, or \$0.54 per share-basic (\$0.53 per share-diluted) for the year ended December 31, 2011.

Interest Income

The following tables set forth information relating to our interest income recognized for the periods presented (in thousands, except percentages):

	Years Ended December 31,		
	2013	2012	2011
Interest income:			
Interest income from loans:			
Bank loans	\$54,143	\$71,511	\$54,833
Commercial real estate loans	45,312	37,519	31,906
Total interest income from loans	99,455	109,030	86,739
Interest income from securities:			
CMBS-private placement	11,411	11,358	9,290
ABS	1,399	1,503	1,613
Corporate bonds	814	368	—
Residential mortgage-backed securities, or RMBS	685	1,067	1,521
Total interest income from securities	14,309	14,296	12,424
Interest income - other:			
Preference payments on structured notes ⁽¹⁾	3,918	9,773	10,432
Temporary investment in over-night repurchase agreements	294	231	279
Total interest income - other	4,212	10,004	10,711
Total interest income	\$117,976	\$133,330	\$109,874

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	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011	
	Weighted Average Yield	Balance	Weighted Average Yield	Balance	Weighted Average Yield	Balance
Interest income:						
Interest income from loans:						
Bank loans	5.54%	\$975,032	5.94%	\$1,189,898	5.63%	\$963,427
Commercial real estate loans	5.81%	\$767,287	5.25%	\$701,836	4.95%	\$646,121
Interest income from securities:						
CMBS-private placement	4.93%	\$229,272	5.22%	\$216,460	5.65%	\$160,593
ABS	5.06%	\$27,399	4.80%	\$32,087	4.85%	\$32,879
Corporate bonds	3.91%	\$20,220	4.29%	\$8,237	N/A	N/A
RMBS	5.55%	\$12,348	3.10%	\$34,396	2.93%	\$51,844
Preference payments on structured notes	10.10%	\$38,778	19.07%	\$51,239	32.95%	\$31,663

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The following tables summarize interest income for the years indicated (in thousands, except percentages):

Type of Security	Coupon Interest	Unamortized (Discount) Premium	Net Amortization/ Accretion	Interest Income	Fee Income	Total
Year Ended December 31, 2013:						
Bank loans	4.26	% \$(3,676	) \$9,485	\$41,932	\$2,726	\$54,143
Commercial real estate loans	5.57	% \$(92	) 35	43,926	1,351	45,312
Total interest income from loans			9,520	85,858	4,077	99,455
CMBS-private placement	3.74	% \$(6,583	) 2,050	9,361	—	11,411
RMBS			—	685	—	685
ABS	2.06	% \$(2,394	) 681	718	—	1,399
Corporate bonds	4.13	% \$(68	) (18	) 832	—	814
Total interest income from securities			2,713	11,596	—	14,309
Preference payments on structured notes			—	3,918	—	3,918
Other			—	294	—	294
Total interest income - other			—	4,212	—	4,212
Total interest income			\$12,233	\$101,666	\$4,077	\$117,976
Year Ended December 31, 2012:						
Bank loans	4.25	% \$(24,465	) \$17,784	\$51,580	\$2,147	\$71,511
Commercial real estate loans	5.05	% \$(127	) 33	35,759	1,727	37,519
Total interest income from loans			17,817	87,339	3,874	109,030
CMBS-private placement	3.60	% \$(8,011	) 2,635	8,723	—	11,358
RMBS			—	1,067	—	1,067
ABS	2.41	% \$(3,145	) 718	785	—	1,503
Corporate bonds	3.69	% \$479	(26	) 394	—	368
Total interest income from securities			3,327	10,969	—	14,296
Preference payments on structured notes			—	9,773	—	9,773
Other			—	231	—	231
Total interest income - other			—	10,004	—	10,004
Total interest income			\$21,144	\$108,312	\$3,874	\$133,330
Year Ended December 31, 2011:						
Bank loans	3.76	% \$(31,787	) \$15,539	\$36,932	\$2,362	\$54,833
Commercial real estate loans	4.64	% \$(160	) 12	30,249	1,645	31,906
Total interest income from loans			15,551	67,181	4,007	86,739
CMBS-private placement	3.60	% \$(13,391	) 3,270	6,020	—	9,290
RMBS			—	1,521	—	1,521
ABS	2.60	% \$(3,812	) 524	1,089	—	1,613
Other ABS			—	—	—	—
Total interest income from securities			3,794	8,630	—	12,424
Preference payments on structured notes			—	10,432	—	10,432
Other			—	279	—	279
Total interest income - other			—	10,711	—	10,711
Total interest income			\$19,345	\$86,522	\$4,007	\$109,874

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012

Aggregate interest income decreased \$15.4 million (12%) to \$118.0 million for the year ended December 31, 2013, from \$133.3 million for the year ended December 31, 2012. We attribute this decrease to the following:

Interest Income from Loans. Aggregate interest income from loans decreased \$9.6 million (9%) to \$99.5 million for the year ended December 31, 2013 from \$109.0 million for the year ended December 31, 2012.

Interest income on bank loans decreased \$17.4 million (24%) to \$54.1 million for the year ended December 31, 2013 from \$71.5 million for the year ended December 31, 2012, which principally was the result of the following:

a decrease in the weighted average loan balance of \$214.9 million to \$975.0 million for the year ended December 31, 2013 from \$1.2 billion for the year ended December 31, 2012, principally due to two of our CLOs, Apidos CLO VIII and Whitney CLO I, liquidating in September 2013 and October 2013, respectively. In addition, two of our remaining CLOs (Apidos CLO I and Apidos CLO III) had reached the end of their reinvestment periods in prior years and, as a result, any principal collected is used to pay down notes instead of being reinvested in new assets. For the year ended December 31, 2013, Apidos CLO I and Apidos CLO III paid down a total of \$173.2 million par value of loans; and a decrease in the weighted average yield to 5.54% for the year ended December 31, 2013 as compared to 5.94% for the year ended December 31, 2012, primarily as a result of the decrease in accretion income from Apidos CLO VIII and Whitney CLO I as a result of their liquidation, as well as a decrease in accretion income from Apidos CDO I and Apidos CDO III resulting from decreasing asset and discount balances as both securitizations reached the end of their reinvestment periods.

Interest income on commercial real estate, or CRE, loans increased \$7.8 million (21%) to \$45.3 million for the year ended December 31, 2013, as compared to \$37.5 million for the year ended December 31, 2012. This increase is a result of the following combination of factors:

an increase in the weighted average yield to 5.81% during the year ended December 31, 2013 from 5.25% during the year ended December 31, 2012 as a result of newly originated real estate loans with higher stated interest rates than our legacy portfolio and as a result of exit fees from seven loans that paid off during the year ended December 31, 2013; and

an increase of \$65.5 million in the weighted average loan balance to \$767.3 million for the year ended December 31, 2013 from \$701.8 million for the year ended December 31, 2012 as we reinvested proceeds from payoffs and paydowns, classified as restricted CDO cash on our balance sheet, beginning in the fourth quarter of 2011, with the majority of these proceeds being reinvested during the second and third quarters of 2012. In addition, we began to originate new loans financed by our Wells Fargo CRE credit facility coupled with new equity raised and closed a new CRE securitization in December 2013.

Interest Income from Securities. Aggregate interest income from securities increased \$13,000 (0.1%) to \$14.3 million for the year ended December 31, 2013 from \$14.3 million for the year ended December 31, 2012. The increase in interest income from securities resulted principally from the following:

Interest income on CMBS-private placement increased \$53,000 (less than 1%) to \$11.4 million for the year ended December 31, 2013 as compared to \$11.4 million for the year ended December 31, 2012. The slight increase resulted from an increase in the weighted average balance of assets of \$12.8 million during the year ended December 31, 2013 to \$229.3 million from \$216.5 million for the year ended December 31, 2012 primarily as a result of the purchase of assets on our Wells Fargo CMBS facility beginning in February 2011 and purchases using three short-term repurchase agreements as well as proceeds from our common and preferred stock offerings. This was partially offset by the reclassification of assets to linked transactions when certain assets were financed.

The increase in interest income on CMBS-private placement as a result of the increase in the weighted average balance was almost completely offset by a decrease in the weighted average yield of assets to 4.93% for the year ended December 31, 2013 from 5.22% for the year ended December 31, 2012 primarily as a result of the decrease in accretion income caused by higher purchase prices on newer securities. The new assets financed by our Wells facility were typically purchased at a premium. Our legacy CMBS assets had previously been purchased at a discount. Interest income from ABS decreased \$104,000 (7%) to \$1.4 million for the year ended December 31, 2013 from \$1.5 million for the year ended December 31, 2012 as a result of a decrease of \$4.7 million in the weighted average loan balance to \$27.4 million for the year ended December 31, 2013, from \$32.1 million for the year ended December 31, 2012, as a

result of \$6.8 million in paydowns from October 2012 through December 2013. The decrease in the weighted average balance was partially offset by an increase in the weighted average yield during the year ended December 31, 2013 to 5.06% from 4.80% during the year ended December 31, 2012 as a result of the paydowns during 2013, which accelerated accretion income recognition.

Interest income from corporate bonds increased \$446,000 (121%) to \$814,000 for the year ended December 31, 2013 from \$368,000 for the year ended December 31, 2012 and was the result of our acquisition in October 2012 and in May 2013 of 66.6% and 1.7%, respectively, of the equity in Whitney CLO I which resulted in us consolidating this entity that held some corporate bonds. Whitney CLO I was subsequently liquidated in October 2013.

Interest income on RMBS decreased \$382,000 (36%) to \$685,000 for the year ended December 31, 2013 as compared to \$1.1 million for the year ended December 31, 2012. The decrease is almost entirely the result of the sale of four positions during the year ended December 31, 2012 and two positions during the year ended December 31, 2013.

Interest Income - Other. Aggregate interest income-other decreased \$5.8 million (58%) to \$4.2 million for the year ended December 31, 2013 as compared to \$10.0 million for the year ended December 31, 2012 and is primarily related to the divestiture of a large portion of our trading securities investment program with Resource Capital Markets, Inc., a wholly-owned subsidiary of Resource America, that invested \$13.0 million of our funds under an investment management agreement. The payments vary from period to period and are based on cash flows from the underlying securities rather than on a contractual interest rate. The decrease of the weighted average balance of assets of \$12.5 million to \$38.8 million for the year ended December 31, 2013 as compared to \$51.2 million for the year ended December 31, 2012 and was primarily related to the sale of 12 securities in September 2012, which has significantly reduced the balance of investments held in trading securities. The remaining portfolio has decreased substantially as there were eight positions at December 31, 2013 and 26 positions at December 31, 2012, and as a result, there are fewer available distributions from the positions to recognize.

Year Ended December 31, 2012 as compared to Year Ended December 31, 2011

Aggregate interest income increased \$23.5 million (21%) to \$133.3 million for the year ended December 31, 2012, from \$109.9 million for the year ended December 31, 2011. We attribute this increase to the following:

Interest Income from Loans. Aggregate interest income from loans increased \$22.3 million (26%) to \$109.0 million for the year ended December 31, 2012 from \$86.7 million for the year ended December 31, 2011.

Interest income on bank loans increased \$16.7 million (30%) to \$71.5 million for the year ended December 31, 2012 from \$54.8 million for the year ended December 31, 2011. The increase for the year ended December 31, 2012 resulted primarily from the following:

an increase in the weighted average loan balance of \$226.5 million to \$1.2 billion for the year ended December 31, 2012 from \$963.4 million for the year ended December 31, 2011, principally as a result of our new CLO, Apidos CLO VIII, for which we began acquiring assets in July 2011, and Whitney CLO I, which we began consolidating in October 2012 when we acquired a controlling interest. The increase in the weighted average balance was partially offset by a decrease in the loan asset balances at Apidos CLO I and Apidos CLO III as both have reached the end of their reinvestment period and are now required to use principal proceeds from bank loan payoffs and paydowns to repay outstanding debt. For the year ended December 31, 2012, Apidos CLO I and Apidos CLO III paid down a total of \$151.2 million par value of CLOs; and

an increase in the weighted average yield to 5.94% for the year ended December 31, 2012 as compared to 5.63% for the year ended December 31, 2011, primarily as a result of the increase in accretion income from Apidos CLO VIII for which we began acquiring assets in July 2011. The increase in accretion income from Apidos CLO VIII was partially offset by a decrease in accretion income from Apidos CLO I and Apidos CLO III as those CLOs have decreasing asset and discount balances as both have reached the end of their reinvestment periods.

Interest income on CRE loans increased \$5.6 million (18%) to \$37.5 million for the year ended December 31, 2012, as compared to \$31.9 million for the year ended December 31, 2011. This increase is a result of the following combination of factors:

an increase of \$55.7 million in the weighted average loan balance to \$701.8 million for the year ended December 31, 2012 from \$646.1 million for the year ended December 31, 2011 as we reinvested proceeds from payoffs and paydowns, classified as restricted CDO cash on our balance sheet, beginning in the fourth quarter of 2011, with the majority of these proceeds being reinvested during the second and third quarters of 2012. In addition, we began to originate new loans financed by our Wells Fargo CRE credit facility coupled with new equity raised in 2012; and an increase in the weighted average yield to 5.25% during the year ended December 31, 2012 from 4.95% during the year ended December 31, 2011 as a result of newly originated real estate loans with higher stated interest rates than

our legacy portfolio and as a result of an acceleration of fees on one loan that paid off in August 2012.

Interest Income from Securities. Aggregate interest income from securities increased \$1.9 million (15%) to \$14.3 million for the year ended December 31, 2012 from \$12.4 million for the year ended December 31, 2011. The increase in interest income from securities resulted principally from the following:

Interest income on CMBS-private placement increased \$2.1 million (22%) to \$11.4 million for the year ended December 31, 2012 as compared to \$9.3 million for the year ended December 31, 2011. The increase resulted from an increase in the weighted average balance of assets of \$55.9 million during the year ended December 31, 2012 to \$216.5 million from \$160.6 million for the year ended December 31, 2011 primarily as a result of the purchase of assets on our Wells Fargo CMBS facility beginning in February 2011 as well as purchases using proceeds from our stock offerings in 2012. The increase in interest income on CMBS-private placement was partially offset by a decrease in the weighted average yield of assets to 5.22% for the year ended December 31, 2012 from 5.65% for the year ended December 31, 2011 primarily as a result of the decrease in accretion income during the year ended December 31, 2012. In 2012, securities were purchased at a net premium as opposed to the net discount of our purchases in prior years.

Interest Income - Other. Aggregate interest income-other decreased \$707,000 (7%) to \$10.0 million for the year ended December 31, 2012, as compared to \$10.7 million for the year ended December 31, 2011 and is primarily related to our trading securities investment program with Resource Capital Markets, Inc. which invested \$13.0 million of our funds under an investment management agreement. The payments vary from period to period and are based on cash flows from the underlying securities rather than on a contractual interest rate. The decrease for the year ended December 31, 2012 was primarily related to the sale of 12 securities in September 2012 which resulted in the ceasing of preference share payments related to those securities as of their disposition.

Interest Expense

The following tables set forth information relating to our interest expense incurred for the periods presented by asset class (in thousands, except percentages):

	Years Ended December 31,		
	2013	2012	2011
Interest expense:			
Bank loans	\$34,463	\$21,781	\$11,348
Commercial real estate loans	9,038	7,566	6,397
CMBS-private placement	836	1,024	547
Hedging instruments	6,751	7,266	8,415
Securitized borrowings	5,531	1,993	1,859
Convertible senior notes	1,480	—	—
General	2,911	3,162	3,620
Total interest expense	\$61,010	\$42,792	\$32,186

	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011	
	Weighted Average		Weighted Average		Weighted Average	
	Yield	Balance	Yield	Balance	Yield	Balance
Interest expense:						
Bank loans	3.54	% \$961,742	1.83	% \$1,174,495	1.16	% \$981,000
Commercial real estate loans	2.15	% \$416,513	1.62	% \$458,032	1.28	% \$499,416
CMBS-private placement	1.72	% \$48,953	2.09	% \$47,533	2.75	% \$19,462
Hedging instruments	5.35	% \$123,999	5.13	% \$138,581	5.27	% \$160,132
Securitized borrowings ⁽¹⁾	30.02	% \$18,568	8.79	% \$21,399	42.90	% \$4,347
Convertible senior notes	6.61	% \$22,685	N/A	N/A	N/A	N/A
General	4.65	% \$61,720	4.75	% \$65,148	6.39	% \$57,249

Third party equity holders interest is accounted for as interest expense in our statements of income using an (1) imputed interest rate on the underlying subordinated debt. 2011 amounts do not include a change in an accounting estimate made in 2011.

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Type of Security	Coupon Interest	Unamortized Deferred Debt Expense	Net Amortization	Interest Expense	Other	Total
Year Ended December 31, 2013:						
Bank loans	1.34	% \$171	\$6,131	(1) \$28,332	(1) \$—	\$34,463
Commercial real estate loans	1.55	% \$2,554	2,209	6,829	—	9,038
CMBS-private placement	1.41	% \$12	151	685	—	836
Hedging	5.03	% \$171	—	6,751	—	6,751
Securitized borrowings	30.02	% \$—	—	5,531	—	5,531
Convertible senior notes	6.00	% \$8,465	138	1,342	—	1,480
General	4.21	% \$543	192	2,719	—	2,911
Total interest expense			\$8,821	\$52,189	\$—	\$61,010
Year Ended December 31, 2012:						
Bank loans	1.36	% \$7,102	\$2,846	\$18,935	\$—	\$21,781
Commercial real estate loans	1.08	% \$610	2,292	5,274	—	7,566
CMBS-private placement	1.52	% \$23	271	753	—	1,024
Hedging	4.97	% \$932	—	7,266	—	7,266
Securitized borrowings	14.40	% \$—	—	3,195	(1,202)	1,993
General	4.43	% \$734	65	3,097	—	3,162
Total interest expense			\$5,474	\$38,520	\$(1,202)	\$42,792
Year Ended December 31, 2011:						
Bank loans	0.94	% \$9,948	\$1,894	\$9,454	\$—	\$11,348
Commercial real estate loans	0.97	% \$2,918	1,447	4,950	—	6,397
CMBS-private placement	1.48	% \$494	247	300	—	547
Hedging	4.95	% \$1,160	—	8,415	—	8,415
Securitized borrowings	15.27	% \$—	—	1,859	—	1,859
General	5.75	% \$917	46	3,574	—	3,620
Total interest expense			\$3,634	\$28,552	\$—	\$32,186

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012

Aggregate interest expense increased \$18.2 million (43%) to \$61.0 million for the year ended December 31, 2013, from \$42.8 million for the year ended December 31, 2012. We attribute this increase to the following:

Interest expense on bank loans was \$34.5 million for the year ended December 31, 2013 as compared to \$21.8 million for the year ended December 31, 2012, an increase of \$12.7 million (58%). This increase resulted primarily from the increase in the weighted average yield to 3.54% for the year ended December 31, 2013 as compared to 1.83% for the year ended December 31, 2012 primarily due to an increase in expense related to Apidos CLO VIII and Whitney CLO I which was liquidated in September 2013 and October 2013, respectively. This accelerated the original issue discount and deferred issuance costs recorded when these CLOs were initially consolidated.

The increase in interest expense resulting from the increase in the weighted average yield was partially offset by a decrease in the weighted average balance of the related financings of \$212.8 million (18%) to \$961.7 million for the year ended December 31, 2013 as compared to \$1.2 billion for the year ended December 31, 2012 due to the call and liquidation of Apidos CLO VIII and Whitney CLO I in September 2013 and October 2013, respectively, which resulted in the paydown of all outstanding notes. In addition, Apidos CDO I and Apidos CDO III reached the end of their reinvestment periods in prior years. During the year ended December 31, 2013, Apidos CDO I paid down \$116.1 million in principal amount of its CDO notes and Apidos CDO III paid down \$75.9 million in principal amount of its

CDO notes.

Interest expense on CRE loans was \$9.0 million for the year ended December 31, 2013, as compared to \$7.6 million for the year ended December 31, 2012, an increase of \$1.5 million (19%) as a result of increase in the weighted average yield to 2.15% for the year ended December 31, 2013 as compared to 1.62% for the year ended December 31, 2012 which was due primarily to note paydowns which increased the weighted average cost of these borrowings as the lower yield debt was repaid as required in the indenture agreements.

The increase in interest rate on commercial real estate loans was partially offset during the year ended December 31, 2013 by a decrease in the weighted average balance of debt of \$41.5 million to \$416.5 million from \$458.0 million for the year ended December 31, 2012, primarily as a result of the debt amortization of Resource Real Estate Funding CDO 2006-1, or RREF CDO 2006-1, and Resource Real Estate Funding CDO 2007-1, or RREF CDO 2007-1, as they reached the end of their reinvestment periods in prior years. During the year ended December 31, 2013, the CDOs paid down a total of \$129.2 million of notes.

Hedge expense decreased \$515,000 (7%) to \$6.8 million for the year ended December 31, 2013 as compared to \$7.3 million for the year ended December 31, 2012. The decrease in the hedging expense was primarily due to the scheduled amortization on swaps and, to a lesser extent, changes in LIBOR.

Securitized borrowings expense increased \$3.5 million to \$5.5 million for the year ended December 31, 2013 as compared to \$2.0 million for the year ended December 31, 2012. This interest expense is related to our subordinated investments in Apidos CLO VIII and Whitney CLO I. The interest expense is imputed using an estimated internal rate of return based on expected cash flows over the life of each CLO. The increase for the year ended December 31, 2013 was due to acceleration of expense as a result of the liquidation of these CLOs.

Interest expense on convertible senior notes was \$1.5 million. In October 2013, we closed and issued \$115.0 million aggregate principal amount of our 6.00% convertible senior notes due 2018.

Year Ended December 31, 2012 as compared to Year Ended December 31, 2011

Aggregate interest expense decreased \$10.6 million (33%) to \$42.8 million for the year ended December 31, 2012, from \$32.2 million for the year ended December 31, 2011. We attribute this decrease to the following:

Interest expense on bank loans was \$21.8 million for the year ended December 31, 2012, as compared to \$11.3 million for the year ended December 31, 2011, an increase of \$10.4 million (92%). This increase resulted primarily from the following:

an increase in the weighted average balance of the related financings of \$193.5 million (20%) to \$1.2 billion for the year ended December 31, 2012 as compared to \$981.0 million for the year ended December 31, 2011 due to the closing of our new CLO, Apidos CLO VIII, which occurred in October 2011 and from the consolidation of Whitney CLO I in which we acquired a controlling interest in October 2012. The increase in weighted average balance of financings from the two new CLOs was partially offset by the debt amortization of Apidos CDO I and Apidos CDO III as they reached the end of their reinvestment periods in July 2011 and June 2012, respectively. During the period July, 31, 2011 through December 31, 2012, Apidos CDO I paid down \$116.3 million in principal amount of its CDO notes. During the period from July 1, 2012 through December 31, 2012, Apidos CDO III paid down \$40.5 million in principal amount of its CDO notes; and

an increase in the weighted average rate to 1.83% for the year ended December 31, 2012 from 1.16% for the year ended December 31, 2011 primarily as a result of the increase in LIBOR, a reference index for the rates payable on most of these financings as well as a full year of interest expense on Apidos CLO VIII which has a higher weighted average rate than our legacy Apidos CLOs as a result of market conditions as the time that Apidos CLO VIII was closed.

Interest expense on commercial real estate loans was \$7.6 million for the year ended December 31, 2012, as compared to \$6.4 million for the year ended December 31, 2011, an increase of \$1.2 million (18%). This increase resulted primarily from the acceleration of deferred debt issuance costs on RREF CDO 2007-1 as a result of note repurchases and deferred debt issuance costs on our new credit facility during the year ended December 31, 2012, which increased the weighted average cost of these borrowings.

Interest expense on CMBS-private placement increased \$477,000 (87%) to \$1.0 million for the year ended December 31, 2012 as compared to \$547,000 for the year ended December 31, 2011. The increase is due entirely to a Master Repurchase Agreement with Wells Fargo Bank that we entered into in February 2011 to use in acquiring

highly-rated CMBS.

These increases were partially offset by a decrease in interest expense on hedging instruments of \$1.1 million (14%) to \$7.3 million for the year ended December 31, 2012 as compared to \$8.4 million for the year ended December 31, 2011. The decrease in the hedging expense was primarily due to the maturities of \$37.9 million notional amount of hedges beginning in July 2011 through August 2012.

Interest expense on securitized borrowings increased \$134,000 (7%) to \$2.0 million for the year ended December 31, 2012 as compared to \$1.9 million for the year ended December 31, 2011. This interest expense is related to our subordinated investments in Apidos CLO VIII and Whitney CLO I. The interest expense is imputed by an estimated internal rate of return based on expected cash flows over the life of each CLO.

This increase was partially offset by a decrease in general interest expense of \$458,000 (13%) to \$3.2 million for the year ended December 31, 2012 as compared to \$3.6 million for the year ended December 31, 2011. The decrease is primarily the result of the expiration of a two-year amendment on our trust preferred securities, or TRUPs, on September 30, 2011 which reduced the contractual interest rate on our TRUPs by 2%.

Other Revenue

The following table sets forth information relating to our other revenue incurred for the periods presented (in thousands):

	Years Ended		
	December 31,		
	2013	2012	2011
Other revenue:			
Rental income	\$19,923	\$11,463	\$3,656
Dividend income	273	69	3,045
Equity in net earnings (losses) of unconsolidated subsidiaries	949	(2,709	) 112
Fee income	6,075	7,068	7,789
Net realized gain on investment securities available-for-sale and loans	10,986	4,106	2,643
Net realized and unrealized (loss) gain on investment securities, trading	(324	) 12,435	837
Unrealized (loss) gain and net interest income on linked transactions, net	(3,841	) 728	216
Total other revenue	\$34,041	\$33,160	\$18,298

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012

Rental income increased \$8.5 million (74%) to \$19.9 million for the year ended December 31, 2013 as compared to \$11.5 million for the year ended December 31, 2012. The increase is primarily related to a full year of income generated by a hotel property in 2013 which we acquired by converting a loan to an equity position in September 2012. The hotel was held for sale at December 31, 2013.

Equity in net earnings (losses) of unconsolidated subsidiaries increased \$3.7 million (135%) to earnings of \$949,000 during the year ended December 31, 2013 from a loss of \$2.7 million for the year ended December 31, 2012. The increase in earnings was primarily related to our investment in LCC for which we realized a loss of \$183,000 for the year ended December 31, 2013 as compared to a loss of \$3.3 million for the year ended December 31, 2012. In addition, we recognized \$1.2 million of income related to our investment in CVC Global Credit Opportunities Fund, L.P. There was no such investment during the year ended December 31, 2012.

Fee income decreased \$993,000 (14%) to \$6.1 million for the year ended December 31, 2013 from \$7.1 million for the year ended December 31, 2012. This income is primarily related to our February 2011 acquisition of a company that manages bank loan assets and entitled us to collect senior, subordinated and incentive fees related to five CLOs. The decrease during the year ended December 31, 2013 is related to the consolidation of Whitney CLO I in October 2012 due to our acquisition of a controlling interest. As a result of consolidation, the related fee income terminated. In October 2013, this CLO was liquidated. In addition, a second CLO in that portfolio liquidated in January 2013 and, as a result, no longer provides fee income.

Net realized gain on investment securities available-for-sale and loans increased \$6.9 million (168%) to \$11.0 million for for the year ended December 31, 2013 from \$4.1 million for the year ended December 31, 2012. The increase for the year ended December 31, 2013 is primarily due to gains of \$5.0 million as a result of the liquidation of Apidos CLO VIII in October 2013 as well as gains of \$2.2 million on the sales of residential mortgage loans, a business we acquired in October 2013.

Net realized and unrealized (loss) gain on investment securities, trading decreased \$12.8 million (103%) to a loss of \$324,000 during the year ended December 31, 2013 as compared to a gain of \$12.4 million during the year ended December 31, 2012 primarily, as a result of a sale of nine securities in 2013 and 12 securities in September 2012, which has significantly reduced the balance of investments held in trading securities. The remaining portfolio has decreased substantially as we held eight positions and 13 positions at December 31, 2013 and December 31, 2012, respectively, and as a result, there is less opportunity to realize gains. In addition, marks decreased at December 31, 2013 as a result of a downturn in the market for these types of securities.

Realized (loss) gain and net interest income on linked transactions, net, decreased \$4.6 million (628%) to a loss of \$3.8 million for the year ended December 31, 2013 from a gain of \$728,000 for the year ended December 31, 2012. The amounts are related to our CMBS securities that are purchased with repurchase agreements with the same counterparty from whom the securities are purchased. These transactions are entered into contemporaneously or in contemplation of each other and are presumed not to meet sale accounting criteria. We account for these transactions on a net basis and record a forward purchase commitment to purchase securities (each, a "linked transaction") at fair value. The increase in expense for the year ended December 31, 2013 resulted from the change in market value of our linked transactions with longer duration to maturity at December 31, 2013 as compared to December 31, 2012.

Year Ended December 31, 2012 as compared to Year Ended December 31, 2011

Rental income was \$11.5 million and \$3.7 million for the years ended December 31, 2012 and 2011, respectively, and is related to our investments in real estate and to a lesser extent, our property available-for-sale. We acquired two properties in June 2011 and one property in August 2011 (a full year of whose results were reflected in 2012) and one property in September 2012.

We received dividend income of \$69,000 and \$3.0 million for the years ended December 31, 2012 and 2011, respectively. Substantially all of our dividend income for the year ended December 31, 2011 is related to a transaction whereby on November 16, 2011, we entered into an agreement and exchanged our old preferred interest in LEAF Commercial Capital, Inc., or LCC, an equipment leasing company, for a new preferred interest in LCC as part of LCC's recapitalization. We have accounted for our resulting interest under the equity method subsequent to November 16, 2011 and, therefore, we no longer record dividend income from this investment. As of November 16, 2011, we record our equity interest in other income (expense). For the year ended December 31, 2012, we recorded a loss of \$3.3 million on our equity interest.

We generated management fee income of \$7.1 million and \$7.8 million for the years ended December 31, 2012 and 2011, respectively, which is related to our February 2011 acquisition of a company that manages bank loan assets that entitles us to collect senior, subordinated, and incentive fees related to five collateralized loan obligation issuers, or CLOs. The decrease during the year ended December 31, 2012 is primarily related to the consolidation of Whitney CLO I in October 2012 as a result of our acquisition of a controlling interest. As a result of consolidation, the related fee income eliminates in consolidation.

Net realized gains on investment securities available-for-sale and loans increased \$1.5 million (55%) to \$4.1 million for the year ended December 31, 2012 from \$2.6 million for the year ended December 31, 2011. The increase for the year ended December 31, 2012 is primarily the result of net loss of \$2.4 million on the sale of ABS during the year ended December 31, 2011 which did not recur in 2012. In addition, during the year ended December 31, 2012, there were \$1.1 million more in gains from the sales from Apidos loans as compared to the year ended December 31, 2011. These increases were partially offset by \$2.1 million less in gains from the sale of CMBS securities during the year ended December 31, 2012.

Net realized and unrealized gain on investment securities, trading increased \$11.6 million (1,386%) to \$12.4 million during the year ended December 31, 2012 as compared to \$837,000 for the year ended December 31, 2011 primarily as a result of an improvement in market prices related to the securities in this portfolio in September 2012. We were able to take advantage of this rally and sold nine securities-trading, for which we recognized realized net gains of \$6.2 million during the three months ended September 30, 2012.

Operating Expenses

The following table sets forth information relating to our operating expenses incurred for the periods presented (in thousands):

	Years Ended		
	December 31,		
	2013	2012	2011
Operating expenses:			
Management fees – related party	\$14,220	\$18,512	\$11,022
Equity compensation – related party	10,472	4,636	2,526
Rental operating expense	14,062	8,046	2,743
General and administrative - Corporate ⁽¹⁾	12,305	9,773	8,399
General and administrative - PCA ⁽¹⁾	3,805	—	—
Depreciation and amortization	3,855	5,885	4,619
Income tax (benefit) expense	(1,041)	) 14,602	12,036
Net impairment losses recognized in earnings	863	180	6,898
Provision for loan losses	3,020	16,818	13,896
Total operating expenses	\$61,561	\$78,452	\$62,139

⁽¹⁾ Total general and administrative expense per the consolidated statements of income was \$16.1 million, \$9.8 million and \$8.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Year Ended December 31, 2013 as compared to the Year Ended December 31, 2012

Management fees - related party decreased \$4.3 million (23%) to \$14.2 million for the year ended December 31, 2013 as compared to \$18.5 million for the year ended December 31, 2012. This expense represents compensation in the form of base management fees and incentive management fees pursuant to our management agreement as well as fees to the manager of our structured note portfolio. The changes are described below:

Incentive management fees to our Manager, which are based upon the excess of adjusted operating earnings, as defined in the management agreement, over a variable base rate, decreased \$4.0 million (68%) to \$1.9 million for the year ended December 31, 2013 from \$6.0 million for the year ended December 31, 2012. The decrease in this fee was primarily the result of realized losses on the charge-off of assets in our CRE and Apidos portfolios. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter.

Base management fees increased by \$3.2 million (39%) to \$11.6 million for the year ended December 31, 2013 as compared to \$8.3 million for the year ended December 31, 2012. This increase was due to increased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of the receipt of \$92.2 million of proceeds from the sales of common stock through our Dividend Reinvestment and Stock Purchase Plan, or DRIP, from January 1, 2012 through December 31, 2013 as well as the receipt of \$55.6 million from the proceeds from our September 2012 secondary common stock offering and the receipt of \$114.5 million from the proceeds of our April 2013 secondary common stock offering. In addition, we had two issuances of preferred stock. First, in June 2012 we sold \$6.0 million 8.5% Series A cumulative preferred stock, or Series A preferred stock. Then in October 2012, we issued \$24.2 million of 8.25% Series B cumulative preferred stock, or Series B preferred stock. We also entered into at-the-market sales agreements and sold \$9.9 million of Series A and \$35.6 million of Series B preferred stock through December 31, 2013, respectively.

Incentive management fees related to our structured finance manager decreased by \$4.1 million (96%) to \$158,000 for the year ended December 31, 2013 as compared to \$4.2 million for the year ended December 31, 2012. The decrease in fees is primarily related to the sale of 12 securities in September 2012, resulting in fewer assets earning subordinated payments as well as the decrease in the remaining market value on these securities due to a downturn in the market for these types of assets during the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Equity compensation - related party increased \$5.8 million (126%) to \$10.5 million for the year ended December 31, 2013 as compared to \$4.6 million for the year ended December 31, 2012. These expenses relate to the amortization of

annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to employees of Resource America who provide investment management services to us through our Manager as well as employees through our recently acquired residential mortgage company subsidiary. The increase in expense was primarily the result of the issuance of new grants during 2013 and 2012 as well as the increase in our stock price and its impact on our quarterly remeasurement of the value of unvested stock of non-employees.

Rental operating expense increased \$6.0 million (75%) to \$14.1 million for the year ended December 31, 2013 as compared to \$8.0 million for the year ended December 31, 2012 and is primarily related to having, in 2013, a full year operations of a hotel property we acquired by conversion of a loan to equity in September 2012. This hotel is held for sale at December 31, 2013.

General and administrative expense - Corporate increased \$2.5 million (26%) to \$12.3 million for the year ended December 31, 2013 as compared to \$9.8 million for the year ended December 31, 2012. The increase is primarily the result of the following combination of factors:

- an increase of \$660,000 related to the reimbursement of office overhead, travel costs and hiring costs for loan origination efforts based in various locations;
- an increase of \$304,000 primarily related to the payment of fees to the investment committee of our board of directors for their services. We resumed paying these fees in April 2012. In addition, two additional board members were added in March 2013 and June 2013; and
- an increase of \$400,000 in payroll expense due to the hiring of additional accounting personnel.

General and administrative expense - PCA was \$3.8 million and is related to the acquisition of PCA, a mortgage origination business in October 2013.

Depreciation and amortization decreased \$2.0 million (34%) to \$3.9 million for the year ended December 31, 2013 as compared to \$5.9 million for the year ended December 31, 2012. The decrease was the result of the reclassification as held-for-sale of one property in the third quarter of 2013. At the time of the reclassification, we ceased depreciation of the asset. In addition, amortization on our intangible assets decreased as a result of the liquidation of one of our related CLOs in January 2013 for which the majority of expense was recognized in December 2012 and as a result of the consolidation of a CLO which caused the amortization of the related intangible asset to be accelerated into the fourth quarter of 2012.

Income tax expense decreased \$15.6 million (107%) to a benefit of \$1.0 million for the year ended December 31, 2013 as compared to expense of \$14.6 million for the year ended December 31, 2012. The decrease in income tax expense is primarily attributable to the liquidation of Apidos CLO VIII and Whitney CLO I beginning in September 2013 and October 2013, respectively. The liquidation caused acceleration of note discount and deferred debt amortization as well as accelerated interest expense on subordinated notes. In addition, we had fewer realized gains on sales in our trading portfolio during the year ended December 31, 2013 after selling 12 securities in September 2012 and realizing gains then.

Our provision for loan losses decreased \$13.8 million (82%) to \$3.0 million for the year ended December 31, 2013, as compared to \$16.8 million for the year ended December 31, 2012. The following table summarizes the information relating our loan losses for the periods presented (in thousands):

	Years Ended December 31,	
	2013	2012
CRE loan portfolio	\$2,686	\$5,225
Bank loan portfolio	334	11,593
Total provision for loan losses	\$3,020	\$16,818
CRE Loan Portfolio Provision		

The principal reason for the decrease during the year ended December 31, 2013 as compared to the year ended December 31, 2012 was three positions for which we took provisions during the year ended December 31, 2012. The positions had a total par value of \$41.8 million and were written down to \$37.3 million for a weighted average write down percentage of 10.9% of par. During the year ended December 31, 2013, we took a provision was primarily for one previously impaired loan due to further credit deterioration of the borrower.

Bank Loan Portfolio Provision

The bank loan provision decreased by \$11.3 million for the year ended December 31, 2013 to \$334,000 as compared to \$11.6 million for the year ended December 31, 2012. The principal reason for the decrease for the year ended December 31, 2013 was due to improved credit conditions as well as the sales and payoffs of five loans in the general reserve and two impaired loans that were sold and written off during the year ended December 31, 2013. All five loans

had been reserved in prior periods.

Year Ended December 31, 2012 as compared to the Year Ended December 31, 2011

Management fees - related party increased \$7.5 million (68%) to \$18.5 million for the year ended December 31, 2012 as compared to \$11.0 million for the year ended December 31, 2011. These expenses represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement as well as fees to the manager of our structured note portfolio. The changes are described below:

Incentive management fees to our Manager, which are based upon the excess of adjusted operating earnings over a variable base rate, increased \$4.3 million (247%) to \$6.0 million for the year ended December 31, 2012 from \$1.7 million for the year ended December 31, 2011. The increase in these fees was primarily the result of gains on the extinguishment of debt for the year ended December 31, 2012 as well as fewer realized losses on the charge-off of assets in our CRE and Apidos portfolios. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter.

Base management fees increased by \$1.3 million (19%) to \$8.3 million for the year ended December 31, 2012 as compared to \$7.0 million for the year ended December 31, 2011. This increase was due to increased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of the receipt of \$156.6 million of proceeds from the sales of common stock through our DRIP from January 1, 2011 through December 31, 2012 as well as the receipt of \$46.6 million and \$55.6 million from the proceeds of our March 2011 and September 2012 secondary common stock offerings and proceeds from our preferred stock offerings of \$42.2 million, received in October 2012.

Incentive management fees related to our structured finance manager increased by \$1.9 million (83%) to \$4.2 million for the year ended December 31, 2012 from \$2.3 million for the year ended December 31, 2011. The increase in fees is primarily related to the improved economic performance of this portfolio during the year ended December 31, 2012, which is reflected in gain on investment securities, trading and preference payments on structured notes.

Equity compensation - related party increased \$2.1 million (84%) to \$4.6 million for the year ended December 31, 2012 as compared to \$2.5 million for the year ended December 31, 2011. These expenses relate to the amortization of annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to employees of Resource America who provide investment management services to us through our Manager. The increase in expense was primarily the result of the issuance of new grants during 2012 and 2011.

Rental operating expense increased \$5.3 million (193%) to \$8.0 million for the year ended December 31, 2012 as compared to \$2.7 million for the year ended December 31, 2011 and is related to an increase in our investments in real estate through several acquisitions beginning in June 2011 through September 2012.

General and administrative expense increased \$1.4 million (16%) to \$9.8 million for the year ended December 31, 2012 from \$8.4 million for the year ended December 31, 2011. The increase is primarily the result of the following:

- an increase of \$152,000 related to the payment to our board investment committee for their services. We resumed paying these fees in April 2012;

- an increase of \$879,000 related to collateral management fees related to Apidos VIII paid to a third party. We began consolidating Apidos VIII in October 2011; and

- an increase of \$327,000 related to franchise taxes because of increased profitability and equity in our taxable REIT subsidiaries.

Depreciation and amortization increased \$1.3 million (27%) to \$5.9 million for the year ended December 31, 2012 as compared to \$4.6 million for the year ended December 31, 2011. The increase is related to our acquisition of real estate in the second and third quarters of 2011 and our acquisition of Resource Capital Asset Management, or RCAM, in February 2011, all of which were subject to a full year of depreciation and amortization in 2012.

Income tax expense increased \$2.6 million (21%) to \$14.6 million for the year ended December 31, 2012 as compared to \$12.0 million for the year ended December 31, 2011. The increase in income tax expense is attributable to three of our legacy CLO structures (Apidos CDO III, Apidos Cinco CDO, and Apidos CLO VIII) and our new CLO structure (Whitney CLO I) being taxable during the fourth quarter of 2012. The balance of the increased tax expense is primarily due to foreclosure tax related to gains on properties sold during 2012 which did not recur in 2013.

Net impairment losses recognized in earnings decreased \$6.7 million (97%) to \$180,000 for the year ended December 31, 2012 from \$6.9 million for the year ended December 31, 2011. Impairment charges for the year ended December 31, 2011 were the result of \$4.6 million of impairment we recognized on two investment securities available-for-sale due to their losses being recognized as other than temporary as a result of credit deterioration and \$2.2 million of impairment on our investment in preferred stock and warrants in LCC upon recapitalization.

Our provision for loan and lease losses increased \$2.9 million (21%) to \$16.8 million for the year ended December 31, 2012, as compared to \$13.9 million for the year ended December 31, 2011.

The following table summarizes information relating to our provision for loan and lease losses for the periods presented (in thousands):

	Years Ended December 31,	
	2012	2011
CRE loan portfolio	\$5,225	\$6,478
Bank loan portfolio	11,593	7,418
Total provision for loan losses	\$16,818	\$13,896

CRE Loan Portfolio

The principal reason for the decrease during the year ended December 31, 2012 as compared to the year ended December 31, 2011 was improved credit conditions for the borrowers in our CRE portfolio with the exception of three positions for which we took provisions. The positions had a total par value of \$41.8 million and were written down to \$37.3 million for a weighted average write down percentage of 10.9% of par.

Bank Loan Portfolio

The bank loan provision increased by \$4.2 million for the year ended December 31, 2012 to \$11.6 million as compared to \$7.4 million for the year ended December 31, 2011. The principal reason for the increase was the recognition of impairment on four non-performing loans in our bank loan portfolio for the year ended December 31, 2012 as a result of new defaults and an increase in our general reserve related primarily to the acquisition of our new CLO, Whitney CLO I.

Other Revenue (Expense)

The following table sets forth information relating to our other income (expense) incurred for the periods presented (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Other Revenue (Expense)			
Gain on consolidation	\$—	\$2,498	\$—
Gain on the extinguishment of debt	—	16,699	3,875
Gain on sale of real estate	16,616	—	—
Other income (expense)	391	—	(6)
Total other revenue	\$17,007	\$19,197	\$3,869

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012

Gain on consolidation of \$2.5 million during the year ended December 31, 2012 is related to the consolidation of Whitney CLO I as a result of our acquisition of a controlling financial interest where the net fair value of the assets acquired exceeded our purchase price.

Gain on the extinguishment of debt during the year ended December 31, 2012 of \$17.0 million is from the repurchase of a portion of the debt issued by RREF CDO 2006-1, RREF CDO 2007-1 and Apidos CDO I at discounts during the period. The notes, issued at par, were bought back as an investment by us at a weighted average price of 88.7%.

The gain on the sale of real estate is related to the sale of a multi-family apartment building. During the three months ended June 30, 2013, we entered into a listing agreement for this property. The sale settled on September 30, 2013 for a gain of \$16.6 million.

Year Ended December 31, 2012 as compared to Year Ended December 31, 2011

Gain on consolidation of \$2.5 million is related to the consolidation of Whitney CLO I as a result of our acquisition of a controlling financial interest where the net fair value of the assets acquired exceeded our purchase price.

Gain on the extinguishment of debt was \$16.7 million for the year ended December 31, 2012 and is due to the repurchase of a portion of the debt issued by RREF CDO 2006-1, RREF CDO 2007-1 and Apidos CDO I during the period. The notes, issued at par, were bought back as an investment by us at a weighted average price of 88.7%. Gain on the extinguishment of debt was \$3.9 million for the year ended December 31, 2011 due to the repurchase of a portion of the debt issued by RREF CDO 2006-1 and RREF CDO 2007-1 during the period. The notes, issued at par, were bought back as an investment by us at a weighted average price of 61.3%.

Financial Condition

Summary.

Our total assets at December 31, 2013 were \$2.2 billion as compared to \$2.5 billion at December 31, 2012. The decrease in total assets was principally due to the liquidation of Apidos CLO VIII and Whitney CLO I and consequent liquidation of their assets, partially offset by an increase in CRE and CMBS investments.

Investment Portfolio.

The table below summarizes the amortized cost and net carrying amount of our investment portfolio as of December 31, 2013 and 2012, classified by interest rate type. The following table includes both (i) the amortized cost of our investment portfolio and the related dollar price, which is computed by dividing amortized cost by par amount, and (ii) the net carrying amount of our investment portfolio and the related dollar price, which is computed by dividing the net carrying amount by par amount (in thousands, except percentages):

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	Amortized cost	Dollar price	Net carrying amount	Dollar price	Net carrying amount less amortized cost	Dollar price		
December 31, 2013								
Floating rate								
RMBS	\$1,919	20.76	% \$451	4.88	% \$(1,468	)	(15.88)%
CMBS-private placement	27,138	92.39	% 16,496	56.16	% (10,642	)	(36.23)%
Structured notes	8,057	34.49	% 11,107	47.55	% 3,050		13.06	%
Mezzanine loans ⁽¹⁾	12,455	98.97	% 12,455	98.97	% —		—	%
Whole loans ⁽¹⁾	745,789	99.56	% 736,106	98.27	% (9,683	)	(1.29)%
Bank loans ⁽²⁾	544,923	99.27	% 541,532	98.65	% (3,391	)	(0.62)%
Middle-market loans	10,250	100.00	% 10,250	100.00	% —		—	%
Loans held for sale ⁽³⁾	6,850	94.82	% 6,850	94.82	% —		—	%
ABS Securities	25,406	91.39	% 26,656	95.88	% 1,250		4.50	%
Corporate bonds	2,517	29.32	% 2,463	28.69	% (54	)	(0.63)%
Total floating rate	1,385,304	96.71	% 1,364,366	95.25	% (20,938	)	(1.46)%
Fixed rate								
CMBS-private placement	158,040	77.87	% 164,222	80.91	% 6,182		3.04	%
CMBS-linked transactions	35,736	106.07	% 30,066	89.24	% (5,670	)	(16.83)%
B notes ⁽¹⁾	16,205	99.49	% 16,031	98.42	% (174	)	(1.07)%
Mezzanine loans ⁽¹⁾	51,862	100.06	% 51,303	98.98	% (559	)	(1.08)%
Residential mortgage loans	1,849	66.27	% 1,849	66.27	% —		—	%
Loans held for sale ⁽³⁾	15,066	100.00	% 15,066	100.00	% —		—	%
Loans receivable-related party	6,966	100.00	% 6,966	100.00	% —		—	%
Total fixed rate	285,724	86.69	% 285,503	86.62	% (221	)	(0.07)%
Other (non-interest bearing)								
Investment in real estate	29,778	100.00	% 29,778	100.00	% —		—	%
Property available-for-sale	25,346	100.00	% 25,346	100.00	% —		—	%
Investment in unconsolidated entities	74,438	100.00	% 74,438	100.00	% —		—	%
Total other	129,562	100.00	% 129,562	100.00	% —		—	%
Grand total	\$1,800,590	95.19	% \$1,779,431	94.07	% \$(21,159)	(1.12)%

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	Amortized cost	Dollar price	Net carrying amount	Dollar price	Net carrying amount less amortized cost	Dollar price	
December 31, 2012							
Floating rate							
RMBS	\$6,047	36.14	% \$5,564	33.25	% \$(483	)	(2.89)%
CMBS-private placement	28,147	100.00	% 12,814	45.52	% (15,333	)	(54.48)%
Structured notes	9,413	26.67	% 19,279	54.62	% 9,866		27.95%
Other ABS	—	—	% 23	0.27	% 23		0.27%
Mezzanine loans ⁽¹⁾	15,845	99.95	% 15,644	98.68	% (201	)	(1.27)%
Whole loans ⁽¹⁾	533,938	99.64	% 527,018	98.35	% (6,920	)	(1.29)%
Bank loans ⁽²⁾	1,178,420	97.09	% 1,168,715	97.08	% (9,705	)	(0.01)%
Loans held for sale ⁽³⁾	48,894	92.42	% 48,894	92.38	% —		(0.04)%
ABS Securities	25,885	89.20	% 26,470	91.21	% 585		2.02%
Corporate bonds	34,361	101.80	% 34,282	101.57	% (79	)	(0.23)%
Total floating rate	1,880,950	95.98	% 1,858,703	94.85	% (22,247	)	(1.13)%
Fixed rate							
CMBS-private placement	154,681	68.14	% 158,001	69.61	% 3,320		1.47%
CMBS-linked transactions	6,677	111.39	% 6,835	114.03	% 158		2.64%
B notes ⁽¹⁾	16,327	99.30	% 16,121	98.05	% (206	)	(1.25)%
Mezzanine loans ⁽¹⁾	66,941	99.70	% 66,282	98.73	% (659	)	(0.97)%
Loans receivable-related party	8,324	100.00	% 8,324	100.00	% —		—%
Total fixed rate	252,950	77.23	% 255,563	78.00	% 2,613		0.77%
Other (non-interest bearing)							
Investment in real estate	75,386	100.00	% 75,386	100.00	% —		—%
Investment in unconsolidated entities	45,413	100.00	% 45,413	100.00	% —		—%
Total other	120,799	100.00	% 120,799	100.00	% —		—%
Grand total	\$2,254,699	93.70	% \$2,235,065	92.87	% \$(19,634	)	(0.83)%

Net carrying amount includes allowance for loan losses of \$10.4 million at December 31, 2013, allocated as follows: B notes \$174,000, mezzanine loans \$559,000 and whole loans \$9.7 million. Net carrying amount includes allowance for loan losses of \$8.0 million at December 31, 2012, allocated as follows: B notes \$206,000, mezzanine loans \$860,000 and whole loans \$6.9 million.

⁽¹⁾ Net carrying amount includes allowance for loan losses of \$3.4 million and \$9.7 million at December 31, 2013 and 2012, respectively.

⁽²⁾ Loans held for sale are carried at the lower of cost or market. Amortized cost is equal to fair value.

⁽³⁾ Commercial Mortgage-Backed Securities-Private Placement. In the aggregate, we purchased our CMBS-private placement portfolio at a net discount. At December 31, 2013 and 2012, the remaining discount to be accreted into income over the remaining lives of the securities was \$7.2 million and \$9.3 million, respectively. At December 31, 2013 and 2012, the remaining premium to be amortized into income over the remaining lives of the securities was \$645,000 and \$2.0 million, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair value.

During the years ended December 31, 2013, 2012 and 2011, we recognize other-than-temporary impairment losses of \$328,000, \$42,000 and \$4.6 million respectively, on positions that supported our CMBS investments. Securities classified as available-for-sale have increased on a net basis as of December 31, 2013 as compared to December 31, 2012 primarily due to new purchases in 2013. We perform an on-going review of third-party reports and updated financial data on the underlying property financial information to analyze current and projected loan performance. Rating agency downgrades are considered with respect to our income approach when determining

other-than-temporary impairment and, when inputs are stressed, the resulting projected cash flows reflect a full recovery of principal.

The following table summarizes our CMBS-private placement at fair value (in thousands, except percentages):

	December 31, 2012	Net Purchases	Upgrades/Downgrades	MTM Change/ Paydowns Same Ratings	December 31, 2013
Moody's Ratings Category:					
Aaa	\$66,830	\$23,664	\$ —	\$(40,657)	) \$49,837
Aa1 through Aa3	4,926	—	—	430	) 5,356
A1 through A3	8,944	5,421	2,354	(2,108)	) 14,611
Baa1 through Baa3	44,624	4,108	5,216	(15,237)	) 38,711
Ba1 through Ba3	3,737	6,812	(10,147)	) 13,336	) 13,738
B1 through B3	7,315	4,238	(3,150)	) 4,978	) 13,381
Caa1 through Caa3	8,052	5,621	—	1,071	) 14,744
Ca through C	8,168	—	2,765	(2,319)	) 8,614
Non-Rated	18,219	6,297	—	(2,790)	) 21,726
Total	\$170,815	\$56,161	\$ (2,962)	) \$(43,296)	) \$180,718

S&P Ratings Category:

AAA	\$52,640	\$29,889	\$ —	\$(29,290)	) \$53,239
A+ through A-	7,433	—	—	566	) 7,999
BBB+ through BBB-	13,248	—	—	1,055	) 14,303
BB+ through BB-	31,691	9,261	—	(8,157)	) 32,795
B+ through B-	15,963	16,672	(6,720)	) 7,247	) 33,162
CCC+ through CCC-	8,959	—	—	3,217	) 12,176
D	1,150	—	—	830	) 1,980
Non-Rated	39,731	680	—	(15,347)	) 25,064
Total	\$170,815	\$56,502	\$ (6,720)	) \$(39,879)	) \$180,718

Investment Securities, Trading. The following table summarizes our structured notes and RMBS securities, which are classified as investment securities, trading, and are carried at fair value (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2013:				
Structured notes	\$8,057	\$4,050	\$(1,000)	) \$11,107
RMBS	1,919	—	(1,468)	) 451
Total	\$9,976	\$4,050	\$(2,468)	) \$11,558

December 31, 2012:

Structured notes	\$9,413	\$10,894	\$(1,028)	) \$19,279
RMBS	6,047	858	(1,341)	) 5,564
Total	\$15,460	\$11,752	\$(2,369)	) \$24,843

We purchased four securities and sold nine securities during the year ended December 31, 2013, for a net realized gain of \$7.5 million. We held eight and 13 investment securities, trading as of December 31, 2013 and 2012, respectively. We purchased two securities and sold 15 securities during the year ended December 31, 2012, for a net realized gain of \$5.5 million. We also had one position liquidate during the year ended December 31, 2012 which resulted in a gain of \$224,000.

Real Estate Loans. The following table is a summary of the loans in our commercial real estate loan portfolio at the dates indicated (in thousands):

Description	Quantity	Amortized Cost	Contracted Interest Rates	Maturity Dates ⁽³⁾
December 31, 2013:				
Whole loans, floating rate ^{(1) (4) (5)}	52	\$745,789	LIBOR plus 2.68% to LIBOR plus 12.14%	March 2014 to February 2019
B notes, fixed rate	1	16,205	8.68%	April 2016
Mezzanine loans, floating rate	1	12,455	LIBOR plus 13.53%	April 2016
Mezzanine loans, fixed rate ⁽⁷⁾	3	51,862	0.50% to 18.72%	September 2014 to September 2019
Total ⁽²⁾	57	\$826,311		
December 31, 2012:				
Whole loans, floating rate ^{(1) (4) (6)}	37	\$567,938	LIBOR plus 2.50% to LIBOR plus 5.50%	June 2013 to February 2019
B notes, fixed rate	1	16,327	8.68%	April 2016
Mezzanine loans, floating rate	2	15,845	LIBOR plus 2.50% to LIBOR plus 7.45%	August 2013 to December 2013
Mezzanine loans, fixed rate ⁽⁷⁾	3	66,941	0.50% to 20.00%	September 2014 to September 2019
Total ⁽²⁾	43	\$667,051		

Whole loans had \$13.7 million and \$8.9 million in unfunded loan commitments as of December 31, 2013 and (1) 2012, respectively. These unfunded commitments are advanced as the borrowers formally request additional funding as permitted under the loan agreement and any necessary approvals have been obtained.

(2) The total does not include an allowance for loan loss of \$10.4 million and \$8.0 million as of December 31, 2013 and 2012, respectively.

(3) Maturity dates do not include possible extension options that may be available to the borrowers.

Floating rate whole loans include a combined \$11.4 million mezzanine component of two whole loans, which have (4) a fixed rate of 12.0% as of December 31, 2013, and includes a \$2.0 million mezzanine component of a whole loan that has a fixed rate of 15.0% at December 31, 2012.

(5) Floating rate whole loans include a \$799,000 junior mezzanine tranche of a whole loan that has a fixed rate of 10.0% as of December 31, 2013.

(6) Amount includes \$34.0 million from two whole loans that are classified as loans held for sale at December 31, 2012.

Fixed rate mezzanine loans include a mezzanine loan that was modified into two tranches, which both currently (7) pay interest at 0.50%. In addition, the subordinate tranche accrues interest at LIBOR plus 18.50% which is deferred until maturity.

Bank Loans. At December 31, 2013, our consolidated securitizations, Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CDO VIII and Whitney CLO I, held a total of \$552.7 million of bank loans at fair value. The bank loans held by these entities secure the CDO notes they issued and are not available to satisfy the claims of our creditors. The aggregate fair value of bank loans held decreased by \$649.5 million over their holdings at December 31, 2012. This decrease was primarily due to the liquidation of Apidos CDO VIII and Whitney CLO during the year ended December 31, 2013.

We have determined that Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CDO VIII and Whitney CLO I are variable interest entities, or VIEs, and that we are the primary beneficiary of each. As of December 31, 2013, Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CLO VIII and Whitney CLO I were consolidated. We own 100% of the equity of Apidos CDO I, Apidos CDO III and Apidos CDO Cinco. We own approximately 43% of

the equity of Apidos CLO VIII and 68.3% of the equity of Whitney CLO I. In September 2013, we liquidated Whitney CLO I, and as a result substantially all of the assets were sold. Total proceeds from the sale of these assets, plus proceeds from previous sales and paydowns in the CLO were used to pay down the remaining balance on the outstanding notes of \$103.7 million. In October 2013, we liquidated Apidos CLO VIII, and as a result all of the assets were sold. Total proceeds from the sale of these assets, plus proceeds from previous sales and paydowns in the CLO were used to pay down the remaining balance on the outstanding notes of \$317.6 million.

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The following table summarizes our bank loan investments (in thousands):

	December 31, 2013		December 31, 2012	
	Amortized cost	Fair Value ⁽¹⁾	Amortized cost	Fair Value ⁽¹⁾
Moody's ratings category:				
Baa1 through Baa3	\$10,885	\$10,936	\$41,831	\$42,337
Ba1 through Ba3	263,589	265,945	645,502	655,039
B1 through B3	216,995	217,517	443,775	449,232
Caa1 through Caa3	24,224	22,702	27,523	23,869
Ca	667	332	6,819	3,582
No rating provided	35,413	35,277	27,864	28,154
Total	\$551,773	\$552,709	\$1,193,314	\$1,202,213
S&P ratings category:				
BBB+ through BBB-	\$46,201	\$46,562	\$128,072	\$129,648
BB+ through BB-	224,246	224,442	483,091	490,823
B+ through B-	228,707	231,135	529,331	535,632
CCC+ through CCC-	15,059	14,838	28,567	25,522
CC+ through CC-	—	—	2,831	1,451
C+ through C-	—	—	—	—
D	2,251	723	2,021	1,237
No rating provided	35,309	35,009	19,401	17,900
Total	\$551,773	\$552,709	\$1,193,314	\$1,202,213
Weighted average rating factor	1,936		1,974	

(1) The bank loan portfolio's fair value is determined using dealer quotes.

The following table provides information as to the lien position and status of our bank loans, which we consolidate (in thousands):

	Amortized Cost					Total
	Apidos I	Apidos III	Apidos Cinco	Apidos VIII	Whitney CLO I	
December 31, 2013:						
Loans held for investment:						
First lien loans	\$79,483	\$126,890	\$296,368	\$72	\$21,724	\$524,537
Second lien loans	—	—	1,139	—	7,805	8,944
Third lien loans	3,020	2,475	2,463	—	—	7,958
Defaulted first lien loans	1,206	1,124	486	—	—	2,816
Defaulted second lien loans	334	334	—	—	—	668
Total	84,043	130,823	300,456	72	29,529	544,923
First lien loans held for sale at fair value	537	651	1,189	—	4,473	6,850
Total	\$84,580	\$131,474	\$301,645	\$72	\$34,002	\$551,773
December 31, 2012:						
Loans held for investment:						
First lien loans	\$174,208	\$206,960	\$298,885	\$321,022	\$147,791	\$1,148,866
Second lien loans	3,559	3,237	8,306	9,035	729	24,866
Subordinated second lien loans	2,207	1,200	615	—	—	4,022

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Defaulted first lien loans	333	333	—	—	—	666
Total	180,307	211,730	307,806	330,057	148,520	1,178,420
First lien loans held for sale at fair value	2,671	2,770	3,657	5,796	—	14,894
Total	\$182,978	\$214,500	\$311,463	\$335,853	\$148,520	\$1,193,314

Asset-backed securities. In November 2011, the investment securities held-to-maturity portfolio was reclassified to investment securities available-for-sale since management no longer intended to hold these positions until maturity. These investments are now held at fair value with any unrealized gain or loss reported in the stockholder's equity section of the balance sheet. At December 31, 2013, we held a total of \$26.7 million of ABS at fair value through Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, all of which secure the debt issued by these entities. At December 31, 2012, we held a total of \$26.5 million fair value of ABS through Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, all of which secure the debt issued by these entities. The increase in total ABS was due to a purchase which was partially offset by a sale during the year ended December 31, 2013.

The following table summarizes our ABS at fair value (in thousands):

	December 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Moody's ratings category:				
Aaa	\$4,650	\$5,058	\$5,856	\$6,416
Aa1 through Aa3	8,097	7,469	1,086	1,192
A1 through A3	1,263	3,801	6,590	7,116
Baa1 through Baa3	2,737	2,736	2,790	3,108
Ba1 through Ba3	8,021	6,981	5,115	4,614
B1 through B3	638	611	3,618	3,140
Caa1 through Caa3	—	—	—	—
No rating provided	—	—	830	884
Total	\$25,406	\$26,656	\$25,885	\$26,470
S&P ratings category:				
AA+ through AA-	\$8,030	\$7,259	\$6,943	\$7,608
A+ through A-	5,107	8,094	6,539	7,319
BBB+ through BBB-	—	—	300	327
BB+ through BB-	4,868	4,019	7,518	7,054
B+ through B-	1,577	1,578	1,545	1,510
CCC+ through CCC-	—	—	—	—
No rating provided	5,824	5,706	3,040	2,652
Total	\$25,406	\$26,656	\$25,885	\$26,470
Weighted average rating factor	416		642	

Corporate bonds. At December 31, 2013, our consolidated securitization, Apidos Cinco CDO, held a total of \$2.5 million of corporate bonds at fair value, which secure the debt issued by this entity. These investments are held at fair value with any unrealized gain or loss reported in the stockholder's equity section of the balance sheet. The aggregate fair value of corporate bonds held decreased by \$31.8 million over those held at December 31, 2012. This decrease was primarily due to the sale of our bonds in Whitney CLO I and Apidos CDO VIII which were called and liquidated during the year.

The following table summarizes our corporate bonds at fair value (in thousands):

	December 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Moody's ratings category:				
Aaa	\$—	\$—	\$4,345	\$4,359
Aa1 through Aa3	—	—	2,068	2,063
A1 through A3	—	—	5,606	5,582
Baa1 through Baa3	—	—	721	707
Ba1 through Ba3	—	—	4,491	4,445
B1 through B3	—	—	9,271	9,296
Caa1 through Caa3	2,441	1,598	80	81
No rating provided	932	865	7,779	7,749
Total	\$3,373	\$2,463	\$34,361	\$34,282
S&P ratings category:				
AAA	\$—	\$—	\$4,345	\$4,359
AA+ through AA-	—	—	2,068	2,063
A+ through A-	—	—	3,144	3,110
BBB+ through BBB-	—	—	1,239	1,227
BB+ through BB-	—	—	1,414	1,407
B+ through B-	869	873	14,844	14,823
CCC+ through CCC-	2,504	1,590	80	81
No rating provided	—	—	7,227	7,212
Total	\$3,373	\$2,463	\$34,361	\$34,282
Weighted average rating factor	6,500		1,080	

Investment in Unconsolidated Entities. In May, June and July 2013, we invested \$15.0 million into a limited partnership agreement with CVC Global Credit Opportunities Fund, L.P., or the Partnership, a Delaware limited partnership which generally invests in assets through a master-feeder fund structure, or the Master Fund. The General Partner of the Partnership and the Master Fund is CVC Global Credit Opportunities Fund GP, LLC, a Delaware limited liability company. The investment manager of the partnership and the Master Fund is CVC Credit Partners, LLC. CVC Capital Partners SICAV-FIS, S.A., a Luxembourg company, together with its affiliates, and Resource America, own a majority and a significant minority, respectively, of the investment manager. The fund will pay the investment manager a quarterly management fee in advance calculated at the rate of 1.5% annually based on the balance of each limited partner's capital account. Our management fee was waived upon entering the agreement given that we are a related party of CVC Credit Partners, LLC. For the year ended December 31, 2013, we recorded earnings of \$1.2 million, which was recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statements of income statement. The Company's investment balance of \$16.2 million at December 31, 2013 is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method.

In January 2013, LTCC, one of our wholly-owned subsidiaries, invested \$2.0 million into LCF for the purpose of originating and acquiring life settlement contracts. Using the equity method, we recognized a loss of \$470,000 during the year ended December 31, 2013, which was recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statement of income. Our investment in LCF was \$1.5 million at December 31, 2013 and is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method. On June 19, 2012, we entered into a joint venture with Värde Investment Partners, LP acting as lender, to purchase two condominium developments. We purchased a 7.5% equity interest in the venture. RREM, was appointed as the asset manager of the venture to perform lease review and approval, debt service collection, loan workout, foreclosure, disposition and permitting, as applicable. RREM is also responsible for engaging third parties to perform day-to-day

property management, property leasing, rent collection, maintenance, and capital improvements. RREM receives an annual asset management fee equal to 1% of outstanding contributions. For the years ended December 31, 2013 and 2012, we paid RREM management fees of \$38,000 and \$39,000, respectively. For the years ended December 31, 2013 and 2012, we recorded income of \$148,000 and losses of \$135,000, respectively, which were recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statement of income. The investment balance of \$674,000 and \$526,000 at December 31, 2013 and 2012, respectively, is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method.

On November 16, 2011, we, together with LEAF Financial and LCC, a commercial finance company specializing in equipment leasing formed in January 2011, each of which is a subsidiary of Resource America, entered into a SPA with Eos Partners, L.P., or Eos, a private investment firm, and its affiliates Eos. Our resulting interest is accounted for under the equity method. We recorded losses of \$183,000 and \$3.3 million for the years ended December 31, 2013 and 2012, respectively, which was recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statement of income. No such loss was recorded at December 31, 2011. Our investment in LCC was valued at \$41.0 million and \$33.1 million as of December 31, 2013 and 2012, respectively, and is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method.

On December 1, 2009, we purchased a membership interest in RRE VIP Borrower, LLC (an unconsolidated VIE that holds our interests in a real estate joint venture) from Resource America at book value. RREM, an affiliate of Resource America, acts as asset manager of the venture and receives a monthly asset management fee equal to 1% of the combined investment calculated as of the last calendar day of the month. For the years ended December 31, 2013, 2012 and 2011, we paid RREM management fees of \$28,000, \$45,000 and \$55,000 respectively. For the years ended December 31, 2013, 2012 and 2011, we recorded income of \$278,000, \$683,000 and \$112,000, respectively, which was recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statement of income. The investment balance of zero and \$2.3 million at December 31, 2013 and 2012, respectively, is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method.

We have a 100% interest valued at \$1.5 million in the common shares (3% of the total equity) in two trusts, RCT I and RCT II. We record our investments in RCT I and RCT II's common shares of \$774,000 each as investments in unconsolidated trusts using the cost method and record dividend income upon declaration by RCT I and RCT II. For the years ended December 31, 2013, 2012, and 2011, we recognized \$2.4 million, \$2.5 million and \$3.3 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included \$191,000, \$183,000 and \$277,000, respectively, of amortization of deferred debt issuance costs.

Financing Receivables

The following tables show the allowance for loan losses and recorded investments in loans for the years indicated (in thousands):

	Commercial Real Estate Loans	Bank Loans	Residential Mortgage Loans	Loans Receivable-Related Party	Total
December 31, 2013:					
Allowance for Loan Losses:					
Allowance for losses at January 1, 2013	\$7,986	\$9,705	\$—	\$ —	\$17,691
Provision for loan loss	2,686	334	—	—	3,020
Loans charged-off	(256)	(6,648)	—	—	(6,904)
Allowance for losses at December 31, 2013	\$10,416	\$3,391	\$—	\$ —	\$13,807
Ending balance:					
Individually evaluated for impairment	\$4,572	\$2,621	\$—	\$ —	\$7,193
Collectively evaluated for impairment	\$5,844	\$770	\$—	\$ —	\$6,614
Loans acquired with deteriorated credit quality	\$—	\$—	\$—	\$ —	\$—
Loans:					
Ending balance:					
Individually evaluated for impairment	\$194,403	\$3,554	\$—	\$ 6,966	\$204,923
Collectively evaluated for impairment	\$631,908	\$548,219	\$16,915	\$ —	\$1,197,042
Loans acquired with deteriorated credit quality	\$—	\$—	\$—	\$ —	\$—
December 31, 2012:					
Allowance for Loan Losses:					
Allowance for losses at January 1, 2012	\$24,221	\$3,297	\$—	\$ —	\$27,518
Provision for loan loss	5,225	11,593	—	—	16,818
Loans charged-off	(21,460)	(5,185)	—	—	(26,645)
Allowance for losses at December 31, 2012	\$7,986	\$9,705	\$—	\$ —	\$17,691
Ending balance:					
Individually evaluated for impairment	\$2,142	\$3,236	\$—	\$ —	\$5,378
Collectively evaluated for impairment	\$5,844	\$6,469	\$—	\$ —	\$12,313
Loans acquired with deteriorated credit quality	\$—	\$—	\$—	\$ —	\$—
Loans:					
Ending balance:					
Individually evaluated for impairment	\$177,055	\$4,689	\$—	\$ 8,324	\$190,068
Collectively evaluated for impairment	\$489,996	\$1,187,874	\$—	\$ —	\$1,677,870
Loans acquired with deteriorated credit quality	\$—	\$751	\$—	\$ —	\$751

Credit quality indicators

Bank Loans

We use a risk grading matrix to assign grades to bank loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-5 with 1 representing our highest rating and 5 representing our lowest rating. We consider such things as performance of the underlying company, liquidity, collectability of interest, enterprise valuation, default probability, ratings from rating agencies, and industry dynamics.

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Credit risk profiles of bank loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Held for Sale	Total
As of December 31, 2013:							
Bank loans	\$477,754	\$42,476	\$18,806	\$2,333	\$3,554	\$6,850	\$551,773
As of December 31, 2012:							
Bank loans	\$1,095,148	\$33,677	\$27,837	\$16,318	\$5,440	\$14,894	\$1,193,314

All of our bank loans are performing with the exception of three loans with an amortized cost of \$3.6 million as of December 31, 2013, one of which defaulted in 2012, one of which defaulted as of March 31, 2013 and one of which defaulted as of June 30, 2013. As of December 31, 2012, all of our bank loans were performing with the exception of five loans with an amortized cost of \$5.4 million, one of which defaulted as of December 31, 2012, three of which defaulted as of March 31, 2012, (including a loan acquired with deteriorated credit quality as a result of the acquisition of Whitney CLO I) and one of which defaulted as of December 31, 2011.

Commercial Real Estate Loans

We use a risk grading matrix to assign grades to commercial real estate loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-4 with 1 representing our highest rating and 4 representing our lowest rating. We designate loans that are sold after the period end at the lower of our fair market value or cost, net of any allowances and costs associated with the loan sales. In addition to the underlying performance of the loan collateral, we consider such things as the strength of underlying sponsorship, payment history, collectability of interest, structural credit enhancements, market trends and loan terms in grading our commercial real estate loans.

Credit risk profiles of commercial real estate loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Held for Sale	Total
As of December 31, 2013:						
Whole loans	\$680,718	\$32,500	\$32,571	\$—	\$—	\$745,789
B notes	16,205	—	—	—	—	16,205
Mezzanine loans	51,862	12,455	—	—	—	64,317
	\$748,785	\$44,955	\$32,571	\$—	\$—	\$826,311
As of December 31, 2012:						
Whole loans	\$427,456	\$—	\$106,482	\$—	\$34,000	\$567,938
B notes	16,327	—	—	—	—	16,327
Mezzanine loans	38,296	—	44,490	—	—	82,786
	\$482,079	\$—	\$150,972	\$—	\$34,000	\$667,051

All of our commercial real estate loans were performing as of December 31, 2013 and 2012.

Residential Mortgage Loans

Residential mortgage loans are reviewed periodically for collectability in light of historical experience, the nature and amount of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing underlying conditions. The Company also designates loans that are sold after the period end as held for sale at the lower of their fair market value or cost.

Loan Portfolios Aging Analysis

The following table shows the loan portfolio aging analysis for the years indicated at cost basis (in thousands):

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
December 31, 2013:							
Whole loans	\$—	\$—	\$—	\$—	\$745,789	\$745,789	\$—
B notes	—	—	—	—	16,205	16,205	—
Mezzanine loans	—	—	—	—	64,317	64,317	—
Bank loans	—	—	3,554	3,554	548,219	551,773	—
Residential mortgage loans	234	91	268	593	16,322	16,915	—
Loans receivable- related party	—	—	—	—	6,966	6,966	—
Total loans	\$234	\$91	\$3,822	\$4,147	\$1,397,818	\$1,401,965	\$—
December 31, 2012:							
Whole loans	\$—	\$—	\$—	\$—			