KKR Real Estate Finance Trust, Inc.

Q3 2021 Earnings Call

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CORPORATE PARTICIPANTS

Jack Switala - *Head of Investor Relations*

Matt Salem - *Chief Executive Officer*

Patrick Mattson - *President and Chief Operating Officer*

Mostafa Nagaty – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the KKR Real Estate Finance Trust Third Quarter 2021 Financial Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the “*” key followed by “0.” After today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press “*” then “1” on your telephone keypad. To withdraw your question, please press “*” then “2.” Please note, this event is being recorded. I would now like to turn the conference over to Jack Switala. Please go ahead.

Jack Switala
Great. Thanks, Operator. Welcome to the KKR Real Estate Finance Trust earnings call for the third quarter of 2021. We hope that all of you and your families are safe and healthy. As the operator mentioned, this is Jack Switala. Today, I'm joined on the call by our CEO, Matt Salem; our President and COO, Patrick Mattson; and our CFO, Mostafa Nagaty.

I would like to remind everyone that we will refer to certain non-GAAP financial measures on the call, which are reconciled to GAAP figures in our earnings release and in the supplementary presentation, both of which are available on the Investor Relations portion of our website. This call will also contain certain forward-looking statements, which do not guarantee future events or performance. Please refer to our most recently filed 10-Q for cautionary factors related to these statements.

Before I turn the call over to Matt, I will provide a brief recap of our results. For the third quarter 2021, we had GAAP net income of $32 million or $0.57 per share. Distributable earnings this quarter were $34.5 million, or $0.62 per share, which is a record quarter for us driven by net portfolio growth, benefits from in-place rate floors, prepayment income, and continued strong asset performance.

Book value per share as of September 30, 2021 increased to $19.09, which includes the cumulative CECL impact of $1.07 per share as compared to $18.91 per share as of June 30th. This will be the sixth consecutive quarter in which we have grown book value per share. Finally, in mid-October, we paid a cash dividend of $0.43 per common share with respect to the third quarter. Based on yesterday's closing price, the dividend reflects an annualized yield of 7.6%.
With that, I would now like to turn the call over to Matt.

Matt Salem
Thank you, Jack. Good morning, everyone, and thank you for joining the call today. KREF delivered exceptionally strong results in the third quarter with record distributable earnings of $0.62 per share. We also had a strong investing quarter, originating eight senior loans totaling $1.5 billion, bringing our funded portfolio to a record $5.8 billion, up 16% on a year-over-year basis.

Our robust origination volumes are driven by a real estate credit team, which has doubled in size over the last two years and is comprised of over 50 investment professionals today. We've expanded KKR Real Estate credit capital sources as well, due in large part to KKR's acquisition of Global Atlantic. Our Real Estate Credit franchise expects to originate over $13.5 billion in loans in 2021, with KREF serving as the flagship senior transitional loan strategy. In short, we have become a one-stop solution for our institutional clients and KREF benefits from this increased market activity.

In addition, we continue to benefit from our real estate equity franchise as it expands with our latest U.S. opportunistic fund closing on a $4.3 billion of committed capital. This scaled platform across the real estate spectrum of debt and equity provides differentiated access to information and market connectivity.

In the third quarter, the eight loans we originated totaling over $1.5 billion included three multifamily loans, two office loans, and one loan in each of the life science, industrial, and hospitality sectors. Seven of our eight loans were to repeat sponsors, which demonstrates the value of our franchise and the strength of our relationships. Similar to the second quarter, these loans were underwritten at an attractive low double-digit weighted average IRR, which is comparable with target returns pre-COVID. We believe these returns offer strong relative value, given the risk profile. Senior loans secured by institutional real estate owned by high-quality sponsors.

One note I'd like to highlight this quarter is a $520 million construction loan on a Class A LEED Gold Office Property to the experienced Seattle-based developer who has developed or acquired over 10 million square feet. This large loan size created a favorable competitive dynamic and we used multiple pockets of capital to secure the transaction. KREF, using its first in the waterfall position invested 50% for approximately $260 million. The property is 100% pre-leased on a 16-year term to an investment-grade tenant, and we were able to underwrite this to projected IRR in the mid-to-high-teens.

We continue to see robust activity and have approximately $1.1 billion of loans either closed or under exclusivity subsequent to quarter-end. We expect to be active in our historical segments of multifamily and select Class A office, along with certain newer growth segments, such as life science and industrial, which now represents 7% and 5% of our funded portfolio as of the third quarter respectively. Our portfolio composition remains consistent with previous quarters and is comprised predominantly of lighter transitional floating rate senior loans. 71% of the portfolio is comprised of loans secured by multifamily and office properties. And with respect to office, I'd highlight 89% of our office portfolio is comprised of Class A office properties, the majority of which is LEED-certified.

From a reporting perspective, we are now breaking out our exposure to life science, which was formerly included within the office property type segment and now represents 7% of the portfolio. Overall, performance remained strong with interest collected on over 97% of the portfolio as of the third quarter. In summary, we achieved another strong quarter across the portfolio performance, earnings, and portfolio growth despite the active repayment environment.
With that, I will turn the call over to Patrick.

Patrick Mattson
Thank you, Matt. And good morning, everyone. As of quarter end, we increased our market-leading fully non-mark-to-market financing to 81%, with the 19% remaining balance only subject to credit marks. KREF has continued to maintain mid 70s% to low 80s% non-mark-to-market financing levels, similar to the way we were positioned at the start of the pandemic. As of quarter end, our debt to equity ratio and total leverage ratio were 1.8x and 3.4x respectively. In terms of financing optimization, in Q3, we continue to add incremental non-mark-to-market financing capacity.

First, we closed on a new $1.3 billion CRE CLO. The CLO features a two-year reinvestment period with an 84.25% investment-grade advance rate at an attractive weighted average running cost of capital of L +1.30% before amortized cost. In conjunction with this transaction, we refinanced our first CLO, which has passed its reinvestment period. The larger size of the new deal increase the amount of matched term non-mark-to-market and non-recourse financing.

Second, we entered into a new $500 million bespoke term lending agreement, which provides us with asset-based financing on a non-mark-to-market basis with a match term for up to five years. This differentiated financing is another example of the power of the broader KKR franchise and its impact on KREF. We have a robust quarterly asset review process and we evaluate every loan in the portfolio to assign a current risk rating. The current portfolio has a risk rating of 3.0 on a 5-point scale, down slightly from 3.1 last quarter. 91% of our loans are now risk-rated 3 or better, in line with last quarter.

With respect to certain loans, we are seeing improving trends in select properties, which may lead to positive credit momentum in other assets. As we've discussed on previous calls, we are nearing the next phase on our Portland Retail loan. We intend to foreclose and to take ownership of the asset, enabling us to optimize value over the near and medium-term. With our scaled and integrated U.S. real estate platform, we have the capabilities, relationships, and partners to execute this business plan to stabilize the property and optimize value for disposition at a future date.

Upon taking title, which is targeted for the fourth quarter, we'll begin to prepare for a comprehensive redevelopment of the site, which we expect will include multiple uses, including residential and creative offices. We expect a more fulsome update on our next earnings call. We still feel our $40 million CECL reserve is appropriate and therefore expect little impact to GAAP earnings and book value. However, upon foreclosure, we will recognize a loss through our cash metric of distributable earnings.

This quarter, we received approximately $935 million of repayments. And as previously indicated, we would expect another $1 billion in repayments in Q4, before repayment levels begin to normalize in the first half of 2022. Our net positive fundings in the third quarter combined with our current commitments and forward pipeline give us confidence in our ability to continue to grow the portfolio. In the near term, we also expect to continue to benefit from remaining in-place LIBOR floors and elevated effective net interest margins. But this will decrease as the portfolio continues to transition to new loans originated at spot LIBOR.

Finally, KREF finished the quarter with a strong liquidity position of over $510 million. This total included over $307 million of cash and $185 million in undrawn corporate revolver capacity available to us. We also have $374 million of unencumbered and unpledged loans as of quarter-end that can be levered to provide additional liquidity.

In summary, a record quarter with distributable earnings of $0.62 per share, covering our $0.43 dividend by over 1.4x. Robust originations across eight loans totaling $1.5 billion, and an additional pipeline of approximately $1.1 billion under exclusivity or closed subsequent to quarter-end. We grew the funded portfolio by over $200 million to a record $5.8 billion, which compares to $5 billion at the start of 2021. Lastly, we incrementally added match-term financing, which contributed to a market-leading 81% non-mark-to-market asset financing as of September 30th.

Thank you for joining us today. And now, we're happy to take your questions.

QUESTION AND ANSWER

Operator
Thank you. We'll now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster.

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

Jade J. Rahmani
Thank you very much for taking the questions. Should we anticipate early prepayment income going forward, and particularly in the fourth quarter, since you noted a $1 billion of repayments?

Patrick Mattson
Good morning, Jade. It's Patrick. I'll address that. Yes, I think if you look at this quarter where we had $6.4 million come through, that was a combination of acceleration of OID and prepayment fees. The breakdown of that was 4.1 of that was prepayment income. Obviously, that's difficult to model. However, we do expect the OID acceleration just given--generally, we're funding lighter transitional loans. So any pay off prior to the initial maturity date results in acceleration of OID.

Just for context, in the first and second quarter where we had really low levels of repayments, that equated to about $0.02 in those quarters. This quarter, it was more elevated. So we saw $0.04 come through from the OID acceleration. So that gives you some framework for what we might expect in the fourth quarter and beyond.

Jade J. Rahmani
And you're still expecting to grow the portfolio on the net funded basis in the fourth quarter?

Patrick Mattson
Yes. I believe so. If you look at where we are just even in October here, we give you the activity subsequent to quarter-end, we had a initial funding of $280 million. We had repayments of $100 million. So, we're on track to continue to, as we have in each of the last three quarters, increase the portfolio size on a net funded basis.

Jade J. Rahmani
Thank you. And just in terms of ROEs, it appears also reported today and (INAUDIBLE) in that, quite a sharp drop in incremental yield. Are you seeing consistent ROEs? Could you give some context around loan yields and spreads? And yeah, just a comment on the ROE profile? Thanks for taking the questions.

Matt Salem
Sure, Jade. I'll jump in on that. It's Matt, and thanks for joining the call and for the questions. Let's start at asset yield. I would say first of all, the market has been pretty consistent over the last few quarters. The tight end of the range, so think about a very straightforward multifamily lease-up play, institutional sponsorship, new asset, those are in the, call it, very high twos LIBOR plus, very high twos. And the widest end of what we're doing is around, call it, all in 4% type of coupon. So that 100 basis point range is similar to, I think, what we've discussed on the last couple of calls.

When you translate that into ROE, we're generating returns in the, call it, 11% to 13% range on a gross basis, so pretty similar to where we were pre-COVID. So I'd say the market is pretty attractive from a, certainly from a relative value perspective, where we look around the world and think about where interest rates are and where other fixed income products are. So we're pretty happy with what we're seeing and the stability in the current market.

Jade J. Rahmani
Thank you very much.

Matt Salem
Sure.

Operator
The next question is from Tim Hayes from BTIG. Please go ahead.

Tim Hayes
Hey. Good morning, guys. Congrats on the record results. First question here, just on the new bespoke lending agreement you entered into this quarter, can you touch on a little bit more of the terms and just, maybe even from a high level, just how the cost and advance rate compared to other facilities you have and if there are any other types of unique covenants to be aware of? Just trying to understand how favorable or maybe even less favorable the terms of these agreements are in order to get that kind of non-mark-to-market aspect of it.

Patrick Mattson
Sure, Tim. It's Patrick, good morning. So, this facility, similar to some of the bespoke facilities that we executed in the past, it's a bilateral facility. It has an initial revolving period. And for each loan that we put on the facility, we can get matched financing up to five years. But we do have the revolving aspect, so as loans pay-off we can reset and put new loans with new five-year match-term financing.

As we mentioned, it's non-mark-to-market. So that's consistent with some of our other bespoke facilities. It has a cost of financing and we quote in the 10Q a range of the existing assets that are on the facility of 165 to 175. So I think if you look across our facilities, it's right down the fairway, I think, in terms of cost.

From a leverage standpoint, again, consistent with how we borrowed on a non-mark-to-market basis, it's driven by the underlying collateral that's being put onto the facility, but the financing leverage ranges from anywhere from 75% to 85%, depending on the asset. So right down the fairway, but clearly a unique facility. To our knowledge, this counterparty does not have an existing facility with any other financial institution like ours and really was another example of the KKR platform coming and really bearing fruit in a meaningful way and allowing us to continue to increase this capacity.

Tim Hayes
No, that's helpful, Patrick. Thanks for the color there and definitely seems like, yeah, it doesn't hurt having KKR as your sponsor there for that exact reason. So between the new lending facility, cash on hand, it seems like liquidity position--and repayments of course, $1 billion repayments expected this upcoming quarter - it seems like your liquidity position is pretty strong here. Just don't want to put words in your mouth, though. How do you feel about your liquidity position here, given that the pipeline is very strong and we did see leverage tick up a little bit

last quarter, and it seems like you continue to expect net portfolio growth? And just wondering if it makes sense in your eyes to look at potentially doing another type of securitization or any other types of financing to bolster the capital structure.

Patrick Mattson
Yeah. Sure, Tim. I think certainly, from a liquidity position, we feel really good. If you look at the different forms of liquidity, we've got the revolver, obviously, a key to us managing cash on the balance sheet. As I mentioned, we've got this new facility that we put in place. We closed on the CLO so, as assets pay off of that, we'll have capacity to refinance there. So we feel really well positioned.

Additionally, we also quoted in the supplemental, we have $374 million of unencumbered assets that are sitting on the balance sheet. Those are assets that we could pledge to facilities and borrow additional capital against that. So we feel well-positioned to manage the pipeline, which as Matt indicated, is pretty robust at $1.1 billion. And we think the opportunity set behind that is also pretty great, so I think we feel really good to be able to fund the commitments that we've got and also capitalize on opportunities that may come up.

Tim Hayes
Got it. And then, part B to that question, though, Patrick, is how--given your current capital base, how big do you see the portfolio getting before you need to maybe start considering external capital?

Patrick Mattson
I think what--as we indicated before, with our existing equity, around $6 billion is probably the total funded size. So we're kind of in that area sort of plus or minus. Obviously, we've got, as we've indicated, a decent amount of repayments that we're expecting. We think we're going to match up with those fairly well with our pipeline. But with the existing equity, we think about $6 billion.

Tim Hayes
Okay, got it. Yeah, I think you've mentioned that before. So thanks for confirming. And then, last question for me, it's no surprise that competition has been pretty strong and we've seen a lot of capital raising across your peers and private debt funds and other non-traditional sources. I think we recently saw one of the largest CRE brokers take a large stake in a multifamily lender. And I think maybe what they're doing is more on the agency side. It may not be directly overlapping with you, but just curious, when you see headlines like that, if it gives you pause that you continue to see new players into the market or that the space might be getting too crowded? Or does the KKR model just stand the test of time, even in these kind of competitive parts of the cycle?

Matt Salem
Hey, Tim. It's Matt. I'll jump in there. Thanks for the question. Certainly, it's a competitive market today. I mean, you think about the low interest rate environment, the thirst for yield, and the attractive relative value that we're seeing in the market. You'd expect to see new entrants. You’d expect to see new capital accessing the sector. I would say locally, we haven't seen any new competitors in our space. Certainly, our competitors have capital and capital availability, and that's been the case for most of our existence and certainly over the last few quarters.

But I think that where we sit in terms of our franchise, our client relationships, the size of the loans that we participate in and the efficiency of our cost of capital and if you think about our liabilities that Patrick just mentioned, we feel really good about our competitive positioning in the market. And like I said, we haven't really seen new entrants in our particular segment of the market. So we're always cautious and disciplined as we approach the market. But right now, we're pretty excited about what we're seeing in terms of the investment opportunity set.

Tim Hayes
Okay, got it. Well, thanks for the comments, Matt and Patrick. Appreciate it.

Matt Salem
Thanks, Tim.

Patrick Mattson
Thanks, Tim.

Operator
The next question will be from Stephen Laws from Raymond James. Please go ahead.

Stephen Laws
Hi, good morning. A couple of things I want to touch on and maybe a follow-up or two to some previous questions. I guess, first around distributable earnings clearly outpacing the dividend by a significant margin. Any thoughts at what adjustments we may need to make to distributable earnings to get a good proxy for re-taxable income? And is there any financial impact around the foreclosure on the portfolio, excuse me, the Portland Retail asset that may reduce your distribution requirements for the year?

Matt Salem
Hey, Stephen. It's Matt. I can take that one. Yeah, I think, specifically as it relates to the Portland retail asset, that will impact our DE, as Patrick mentioned. And so when you think about the impact, you should think about that in the context of the CECL reserve that we mentioned on the call. In terms of how that relates to the dividend, obviously, the Board will discuss that at an upcoming meeting, but we really view that as a one-time event and not a reoccurring item.

Stephen Laws
Great. And then, around your pipeline and really geographic concentration, it looks like your exposure in Illinois was down noticeably, Texas and California up. Is that kind of coincidental, or is that a conscious decision to move out of the Illinois market and focus more on some other areas? Can you talk about the pipeline and kind of how you expect geographic exposure to shift in the coming quarters?

Matt Salem
Sure. Yeah, I can--I'm happy to take that. Some of it is a little bit idiosyncratic. As you know, we make larger loans. And so any one loan repayment or origination can cause a quarter of skew, if you will. I think the Illinois came down because we had one large repayment on the multifamily side and obviously the other areas you mentioned were in some of our origination numbers. So--but I think overall, we haven't really changed our posture in terms of what we're targeting.

Larger markets, we still like larger markets, we still like them because they're more liquid, they're more transparent. At the same time, we are seeing a tremendous amount of activity in the Southeastern states and some of the lower-cost states. So we have been very active in those areas as well, especially as it relates to office lending, specifically as it relates to office lending. So no real change in the posture, but you may see a little bit of noise here and there, given the size of the loans.

Stephen Laws
Great. And last question, just wanted to touch on life sciences. I know you guys, I think, broke that out, but how has that changed maybe over, say, a year-over-year? I know KKR has some advantages there that you have resources that give you some expertise. Can you talk about--and I think you've additionally closed another life sciences loan subsequent to quarter end. Can you talk about the focus there and what the sponsor brings to the table in being able to underwrite those loans, which can be a little unique versus other types of office loans? And that 8%, how big of a budget? Is that something you could see that growing to over the next four to eight quarters?

Matt Salem
Yeah, let me--I'll take that one. It's Matt again. A couple of things. I think first you asked, what's changed. I think that the biggest change has been a tremendous increase in tenant demand for space, and so that's really what's driving all of this activity. And obviously, we're responding to that both on the equity side of our business where we own and operate life science properties and, clearly, as you mentioned on the lending side where we lent on a property this quarter and subsequent to quarter-end as well.

And as we approach this particular sector, I think it's similar to how we approach other sectors with a slightly higher bar. We think that there is a real technical aspect to owning and creating and operating these buildings. So when we think about sponsor and we think about location, we’re, I think, much more disciplined in the life science space and have a much higher bar than we would in a more generic or traditional asset class. So--but what we're seeing in the portfolio, again, across equity and debt is quite tremendous in terms of the activity and the leasing volume that we're seeing. So it is, we think, a very good sector with a lot of tailwinds.

In terms of where it can grow from a portfolio size perspective, I don't have a number or kind of a red line that we wouldn't cross. But certainly, it's within this context it could go up a little bit more from here. But if you think about its overall positioning in the market, it's not a tremendously large part of the overall real estate market. So we'll probably do a little bit more here and see what opportunities are available. But I don't expect this to be an extremely large portion of the portfolio.

Stephen Laws
Great. Matt, Patrick, appreciate the comments this morning.

Matt Salem
Thanks, Stephen.

Operator
And the next question is from Don Fandetti from Wells Fargo. Please go ahead.

Don Fandetti
Two questions. I guess, first with the Fed looking like they're going to taper. Do you expect any material changes in the commercial real estate markets that you'd position for? And then, secondly, can you comment on your appetite to put capital to work in New York City as it recovers?

Matt Salem
Hey, Don. It's Matt. Yeah, I can take that. Thank you for the question. I guess, first of all, as the Fed tapers, I don't think we see a very large impact to real estate. Clearly, that path has to be navigated appropriately, and real estate, like other sectors, could get impacted by potential volatility in rates and broader markets in reaction to potential rate moves. But I don't think that's our house view here. We think that it's natural for rates to go up as the economy continues to rebound and we still think real estate is a pretty attractive asset class. When you think about some of the inflationary pressures you may see on the market, we do think that the combination in real estate equity, the combination of kind of an inflation hedge as well as a yield play could be quite attractive investment in this type of market environment. So that's the first thing I'd say.

On the appetite to invest in New York City, it's the largest market in the United States and still has a lot of liquidity in certain sectors. And so, certainly, we're looking at opportunities in New York. We will continue to lend in New York. We are much more cautious as we have been historically on some of the sectors that you would expect. So what do you think about Class B or more generic office space that is going to be challenged, we think. At the same time, I think there is a real demand for high quality Class A office space. On the multifamily side, we've seen that come back and rebound quite strongly. So it's a sector we'll continue to look at, as we have. So we do think New York's an investable market. You've got to pick your spots, as always, but we'll continue to look at it.

Don Fandetti
Thanks.

Operator
Again, if you have a question, please press “*” then “1.”

The next question will be from Rick Shane with JP Morgan. Please go ahead.

Richard Shane
Good morning, everybody, and thanks for taking my questions. When we look at the interest rate sensitivity and compare it to the forward curve, it suggests that there is probably somewhere between 50 and 75 basis points of ROE compression, if we were just a follow the forward curve. Now, I realize that what's actually happening is that the portfolio is recasting at a slightly, or not a slightly, but at a lower ROE as the floors run off and spreads tighten. I'm curious, when you look ahead to 2022 where you think--what is a reasonable ROE and maybe ROE in the context of LIBOR plus?

Patrick Mattson
Rick, good morning. It's Patrick. Thanks for that question. So when we think about return and when we think about sort of LIBOR, we're obviously focused on where spreads are, but what we ultimately care about is all-in coupon. And if you look at our all-in coupons today, they’re almost entirely made up of spread. LIBOR is obviously compressed to such a level that, at eight basis points, it's not a contributor to ROE on new loans.

If you forecast out the forward curve or assume that, at some point in time, we're in a higher rate environment, that's going to give us a positive return on those assets because our asset coupon will increase, our liability coupon will increase, but we'll be offset by the asset side and we would expect that there is an opportunity to generate higher returns on those existing loans.

If you look at page 19 of the supplemental, we included additional sort of bar graph. This is our sensitivity to LIBOR, and what we tried to show here was how the portfolio is transitioning as some of our higher LIBOR floor loans are paying off and we're replacing those with loans that are at spot LIBOR. As you can see quarter over quarter, we have less sensitivity to higher rates. As we get more repayments and as we recycle into more loans at these lower LIBOR rates, we expect at some point that change in LIBOR, the higher LIBOR rates to lead to positive earnings benefit down the road.

So the portfolio is shifting. We expect that over the course of the next couple of quarters, this graph will start to look different and will ultimately be positioned for higher rates and get a positive benefit as a result.

Richard Shane
Yes. Look, this is exactly what I was looking at sort of doing that math. And I think you're right that the portfolio is recasting in the asset sensitivity that's intrinsic in these portfolios as sort of being reestablished as these floors run off. Should we think about the sort of potential worst case compression as being that LIBOR 1% scenario because, at that point, you'll basically have experienced all of the transition of the existing floors?

Patrick Mattson
In the near term, I don't think our forecast is for a 1% LIBOR. And so while we show that as a sensitivity on this page, the reality is that we expect the portfolio to transition at a faster pace. So by the time we get to a scenario where we're in that context, we don't expect that this is the composition of the portfolio. So obviously, if it set overnight to this level, this would be the impact, right, if it were sustained there for a quarter. But that's not our base case in terms of rate projections.

Richard Shane
Understood. I actually meant this more theoretically, when you look at the portfolio with 50% now subject to floors above 75 BPS, which means that less than 50%--or 50% has less than 75 basis points in a weighted average floor of 1%. What I'm suggesting is that the sort of headwind from the floor recast is pretty similar, potentially, to this 1% LIBOR scenario.

Patrick Mattson
Right. I think that's right. And I think over time, and you've seen it as you follow quarter over quarter, this LIBOR floor continues to compress down the percentage of loans. We keep dropping this sort of floor number. We're showing half of it at 75 basis points, would anticipate as we get through the fourth quarter if we show that as half the portfolio, again, that's going to size down considerably. So I think it's trending all in that direction that you would anticipate. It's not, maybe not surprising. The loans that are sort of repaying are the loans that have realized on their business plans. They're the ones that are more seasoned and obviously have the higher LIBOR floors.

Richard Shane
Great. Thank you for the transparency on the slide. It's very helpful. And thanks for taking my questions.

Patrick Mattson
Thanks, Rick.

CONCLUSION

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

Jack Switala
Great. Thanks for joining, everyone. Please reach out to me or the team, if you have any questions. Stay dry out there.

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

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