Great Ajax Corp.
Form 10-Q
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from ___________________ to ___________________

001-36844

(Commission file number)

GREAT AJAX CORP.

(Exact name of registrant as specified in its charter)

Maryland	47-1271842
State or other jurisdiction	**(I.R.S. Employer**
of incorporation or organization	**Identification No.)**
9400 SW Beaverton-Hillsdale Hwy, Suite 131 Beaverton, OR 97005 **(Address of principal executive offices)**	97005 **(Zip Code)**

503-505-5670

Registrant's telephone number, including area code

Indicate by check mark whether the Registrant (1) has filed all reports 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 report(s), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, 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 x No ¨

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. x

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

As of August 1, 2017, 18,248,304 of the Registrant’s common stock, par value $0.01 per share, were outstanding which includes 624,106 operating partnership units that are exchangeable on a one-for-one basis into shares of the registrant’s common stock.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Interim Financial Statements

GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 42,040	$ 35,723
Cash held in trust	29	1,185
Mortgage loans[1]	1,044,745	869,091
Property held-for-sale, net	28,278	23,882
Rental property, net	1,969	1,289
Investment in debt securities	6,303	6,323
Receivable from servicer	16,067	12,481
Investment in affiliates	1,862	4,253
Prepaid expenses and other assets	4,829	3,175
Total assets	$ 1,146,122	$ 957,402
LIABILITIES AND EQUITY		
Liabilities:		
Secured borrowings, net[1,2]	$ 522,706	$ 442,670
Borrowings under repurchase agreement	245,526	227,440
Convertible senior notes, net[2]	82,083	-
Management fee payable	750	750
Accrued expenses and other liabilities	2,697	3,819
Total liabilities	853,762	674,679
Commitments and contingencies- see Note 7		
Equity:		
Preferred stock $0.01 par value; 25,000,000 shares authorized, none issued or outstanding	-	-
Common stock $0.01 par value; 125,000,000 shares authorized, 18,169,424 shares at June 30, 2017 and 18,122,387 shares at December 31, 2016 issued and	182	181

outstanding		
Additional paid-in capital	248,803	244,880
Retained earnings	32,880	27,231
Accumulated other comprehensive loss	(131)	-
Equity attributable to common stockholders	281,734	272,292
Non-controlling interests	10,626	10,431
Total equity	292,360	282,723
Total liabilities and equity	$ 1,146,122	$ 957,402

(1) Mortgage loans include $699,566 and $598,643 of loans at June 30, 2017 and December 31, 2016, respectively, transferred to securitization trusts that are variable interest entities (“VIEs”); these loans can only be used to settle obligations of the VIEs. Secured borrowings consist of notes issued by VIEs that can only be settled with the assets and cash flows of the VIEs. The creditors do not have recourse to the primary beneficiary (Great Ajax Corp.). See Note 8—Debt.

(2) Secured borrowings and Convertible senior notes are presented net of deferred issuance costs.

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except per share data)

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
INCOME				
Loan interest income	$21,721	$16,378	$42,528	$32,258
Interest expense	(9,293)	(6,063)	(16,944)	(11,050)
Net interest income	12,428	10,315	25,584	21,208
Income from investment in Manager	142	46	191	90
Other income	535	482	997	1,001
Total income	13,105	10,843	26,772	22,299
EXPENSE				
Related party expense – loan servicing fees	1,935	1,410	3,817	2,786
Related party expense – management fees	1,330	937	2,403	1,843
Loan transaction expense	442	574	967	787
Professional fees	507	407	987	821
Real estate operating expenses	637	268	961	475
Other expense	886	360	1,570	740
Total expense	5,737	3,956	10,705	7,452
Loss on debt extinguishment	218	-	218	-
Income before provision for income taxes	7,150	6,887	15,849	14,847
Provision for income taxes	48	26	49	23
Consolidated net income	7,102	6,861	15,800	14,824
Less: consolidated net income attributable to the non-controlling interest	238	256	527	568
Consolidated net income attributable to common stockholders	$6,864	$6,605	$15,273	$14,256
Basic earnings per common share	$0.38	$0.42	$0.84	$0.92
Diluted earnings per common share	$0.36	$0.42	$0.82	$0.92
Weighted average shares – basic	18,008,499	15,742,932	17,992,692	15,524,725

Weighted average shares – diluted	23,026,679	16,389,126	20,921,070	16,174,164

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Consolidated net income attributable to common stockholders	$ 6,864	$ 6,605	$ 15,273	$ 14,256
Other comprehensive income:				
Net unrealized gain/(loss) on investment, net of non-controlling interest	9	-	(131)	-
Comprehensive income	$ 6,873	$ 6,605	$ 15,142	$ 14,256

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Six months ended	
	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$15,800	$ 14,824
Adjustments to reconcile consolidated net income to net cash from operating activities		
Stock-based management fee and compensation expense	1,331	514
Non-cash interest income accretion	(20,893)	(20,711)
Discount accretion on investment in debt securities	(111)	-
Gain on sale of property	(222)	(1,086)
Non-cash loan charges	26	-
Depreciation of property	32	11
Impairment of real estate owned	909	200
Amortization of prepaid financing costs	2,706	2,889
Net change in operating assets and liabilities		
Prepaid expenses and other assets	(1,981)	(521)
Receivable from servicer	(3,749)	(1,505)
Undistributed income from investment in affiliates	(385)	(259)
Accrued expenses, management fee payable, and other liabilities	(981)	1,693
Net cash used in operating activities	(7,518)	(3,951)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of mortgage loans and related balances	(217,444)	(89,328)
Principal paydowns on mortgage loans	48,401	23,595
Proceeds from sale of property held-for-sale	8,449	5,220
Investment in equity method investee	-	(1,111)
Distribution from affiliates	2,776	95
Renovations of rental property and property held-for-sale	-	(478)
Net cash used in investing activities	(157,818)	(62,007)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from repurchase transactions	66,806	71,086
Repayments on repurchase transactions	(48,861)	(73,379)
Proceeds from sale of secured notes	140,669	101,431
Repayments on secured notes	(60,748)	(19,421)
Proceeds from sale of convertible senior notes	84,866	-
Deferred financing costs	(2,352)	-

Sale of common stock, net of offering costs	-	31,964
Sale of common stock pursuant to dividend reinvestment plan	73	-
Distribution to non-controlling interest	(332)	(305)
Dividends paid on common stock	(9,624)	(7,511)
Net cash provided by financing activities	170,497	103,865
NET CHANGE IN CASH AND CASH EQUIVALENTS AND CASH HELD IN TRUST	5,161	37,907
CASH AND CASH EQUIVALENTS AND CASH HELD IN TRUST, beginning of period	36,908	30,834
CASH AND CASH EQUIVALENTS AND CASH HELD IN TRUST, end of period	$42,069	$ 68,741
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$15,548	$ 7,952
Cash paid for income taxes	$-	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of loans to rental property or property held-for-sale	$14,300	$ 10,930
Issuance of common stock for management and director fees	$1,331	$ 514
Transfer of property held-for-sale to loans	$56	$ 143
Convertible senior notes conversion premium transferred to Equity	$2,520	$ -
Transfer of accrued interest to Borrowings under repurchase agreement	$141	$ -

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(Dollars in thousands except share data)

	Common stock shares	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Stockholders' equity	Non-controlling interest	Total equity
Balance at December 31, 2015	15,301,946	$ 152	$ 211,729	$ 15,921	-	$ 227,802	$ 10,011	$ 237,813
Net income	-	-	-	14,256	-	14,256	568	14,824
Issuance of shares	2,589,427	27	31,937	-	-	31,964	-	31,964
Stock-based management fee expense	29,826	-	462	-	-	462	-	462
Stock-based compensation expense	3,324	-	52	-	-	52	-	52
Dividends and distributions	-	-	-	(7,511)	-	(7,511)	(305)	(7,816)
Balance at June 30, 2016	17,924,523	$ 179	$ 244,180	$ 22,666	-	$ 267,025	$ 10,274	$ 277,299
Balance at December 31, 2016	18,122,387	$ 181	$ 244,880	$ 27,231	-	$ 272,292	$ 10,431	$ 282,723
Net income	-	-	-	15,273	-	15,273	527	15,800
Issuance of shares	5,494	-	73	-	-	73	-	73
Stock-based management fee expense	41,427	1	902	-	-	903	-	903
Stock-based compensation expense	116	-	428	-	-	428	-	428
Dividends and distributions	-	-	-	(9,624)	-	(9,624)	(332)	(9,956)
Conversion premium – Convertible senior notes	-	-	2,520	-	-	2,520	-	2,520

Accumulated other comprehensive loss	-	-	-	-	(131)	(131)	-	(131)
Balance at June 30, 2017	18,169,424	$ 182	$ 248,803	$ 32,880	$ (131)	$ 281,734	$ 10,626	$ 292,360

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIESNOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2017

(Unaudited)

Note 1 — Organization and basis of presentation

Great Ajax Corp., a Maryland corporation (the “Company”), is an externally managed real estate company formed on January 30, 2014, and capitalized on March 28, 2014, by its then sole stockholder, Aspen Yo, a company affiliated with Aspen Capital, the trade name for the Aspen group of companies. The Company was formed to facilitate capital raising activities and to operate as a mortgage real estate investment trust (“REIT”). The Company primarily targets acquisitions of re-performing loans (“RPLs”) including residential mortgage loans and small balance commercial mortgage loans (“SBC loans”) and originations of SBC loans. RPLs are mortgage loans on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. The SBC loans that the Company intends to opportunistically target, through acquisitions, or originations, generally have a principal balance of up to $5 million and are secured by multi-family residential and commercial mixed use retail/residential properties on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. Additionally, the Company may invest in single-family and smaller commercial properties directly either through a foreclosure event of a loan in our mortgage portfolio or, less frequently, through a direct acquisition. Historically, the Company has also targeted investments in non-performing loans (“NPL”). NPLs are loans on which the most recent three payments have not been made. While the Company may acquire NPLs from time to time and continues to manage the NPLs on its consolidated Balance Sheet, this asset class is no longer a strategic acquisition target. The Company’s manager is Thetis Asset Management LLC (the “Manager” or “Thetis”), an affiliated company. The Company owns 19.8% of the Manager. The Company’s mortgage loans and real properties are serviced by Gregory Funding LLC (“Gregory” or the “Servicer”), also an affiliated company. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”).

The Company conducts substantially all of its business through its operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership (the “Operating Partnership”), and its subsidiaries. The Company, through a wholly owned subsidiary, is the sole general partner of the Operating Partnership. GA-TRS is a wholly owned subsidiary of the Operating Partnership that owns the equity interest in the Manager. The Company elected to treat GA-TRS as a taxable REIT subsidiary (“TRS”) under the Code. Great Ajax Funding LLC is a wholly owned subsidiary of the Operating Partnership formed to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts the Company may form for additional securitizations. The Company generally securitizes its mortgage loans and retains subordinated securities from the securitizations. AJX Mortgage Trust I and AJX Mortgage Trust II are wholly owned subsidiaries of the Operating Partnership formed to hold mortgage loans used as collateral for financings under the Company’s repurchase agreements. In addition, the Company, through its Operating Partnership, holds real estate owned properties ("REO") acquired upon the foreclosure or other settlement of its owned NPLs, as well as through outright purchases. GAJX Real Estate LLC is a wholly owned subsidiary of the Operating Partnership formed to own, maintain, improve and sell REO properties purchased by the Company. The Company has elected to treat GAJX Real Estate LLC as a TRS under the Code.

Basis of presentation and use of estimates

These consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto for the period ended December 31, 2016, included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 2, 2017.

Interim financial statements are unaudited and prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim period presented, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2017. The consolidated interim financial statements have been prepared in accordance with U.S. GAAP, as contained within the Accounting Standards Codification ("ASC") of the Financial Accounting Standards Board ("FASB") and the rules and regulations of the SEC, as applied to interim financial statements.

All controlled subsidiaries are included in the consolidated financial statements and all intercompany accounts and transactions have been eliminated in consolidation. The Operating Partnership is a majority owned partnership that has a non-controlling ownership interest that is included in non-controlling interests on the consolidated Balance Sheet. As of June 30, 2017, the Company owned 96.7% of the outstanding operating partnership units ("OP Units") and the remaining 3.3% of the OP Units are owned by an unaffiliated holder.

The Company's 19.8% investment in the Manager is accounted for using the equity method because the Company exercises significant influence on the operations of the Manager through common officers and directors. There is no traded or quoted price for the interests in the Manager since it is privately held.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company considers significant estimates to include expected cash flows from mortgage loans and fair value measurements, and the net realizable value of REO properties held-for-sale.

Note 2 — Summary of significant accounting policies

Mortgage loans

Purchased mortgage loans are initially recorded at the purchase price, net of any acquisition fees or costs at the time of acquisition and are considered asset acquisitions. As part of the determination of the bid price for mortgage loans, the Company uses a proprietary discounted cash flow valuation model to project expected cash flows, and consider alternate loan resolution probabilities, including liquidation or conversion to REO. Observable inputs to the model include interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines, the value of underlying properties and other economic and demographic data.

Loans acquired with deterioration in credit quality

The loans acquired by the Company have generally suffered some credit deterioration subsequent to origination. As a result, the Company is required to account for the mortgage loans pursuant to ASC 310-30, *Accounting for Loans with Deterioration in Credit Quality*. The Company's recognition of interest income for loans within the scope of ASC 310-30 is based upon its having a reasonable expectation of the amount and timing of the cash flows expected to be collected. When the timing and amount of cash flows expected to be collected are reasonably estimable, the Company uses expected cash flows to apply the interest method of income recognition.

Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. RPLs have been determined to have common risk characteristics and are accounted for as a single loan pool for loans acquired within each three-month calendar quarter. Similarly, NPLs have been determined to have common risk characteristics and are accounted for as a single non-performing pool for loans acquired within each three-month calendar quarter. Excluded from the aggregate pools are loans that pay in full subsequent to the acquisition closing date but prior to pooling. Any gain on these loans is recognized as Interest income in the period the loan pays in full.

The Company's accounting for loans under ASC 310-30 gives rise to an accretable yield and a non-accretable amount. The excess of all undiscounted cash flows expected to be collected at acquisition over the initial investment in the loans is the accretable yield. Cash flows expected at acquisition include all cash flows directly related to the acquired loan, including those expected from the underlying collateral. The Company recognizes the accretable yield as Interest income on a prospective level yield basis over the life of the pool. The excess of a loan's contractually required payments over the amount of cash flows expected at the acquisition is the non-accretable amount. The Company's expectation of the amount of undiscounted cash flows expected to be collected is evaluated at the end of each calendar quarter. If the Company expects to collect greater cash flows over the life of the pool, the accretable yield amount increases and the expected yield to maturity is adjusted on a prospective basis. A provision for loan losses may be established when it is probable the Company will not collect all amounts previously estimated to be collectible. Management assesses the credit quality of the portfolio and the adequacy of loan loss reserves on a quarterly basis, or more frequently as necessary. Significant judgment is required in this analysis. Depending on the expected recovery of its investment, the Company considers the estimated net recoverable value of the loan pools as well as other factors, such as the fair value of the underlying collateral. When a loan pool is determined to be impaired, the amount of loss accrual is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan pool's effective interest rate or the fair value of the underlying collateral. Because these determinations are based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized may differ materially from the carrying value as of the reporting date.

Borrower payments on the Company's mortgage loans are classified as principal, interest, payments of fees, or escrow deposits. Amounts applied as interest on the borrower account are similarly classified as interest for accounting purposes and are classified as operating cash flows in the Company's consolidated Statement of Cash Flows. Amounts applied as principal on the borrower account are similarly classified as principal for accounting purposes and are classified as investing cash flows in the consolidated Statement of Cash Flows. Amounts received as payments of fees are recorded in Other income and classified as operating cash flows in the consolidated Statement of Cash Flows. Escrow deposits are recorded on the Servicer's Balance Sheet and do not impact the Company's cash flow.

Loans acquired or originated that have not experienced a deterioration in credit quality

While the Company generally acquires loans that have experienced deterioration in credit quality, it does acquire or originate loans that have not experienced a deterioration in credit quality. The Company recognizes any related loan discount and deferred expenses pursuant to ASC 310-20 by amortizing these amounts over the life of the loan.

Accrual of interest on individual loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Company's policy is to stop accruing interest when a loan's delinquency exceeds 90 days. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged-off are reversed against Interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic principal and interest payments returns and future payments are reasonably assured, in which case the loan is returned to accrual status.

An individual loan is considered to be impaired when, based on current events and conditions, it is probable the Company will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s market price, or the fair value of the collateral if the loan is collateral dependent. For individual loans, a troubled debt restructuring is a formal restructuring of a loan where, for economic or legal reasons related to the borrower’s financial difficulties, a concession that would not otherwise be considered is granted to the borrower. The concession may be granted in various forms, including providing a below-market interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a combination of these. An individual loan that has had a troubled debt restructuring is considered to be impaired and is subject to the relevant accounting for impaired loans. Loans are tested quarterly for impairment and impairment reserves are recorded to the extent the net realizable value of the underlying collateral falls below net book value.

If necessary, an allowance for loan losses is established through a provision for loan losses charged to expenses. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans.

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Real estate

The Company acquires REO properties when it forecloses on the borrower and takes title to the underlying property or the borrower surrenders the deed in lieu of foreclosure. Property is recorded at cost if purchased, or at the present value of future cash flows if obtained through foreclosure by the Company. Property that the Company expects to actively market for sale is classified as held-for-sale. Property held-for-sale is carried at the lower of its acquisition basis or, net realizable value (fair market value less expected selling costs). Fair market value is determined based on appraisals, broker price opinions ("BPOs"), or other market indicators of fair value including list price or contract price. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income. No depreciation or amortization expense is recognized on properties held-for-sale, while holding costs are expensed as incurred.

Rental property is property not held-for-sale. Rental properties are intended to be held as long-term investments but may eventually be held-for-sale. Property is held for investment as rental property if the cash flows from use as a rental exceed the present value of expected cash flows from a sale. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets of three to 27.5 years. The Company performs an impairment analysis for all rental property using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. The cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

Renovations are performed by the Servicer, and those costs are then reimbursed to the Servicer. Any renovations on properties which the Company elects to hold as rental properties are capitalized as part of the property's basis and depreciated over the remaining estimated useful life of the property. The Company may perform property renovations to maximize the value of a property for either its rental strategy or for resale.

Secured borrowings

The Company, through securitization trusts, issues callable debt secured by its mortgage loans in the ordinary course of business. The secured borrowings are structured as debt financings, and the loans remain on the Company's consolidated Balance Sheet as the Company is the primary beneficiary of the securitization trusts which are variable interest entities ("VIEs"). These secured borrowing VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. The Company's exposure to the obligations of the VIEs is generally limited to its investments in the entities; the creditors do not have recourse to the primary beneficiary. Coupon interest on the debt is recognized using the accrual method of accounting.

Deferred issuance costs, including original issue discount and debt issuance costs, are carried on the Company's consolidated Balance Sheets as a deduction from Secured borrowings, and are amortized on an effective yield basis based on the underlying cash flow of the mortgage loans. The Company assumes the debt will be called at the specified call date for purposes of amortizing discount and issuance costs because the Company believes it will have the intent and ability to call the debt on the call date. Changes in the actual or projected underlying cash flows are reflected in the timing and amount of deferred issuance cost amortization.

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Repurchase facilities

The Company enters into repurchase financing facilities under which it nominally sells assets to a counterparty and simultaneously enters into an agreement to repurchase the sold assets at a price equal to the sold amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, repurchase transactions are generally accounted for as debt secured by the underlying assets. At the maturity of a repurchase financing, unless the repurchase financing is renewed, the Company is required to repay the borrowing including any accrued interest and concurrently receives back its pledged collateral from the lender. The repurchase financings are treated as collateralized financing transactions; pledged assets are recorded as assets in the Company’s consolidated Balance Sheets, and debt is recognized at the contractual amount. Interest is recorded at the contractual amount on an accrual basis. Costs associated with the set-up of a repurchasing contract are recorded as deferred issuance cost at inception and amortized over the contractual life of the agreement. Any draw fees associated with individual transactions and any facility fees assessed on the amounts outstanding are recorded as deferred costs when incurred and amortized over the contractual life of the related borrowing.

Convertible senior notes

On April 25, 2017, the Company completed the public offer and sale of $87.5 million aggregate principal amount of its Convertible senior notes (the “notes”) due 2024. The notes bear interest at a rate of 7.25% per annum, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, beginning on July 15, 2017. The notes will mature on April 30, 2024, unless earlier converted, redeemed or repurchased. During certain periods and subject to certain conditions the notes will be convertible by their holders into shares of the Company’s common stock at an initial conversion rate of 1.6267 shares of common stock per $25.00 principal amount of the notes, which represents an initial conversion price of approximately $15.37 per share of common stock.

Coupon interest on the notes is recognized using the accrual method of accounting. Discount and deferred issuance costs are carried on the Company’s consolidated Balance Sheets as a deduction from the notes, and are amortized to interest expense on an effective yield basis through April 30, 2023, the date at which the notes can be converted. The Company assumes the debt will be converted at the specified conversion date for purposes of amortizing issuance costs because the Company believes such conversion will be in the economic interest of the holders. Discount of $2.5 million, representing the value of the embedded conversion feature, was recorded to stockholders’ equity. No sinking fund has been established for redemption of the principal.

Management fee and expense reimbursement

The Company entered into an amended and restated management agreement with the Manager on October 27, 2015, which had an initial 15-year term (the "Management Agreement"). Under the Management Agreement, the Manager implements the Company's business strategy and manages the Company's business and investment activities and day-to-day operations, subject to oversight by the Company's Board of Directors. Among other services, the Manager, directly or through Aspen Yo LLC ("Aspen") affiliates, provides the Company with a management team and necessary administrative and support personnel. The Company does not currently have any employees that it pays directly and does not expect to have any employees that it pays directly in the foreseeable future. Each of the Company's executive officers is an employee or officer, or both, of the Manager or the Servicer.

Under the Management agreement, the Company pays a quarterly base management fee based on its stockholders' equity and equity equivalents, including the balance due on its Convertible senior notes, and a quarterly incentive management fee based on its cash distributions, if paid out of taxable income in excess of certain thresholds, to its stockholders. Management fees are expensed in the quarter incurred and the portion payable in common stock is included in consolidated Stockholders' equity at quarter end. See Note 9 — Related party transactions.

Servicing fees

On July 8, 2014, the Company entered into a 15-year Servicing Agreement (the "Servicing Agreement") with the Servicer. Under the Servicing Agreement by and between the Company and the Servicer, the Servicer receives servicing fees of 0.65% annually of the Unpaid Principal Balance ("UPB") for loans that are re-performing at acquisition and 1.25% annually of UPB for loans that are non-performing at acquisition. Servicing fees are paid monthly. The total fees incurred by the Company for these services depend upon the UPB and type of mortgage loans that the Servicer services pursuant to the terms of the servicing agreement. The fees do not change if a re-performing loan becomes non-performing or vice versa. Servicing fees for the Company's real property assets are the greater of (i) the servicing fee applicable to the underlying mortgage loan prior to foreclosure, or (ii) 1.00% annually of the fair market value of the REO as reasonably determined by the Manager or 1.00% annually of the purchase price of any REO otherwise purchased by the Company. The Servicer is reimbursed for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations undertaken on the Company's behalf. The total fees incurred by the Company for these services will be dependent upon the UPB and type of mortgage loans that the Servicer services, property values, previous UPB of the relevant loan, and the number of REO properties. The Servicing Agreement will automatically renew for successive one-year terms, subject to prior written notice of non-renewal. In certain cases, the Company may be obligated to pay a termination fee. The Management Agreement will automatically terminate at the same time as the Servicing Agreement if the Servicing Agreement is terminated for any reason. See Note 9 — Related party transactions.

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Stock-based payments

A portion of the management fee is payable in cash, and a portion of the management fee in shares of the Company's common stock, which are issued to the Manager in a private placement and are restricted securities under the Securities Act of 1933, as amended (the "Securities Act"). Shares issued to the Manager are determined based on the higher of the most recently reported book value or the average of the closing prices of our common stock on the New York Stock Exchange ("NYSE") on the five business days after the date on which the most recent regular quarterly dividend to holders of our common stock is paid. Management fees paid in common stock are recognized as an expense in the quarter incurred and recorded in equity at quarter end.

Under the Company's 2014 Director Equity Plan (the "Director Plan"), the Company may make stock-based awards to its directors. The Director Plan is designed to promote the Company's interests by attracting and retaining qualified and experienced individuals for service as non-employee directors. The Director Plan is administered by the Company's Board of Directors. The total number of shares of common stock or other stock-based award, including grants of long-term incentive plan units ("LTIP Units") from the Operating Partnership, available for issuance under the Director Plan is 90,000 shares. The Company has issued to each of its independent directors restricted stock awards of 2,000 shares of its common stock upon joining the Board of Directors, which are subject to a one-year vesting period. In addition, each of the Company's independent directors receives an annual fee of $75,000, an increase of $25,000 over the annual fee paid to the Company's independent directors through December 31, 2016. The fee is payable quarterly, half in shares of the Company's common stock and half in cash. Stock-based expense for the directors' annual fee is expensed as earned, in equal quarterly amounts during the year, and recorded in equity at quarter end.

On June 7, 2016, the Company's stockholders approved the 2016 Equity Incentive Plan (the "2016 Plan") to attract and retain non-employee directors, executive officers, key employees and service providers, including officers and employees of the Company's affiliates. The 2016 Plan authorized the issuance of up to 5% of the Company's outstanding shares from time to time on a fully diluted basis (assuming, if applicable, the exercise of all outstanding options and the conversion of all warrants and Convertible senior notes, including OP Units and LTIP Units, into shares of common stock). Grants of restricted stock to officers of the Company use grant date fair value of the stock as the basis for measuring the cost of the grant. The cost of grants of restricted stock to employees of the Company's affiliates is determined using the stock price as of the date at which the counterparty's performance is complete. Forfeitures are accounted for in the period in which they occur. The shares vest over three years, with one third of the shares vesting on each of the first, second and third anniversaries of the grant date. The shares may not be sold until the third anniversary of the grant date.

Directors' fees

The expense related to directors' fees is accrued, and the portion payable in common stock is reflected in consolidated Stockholders' equity in the period in which it is incurred.

Variable interest entities

In the normal course of business, the Company enters into various types of transactions with special purpose entities, which have primarily consisted of trusts established for the Company's secured borrowings (See "Secured Borrowings" above and Note 8 to the consolidated Financial Statements). Additionally, from time to time, the Company may enter into joint ventures with unrelated entities. The Company evaluates each transaction and its resulting beneficial interest to determine if the entity formed pursuant to the transaction should be classified as a VIE. If an entity created in a transaction meets the definition of a VIE and the Company determines that it or a consolidated subsidiary is the primary beneficiary, the Company will include the entity in its consolidated financial statements.

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Cash and cash equivalents

Highly liquid investments with an original maturity of three months or less when purchased are considered cash equivalents. The Company generally maintains cash and cash equivalents at insured banking institutions with minimum assets of $1 billion. Certain account balances exceed Federal Deposit Insurance Corporation (“FDIC”) insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

Cash held in trust

Cash held in trust consists of restricted cash balances legally due to lenders, and is segregated from the Company’s other cash deposits. Cash held in trust is not available to the Company for any purposes other than the settlement of existing obligations to the lender.

Earnings per share

The Company grants restricted shares which entitle the recipients to receive dividend equivalents during the vesting period on a basis equivalent to the dividends paid to holders of common shares. Unvested share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, “dividends”) are classified as “participating securities” and are included in the basic earnings per share calculation using the two-class method.

Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities, based on their respective rights to receive dividends. Basic earnings per share is determined by dividing net income available to common shareholders, reduced by income attributable to the participating securities, by the weighted-average common shares outstanding during the period.

Diluted earnings per share is determined by dividing net income attributable to diluted shareholders, which adds back to net income the interest expense, net of applicable income taxes, on the Company’s Convertible senior notes, by the weighted-average common shares outstanding, assuming all dilutive securities, including stock grants, shares that would be issued in the event that OP Units are redeemed for shares of common stock of the Company, shares issued in respect of the stock-based portion of the base fee payable to the Manager and independent directors, and shares that would be issued in the event of conversion of the Company's outstanding Convertible senior notes, were issued. In the event the Company were to record a loss, potentially dilutive securities would be excluded from the diluted loss per share calculation, as their effect on loss per share would be anti-dilutive.

Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- **Level 1** — Quoted prices in active markets for identical assets or liabilities.
- **Level 2** — Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3** — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

The fair value of mortgage loans is estimated using the Manager’s proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The Company reviews its discount rates periodically to ensure the assumptions used to calculate fair value are in line with market conditions.

The Commpany’s Investment in debt securities is considered to be available for sale, and is carried at fair value with changes in fair value reflected in the Company’s consolidated Statements of Comprehensive Income.

The Company calculates the fair value for the secured borrowings on its consolidated Balance Sheets from securitization trusts by using the Company’s proprietary pricing model to estimate the cash flows expected to be generated from the underlying collateral with the discount rate used in the present value calculation representing an estimate of the average rate for debt instruments with similar durations and risk factors.

The Company’s Convertible senior notes are traded on the New York Stock Exchange; the debt’s fair value is determined from the closing price on the Balance Sheet date.

Property held-for-sale is carried at the lower of its acquisition basis or, net realizable value (fair market value less expected selling costs). Fair market value is determined based on appraisals, broker price opinions, or other market indicators of fair value. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income.

Income taxes

The Company elected REIT status upon the filing of its 2014 income tax return, and has conducted its operations in order to satisfy and maintain eligibility for REIT status. Accordingly, the Company does not believe it will be subject to U.S. federal income tax from the year ended December 31, 2014 forward on the portion of the Company's REIT taxable income that is distributed to the Company's stockholders as long as certain asset, income and stock ownership tests are met. If the Company fails to qualify as a REIT in any taxable year, it generally will not be permitted to qualify for treatment as a REIT for U.S. federal income tax purposes for the four taxable years following the year during which qualification is lost. In addition, notwithstanding the Company's qualification as a REIT, it may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for U.S. federal income tax purposes.

GA-TRS, GAJX Real Estate LLC, and any other TRS that the Company forms will be subject to U.S. federal and state income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences or benefits attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to the Company's judgment, it reduces a deferred tax asset by a valuation allowance if it is "more-likely-than-not" that some or all of the deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and the Company recognizes tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

The Company evaluates tax positions taken in its consolidated financial statements under the interpretation for accounting for uncertainty in income taxes. As a result of this evaluation, the Company may recognize a tax benefit from an uncertain tax position only if it is "more-likely-than-not" that the tax position will be sustained on examination by taxing authorities.

The Company's tax returns remain subject to examination and consequently, the taxability of the distributions and other tax positions taken by the Company may be subject to change. Distributions to stockholders generally will be taxable as ordinary income, although a portion of such distributions may be designated as long-term capital gain or qualified dividend income, or may constitute a return of capital. The Company furnishes annually to each stockholder a statement setting forth distributions paid during the preceding year and their U.S. federal income tax treatment.

Investment in debt securities

The Company's investment in debt securities consists of a $6.3 million investment in subordinated debt securities issued by a related party trust. The notes have a stated final maturity of October 25, 2056. The notes are considered to be available for sale, and are carried at fair value with changes in fair value reflected in the Company's consolidated Statements of Comprehensive Income.

Segment information

The Company's primary business is acquiring, investing in and managing a portfolio of mortgage loans. The Company operates in a single segment focused on re-performing mortgages, and to a lesser extent non-performing mortgages.

Emerging growth company

Section 107 of the Jumpstart Our Business Startups Act (the "JOBS Act") permits an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. Nonetheless, the Company has elected not to use this extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended.

Reclassifications

Certain amounts in the Company's 2016 consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income or equity.

Recently adopted accounting standards

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures,* which is intended to simplify the transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company adopted ASU 2016-07 in 2017 with no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation*. The guidance primarily simplifies the accounting for employee share-based payment transactions, including a new requirement to record all of the income tax effects at settlement or expiration through the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company elected to early-adopt ASU 2016-09 during year ended December 31, 2016. Accordingly, the Company made an entity-wide accounting policy election to account for forfeitures under its equity incentive plan as they occur. There was no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

In October 2016, the FASB issued ASU No. 2016-17, *Consolidation – Interests Held through Related Parties That Are Under Common Control*. ASU 2016-17 is intended to revise guidance from ASU 2015-02 which, in practice, was leading to reporting of financial information that was not useful to financial statement users. Accordingly, ASU 2016-17 provides guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining if the reporting entity is the primary beneficiary of the VIE. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2016-17 in 2017 with no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

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In March 2017, the FASB issued ASU 2017-08, *Receivables- Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities*. This standard shortens the amortization period for the premium to the earliest call date to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. Adoption of ASU 2017-08 is required for fiscal years and interim periods within those fiscal years, beginning after December, 15, 2018, early adoption is permitted. The Company does not expect the adoption of ASU 2017-08 to have a material impact on its consolidated financial statements. The Company adopted ASU 2016-17 in 2017 with no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

Recently issued accounting standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective or a modified retrospective approach. In August 2015, the FASB issued ASU 2015-14 deferring the effective date for ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company recognizes revenue on its investments in mortgage loans pursuant to ASC Topic 310 which addresses the accounting treatment for various receivables. ASU 2014-09 provides a specific exemption for revenue recognized pursuant to ASC Topic 310. Accordingly, the Company does not expect the implementation of ASU 2014-09 to have a material effect on its financial statements.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments – Credit Losses. The main objective of this guidance is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. To achieve this, the amendments in this guidance replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Specifically, the amendments in this guidance require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted, beginning with fiscal years after December 15, 2018. The Company is currently evaluating the impact on its consolidated financial statements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically the guidance (1) requires equity investments to be measured at fair value with changes in fair value recognized in earnings, (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (4) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option, (6) requires separate presentation of financial assets and liabilities by measurement category and form on the consolidated balance sheets or the notes to the financial statements, and (7) clarifies that the need for a valuation allowance on a deferred tax asset related to an available-for-sale security should be evaluated with other deferred tax assets. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the effect that ASU 2016-15 will have on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation*. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the effect that ASU 2017-09 will have on its consolidated financial statements and related disclosures.

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Note 3 — Mortgage loans

Included on the Company’s consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 are approximately $1,044.7 million and $869.1 million, respectively, of RPLs, NPLs, and originated SBCs at carrying value. RPLs and NPLs are categorized at acquisition. The carrying value of RPLs and NPLs reflects the original investment amount, plus accretion of interest income, less principal and interest cash flows received. Additionally originated SBC loans are carried at originated cost. The carrying value for all loans is decreased by an allowance for loan losses, if any. To date, the Company has not recorded an allowance for losses against its purchased mortgage loan portfolio.

The Company’s mortgage loans are secured by real estate. The Company monitors the credit quality of the mortgage loans in its portfolio on an ongoing basis, principally by considering loan payment activity or delinquency status. In addition, the Company assesses the expected cash flows from the mortgage loans, the fair value of the underlying collateral and other factors, and evaluates whether and when it becomes probable that all amounts contractually due will not be collected.

The following table presents information regarding the accretable yield and non-accretable amount for loans acquired during the following periods. The Company’s loan acquisitions for the three and six months ended June 30, 2017 consisted of 1,218 and 1,242, respectively, purchased re-performing loans with $249.0 million and $252.4 million, respectively, UPB and two and four, respectively, originated SBC loans with $1.7 million and $4.2 million, respectively. Comparatively during the three and six months ended June 30, 2016 the Company acquired 251and 469 RPLs, respectively, for $70.3 million and $119.9 million, respectively, representing 74.2% and 74.5% of UPB, respectively.

No NPLs were acquired in any of the three or six month periods in either 2017 or 2016.

	Three months ended June 30, 2017		Three months ended June 30, 2016	
	Re-performing loans	**Non-performing loans**	**Re-performing loans**	**Non-performing loans**
Contractually required principal and interest	$ 397,912	$ -	$ 120,524	$ -
Non-accretable amount	(127,528)	-	(48,244)	-
Expected cash flows to be collected	270,384	-	72,280	-
Accretable yield	(60,180)	-	(20,152)	-
Fair value at acquisition	$ 210,204	$ -	$ 52,128	$ -

Six months ended June 30, 2017