KKR Real Estate Finance Trust Inc.

Q1 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Michael Shapiro – *Head of Investor Relations*

Matt Salem – *Chief Executive Officer*

Patrick Mattson – *President and Chief Operating Officer*

Mostafa Nagaty – *Chief Financial Officer*

Chris Lee – *Vice Chairman of the Board*

PRESENTATION

Operator
Good morning, and welcome to the KKR Real Estate Finance Trust Earnings call for the first quarter of 2020. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad. To withdraw your question, please press star (*) then two. Please note this event is being recorded. I would now like to turn the conference over to Michael Shapiro, Head of Investor Relations. Please go ahead.

Michael Shapiro
Thank you, operator. Welcome to the KKR Real Estate Finance Trust Earnings call for the first quarter of 2020. We recognize that these are unprecedented times. We hope that all of you and your families are safe and healthy. As you could expect, we are hosting today's call from various locations, so please bear with us should we experience any technical difficulties. Today, I am joined on the phone by our CEO, Matt Salem; our President and COO, Patrick Mattson; our CFO, Mostafa Nagaty; and our recently appointed Vice Chairman of the Board, Chris Lee.

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-K for cautionary factors related to these statements. Before I provide a brief recap of our results, I want to note 2 important items this quarter. First, as you may have seen, we look to simplify our income statement reporting by reclassifying our net core earnings as core earnings. Our core earnings this quarter and in quarters going forward is and will be comparable to the net core earnings numbers we presented in 2019 and prior.

Second, our financials reflect the adoption of the current expected credit losses or CECL standard that went into effect for us in similar-sized nonbank public companies on January 1, 2020. Mostafa will share more information on CECL during his prepared remarks.

For the first quarter 2020, we had a GAAP net loss of $35.2 million, or $0.61 per share, which included a $55.3 million or $0.96 per share provision per CECL. Core earnings were $25.3 million or $0.44 per share. Book value per share as of March 31, 2020, including the impact of $1.22 per share from CECL was $18.45.

Finally, I would note that earlier this month, we paid a cash dividend of $0.43 per share with respect to the first quarter. With that, I will now like to turn the call over to Matt.

Matt Salem
Thank you, Michael. Good morning and thank you for joining us today. Our first priority is the health and safety of all of our stakeholders. While we have spoken to many of you recently, our thoughts and prayers are with you and all those who have been impacted by the COVID-19 pandemic.

Our entire team is working remotely and continues to be highly efficient. Given the recent volatility, we have increased our level of communication with our Board members, shareholders, borrowers and lenders to ensure transparency and proactively address potential issues. While it seems like many months ago now, we announced this past quarter that my partner in the business, Chris Lee has joined our Board of Directors as Vice Chairman. I want to thank Chris for his leadership with KREF since its inception. We will continue to work closely with Chris on all of our investing and strategic initiatives. Also, as part of the Board transition, Craig Blanchard from Makena recently stepped down from the Board. We want to thank Craig for his leadership since the IPO and to thank Makena for being one of our lead pre-IPO investors. Craig, we wish you all the best.

Since our IPO almost 3 years ago, we have been focused on conservatively managing the company across both our assets and liabilities. As of quarter end, the company had approximately $450 million of liquidity, including approximately $370 million of cash while we have been laser-focused on lowering the risk profile of our liabilities, by diversifying and increasing our funding sources away from traditional bank repurchase facilities to those that are non-mark-to-market.

As of quarter end, 73% of our outstanding secured financing was completely non-mark-to-market. While none of us could have predicted this pandemic, our portfolio was purpose-built for the later stages of an economic and real estate cycle. Our conservative investment strategy is primarily concentrated on the lighter transitional segment of the market, lending on institutional quality real estate, located in the most liquid real estate markets, owned by well-capitalized, high-quality sponsors.

Today, our average loan size is $130 million, and approximately 80% of our loans are located in the top 10 markets in the U.S. Our investment portfolio is 99% first mortgage senior loans. Our 2 largest property-type exposures are multifamily and office, which represent 85% of the portfolio collectively. In addition, 88% of our multifamily loans and 75% of our office loans are secured by Class A properties. Hotel and retail properties represent only 8% of the portfolio.

Also, the company benefits from its affiliation and integration with KKR, not only through the shareholder alignment that comes from KKR's 36% ownership stake in KREF, but through the integration, with KKR's significant and growing real estate platform. As of year-end, KKR's global real estate business had over $10 billion of assets under management and controlled approximately $8 billion of real estate throughout the U.S. Our extensive portfolio across real estate equity and credit gives us a differentiated view of real estate fundamentals, trends and values across a broad range of markets and business plans.

Turning to our portfolio activity for the quarter. We originated 3 loans totaling just over $350 million. All of these loans closed prior to March and were previewed during our fourth quarter earnings call. As the market became more volatile, we began prioritizing the preservation of our high amount of liquidity.

Before I turn the call over to Patrick, let me spend a few minutes on our asset management. While we remain confident in our underlying portfolio, we do not expect to be completely unaffected by the impact of COVID-19. It is more important than ever to have the experience and ability to manage assets. As a reminder, we hired Christine Patterson to oversee our asset management activities in 2018. Chris brought over 20 years of asset management experience to our team and is responsible for managing all of our sponsored discussions, which have been very active.

Given our focus on the larger loan segment of the market, we have a manageable portfolio of 40 loans. This allows us to have very frequent conversations with all of our borrowers and manage our portfolio efficiently. The experience of our team and that of our sponsors, through many different economic cycles, is an invaluable asset in times like these. All of our borrowers made required interest payments in both the first quarter and April. An analysis of our underlying property collections during April in our multifamily portfolio showed consistent trends to that of March while our office portfolio showed only minor decreases in underlying tenant collections. Consistent with our robust quarterly asset review process, we reevaluated every loan in the portfolio to assign an updated risk rating.

Our portfolio, which totaled $5.2 billion at the end of the quarter has a weighted average risk rating of 3.0 on a 5-point scale, an increase from the 2.9 risk rating at the end of the fourth quarter. We did move 14% of the portfolio to a 4 rating, given our view of the environment and the property's underlying business plans. The migration was driven by our more COVID-sensitive property types, such as hospitality, retail and for-sale housing, to which collectively, we have very limited exposure.

In our supplemental, we provided some incremental disclosure on our 2 hospitality loans. Both loans are financed on non-mark-to-market facilities and were previously cash flowing and stabilized properties. The loans collectively represent approximately 4% of the overall portfolio. We are working closely with both our hotel sponsors to help them navigate this environment and expect to modify those loans, which will include new sponsor equity and partial debt service deferral.

During the quarter, we received $180 million of repayments. It is always difficult to accurately predict repayments, even more so in this market, but as a reminder, we have several loans in our portfolio near or at stabilization. Those sponsors are in active dialogue with lenders to refinance our loans. We are taking the conservative posture today and will remain very selective in deploying our capital. However, should some of our more stabilized loans repay, we believe we'll be well positioned to take advantage of what should be an attractive lending environment.

Finally, we believe that the actions we took coming into this environment have and will continue to position KREF well. With that, let me turn the call over to Patrick.

Patrick Mattson
Thank you, Matt, and good morning, everyone. Following our IPO, nearly 3 years ago, we devoted a considerable amount of time and resources, working closely with our internal KKR capital markets team to diversify our financing sources, and increase our non-mark-to-market financing capacity.

As of quarter end, 73% of our in-place secured financing was completely non-mark-to-market compared to 13% in 2017. The growth of non-mark-to-market financing has allowed us to lower the risk of our liabilities while maintaining target leverage levels despite the recent volatility. We continued to add capacity in the first quarter with the closing of a new $500 million non-mark-to-market warehouse facility. In addition, we increased the size of our corporate revolver, which matures in December 2023 by $85 million to $335 million. Our traditional repo financing represents 27% of our outstanding secured financing. Unlike facilities prior to the global financial crisis, our repo facilities are marked to credit only.

As you can see on Page 15 of the supplemental materials, the facilities are diversified across 3 different lending partners, with no individual exposure greater than $470 million. In aggregate, the facilities are secured by 11 loans with a principal balance of approximately $1.5 billion, of which 71% is secured predominantly by Class A multifamily and office assets. Liquidity continues to be a primary focus across our industry. As Matt mentioned, while we feel our relative position in the market is strong, we are cognizant of the environment and are focused on managing our liquidity appropriately.

At quarter end, our liquidity of $450 million consisted of approximately $370 million of cash on the balance sheet, which reflects the full drawdown of our corporate revolver, plus undrawn capacity for pledged and approved collateral of approximately $80 million. Subsequent to quarter end, we repaid $100 million on the revolver. Our current liquidity just consisting of cash and the undrawn portion of the revolver only has increased approximately $65 million from $370 million at quarter end, to over $435 million today. We continue to manage our liquidity position for potential capital needs on both our liabilities and future funding obligations.

On the liability side, we are starting to engage in proactive discussions, to selectively utilize our liquidity position and create mark-to-market holidays in exchange for partial deleveraging on our facilities. On the asset side, our aggregate future funding obligations were approximately $593 million or 10% of our committed principal balance at quarter end. We model out our liquidity needs for future funding, some of which require property level hurdles to be funded or are related to capital expenditures, which may be delayed given the current environment. We believe our recent run rate of approximately $25 million a month is a good proxy for near-term future funding projections.

Additionally, we have access to corresponding financing facilities to match many of these funding obligations across our various financing lines. To highlight, we utilized our financing facilities on more than 90% of our March future fundings. We have used our liquidity to be proactive in this market. Given the significant volatility in the broader equity markets, we repurchased $25 million of shares in March and early April at an average price of $12.27 per share, representing a 14% dividend yield and 0.63x our December 31st book value. The share repurchases were highly accretive and increased book value per share by approximately $0.22, of which $0.19 was recognized in the first quarter.

Finally, 99.9% of the portfolio remains invested in LIBOR-based floating rate loans. As we've discussed previously and with spot LIBOR currently below 50 basis points, rate floors provide KREF a net interest income benefit as the 98% of the loan portfolio has a LIBOR floor of at least 95 basis points and only 5% of our liabilities have a LIBOR floor at a rate above 0, which allows us to continue to benefit from decreased financing cost in a declining rate environment.

Before we open the call for your questions today, I will turn it over to Mostafa to briefly touch on our results for 1Q and our CECL implementation.

Mostafa Nagaty
Thanks, Patrick, and good morning, everyone. As a reminder, prior to our IPO, we made an approximately $36 million equity investment in a KKR-affiliated private fund called RECOP I, with an underlying portfolio of CMBS B-pieces, which are held unlevered on a hold to maturity basis.

Our first quarter results included a $3 million unrealized decline in the fair value of our RECOP I equity mezzanine investment. As a result of the impact to the underlying portfolio from the

recent market disruption due to the COVID-19 pandemic. The fair market value of the RECOP investments could fluctuate over the next few quarters based on market developments.

Now let me spend a minute to go over our book value. Our quarter end book value per share was $18.45 compared to $19.52 as of Q4. In addition to the RECOP mark-to-market adjustments we just discussed, the 2 main drivers for the quarter-over-quarter change in our book value per share were: one, our cumulative CECL reserve which reduced our book value per share by $1.22; and two, our accretive repurchase of 1.6 million shares of our common stock in the first quarter, which contributed $0.19 to our book value per share. Additional details regarding our book value per share go forward can be found on Page 7 of our supplemental.

Finally, I will conclude my remarks with an overview of our CECL approach and our thoughts on the CECL reserve in light of the current environment. Our new CECL standard became effective for us on January 1st. As disclosed in our Form 10-Q, we utilize affordability of default, loss given default model, combined with a subset of historical loan loss data licensed from Trepp that most closely represents our focus on larger loans in major markets. Certain loans that did not fit the model were evaluated using a probability-weighted expected cash flow approach concerning varying economic and market conditions.

In addition to the $15 million or the $0.26 per share day one CECL reserve recorded as a reduction to our January 1st book value, we recorded an incremental $55.3 million or $0.96 per share of additional CECL provision in our first quarter income statement, resulting in a cumulative book value impact of $70.3 million or $1.22 per share. The $30.3 million year-to-date cumulative CECL impact, of which $4.3 million is attributable to unfunded loan commitments represents 137 basis points of our aggregate portfolio outstanding principal balance. The increase in our CECL reserve during the quarter compared to our day one adjustment was primarily driven by changes in the macroeconomic outlook, resulting from the projected impact of the COVID-19 pandemic.

In summary, we are taking a conservative posture today and will remain very selective in deploying our capital. We have a strong liquidity position. We have a conservatively built portfolio matched with lower risk, non-mark-to-market liabilities, and finally, we believe that the actions we took coming into this environment have and will continue to position KREF well. Thank you again for joining us today, and now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster.

The first question comes from Jade Rahmani of KBW. Please go ahead.

Jade Rahmani
Thank you very much, and glad to hear from everyone. In terms of the magnitude of deleveraging, can you put some parameters around that, perhaps? For example, should we expect credit facility borrowings outstandings to perhaps be reduced by somewhere in the range of 10% to 20% over the next quarter or so?

Patrick Mattson
Hey Jade, good morning, it's Patrick. I'll take that one So a couple of things, I guess, first, just to level set here. Obviously, we're talking about the 27% of our facilities that are not non-mark-to-market, and within these facilities, there's no capital markets. So anything that we would be doing would be proactive. Just to be clear, we haven't been margin called on any of our facilities to date, but to get to your direct question, I think we would think about something more on the lines of sort of a 5% to 10% deleveraging as opposed to a 10% to 20%.

Operator
Okay. It appears he had, I believe, accidentally disconnected himself, maybe he was unmuting himself. So, in this case, what I'll do is go to the next question, who is Stephen Laws of Raymond James. Please go ahead, sir.

Stephen Laws
Hi, thank you, good morning. Can you talk about the buyback activity and your considerations into liquidity and valuation relative to book? At what point do you -- does the buyback become less attractive and it's more about maybe building up some liquidity and dry powder to capitalize on opportunistic new investments when the market opens back up? Just any color kind of how you think about the economic return of those 2 options from here as you look forward.

Matt Salem
Yes. I can take that one. Thank you. Thanks for joining us, Stephen. It's Matt here. There is obviously an economic balance that we have to take versus preserving capital and making new loans or just against preserving liquidity, I think some of the extraordinary price action that we saw in March, obviously, let us down the path to buy back stock and we had a lot of liquidity, and I hope that's what you and our shareholders would expect us to do is be on the offensive and active in the market trying to buy back stock. Obviously, this environment makes us -- the environment makes us a little bit more cautious, but it doesn't mean we aren't going to be opportunistic when we see our stock trading at those levels, and I think we gave you a sense of how accretive it was in total, when you factor in a few of the shares that we bought post quarter end, it was around $0.22 of accretion overall to the balance sheet, and we're buying those at about a 14% dividend yield and so you think about that versus where you could potentially make new loans and the uncertainty around that, that we thought it was the right thing to do to use that capital to buy back stock?

Stephen Laws
Great. Yes, that certainly is very accretive to book value as we saw in the deck. This may have been at least somewhat down the path Jade was headed, but can you leverage, obviously, there's an accounting impact or a math impact from the CECL. How should we think about those levels going forward? Will we continue to add back that reserve and look at leverage to an adjusted equity and as you mentioned, I think, a decline of 5% to 10% on the funding balance. Will you view that new level is more of where steady state is? Or is it something that goes back up in a year or 2 back to where we were previously?

Patrick Mattson
Steven, good morning, it's Patrick. So, in terms of leverage, I guess, first, I'd say, from a portfolio standpoint, at this point, we're fully deployed. So that's the first thing. I think the second thing, as you saw, we reported that total leverage number, which includes all of our non-mark-to-market, nonrecourse, financing in there, but presented on a look-through basis, was higher. Obviously, when you back out for the CECL reserve, you'll see that we're more in line at the 3.7x, which was sort of marginally up from sort of year-end. That feels the sort of mid-3s,

mid- to high 3s, which we've talked about in the past, feels like the right sort of near-term range for us. I'm not anticipating a significant move off of that. The only thing that could change is if we proactively take some steps to reduce some of our leverage in certain facilities.

Stephen Laws
Great and lastly, looking at Page 19, loan 24 looks like the only one with a max remaining term of less than a year. It's a retail asset in Portland. Any updates there on discussions you've had with that borrower, given the near-term loan maturity?

Patrick Mattson
Right. On that facility, I guess you're talking about the facility that's maturing later this year?

Stephen Laws
Well, Loan 24 to a retail asset in Portland, Oregon. Looks like it matures in about 6 months.

Matt Salem
Right. So we're in active discussions with that sponsor regarding that loan and sort of that business plan. So that's obviously one of the ones that we're working closely with the sponsor through this crisis and managing toward that maturity date.

Stephen Laws
Okay, great. Well, appreciate the color you gave. Thank you.

Operator
Thank you. The next questioner is Jade Rahmani. I'm sorry, your line had dropped before, from KBW. Please go ahead, sir.

Jade Rahmani
Yes, thanks very much. Sorry, I'm not sure how I got cut off, but can you talk about the multifamily portfolio? I think there's somewhat of a healthy debate right now about how multifamily may perform. You mentioned 88% of it is Class A. I assume the inference being that the underlying tenants in those apartments are better equipped to deal with the economic shortfall that's being experienced right now. How do you expect multifamily to perform? And can you give any update as to your multifamily loans?

Matt Salem
Hey Jade, it's Matt. I guess I can take that. You're right in that. I think the reason we broke that out this quarter in our supplemental to provide that additional information. We've got -- I think you could see a different level of underlying tenant collections depending on obviously, the quality of the real estate, the rental level and the type of tenant and what kind of jobs they have there. So I think when we look at--I said this on our prepared remarks, but when you look at the collections in April versus March, they were in line month-over-month, and I think everybody is obviously going to look at May and see how those come through, but so far, the performance has been strong and these are predominantly, obviously, salaried employees, right, that are able to work from home while this is going on and are still, I'd say, earning an income. So I think what we're--we're always thinking about where the risks in the portfolio and clearly, if you saw a very prolonged deep contraction in the U.S. economy, and that starts to filter through to salaried, white-collar jobs, etc. That's really what we're watching and trying to understand how that could potentially come through and impact our assets.

Most of that multifamily is pretty well leased. So, it's about 74% on average leased, so it's a little bit less about the lease-up for us right now and more about the underlying collections at the property level, which is obviously a good thing. So, I think that's how we're thinking about it. I think we feel good about it today, but obviously, in a market like this, we're closely monitoring it.

Jade Rahmani
And what has been generally the tone of the actual owners of those buildings?

Matt Salem
I think they--I don't think anybody's business is usual right now, right? I think anybody that owned company on our property is taking inventory and making--looking around corners and making sure they understand what may happen, but I would say the tone has been pretty positive and constructive. I wouldn't say any of them are thinking that there's going to be a big impact at this point, but again, we've got May and June, and there'll be other data points to look at, but I'd say so far, the tone has been pretty positive.

Jade Rahmani
Can you also touch on the office portfolio? You mentioned 75% Class A. Do you expect that to be a more durable asset class? And also, is there any either direct co-working exposure or buildings that are in lease-up that have perhaps some competition from buildings that had been exposed to co-working?

Matt Salem
Yes. Let me take that one, and I'll pull up the exact co-working number here. Right now, the direct co-working number is less than 1% of our office portfolio leased by co-working tenants, and if you look at where--like, for instance, WeWork has their biggest market exposure, like New York City, San Francisco and Los Angeles in the U.S., we don't have any office assets in those top 3 markets. So obviously, co-working is a component of every market, but I don't think that we look at our portfolio today and say--we're particularly concerned about what's going on in the co-working space as it relates to existing tenancy, obviously, but also in terms of just ability to lease-up. Similar to my multifamily comment, the office assets are about 75% leased as well on average, so there is a base level of tenancy there, a base level of cash flow there that could help obviously support the property and support the debt service. So, we'll continue to follow those closely, but from where we sit today, I think we feel good about that overall exposure.

Jade Rahmani
Okay. In terms of the earnings and dividend trajectory, are there any comments you could make high level about some baseline expectations you think is reasonable to think around. I think on Blackstone's call, BXMT's call, they said the Board would make a decision regarding the dividend in June, which obviously leaves open the potential for a reduction, although they didn't say that. I want to hear how you guys are thinking about things.

Matt Salem
Sure. I'll touch on the dividend. I would say our view on the dividend hasn't changed. It's our priority to pay a cash dividend. We target a minimum of 90% of our annual taxable income. Obviously, we just paid a dividend 2 weeks ago and I think if you look at the company today, we've got lots of liquidity and additional earnings power from LIBOR floors, but similar to what you commented on before, like our Board meets in mid-June, and they'll be able to incorporate whatever new information comes out from now until that moment, and we'll make the decision at that point.

Operator
The next question comes from Rick Shane of JPMorgan. Please go ahead.

Rick Shane
Hey guys. Thanks for taking my question this morning and I just want to say how much we appreciate your disclosure. I think it's--it's very helpful. I did want to touch on some comments you guys made about draws on committed loans. You're talking about roughly $25 million a month through year-end and compare that to what you might expect in terms of repayments. If we look at Q1, repayments were about $60 million a month, so I suspect that was probably very front-loaded. Last year was $150 million a month on average. I'm curious what you would expect as we move through 2020 in terms of repayments?

Patrick Mattson
Rick, good morning, it's Patrick. I'll take that one. So, I guess, first, on the fundings, as you can imagine, it's not a precise science. So, we're forecasting out what we expect to pay, and part of that's a little bit based on what we've paid historically, but as I mentioned in the comments, there are a number of factors that could lead to a slowdown in that trajectory, including delays in capital CapEx spending. A number of our fundings are hurdled, about 1/3 of them are hurdled. So that can cause sort of further delays. So we're doing our best to sort of map that out and then as I also indicated, we would expect that--a number of those payments we will have financing against those, and so that will largely cover a good portion of our expected fundings.

On the prepayment side, if it was difficult before, it's obviously even more difficult now to assess what the repayment schedule could look like. That said, there are a number of loans just that are near stabilization that are in active discussions with lenders to refi those positions and given some of the -- the nature of the profile of the assets, the lower leverage, they're getting -- they're having dialogue with both sort of floating rate and fixed-rate lenders, so it's difficult to predict, but given the size of some of those loans, some of those prepayments could be rather meaningful as we forecast out in the second half of this year.

Rick Shane
Got it and thank you for taking an attempt to sort of dimensionalize that--those fundings as we move through the year. Look, you guys intimated to the idea that you're sort of- the portfolio is full right now, and obviously, it makes sense to preserve liquidity in order to meet those future--those commitments.

How do you have the conversation with borrowers about, hey, we're going to be shut down for a little bit? Presumably, there's not a lot of activity, anyway, but how do you manage that in terms of relationships?

Matt Salem
Yeah, it's Matt. I can take that. I think everybody is, to some extent, in a similar place and so there's not an expectation that we're kind of open and actively lending today. Quite frankly, obviously, some of its capital and being conservative and some of it's just logistics, right, like how do you go site inspect the property and how do you get an appraiser out there, and so I would say, largely, it's not just the lending community. It's also on the equity side and the acquisition side, everything has slowed down until we can get commerce going and the shelter in place starts to diminish. So, I think everyone is very- they understand that. It's not a difficult conversation. I think everybody is rooting for each other here and making sure that as the economy recovers and we can leave our homes that we can kind of get things going again from a transactional perspective.

Rick Shane
Got it. Okay. Thank you very much, guys.

Operator
The next question comes from Steve Delaney of JMP Securities. Please go ahead.

Steve Delaney
Good morning, everyone and just one question from me. I wanted to ask on your CECL reserve of $70 million. Can you comment as to whether there's any meaningful specific reserve on an individual asset in that total figure?

Mostafa Nagaty
Good morning, Steven. This is Mostafa. Thanks for the question.

Steve Delaney
Hi, Mostafa. Yeah.

Mostafa Nagaty
How are you?

Steve Delaney
Good.

Mostafa Nagaty
So, our CECL reserve is basically -- for most of our loans, it's the same approach. We use this property as a whole clause given the fourth model supported by historical loan loss data from KERF to project a low-level loss reserve for each single loan that we had. So there's not really anything outside of the ordinary other than we're just running the model. So there is no -- and the increase…

Steve Delaney
Okay. Sort of on just the portfolio, no, no -- nothing jumped out as one particular loan that required a loss reserve much greater than KREF would have indicated.

Mostafa Nagaty
That is correct and the increase was primarily driven by the macroeconomic forecast given the COVID.

Steve Delaney
COVID, sure. Yeah. Well, let me explain why I asked. So, you had $70 million. You have $5.2 million of outstanding principal, so I get roughly 135. I think you might have mentioned 137, Mostafa. Well, we had BXMT's call at 10 A.M., and we had the press releases last night, and I calculate 70 basis points for them on outstanding principles, so your reserve is almost 2x what BXMT put up and you have far less hotel in retail at 11% combined versus their 20%, not to mention their 30% foreign exposure. So not at all trying to trash them or anything, and this is new for all of us, but that was the reason for my question. I think, over time, it will be interesting--I'm sure all the analysts on this call, this is the first quarter, but I think it will be interesting to track the level of your CECL reserve versus your outstanding principal balances and I'm sure we'll figure out how to refine that, but obviously, property type is…

Mostafa Nagaty
Yes.

Steve Delaney
Go ahead. I'm sorry.

Mostafa Nagaty
Yeah, that's is a very good question, Steven. This is good observation here. I would just say that we have been very conservative on our estimates and we stayed away from making any subjective adjustments on the back end to the results, and we just kind of start with the model and just basically--the change was really driven by the macroeconomic forecast, and we believe it's a very conservative reserve, and as you said, time will tell.

Steve Delaney
Well, congrats to you for being conservative at this uncertain time and everyone, stay well. Thank you for the comments.

Operator
The next question comes from Arren Cyganovich of Citi. Please go ahead.

Arren Cyganovich
Thanks. I apologize if this has been asked. My phone has been going in and out, but have the repo lenders asked to change the advance rates at all? Are those expected to stay stable through the deleveraging?

Patrick Mattson
Arren, good morning, it's Patrick. Let me address that. I guess, first, I would say that as it relates to kind of the landscape of repo lenders, if you look across our facilities, generally, we're borrowing in kind of the 70% to 75% range. I think from our discussions with them, that's still a consistent area where they would be willing to lend.

I think across the broader market, you'll see that there is leverage that is available at a higher level, but we have not availed ourselves to that leverage on sort of repo. So I think that that's still sort of largely intact. I think we're looking to maybe be proactive here is that we've got liquidity position. If we can -- as you've seen, we've taken a lot of effort over the last few years to really bulk up the non-mark-to-market financing, and so if we can do that in our repo facilities by offering some amount of partial deleveraging in exchange for non-mark-to-market holidays, we're going to look to avail ourselves to that in this market, and so I think that that is available out there. We're exploring that, but as it relates to the existing assets on the line and for future assets, at the moment, I'm not expecting sort of a material change in leverage.

Arren Cyganovich
Thank you.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Michael Shapiro for any closing remarks.

CONCLUSION

Michael Shapiro
Thank you and thank you, everybody, for joining us today. We appreciate the time and hope that you stay well and healthy and if there's any follow-up questions, please feel free to reach out.

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

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