Resource Capital Corp.
Form 10-K
March 16, 2017

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

FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
o 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	20-2287134
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

712 Fifth 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
8.625% Series C 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 R
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 R
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 R 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 R 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. R

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 þ
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 R 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, 2016) was approximately $375,434,727.

The number of outstanding shares of the registrant’s common stock on March 10, 2017 was 31,398,186 shares.

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FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate", "believe", "could", "estimate", "expects", "intend", "may", "plan", "potential", "project", "should", "will" and "would" or the negative of these terms or other comparable terminology.

Forward-looking statements contained in this report are based on our beliefs, assumptions and expectations regarding our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Forward-looking statements we make in this report are subject to various risks and uncertainties that could cause actual results to vary from our forward-looking statements, including:

- the factors described in this report, including those set forth under the sections captioned "Risk Factors", "Business", and "Management's Discussion and Analysis of Financial Conditions and Results of Operations";
- changes in our industry, interest rates, the debt securities markets, real estate markets or the general economy;
- increased rates of default and/or decreased recovery rates on our investments;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in governmental regulations, tax rates and similar matters;
- changes in our business strategy;
- availability of investment opportunities in commercial real estate-related and commercial finance assets;
- the degree and nature of our competition;
- the adequacy of our cash reserves and working capital; and
- the timing of cash flows, if any, from our investments.

We caution you not to place undue reliance on these forward-looking statements which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events.

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PART I

ITEM I . BUSINESS

General

We are a real estate finance company that is organized and conducts its operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes under Subchapter M of the Internal Revenue Code of 1986, as amended. Our investment strategy focuses primarily on originating, holding and managing commercial mortgage loans and other commercial real estate-related debt investments. We have historically made other residential real estate and commercial finance investments.

Our investment strategy targets the following core asset class:

CRE/Core Asset Class	Principal Investments
Commercial real estate-related assets	First mortgage loans, which we refer to as whole loans; First priority interests in first mortgage loans, which we refer to as A notes; Subordinated interests in first mortgage loans, which we refer to as B notes; Mezzanine debt related to CRE that is senior to the borrower's equity position but subordinated to other third-party debt; Commercial mortgage-backed securities, which we refer to as CMBS; and Commercial real estate, or CRE, primarily multifamily properties.

In November 2016, we received approval from our board of directors to execute a strategic plan, or the Plan, to focus our strategy on CRE debt investments. The Plan contemplates disposing of certain legacy CRE debt investments, exiting underperforming non-core asset classes and establishing a dividend policy based on sustainable earnings. Legacy CRE loans are loans underwritten prior to 2010. The non-core asset classes in which we have historically invested are expected to be substantially disposed of over the next 12 to 24 months and are described in the following table of non-core asset classes:

Non-Core Asset Classes	
Residential real estate-related assets	Residential mortgage loans; and Residential mortgage-backed securities, which we refer to as RMBS, which comprise our available for sale portfolio.
Commercial finance assets	Middle-market secured corporate loans and preferred equity investments; and Asset-backed securities, which we refer to as ABS, backed by senior secured corporate loans; Debt tranches of collateralized debt obligations and collateralized loan obligations, which we refer to as CDOs and CLOs, respectively, and sometimes, collectively, as CDOs; Structured note investments, which comprise our trading securities portfolio; Syndicated corporate loans; Preferred equity investment in a commercial leasing enterprise that originates and holds small- and middle-ticket commercial direct financing leases and notes.

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 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 we have sought to mitigate interest rate and foreign currency risk through derivative investments.

We are externally managed by Resource Capital Manager, Inc., or our Manager, an indirect wholly-owned subsidiary of Resource America, Inc. (formerly traded on NASDAQ: REXI), or Resource America. On September 8, 2016, Resource America was acquired by C-III Capital Partners LLC, or C-III, a leading CRE services company engaged in a broad range of activities, including primary and special loan servicing, loan origination, fund management, CDO management, principal investment, investment sales and multifamily property management. Our Manager now draws upon C-III's and Resource America’s management teams and their collective investment experience to provide its services. With respect to the strategic Plan, two non-

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core segments: (i) residential mortgage loans and mortgage-backed securities and (ii) middle-market secured corporate loans and preferred equity investments have been reclassified as held for sale and are considered discontinued operations at December 31, 2016. As we exit these non-core asset classes, we expect to deploy the incremental capital primarily into our CRE lending business and CMBS investments. We began to implement the Plan during the fourth quarter of 2016.

During the latter half of 2015 our common shares began to trade at prices well below our book value per share. We had previously sought to enhance shareholder value through our $50.0 million securities repurchase program authorized by our board in August 2015. Through December 31, 2016, we repurchased $38.3 million of our common and preferred shares. However, in September 2016 we halted the buy-back program and instead began to marshal resources as part of our strategy to transform our operations into a CRE debt focused enterprise.

In August 2016, we sold our interest in Northport TRS, LLC and the self-originated piece of our middle market lending operation, which generated $104.2 million of proceeds that we began to use to make new CRE loans.

Beginning in the fourth quarter of 2016 and through February 2017, we liquidated several non-core assets. This included liquidating Apidos Cinco (our last syndicated corporate loan CLO) a partial monetization of our interest in Pelium Capital Partners, L.P., sales of several middle market loans, the sale of certain mortgage servicing rights related to our residential mortgage origination platform and a partial liquidation of our ABS portfolio. These liquidations generated $78.4 million of liquidity.

During 2015 and 2016, we originated 50 new CRE loans totaling $940.9 million. These loans were initially financed in part through our CRE term facilities and CRE securitizations. As a result of the planned dispositions coupled with available debt financing at December 31, 2016 of $301.2 million, we intend to grow our CRE lending operation.

Our Business Strategy

The core components of our business strategy are:

Investment in real estate assets. We expect to invest in CRE whole loans, CRE mezzanine loans and investment grade and non-investment grade CMBS bonds. We have historically invested in commercial finance assets, through directly-originated middle-market loans and syndicated corporate loan securitizations and in other ABS, structured note investments and debt tranches of CDOs and CLOs. We exited the directly-originated piece of our middle market lending business in August 2016 and liquidated our last syndicated corporate loan securitization in November 2016. We expect to recycle this capital into our CRE lending business, subject to the availability of investment opportunities. Our goal as we implement our strategy is to target a CRE equity allocation of 90%-100% . At December 31, 2016, our invested equity capital was allocated as follows: 74% in CRE assets; 14% in commercial finance assets; 6% in the residential mortgage lending business; and 6% in other investments.

Managing our investment portfolio. At December 31, 2016, we managed $1.9 billion of assets, including $761.4 million of assets that were financed and held in variable interest entities, or VIEs. The core of our management process is credit analysis, which our Manager, as well as C-III and Resource America, use to actively monitor our existing investments and as a basis for evaluating new investments. Senior management of our Manager, C-III and Resource America have extensive experience in underwriting the credit risk associated with our targeted asset classes and conduct detailed due diligence on all credit-sensitive investments. After we make investments, our Manager, C-III and Resource America actively monitor them for early detection of trouble or deterioration. If a default occurs, we will use our senior management team's asset management experience in seeking to mitigate the severity of any loss and to optimize the recovery from assets collateralizing the investment.

Managing our interest rate and liquidity risk. We generally seek to manage interest rate and liquidity risk so as to reduce the effects of interest rate changes on us. In our long-term financings, we seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financings. Historically, we have used CDO and CLO vehicles structured for us by our Manager to achieve this goal, and subject to the markets for CDO and CLO financings remaining open, we expect to continue to use those vehicles in the future. We engage in a number of business activities that are vulnerable to interest rate and liquidity risk. Our hedging strategy is intended to take advantage of commonly available derivative investments such as interest rate swaps and caps to reduce, to the extent possible, interest rate and cash flow risks.

We manage our interest rate and liquidity risk on our short-term financings, principally repurchase agreements, by limiting the amount of our financial exposure under the facilities to either a stated investment amount or a fixed guaranty amount. At December 31, 2016, our Wells Fargo CMBS facility had $22.5 million of short-term debt secured by $28.5 million of collateral. Our equity at risk was $6.1 million, including net interest due on the financings. Our Wells Fargo CRE facility had a balance of $215.3 million of short-term debt at year end 2016 and and was secured by $313.1 million of collateral. Our equity at risk was $97.5 million, including net interest due. These borrowings were made on a floating rate basis. For more information concerning our credit and repurchase facilities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" and Note 13 of the Notes to Consolidated Financial Statements contained in Item 8 of this report. We obtained three waivers for violation of the EBITDA to fixed charge coverage ratio financial covenants for our CRE repurchase

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facilities and Wells Fargo CMBS repurchase facility as of December 31, 2016. We continuously monitor our compliance with all of the financial covenants. We are in compliance with all other financial covenants as defined in the respective agreements as of December 31, 2016.

Diversification of investments. We intend to manage our investment risk by maintaining a diversified portfolio of commercial mortgage loans and real estate-related assets. As funds become available for investment or reinvestment, we seek to maintain diversification by property type and geographic location while allocating our capital to investment opportunities that we believe are the most economically attractive. The percentage of assets that we have invested in certain non-core and real estate-related asset classes is subject to the federal income tax requirements for REIT qualification and the requirements for exclusion from regulation under the Investment Company Act of 1940, which we refer to as the Investment Company Act.

Our Operating Policies

Investment guidelines. We have established investment policies, procedures and guidelines that are reviewed and approved by our investment committee and board of directors. The investment committee meets regularly to consider and approve proposed specific investments. The board of directors monitors the execution of our overall investment strategies and targeted asset classes. We acquire our investments primarily for income. We do not have a policy that requires us to focus our investments in one or more particular geographic areas or industries.

Financing policies. We have used leverage in order to increase potential returns to our stockholders and for financing our portfolio. We do not speculate on changes in interest rates. Although we have identified leverage targets for each of our targeted asset classes, our investment policies do not have any minimum or maximum leverage limits. Our investment committee has the discretion, without the need for further approval by our board of directors, to increase the amount of leverage we incur above our targeted range for individual asset classes subject, however, to any leverage constraints that may be imposed by existing financing arrangements.

We have historically used borrowing and securitization strategies, substantially through CDOs, to accomplish our long-term match funding financing strategy. Based upon current conditions in the credit markets for CDOs and CLOs, we expect to modestly increase leverage through new CLO securitizations and the continued use of our Wells Fargo facilities and our Morgan Stanley facilities in 2017. We may also seek other credit arrangements to finance new investments that we believe we can generate attractive risk-adjusted returns, subject to availability.

Hedging and interest rate management policies. We use derivative financial instruments to hedge a portion of the interest rate risk associated with our borrowings. Under the federal income tax laws applicable to REITs, we generally will be able to enter into transactions to hedge indebtedness that we may incur, or plan to incur, to acquire or carry real estate assets, provided that our total gross income from qualifying hedges does not exceed 25% of our total gross income and non-qualifying hedges does not exceed 5% of our total gross income. We generally seek to minimize interest rate risk with a strategy that is expected to result in the least amount of volatility under general accepted accounting principles while still meeting our strategic economic objectives and maintaining adequate liquidity and flexibility. These hedging transactions may include interest rate swaps, collars, caps or floors, puts, calls, options and foreign currency exchange protection.

Credit and risk management policies. Our Manager focuses its attention on credit and risk assessment from the earliest stage of the investment selection process. In addition, our Manager screens and monitors all potential investments to determine their impact on maintaining our REIT qualification under federal income tax laws and our exclusion from investment company status under the Investment Company Act. Portfolio risks, including risks related to credit losses, interest rate volatility, liquidity and counterparty credit, are generally managed on a portfolio-by-portfolio basis by Resource America's asset management division.

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General

The table below summarizes the amortized cost and net carrying amount of our investment portfolio at December 31, 2016, classified by asset type (in thousands, except percentages):

At December 31, 2016	Amortized Cost	Net Carrying Amount	Percent of Portfolio		Weighted Average Coupon
Loans Held for Investment:					
CRE whole loans (1)	$1,290,107	$1,286,278	69.46	%	5.63%
Loans Held for Sale:					
Syndicated corporate loans(2)	1,007	1,007	0.05	%	5.54%
Investments in Available-for-Sale Securities:					
CMBS	98,525	98,087	5.30	%	5.38%
RMBS	1,526	1,601	0.09	%	5.43%
ABS	21,365	25,280	1.35	%	N/A(4)
	121,416				