

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-35845



**LUMENT FINANCE TRUST, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of incorporation or organization)

**45-4966519**

(I.R.S. Employer Identification Number)

**230 Park Avenue , 20th Floor , New York , New York**

(Address of principal executive offices)

**10169**

(Zip code)

Registrant's Telephone Number, including area code ( 212 ) 317-5700

**Securities Registered Pursuant to Section 12(b) of the Act:**

Title of Each Class:	Trading Symbol(s)	Name of Exchange on Which Registered:
Common Stock, par value \$0.01 per share	LFT	New York Stock Exchange
7.875% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share	LFTPrA	New York Stock Exchange

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 x No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated Filer ☐

Non-accelerated Filer x

Smaller reporting company ☒

Emerging growth company ☐

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 ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 9, 2023
Common stock, \$0.01 par value	52,231,152

LUMENT FINANCE TRUST, INC.

TABLE OF CONTENTS

<b><u>PART I - Financial Information</u></b>		
Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets as of September 30, 2023 (unaudited) and December 31, 2022</u>	1
	<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2023 (unaudited) and September 30, 2022 (unaudited)</u>	2
	<u>Consolidated Statements of Changes in Equity for the three and nine months ended September 30, 2023 (unaudited) and September 30, 2022 (unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 (unaudited) and September 30, 2022 (unaudited)</u>	5
	<u>Notes to Unaudited Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risks</u>	40
Item 4.	<u>Controls and Procedures</u>	41
<b><u>PART II - Other Information</u></b>		41
Item 1.	<u>Legal Proceedings</u>	41
Item 1A.	<u>Risk Factors</u>	41
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 3.	<u>Defaults Upon Senior Securities</u>	41
Item 4.	<u>Mine Safety Disclosures</u>	41
Item 5.	<u>Other Information</u>	41
Item 6.	<u>Exhibits</u>	42
<u>Signatures</u>		43

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

	September 30, 2023 <sup>(1)</sup>	December 31, 2022 <sup>(1)</sup>
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 43,408,581	\$ 43,858,515
Restricted cash	6,225,360	3,507,850
Commercial mortgage loans held-for-investment, at amortized cost	1,355,547,986	1,076,148,186
Less: Allowance for credit losses	( 4,716,230 )	( 4,258,668 )
Commercial mortgage loans held-for-investment, net of allowance for credit losses	1,350,831,756	1,071,889,518
Mortgage servicing rights, at fair value	748,307	795,656
Accrued interest receivable	8,607,899	5,797,991
Investment related receivable	31,121,852	—
Other assets	2,388,093	2,116,007
Total assets	\$ 1,443,331,848	\$ 1,127,965,537
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Collateralized loan obligations and secured financings, net	1,145,317,374	829,310,498
Secured term loan, net	47,157,418	46,971,042
Accrued interest payable	3,832,841	2,360,809
Dividends payable	4,657,473	4,131,369
Fees and expenses payable to Manager	1,364,097	1,606,333
Other liabilities <sup>(2)</sup>	407,298	583,989
Total liabilities	1,202,736,501	884,964,040
<b>COMMITMENTS AND CONTINGENCIES (NOTES 10 &amp; 11)</b>		
<b>EQUITY</b>		
Preferred Stock: par value \$ 0.01 per share; 50,000,000 shares authorized; 7.875 % Series A Cumulative Redeemable, \$ 60,000,000 aggregate liquidation preference, 2,400,000 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	57,254,935	57,254,935
Common Stock: par value \$ 0.01 per share; 450,000,000 shares authorized, 52,231,152 shares issued and outstanding, at September 30, 2023 and December 31, 2022, respectively	522,312	522,252
Additional paid-in capital	314,561,930	314,598,384
Cumulative distributions to stockholders	( 174,203,387 )	( 160,724,426 )
Accumulated earnings	42,360,057	31,250,852
Total stockholders' equity	240,495,847	242,901,997
Noncontrolling interests	\$ 99,500	\$ 99,500
Total equity	\$ 240,595,347	\$ 243,001,497
Total liabilities and equity	\$ 1,443,331,848	\$ 1,127,965,537

(1) Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIEs") as the Company was the primary beneficiary of these VIEs. As of September 30, 2023 and December 31, 2022, assets of consolidated VIEs totaled \$ 1,384,961,307 and \$ 1,005,507,371, respectively and the liabilities of consolidated VIEs totaled \$ 1,149,063,668 and \$ 831,575,144 respectively. See Note 4 for further discussion.

(2) Includes \$ 35,480 and \$ 0 of Current Expected Credit Loss ("CECL") allowance related to unfunded commitments on commercial mortgage loans, net as of September 30, 2023 and December 31, 2022, respectively.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**  
Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
<b>Revenues:</b>				
Interest income:				
Commercial mortgage loans held-for-investment	\$ 31,067,350	\$ 14,743,563	\$ 74,830,619	\$ 37,386,399
Cash and cash equivalents	789,442	4,969	1,878,550	14,736
Interest expense:				
Collateralized loan obligations and secured financings	( 21,364,918 )	( 8,317,893 )	( 48,597,825 )	( 17,607,021 )
Secured term loan	( 947,509 )	( 947,509 )	( 2,811,631 )	( 2,807,362 )
Net interest income	9,544,365	5,483,130	25,299,713	16,986,752
<b>Expenses:</b>				
Management and incentive fees	1,072,569	1,096,144	3,253,205	3,111,413
General and administrative expenses	861,447	851,528	2,692,236	2,664,680
Operating expenses reimbursable to Manager	284,859	555,307	1,372,511	1,594,662
Other operating expenses	168,062	83,574	2,042,346	237,572
Compensation expense	58,750	73,016	182,444	178,797
Total expenses	2,445,687	2,659,569	9,542,742	7,787,124
<b>Other income and expense:</b>				
Provision for credit losses, net	( 791,563 )	( 1,521,023 )	( 1,166,962 )	( 1,872,937 )
Change in unrealized (loss) gain on mortgage servicing rights	1,573	37,312	( 47,350 )	265,910
Servicing income, net	70,842	62,451	167,766	185,685
Total other income and expense	( 719,148 )	( 1,421,260 )	( 1,046,546 )	( 1,421,342 )
Net income before provision for income taxes	6,379,530	1,402,301	14,710,425	7,778,286
Benefit from (provision for) income taxes	( 19,803 )	97,974	( 9,780 )	20,640
Net income	6,359,727	1,500,275	14,700,645	7,798,926
Dividends accrued to preferred stockholders	( 1,185,042 )	( 1,185,042 )	( 3,555,042 )	( 3,555,042 )
Net income attributable to common stockholders	\$ 5,174,685	\$ 315,233	\$ 11,145,603	\$ 4,243,884
<b>Earnings per share:</b>				
Net income attributable to common stockholders (basic and diluted)	\$ 5,174,685	\$ 315,233	\$ 11,145,603	\$ 4,243,884
Weighted average number of shares of common stock outstanding	52,231,152	52,231,152	52,231,152	47,031,833
Basic and diluted income per share	\$ 0.10	\$ 0.01	\$ 0.21	\$ 0.09
Dividends declared per share of common stock	\$ 0.07	\$ 0.06	\$ 0.19	\$ 0.18

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

## Consolidated Statement of Changes in Equity

(unaudited)

	Preferred Stock		Common Stock		Additional	Cumulative		Total	Noncontrolling	Total
	Shares	Value	Shares	Par Value	Paid-in	Distributions	Accumulated	Stockholders'	interests	Equity
					Capital	to	Earnings	Equity		
						Stockholders				
<b>Balance at December 31, 2022</b>	<b>2,400,000</b>	<b>\$ 57,254,935</b>	<b>52,231,152</b>	<b>\$ 522,252</b>	<b>\$ 314,598,384</b>	<b>( 160,724,426 )</b>	<b>\$ 31,250,852</b>	<b>\$ 242,901,997</b>	<b>\$ 99,500</b>	<b>\$ 243,001,497</b>
Cost of issuing common stock	—	—	—	—	( 14,040 )	—	—	\$ ( 14,040 )	—	\$ ( 14,040 )
Restricted stock compensation expense	—	—	—	—	3,358	—	—	\$ 3,358	—	\$ 3,358
Cumulative-effect adjustment upon adoption of ASU 2016-13 (Note 2)	—	—	—	—	—	—	( 3,591,440 )	\$ ( 3,591,440 )	—	\$ ( 3,591,440 )
Net income	—	—	—	—	—	—	5,766,691	\$ 5,766,691	—	\$ 5,766,691
Common stock dividends	—	—	—	—	—	( 3,133,869 )	—	\$ ( 3,133,869 )	—	\$ ( 3,133,869 )
Preferred stock dividends	—	—	—	—	—	( 1,184,958 )	—	( 1,184,958 )	—	\$ ( 1,184,958 )
<b>Balance at March 31, 2023</b>	<b>2,400,000</b>	<b>\$ 57,254,935</b>	<b>52,231,152</b>	<b>\$ 522,252</b>	<b>\$ 314,587,702</b>	<b>( 165,043,253 )</b>	<b>\$ 33,426,103</b>	<b>\$ 240,747,739</b>	<b>\$ 99,500</b>	<b>\$ 240,847,239</b>
Issuance of common stock	—	—	—	60	13,560	—	—	\$ 13,620	—	\$ 13,620
Cost of issuing common stock	—	—	—	—	( 14,196 )	—	—	\$ ( 14,196 )	—	\$ ( 14,196 )
Restricted stock compensation expense	—	—	—	—	( 10,784 )	—	—	\$ ( 10,784 )	—	\$ ( 10,784 )
Net income	—	—	—	—	—	—	2,574,227	\$ 2,574,227	—	\$ 2,574,227
Common stock dividends	—	—	—	—	—	( 3,133,869 )	—	\$ ( 3,133,869 )	—	\$ ( 3,133,869 )
Preferred stock dividends	—	—	—	—	—	( 1,185,042 )	—	\$ ( 1,185,042 )	—	\$ ( 1,185,042 )
<b>Balance at June 30, 2023</b>	<b>2,400,000</b>	<b>\$ 57,254,935</b>	<b>52,231,152</b>	<b>\$ 522,312</b>	<b>\$ 314,576,282</b>	<b>( 169,362,164 )</b>	<b>\$ 36,000,330</b>	<b>\$ 238,991,695</b>	<b>\$ 99,500</b>	<b>\$ 239,091,195</b>
Cost of issuing common stock	—	—	—	—	( 14,352 )	—	—	\$ ( 14,352 )	—	\$ ( 14,352 )
Net income	—	—	—	—	—	—	6,359,727	\$ 6,359,727	—	\$ 6,359,727
Common dividends declared	—	—	—	—	—	( 3,656,181 )	—	\$ ( 3,656,181 )	—	\$ ( 3,656,181 )
Preferred dividends declared	—	—	—	—	—	( 1,185,042 )	—	\$ ( 1,185,042 )	—	\$ ( 1,185,042 )
<b>Balance at September 30, 2023</b>	<b>2,400,000</b>	<b>\$ 57,254,935</b>	<b>52,231,152</b>	<b>\$ 522,312</b>	<b>\$ 314,561,930</b>	<b>( 174,203,387 )</b>	<b>\$ 42,360,057</b>	<b>\$ 240,495,847</b>	<b>\$ 99,500</b>	<b>\$ 240,595,347</b>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

## Consolidated Statement of Changes in Equity

(unaudited)

	Preferred Stock		Common Stock		Additional	Cumulative		Total	Noncontrolling	Total
	Shares	Value	Shares	Value	Paid-in	Distributions	Accumulated	Stockholders'	interests	Equity
					Capital	to	Earnings	Equity		
						Stockholders				
<b>Balance at December 31, 2021</b>	2,400,000	\$ 57,254,935	24,947,883	\$ 249,434	\$ 233,833,749	( 143,449,310 )	\$ 21,387,192	\$ 169,276,000	\$ 99,500	\$ 169,375,500
Issuance of common stock	—	—	27,277,269	272,773	83,195,670	—	—	83,468,443	—	83,468,443
Cost of issuing common stock	—	—	—	—	( 2,404,070 )	—	—	( 2,404,070 )	—	( 2,404,070 )
Restricted stock compensation expense	—	—	—	—	4,638	—	—	4,638	—	4,638
Net income	—	—	—	—	—	—	2,954,799	2,954,799	—	2,954,799
Common stock dividends	—	—	—	—	—	( 3,133,509 )	—	( 3,133,509 )	—	( 3,133,509 )
Preferred stock dividends	—	—	—	—	—	( 1,184,958 )	—	( 1,184,958 )	—	( 1,184,958 )
<b>Balance at March 31, 2022</b>	2,400,000	\$ 57,254,935	52,225,152	\$ 522,207	\$ 314,629,987	( 147,767,777 )	\$ 24,341,991	\$ 248,981,343	\$ 99,500	\$ 249,080,843
Issuance of common stock	—	—	6,000	45	18,765	—	—	\$ 18,810	—	\$ 18,810
Cost of issuing common stock	—	—	—	—	( 14,196 )	—	—	\$ ( 14,196 )	—	\$ ( 14,196 )
Restricted stock compensation expense	—	—	—	—	( 14,334 )	—	—	\$ ( 14,334 )	—	\$ ( 14,334 )
Net income	—	—	—	—	—	—	3,343,852	\$ 3,343,852	—	\$ 3,343,852
Common stock dividends	—	—	—	—	—	( 3,133,869 )	—	\$ ( 3,133,869 )	—	\$ ( 3,133,869 )
Preferred stock dividends	—	—	—	—	—	( 1,185,042 )	—	\$ ( 1,185,042 )	—	\$ ( 1,185,042 )
<b>Balance at June 30, 2022</b>	2,400,000	\$ 57,254,935	52,231,152	\$ 522,252	\$ 314,620,222	( 152,086,688 )	\$ 27,685,843	\$ 247,996,564	\$ 99,500	\$ 248,096,064
Issuance of common stock	—	—	—	—	—	—	—	\$ —	—	\$ —
Cost of issuing common stock	—	—	—	—	( 14,352 )	—	—	\$ ( 14,352 )	—	\$ ( 14,352 )
Restricted stock compensation expense	—	—	—	—	3,433	—	—	\$ 3,433	—	\$ 3,433
Net income	—	—	—	—	—	—	1,500,275	\$ 1,500,275	—	\$ 1,500,275
Common dividends declared	—	—	—	—	—	( 3,133,869 )	—	\$ ( 3,133,869 )	—	\$ ( 3,133,869 )
Preferred dividends declared	—	—	—	—	—	( 1,185,042 )	—	\$ ( 1,185,042 )	—	\$ ( 1,185,042 )
<b>Balance at September 30, 2022</b>	2,400,000	\$ 57,254,935	52,231,152	\$ 522,252	\$ 314,609,303	( 156,405,599 )	\$ 29,186,118	\$ 245,167,009	\$ 99,500	\$ 245,266,509

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
<b>Cash flows from operating activities:</b>		
Net income	\$ 14,700,645	\$ 7,798,926
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of commercial mortgage loans held-for-investment discounts	( 431,009 )	( 125,098 )
Amortization of commercial mortgage loans held-for-investment premiums	16,201	55,804
Accretion of deferred loan fees	( 195,022 )	—
Amortization of deferred offering costs	( 42,588 )	( 100,219 )
Amortization of deferred financing costs	2,302,706	2,072,877
Provision for credit losses, net	1,166,962	1,872,937
Unrealized loss (gain) on mortgage servicing rights	47,350	( 265,910 )
Restricted stock compensation expense	6,194	12,547
Net change in:		
Accrued interest receivable	( 2,809,908 )	( 281,273 )
Other assets	( 272,085 )	( 310,623 )
Accrued interest payable	1,472,032	958,090
Fees and expenses payable to Manager	( 242,236 )	( 176,343 )
Other liabilities	( 205,860 )	224,987
Net cash provided by operating activities	15,513,382	11,736,702
<b>Cash flows from investing activities:</b>		
Purchase of commercial mortgage loans held-for-investment	( 517,608,525 )	( 269,596,827 )
Principal payments from commercial mortgage loans held-for-investment	203,425,029	247,335,751
Net cash (used in) investing activities	( 314,183,496 )	( 22,261,076 )
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	—	81,136,045
Proceeds from collateralized loan obligations and secured financings	317,700,000	—
Payment of deferred financing costs	( 3,809,453 )	( 119,375 )
Dividends paid on common stock	( 9,401,607 )	( 8,512,687 )
Dividends paid on preferred stock	( 3,551,250 )	( 3,551,250 )
Net cash provided by financing activities	300,937,690	68,952,733
Net increase in cash, cash equivalents and restricted cash	2,267,576	58,428,359
Cash, cash equivalents and restricted cash, beginning of period	47,366,365	18,279,052
Cash, cash equivalents and restricted cash, end of period	\$ 49,633,941	\$ 76,707,411
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 47,634,719	\$ 17,383,416
<b>Non-cash investing and financing activities information</b>		
Dividends declared but not paid at end of period	\$ 4,657,473	\$ 4,135,161

The accompanying notes are an integral part of these unaudited consolidated financial statements.

## LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023

---

### NOTE 1 – ORGANIZATION AND BUSINESS OPERATIONS

Lument Finance Trust, Inc. (together with its consolidated subsidiaries, the "Company"), is a Maryland corporation that focuses primarily on investing in, originating, financing and managing a portfolio of commercial real estate ("CRE") debt investments. The Company is externally managed by Lument Investment Management, LLC (the "Manager" or "Lument IM"). The Company's common stock is listed on the NYSE under the symbol "LFT."

The Company was incorporated on March 28, 2012 and commenced operations on May 16, 2012. The Company began trading as a publicly traded company on March 22, 2013.

The Company has elected to be taxed as a real estate investment trust ("REIT") and to comply with Sections 856 through 859 of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, the Company generally will not be subject to U.S. federal income tax to the extent of its distributions to stockholders and if certain asset, income and share ownership tests are met.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Presentation*

The unaudited consolidated financial statements and related notes have been prepared in accordance with GAAP for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally included in the financial statements prepared under GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These consolidated financial statements should be read in conjunction with the Company's financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the Securities and Exchange Commission ("SEC") on March 23, 2023.

#### *Principles of Consolidation*

The accompanying consolidated financial statements of the Company include the accounts of the Company and all subsidiaries which it controls (i) through voting or similar rights or (ii) by means other than voting rights if the Company is the primary beneficiary of a variable interest entity ("VIE"). All significant intercompany transactions have been eliminated on consolidation.

#### *Use of Estimates*

The financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires the Company to make a number of significant estimates. These include estimates of fair value of certain assets and liabilities, amount and timing of credit losses, prepayment rates, and other estimates that affect the reported amounts of certain assets and liabilities as of the date of the financial statements and the reported amounts of certain revenues and expenses during the reported period. It is likely that changes in these estimates (e.g. valuation changes due to supply and demand, credit performance, prepayments, interest rates, or other reasons) will occur in the near term. The Company's estimates are inherently subjective in nature and actual results could differ from its estimates and the differences may be material.

#### *VIEs*

An entity is considered a VIE when any of the following applies: (1) the equity investors (if any) lack one or more essential characteristics of a controlling financial interest; (2) the equity investment at risk is not sufficient to finance that entity's activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. The Company consolidates VIEs in which it is considered to be the primary beneficiary. The primary beneficiary is defined as the entity having both the following characteristics: (1) the power to direct activities that, when taken together, most significantly impact the VIE performance; and (2) the obligation to absorb losses and right to receive returns from the VIE that would be significant to the VIE.

The Company evaluates quarterly its junior retained notes and preferred shares of LFT CRE 2021-FL1, Ltd. and LMF 2023-1, LLC for potential consolidation. At September 30, 2023, the Company determined it was the primary beneficiary of LFT CRE 2021-FL1, Ltd. and LMF 2023-1, LLC based on its power to direct the activities that most significantly impact the economic performance of LFT 2021-FL1, Ltd. and LMF 2023-1, LLC and its obligation to absorb losses derived from ownership of its junior retained notes and preferred shares. Accordingly, the Company consolidated the assets, liabilities, income and expenses of the underlying issuing entities. The Company's maximum exposure to loss from collateralized loan obligations ("CLO") and secured financings was \$ 234,850,000 and \$ 166,250,000 at September 30, 2023 and December 31, 2022, respectively.

#### *Collateralized Loan Obligations and Secured Financings*

CLOs and secured financings represent third-party liabilities of LFT CRE 2021-FL1, Ltd. and LFT CRE 2021-FL1, LLC (collectively, the "2021-FL1 CLO") and LMF 2023-1, LLC ("LMF 2023-1 Financing"). The 2021-FL1 CLO and LMF 2023-1 Financing are VIEs and management has determined that the Company is the primary beneficiary of the 2021-FL1 CLO and LMF 2023-1 Financing. Accordingly, the Company consolidates the assets, liabilities (other than the below investment grade-rated notes and preferred shares of the 2021-FL1 CLO and LMF 2023-1 Financing retained by the Company that are eliminated on consolidation), income and expense of the 2021-FL1 CLO and LMF 2023-1 Financing. The third-party obligations of the 2021-FL1 CLO and LMF 2023-1 Financing do not have any recourse to the Company as the consolidator of the CLO and secured financing issuing entities. The third-party obligations of the 2021-FL1 CLO and LMF 2023-1 Financing are carried at their outstanding unpaid principal balances, net of any deferred financing costs. Any premiums, discounts or deferred financing costs associated with these third-party obligations are amortized to interest expense using the effective interest method over the expected average life of the related obligations, or on a straight line basis when it approximates the effective interest method. The Company's maximum exposure to loss from CLOs and secured financings was \$ 234,850,000 and \$ 166,250,000 at September 30, 2023 and December 31, 2022, respectively.





**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In the second quarter of 2023, \$ 1,684,618 in costs related to a previously contemplated public CRE CLO were expensed as "Other operating expenses" in the statements of operations as a result abandoning the contemplated transaction due to then current capital market environment.

***Cash and Cash Equivalents and Restricted Cash***

Cash and cash equivalents at time of purchase include cash held in bank accounts on an overnight basis and other short term deposit accounts with banks having maturities of 90 days or less at time of acquisition. The Company maintains its cash and cash equivalents with highly rated financial institutions, and at times these balances exceed insurable amounts.

Restricted cash includes cash held within the 2021-FL1 CLO as of September 30, 2023 and December 31, 2022, respectively.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the statements of cash flows.

	September 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 43,408,581	\$ 43,858,515
Restricted cash held within the 2021-FL1 CLO	\$ 6,225,360	\$ 3,507,850
<b>Total cash, cash equivalents and restricted cash</b>	<b>\$ 49,633,941</b>	<b>\$ 47,366,365</b>

***Deferred Offering Costs***

Direct costs incurred to issue shares classified as equity, such as legal and accounting fees, are deducted from the related proceeds and the net amount recorded as stockholders' equity. Accordingly, payments made by the Company in respect of such costs related to the issuance of shares are recorded as an asset in the accompanying consolidated balance sheets in the line item "Other assets," for subsequent deduction from the related proceeds upon closing of the offering. To the extent that certain costs, in particular legal fees, are known to have been accrued but have not yet been invoiced and paid, they are included in "Other accounts payable and accrued expenses" on the accompanying consolidated balance sheets.

***Fair Value Measurements***

The "Fair Value Measurements and Disclosures" Topic 820 of the FASB, or ASC 820, defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurement under GAAP. Specifically, the guidance defines fair value based on exit price, or the price that would be received upon the sale of an asset or the transfer of a liability in an orderly transaction between market participants at measurement date. ASC 820 specifies a hierarchy of valuation techniques based on the inputs used in measuring fair value.

Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable market data from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels are defined as follows:

- **Level 1 Inputs** – Quoted prices for identical instruments in active markets.
- **Level 2 Inputs** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- **Level 3 Inputs** – Instruments with primarily unobservable value drivers.

Pursuant to ASC 820 we disclose fair value information about financial instruments, which are not otherwise reported at fair value in our consolidated balance sheet, to the extent it is practicable to estimate fair value for those certain instruments.

The following methods and assumptions are used to estimate the fair value of each class of financial instrument, for which it is practicable to estimate that value:

- **Cash and cash equivalents:** The carrying amount of cash and cash equivalents approximates fair value.
- **Restricted cash:** The carrying amount of restricted cash approximates fair value.
- **Commercial mortgage loans:** The Company determines the fair value of commercial mortgage loans by utilizing a pricing model based on discounted cash flow methodologies using discount rates, which reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Additionally, the Company may record fair value adjustments on a non-recurring basis when it has determined it necessary to record a specific impairment reserve or charge-off against a loan and the Company measures such specific reserve or charge-off using the fair value of the loan's collateral. To determine the fair value of loan collateral, the Company employs the income capitalization approach, appraised values, broker opinion of value, sale offers, letters of intention to purchase, or other valuation benchmarks, as applicable, depending upon the nature of such collateral and other relevant market factors.
- **Mortgage servicing rights:** The Company determines the fair value of MSRs from a third-party pricing service on a recurring basis. The third-party pricing service uses common market pricing methods that include using discounted cash flow models to calculate present value, estimated net servicing income and observed market pricing for MSR purchase and sale transactions. The model considers contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors.
- **Collateralized loan obligations:** The Company determines the fair value of collateralized loan obligations by utilizing a third-party pricing service. In determining the value of a particular investment, pricing service providers may use market spreads, inventory levels, trade and bid history, as well as market insight from clients, trading desks and global research platform.
- **Secured term loan:** The Company determines the fair value of its secured term loan based on a discounted cash flow methodology.



**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Commercial Mortgage Loans Held-for-Investment***

Commercial mortgage loans held-for-investment represent floating-rate transitional loans and other commercial mortgage loans purchased or originated by the Company. These loans include loans sold into securitizations that the Company consolidates. Commercial mortgage loans held-for-investment are intended to be held-to-maturity and, accordingly, are carried at their unpaid principal balances, adjusted for net unamortized loan fees and costs (in respect of originated loans), premiums and discounts (in respect of purchased loans) and impairment, if any.

Interest income is recognized as revenue using the effective interest method and is recorded on the accrual basis according to the terms of the underlying loan agreement. Any fees, costs, premiums and discounts associated with these loan investments are deferred and amortized over the term of the loan on a straight-line basis approximating the effective interest method. Income accrual is generally suspended and loans are placed on non-accrual status on the earlier of the date at which payment has become 90 days past due or when full and timely collection of interest and principal is considered not probable. The Company may return a loan to accrual status when repayment of principal and interest is reasonably assured under the terms of the underlying loan agreement.

As of September 30, 2023, the Company held one loan, collateralized by a multifamily property, with an unpaid principal balance of \$ 12.2 million on non-accrual status with interest collections accounted for under the cost recovery method. Additionally, as of September 30, 2023, the Company held two loans, collateralized by multifamily properties, with unpaid principal balances of \$ 56.4 million on non-accrual status with interest collections accounted for on the cash basis method.

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") and amendments, which replaces the incurred loss methodology with an expected loss model known as the Current Expected Credit Loss ("CECL") model. CECL amends the previous credit loss model to reflect a reporting entity's current estimate of all expected credit losses, not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, and off-balance sheet credit exposures such as unfunded loan commitments. The allowance for credit losses required under ASC 2016-13 is included in "Allowance for credit losses" on our consolidated balance sheets. The allowance for credit losses attributed to unfunded loan commitments is included in "Other liabilities" in the consolidated balance sheets. The initial CECL reserve recorded on January 1, 2023 is reflected as a direct charge to retained earnings on our consolidated statements of changes in equity; however subsequent changes to the CECL reserve are recognized through net income on our consolidated statements of operations. In connection with the adoption of ASU 2016-13, we recorded a \$ 3.6 million decrease to accumulated earnings as of January 1, 2023.

The Company's implementation process included a selection of a credit loss analytical model, completion and documentation of policies and procedures, changes to internal reporting processes and related internal controls and additional disclosures. A control framework for governance, data, forecast and model controls was developed to support the CECL process. Estimating an allowance for credit losses requires significant judgment and a variety of subjective assumptions, including (i) determination of relevant historical loan loss data sets, (ii) the current credit quality of loans and operating performance of loan collateral and the Company's expectations of performance and (iii) expectation of macroeconomic conditions over the relevant time period.

In the absence of any Company history of valuation reserves or realized loan losses since our inception in 2013, other than on one office loan, the Company elected to utilize a widely-used analytical model incorporating a loss-given-default methodology and loan performance data for over 100,000 commercial real estate loans dating back to 1998. The Company expects to use this data set, or variants of it, unless the Company develops its own sufficient history of realized losses. The Company determines its CECL estimate based on macroeconomic forecasts that include baseline, optimistic and pessimistic scenarios during the reasonable forecast period. The Company determined the key variables driving its CECL loss estimate are debt service coverage ratio and LTV ratio. Other notable variables include property type, property location and loan vintage.

The Company evaluates each loan rated Default Risk as to whether it is impaired on a quarterly basis. Impaired loans are individually evaluated based on the Company's quarterly assessment of each loan and assignment of a risk rating. Impairment occurs when the Company determines that the facts and circumstances of the loan deem it probable that the Company will not be able to collect all amounts due in accordance with the contractual terms of the loan. If a loan is considered to be impaired, an allowance is recorded to reduce the carrying value of the loan through a charge to the provision for (reversal of) credit losses. Impairment of these loans, all of which are deemed collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, actions of other lenders, and other factors deemed necessary by the Manager. Any loans deemed to be collateral dependent will be removed from the pool of assets measured under CECL. Actual losses, if any, could ultimately differ from estimated losses.

The following table illustrates the day-one financial statement impact of the adoption of ASU 2016-13 on January 1, 2023:

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

	Pre-adoption	Transition adjustment	Post-adoption
<b>Assets</b>			
Commercial mortgage loans, held-for-investment	\$ 1,076,148,186	\$ —	\$ 1,076,148,186
Less: Allowance for credit losses	( 4,258,668 )	( 3,549,501 )	( 7,808,169 )
Commercial mortgage loans, held-for-investment, net of allowance for credit losses	\$ 1,071,889,518	\$ ( 3,549,501 )	\$ 1,068,340,017
<b>Liabilities</b>			
Other liabilities <sup>(1)</sup>	\$ 583,989	\$ 41,939	\$ 625,928
<b>Equity</b>			
Accumulated earnings	\$ 31,250,852	\$ ( 3,591,440 )	\$ 27,659,412

(1) Includes reserve for unfunded loan commitments

Quarterly, the Company assesses the risk factors of each loan classified as held-for-investment and assigns a risk rating based on a variety of factors, including, without limitation, debt-service coverage ratio ("DSCR"), loan-to-value ratio ("LTV"), property type, geographic and local market dynamics, physical condition, leasing and tenant profile, adherence to business plan and exit plan, maturity default risk and project sponsorship. The Company's loans are rated on a 5-point scale, from least risk to greatest risk, respectively, which ratings are described as follows:

1. **Very Low Risk:** exceeds expectations and is outperforming underwriting or it is very likely that the underlying loan can be refinanced easily in the period's prevailing capital market conditions
2. **Low Risk:** meeting or exceeding underwritten expectation
3. **Moderate Risk:** consistent with underwritten expectations or the sponsor may be in the early stages of executing the business plan and the loan structure appropriately mitigates additional risks
4. **High Risk:** potential risk of default, a loss may occur in the event of default
5. **Default Risk:** imminent risk of default, a loss is likely in the event of default

**Mortgage Servicing Rights, at Fair Value**

Mortgage servicing rights ("MSRs") are associated with residential mortgage loans that the Company historically purchased and subsequently sold or securitized. MSRs are held and managed at Five Oaks Acquisition Corp. ("FOAC"), the Company's taxable REIT subsidiary ("TRS"). As the owner of MSRs, the Company is entitled to receive a portion of the interest payments from the associated residential mortgage loan, and is obligated to service, directly or through a sub-servicer, the associated loan. MSRs are reported at fair value. Residential mortgage loans for which the Company owns the MSRs are directly serviced by two sub-servicers retained by the Company. The Company does not directly service any residential mortgage loans.

MSR income is recognized at the contractually agreed upon rate, net of the costs of sub-servicers retained by the Company. If a sub-servicer with which the Company contracts were to default, an evaluation of MSR assets for impairment would be undertaken at that time.

**Secured Term Loan**

The Company and certain of its subsidiaries are party to a \$ 47.75 million credit and guaranty agreement with the lenders referred to therein and Cortland Capital Service LLC, as administrative agent and collateral agent for the lenders (the "Secured Term Loan"). The Secured Term Loan is carried at its unpaid principal balance, net of deferred financing costs. Deferred financing costs associated with this liability are amortized to interest expense on a straight line basis when it approximates the effective interest method. See Note 6 for additional information related to the Secured Term Loan.

**Common Stock**

At September 30, 2023 and December 31, 2022, the Company was authorized to issue up to 450,000,000 shares of common stock, par value \$ 0.01 per share. On February 22, 2022, the Company closed a transferable common stock rights offering and issued 27,277,269 shares of common stock. The Company had 52,231,152 shares of common stock issued and outstanding at September 30, 2023 and December 31, 2022.

**Stock Repurchase Program**

On December 15, 2015, the Company's Board of Directors (the "Board") authorized a stock repurchase program ("Repurchase Program"), to repurchase up to \$ 10 million of the Company's outstanding common stock. Subject to applicable securities laws, repurchase of common stock under the Repurchase Program may be made at times and in amounts as the Company deems appropriate, using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program, if any, will be canceled and, until reissued by the Company, will be deemed to be authorized but unissued shares of common stock. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice.

**Preferred Stock**

At September 30, 2023 and December 31, 2022, the Company was authorized to issue up to 50,000,000 shares of preferred stock, par value \$ 0.01 per share, with such

designations, voting and other rights and preferences as may be determined from time to time by the Board. On May 5, 2021, the Company issued 2,400,000 shares of 7.875 % Series A Cumulative Redeemable Preferred Stock (Series A Preferred Stock"). The Company had 2,400,000 shares of preferred stock issued and outstanding at September 30, 2023 and December 31, 2022, respectively. Our preferred stock is classified as permanent equity and carried at its liquidation preference less offering costs. See Note 12 for additional information related to our Series A Preferred Stock.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Income Taxes***

The Company has elected to be taxed as a REIT under the Code for U.S. federal income tax purposes, commencing with the Company's short taxable period ended December 31, 2012. A REIT is generally taxable as a U.S. C-Corporation; however, so long as the Company qualifies as a REIT it is entitled to a special deduction for dividends paid to stockholders not otherwise available to corporations. Accordingly, the Company generally will not be subject to U.S. federal income tax to the extent its distributions to stockholders equals, or exceeds, its REIT taxable income for the year. In addition, the Company must continue to meet certain REIT qualification requirements with respect to distributions, as well as certain asset, income and share ownership tests, in accordance with Sections 856 through 860 of the Code, as summarized below. In addition, the TRS is maintained to perform certain services and earn income for the Company that the Company is not permitted to engage in as a REIT.

To maintain its qualification as a REIT, the Company must meet certain requirements, including but not limited to the following: (i) distribute at least 90% of its REIT taxable income to its stockholders; (ii) invest at least 75% of its assets in REIT qualifying assets, with additional restrictions with respect to asset concentration risk; and (iii) earn at least 95% of its gross income from qualifying sources of income, including at least 75% from qualifying real estate and real estate related sources. Regardless of the REIT election, the Company may also be subject to certain state, local and franchise taxes. Under certain circumstances, federal income and excise taxes may be due on its undistributed taxable income. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax as a U.S. C-Corporation, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders.

Certain activities of the Company are conducted through a TRS and therefore are taxed as a standalone U.S. C-Corporation. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The TRS is not subject to a distribution requirement with respect to its REIT owner. The TRS may retain earnings annually, resulting in an increase in the consolidated book equity of the Company and without a corresponding distribution requirement by the REIT. If the TRS generates net income, and declares dividends to the Company, such dividends will be included in its taxable income and necessitate a distribution to its stockholders in accordance with the REIT distribution requirements.

The Company assesses its tax positions for all open tax years and determines whether the Company has any material unrecognized liabilities in accordance with ASC 740, Income Taxes. The Company records these liabilities to the extent the Company deems them more likely than not to be incurred. The Company's accounting policy with respect to interest and penalties is to classify these amounts as other interest expense.

***Earnings per Share***

The Company calculates basic and diluted earnings per share by dividing net income attributable to common stockholders for the period by the weighted-average shares of the Company's common stock outstanding for that period. Diluted earnings per share considers the effect of dilutive instruments, such as warrants, stock options, and unvested restricted stock, but use the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding. See Note 13 for details of the computation of basic and diluted earnings per share.

***Stock-Based Compensation***

The Company is required to recognize compensation costs relating to stock-based payment transactions in the consolidated financial statements. The Company accounts for share-based compensation using the fair-value based methodology prescribed by ASC 718, *Share-Based Payment* ("ASC 718"). Compensation cost related to restricted common stock issued to the Company's independent directors is measured at its estimated fair value at the grant date and amortized and expensed over the vesting period. See Note 9 for details of stock-based awards issuable under the Company's prior equity incentive, which expired on December 18, 2022 and is no longer being used to issue new equity awards.

***Comprehensive Income (Loss) Attributable to Common Stockholders***

For the three and nine months ended September 30, 2023 and 2022, comprehensive income equaled net income; therefore, a separate consolidated statement of comprehensive income is not included in the accompanying consolidated financial statements.

***Recently Issued and/or Adopted Accounting Standards******Credit Losses***

On January 1, 2023, we adopted ASU 2016-13, which utilizes a current expected credit loss methodology ("CECL") for the recognition of credit losses for our commercial mortgage loans held-for-investment at amortized cost, at the time the financial asset is originated or acquired. The allowance for credit losses is adjusted for each period for changes in expected credit losses. This methodology replaces the multiple impairment methods in GAAP that generally required that a loss be incurred before it is recognized. We adopted ASU 2016-13 using the modified retrospective method, therefore, the results for reporting period prior to January 1, 2023 have been unadjusted and reported in accordance with previously applicable GAAP. Upon adoption of ASU 2016-13 on January 1, 2023, the Company recorded a cumulative-effect adjustment to accumulated earnings of \$ 3.6 million, or \$ 0.07 per common share.

The CECL reserve required under ASU 2016-13 is a valuation account that is deducted from the amortized cost basis of related commercial mortgage loans on our balance sheet, which will reduce our stockholders' equity. The initial reserve recorded on January 1, 2023 was reflected as a direct charge against accumulated earnings; however, future net changes

to the CECL reserve will be recognized in net income on our consolidated statements of operations. ASU 2016-13 does not require use of a particular method for determining the CECL reserve, but it does specify the allowance should be based on relevant



**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

information about past events, including historical loss experience, composition of current commercial mortgage loan portfolio, current conditions in real estate and capital markets, and reasonable and supportable forecasts for the expected term of each loan. Additionally, but for a few narrow exceptions, ASU 2016-13 requires that all financial instruments subject to CECL incur some amount of valuation reserve to reflect the underlying principle of the CECL model, that all loans, debt securities and similar financial assets bear some inherent risk of loss regardless of credit quality, amount of subordinate capital, or other risk mitigants.

**Reference Rate Reform**

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The standard was issued to ease the accounting effects of reform to the London Interbank Offered Rate ("LIBOR") and other reference rates. The standard provides optional expedients and exceptions for applying GAAP to debt instruments, leases, derivatives and other contracts affected by reference rate reform. ASU 2020-04 generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination. The standard is effective for all entities as of March 12, 2020 through December 31, 2022 and may be elected over time as reference rate reform activities occur.

In December 2022, the FASB issued ASU 2022-06, deferring the sunset date of ASC 848, Reference Rate Reform, from December 31, 2022 to December 31, 2024. ASC 848 provides temporary relief relating to potential accounting impact relating to replacement of LIBOR or other reference rates expected to be discounted as a result of reference rate reform. As of September 30, 2023, one-month term SOFR is utilized as the floating benchmark rate on all our floating rate loans and related financings.

**NOTE 3 COMMERCIAL MORTGAGE HELD-FOR-INVESTMENT**

The following tables summarize certain characteristics of the Company's investments in commercial mortgage loans as of September 30, 2023 and December 31, 2022:

Loan Type	Unpaid Principal Balance	Carrying Value <sup>(1)</sup>	Loan Count	Weighted Average				Term (Years) <sup>(3)</sup>
				Floating Rate Loan %		Coupon <sup>(2)</sup>		
September 30, 2023								
Loans held-for-investment								
Senior secured loans <sup>(4)</sup>	\$ 1,363,109,256	\$ 1,355,547,986	87	100.0	%	8.8	%	3.0
Allowance for credit losses	N/A	( 4,716,230 )						
	1,363,109,256	1,350,831,756	87	100.0	%	8.8	%	3.0

Loan Type	Unpaid Principal Balance	Carrying Value	Loan Count	Weighted Average				
				Floating Rate Loan		Coupon <sup>(2)</sup>		Term (Years) <sup>(3)</sup>
				%				
<u>December 31, 2022</u>								
Loans held-for-investment								
Senior secured loans <sup>(4)</sup>	\$ 1,076,865,099	\$ 1,076,148,186	71	100.0	%	7.6	%	3
Allowance for credit losses	NA	( 4,258,668 )						
	1,076,865,099	1,071,889,518	71	100.0	%	7.6	%	3

(1) Carrying Value includes \$ 7,023,177 in unamortized purchase discounts as of September 30, 2023.

(2) Weighted average coupon assumes applicable one-month LIBOR of 4.18 % as of December 31, 2022 and 30-day Term Secured Overnight Financing Rate ("SOFR") of 5.33 % and 4.19 % as of September 30, 2023 and December 31, 2022, respectively, inclusive of weighted average interest rate floors of 0.41 % and 0.27 %, respectively. As of September 30, 2023, 100.0 % of the investments by total investment exposure earned a floating rate indexed to 30-day Term SOFR. As of December 31, 2022, 77.4 % of the investments by total investment exposure earned a floating rate indexed to one-month LIBOR and 22.6 % of the investments by total investment exposure earned a floating rate indexed to 30-day Term SOFR.

(3) Weighted average remaining term assumes all extension options are exercised by the borrower, provided, however, that our loans may be repaid prior to such date.

(4) As of September 30, 2023, \$ 1,338,635,160 of the outstanding senior secured loans were held in VIEs and \$ 12,196,596 of the outstanding senior secured loans were held outside of VIEs. As of December 31, 2022, \$ 996,511,403 of the outstanding senior secured loans were held in VIEs and \$ 75,378,115 of the outstanding senior secured loans were held outside VIEs.

**Activity:** For the nine months ended September 30, 2023, the loan portfolio activity was as follows:

	Commercial Mortgage Loans Held-for-Investment
<b>Balance at December 31, 2022</b>	<b>\$ 1,071,889,518</b>
Purchases, advances and originations	517,608,525
Principal payments	( 234,559,887 )
Accretion of purchase discount	431,009



**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 3 - COMMERCIAL MORTGAGE LOANS HELD-FOR-INVESTMENT (Continued)**

Amortization of purchase premium	( 16,20
Accretion of deferred loan fees	195,02
Cumulative-effect adjustment upon adoption of ASU 2016-13	( 3,549,50
Provision for credit losses, net	( 1,166,72
<b>Balance at September 30, 2023</b>	<b>\$ 1,350,831,75</b>

**Loan Risk Ratings:** As further described in Note 2, the Company evaluates the commercial mortgage loan portfolio on a quarterly basis and assigns a risk rating based on a variety of factors. The following table presents the principal balance and net book value of the loan portfolio based on the Company's internal risk ratings as of September 30, 2023 and December 31, 2022:

September 30, 2023							
Risk Rating	Number of Loans	Outstanding Principal	Amortized Cost by Year of Origination				
			2023	2022	2021	2019	2017
1	—	\$ —	—	—	—	—	—
2	7	113,292,630	—	111,578,471	—	—	—
3	59	914,218,238	—	391,872,631	493,653,236	—	19,631,380
4	18	266,994,932	—	102,420,800	163,078,861	—	—
5	3	68,603,457	—	—	31,814,789	36,781,588	—
	<b>87</b>	<b>\$ 1,363,109,257</b>	<b>—</b>	<b>605,871,902</b>	<b>688,546,886</b>	<b>36,781,588</b>	<b>19,631,380</b>

  

December 31, 2022							
Risk Rating	Number of Loans	Outstanding Principal	Amortized Cost by Year of Origination				
			2022	2021	2019	2018	2017
1	—	\$ —	—	—	—	—	—
2	11	153,933,750	85,198,084	67,999,500	—	—	—
3	55	852,474,681	101,654,140	672,421,907	42,077,193	16,672,623	19,668,071
4	3	47,448,000	15,000,000	32,448,000	—	—	—
5	2	23,008,668	—	12,750,000	—	6,000,000	—
	<b>71</b>	<b>\$ 1,076,865,099</b>	<b>201,852,224</b>	<b>785,619,407</b>	<b>42,077,193</b>	<b>22,672,623</b>	<b>19,668,071</b>

As of September 30, 2023, the average risk rating of the commercial mortgage loan portfolio was 3.4 (Moderate Risk), weighted by investment carrying value, with 75.3 % of the net carrying value of commercial loans held-for-investment rated 3 (Moderate Risk) or better by the Company's Manager.

As of December 31, 2022, the average risk rating of the commercial mortgage loan portfolio was 3.0 (Moderate Risk), weighted by investment carrying value, with 93.8 % of the net carrying value of commercial loans held-for-investment rated 3 (Moderate Risk) or better by the Company's Manager.

The average risk rating of the portfolio has increased during the nine months ended September 30, 2023. The change in underlying risk rating consisted of loans that paid off with a risk rating of "2" of \$ 34.3 million, "3" of \$ 160.0 million and a risk rating of "5" of \$ 10.8 million, offset by the purchase of commercial mortgage loans with a risk rating of "2" of \$ 63.7 million, "3" of \$ 395.3 million and "4" of \$ 32.0 million during the nine months ended September 30, 2023. Additionally, \$ 70.0 million of loans with a risk rating of "2" transitioned to a risk rating of "3," \$ 187.6 million of loans with a risk rating of "3" transitioned to a risk rating of "4" and \$ 56.0 million of loans with a risk rating of "3" transitioned to a risk rating of "5".

**Concentration of Credit Risk:** The following tables present the geographic and property types of collateral underlying the Company's commercial mortgage loans as a percentage of the loans' carrying value as of September 30, 2023 and December 31, 2022:

**Loans Held-for-Investment**

	September 30, 2023		December 31, 2022	
<b>Geography</b>				
South	44.7	%	46.6	%
Southwest	27.1		26.7	
Mid-Atlantic	15.1		12.4	
Midwest	7.3		8.0	



**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 3 - COMMERCIAL MORTGAGE LOANS HELD-FOR-INVESTMENT (Continued)**

West	5.8	6.3
Total	100.0 %	100.0
	September 30, 2023	December 31, 2022
<b>Collateral Property Type</b>		
Multifamily	93.0 %	89.6 %
Seniors Housing and Healthcare	5.6	6.4
Self-Storage	1.4	1.8
Retail	—	1.6
Office	—	0.6
Total	100.0 %	100.0 %

**Allowance for Credit Losses:**

The following table presents the changes for the three and nine months ended September 30, 2023 and September 30, 2022 in the allowance for credit losses on the outstanding balances of the Company's loans held-for-investment:

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Allowance for credit losses at beginning of period	\$ 3,897,895	\$ 351,914	\$ 4,258,668	\$ —
Cumulative-effect adjustment upon adoption of ASU 2016-13	—	—	3,549,501	—
Provision for credit losses	818,335	1,521,023	1,179,734	1,872,937
Charge offs	—	—	( 4,271,673 )	—
Allowance for credit losses at end of period	\$ 4,716,230	\$ 1,872,937	\$ 4,716,230	\$ 1,872,937

The following table presents the changes for the three and nine months ended September 30, 2023 and September 30, 2022 in the provision for (release of) credit losses on the unfunded commitments of the Company's loans held-for-investment:

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Allowance for credit losses at beginning of period	\$ 55,941	\$ —	\$ —	\$ —
Cumulative-effect adjustment upon adoption of ASU 2016-13	—	—	41,939	—
(Reversal of) credit losses	( 26,772 )	—	( 12,770 )	—
Charge offs	—	—	—	—
Allowance for credit losses at end of period	\$ 29,169	\$ —	\$ 29,169	\$ —

We did not have any impaired loans, non-accrual loans, or loans in maturity default other than the loans discussed below as of September 30, 2023 or December 31, 2022.

In February 2023, in connection with the sale of the office building collateralizing an impaired loan by the borrower to an unaffiliated third-party, the Company accepted a discounted payoff of approximately \$ 6.0 million on the impaired loan, which had an unpaid principal balance of \$ 10.3 million. An allowance for credit loss of \$ 4.3 million was recorded for this impaired loan in the year ended December 31, 2022. Upon the discounted payoff, a \$ 4.3 million charge off against the allowance for credit losses was recorded, with de minimis impact to income in the nine months ended September 30, 2023.

During the period ended September 30, 2023, management identified three loans, collateralized by multifamily properties, with an unpaid principal value of \$ 68.6 million as impaired due to actual or expected monetary default; however, no specific asset reserves were required after analysis of underlying collateral value. These loans are on non-accrual status as a result of actual or expected monetary default and impaired loan classification.

**NOTE 4 - USE OF SPECIAL PURPOSE ENTITIES AND VARIABLE INTEREST ENTITIES**

We account for CLO transactions and secured financings on our consolidated balance sheet as financing facilities. The issuing entities for our CLOs and secured financings are VIEs for which we are the primary beneficiary and are consolidated in our financial statements. The investment grade tranches are treated as secured financings, and are non-recourse to us. See Note 2 ("Summary of Significant Accounting Policies - Principles Consolidation - VIE" and "Collateralized Loan Obligations")) for further discussion.

On June 14, 2021, the Company completed the 2021-FL1 CLO, issuing eight tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling \$ 903.8 million. Of the total CLO notes issued \$ 833.8 million were investment grade notes issued to third party investors and \$ 70 million were below investment-grade notes retained by us. In addition, a \$ 96.25 million equity interest in the portfolio was retained by us. The financing has an initial two-and-a-half year reinvestment period that allows principal proceeds of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the



**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 4 – USE OF SPECIAL PURPOSE ENTITIES AND VARIABLE INTEREST ENTITIES (Continued)**

satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Initially, the proceeds of the issuance of the securities also included \$ 330.3 million for the purpose of acquiring additional loan obligations or a period of up to 180 days from the 2021-FL1 CLO closing date, resulting in the issuer owning loan obligations with a face value of \$ 1.0 billion, representing leverage of 83 %.

On July 12, 2023, the Company entered into and closed a matched-term non-recourse collateralized commercial real estate financing (the "LMF 2023-1 Financing"), secured by \$ 386.4 million of first lien floating-rate multifamily mortgage assets and is not subject to margin calls or additional collateralization requirements. In connection with the LMF 2023-1 Financing, approximately \$ 270.4 million of an investment grade-rated senior secured floating rate loan was provided by a private lender and approximately \$ 47.3 million of investment grade-rated notes (collectively, the "Senior Debt") were issued and sold to an affiliate of LFT's external manager, Lument IM. A consolidated subsidiary of LFT retained the subordinate interests in the issuing vehicle of approximately \$ 68.6 million. The Senior Debt has an initial weighted average spread of approximately 314 basis points over 30-day Term SOFR, excluding fees and transaction costs. The Senior Debt matures on the payment date in July 2032, unless it is sooner repaid or redeemed in accordance with its terms. The financing has an initial two year reinvestment period that allows principal proceeds of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid.

The 2021-FL1 CLO and LMF 2023-1 Financing are subject to collateralization and coverage tests that are customary for these types of securitizations. As of September 30, 2023 and December 31, 2022 all such collateralization and coverage tests in the 2021-FL1 CLO and LMF 2023-1 Financing were met.

The carrying values of the Company's total assets and liabilities related to the 2021-FL1 CLO and LMF 2023-1 Financing at September 30, 2023 and December 31, 2022 included the following VIE assets and liabilities:

ASSETS	September 30, 2023	December 31, 2022
Cash, cash equivalents and restricted cash	\$ 6,225,360	\$ 3,507,850
Accrued interest receivable	8,607,899	5,488,118
Investment related receivable	31,121,852	—
Loans held for investment, net of allowance for credit losses	1,339,006,196	996,511,403
<b>Total Assets</b>	<b>\$ 1,384,961,307</b>	<b>\$ 1,005,507,371</b>
LIABILITIES		
Accrued interest payable	\$ 3,746,294	\$ 2,264,646
Collateralized loan obligations <sup>(1)</sup>	1,145,317,374	829,310,498
<b>Total Liabilities</b>	<b>\$ 1,149,063,668</b>	<b>\$ 831,575,144</b>
Equity	235,897,639	173,932,227
<b>Total liabilities and equity</b>	<b>\$ 1,384,961,307</b>	<b>\$ 1,005,507,371</b>

(1) The stated maturity of the collateral loan obligations per the terms of the underlying collateralized loan obligation agreement is June 14, 2039 for the 2021-FL1 CLO and the stated maturity of the secured financing per the terms of the underlying indenture is July 20, 2032.

The following tables present certain loan and borrowing characteristics of the 2021-F1 CLO and LMF 2023-1 Financing as of September 30, 2023 and December 31, 2022:

As of September 30, 2023						
Collateralized Loan Obligations/Financings	Count	Principal Value		Carrying Value <sup>(1)</sup>	Wtd. Avg. Coupon <sup>(2)</sup>	
Collateral (loan investments)	86	\$	1,350,912,660	\$	1,339,006,196	8.89 %
Financing provided	2	\$	1,151,450,000	\$	1,145,317,374	7.32 %
As of December 31, 2022						
Collateralized Loan Obligations	Count	Principal Value		Carrying Value <sup>(1)</sup>	Wtd. Avg. Coupon <sup>(2)</sup>	
Collateral (loan investments)	64	\$	996,492,150	\$	996,511,403	7.60 %
Financing provided	1	\$	833,750,000	\$	829,310,498	5.75 %

(1) The carrying value of the collateral is net of purchase discounts of \$ 7,023,177 as of September 30, 2023. The carrying value for the 2021-FL1 CLO is net of debt issuance costs of \$ 2,548,732 and \$ 4,439,502 for September 30, 2023 and December 31, 2022, respectively and the carrying value for LMF 2023-1 Financing is net of debt issuance costs of \$ 3,583,894 .

(2) Weighted average coupon for loan investments assumes applicable one-month LIBOR of 4.18 % as of December 31, 2022 and 30-day SOFR of 5.33 % and 4.19 % as of September 30, 2023 and December 31, 2022, respectively, inclusive of weighted average interest rate floors of 0.41 % and 0.25 %, and spreads of 3.56 % and 3.41 %, respectively. As of September 30, 2023, 100.0 % of the investments by total investment exposure earned a





**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 4 – USE OF SPECIAL PURPOSE ENTITIES AND VARIABLE INTEREST ENTITIES (Continued)**

floating rate indexed to 30-day Term SOFR. As of December 31, 2022, 80.4 % of the investments by total investment exposure earned a floating rate indexed to one-month LIBOR and 19.6 % of the investments by total investment exposure earned a floating rate indexed to 30-day Term SOFR. Weighted coupon for the financings assumes applicable 30-day SOFR of 5.34 % as of September 30, 2023 and one-month LIBOR of 4.32 % as of December 31, 2022 and spreads of 1.99 % and 1.43 % for September 30, 2023 and December 31, 2022, respectively.

The statement of operations related to the 2021-FL1 CLO and LMF 2023-1 Financing for the three and nine months ended September 30, 2023 and September 30, 2022 include the following income and expense items:

Statements of Operations	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022
Interest income	\$ 30,984,016	\$ 13,907,856
Interest expense	( 21,364,918 )	( 8,317,893 )
Net interest income	\$ 9,619,098	\$ 5,589,963
Provision for credit losses	( 895,228 )	351,914
General and administrative fees	( 201,928 )	( 145,418 )
Net income	\$ 8,521,942	\$ 5,796,459

Statements of Operations	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Interest income	\$ 73,312,906	\$ 35,454,425
Interest expense	( 48,597,825 )	( 17,607,021 )
Net interest income	\$ 24,715,081	\$ 17,847,404
Provision for credit losses	( 1,403,015 )	—
General and administrative fees	( 527,171 )	( 469,785 )
Net income	\$ 22,784,895	\$ 17,377,619

**NOTE 5 - RESTRICTED CASH**

The 2021-FL1 CLO and LMF 2023-1 Financing have reinvestment periods of 30 and 24 months that expire in December 2023 and July 2025, respectively. As loans payoff, during these reinvestment periods, cash received is restricted and the Company has the capability to reinvest the cash within the 2021-FL1 CLO or LMF 2023-1 Financing in accordance with the terms and conditions of their respective governing agreements.

**NOTE 6 - SECURED TERM LOAN**

On January 15, 2019, the Company, together with its FOAC and Lument CMT Equity subsidiaries (together with the Company, the "Credit Parties"), entered into the Secured Term Loan, as amended on February 13, 2019, July 9, 2020, April 21, 2021 and February 22, 2022 with the lenders party thereto and Cortland Capital Market Services, LLC, as administrative agent (in such capacity, the "Agent"), providing for a term facility ("Credit Agreement") to be drawn in an aggregate principal amount of \$ 40.25 million with a maturity of 6 years.

The borrowings under the Secured Term Loan are joint and several obligations of the Credit Parties. In addition, the Credit Parties' obligations under the Secured Term Loan are secured by substantially all the assets of the Credit Parties through pledge and security documentation. Amounts advanced under the Secured Term Loan are subject to compliance with a borrowing base comprised of assets of the Credit Parties and certain of their subsidiaries, and include senior and subordinated CRE mortgage loans, preferred equity in CRE assets (directly or indirectly), CRE construction mortgage loans and certain types of equity interests (the "Eligible Assets"). Borrowings under the Secured Term Loan bear interest at a fixed rate of 7.25 % for the six-year period following the initial draw-down, which is subject to step up by 0.25 % for the first four months after the sixth anniversary of the borrowing of the Senior Secured Term Loan, then by 0.375 % for the following four months, then by 0.50 % for the last four months until maturity.

In response to the continued COVID-19 pandemic, on July 9, 2020, the Company entered into the Second Amendment to the Credit and Guaranty Agreement. This amendment provides the Company with additional flexibility to effectively manage any potential borrower distress related to COVID-19 that were not originally contemplated in loan documentation.

On April 21, 2021, the Company, together with its Credit Parties, entered into an amendment (the "Third Amendment") to the Credit and Guaranty Agreement. The amendment, among other things, (i) provides the Company with an incremental secured term loan in the aggregate principal amount of \$ 7.5 million; (ii) extends the maturity date of the Secured Term Loan from February 14, 2025 to February 14, 2026; (iii) amends certain asset concentration limits and (iv) amends certain financial covenants. On May 5, 2021 the Third Amendment became effective. On August 23, 2021, the Company drew down the \$ 7.5 million incremental secured term loan.

On February 14, 2019, the Company drew on the Secured Term Loan in the aggregate principal amount of \$ 40.25 million generating net proceeds of \$ 39.2 million. The outstanding balance of the Secured Term Loan in the table below is presented gross of deferred financing costs (\$ 592,582 and \$ 778,958 at September 30, 2023 and December 31, 2022, respectively). As of September 30, 2023 and December 31, 2022, the outstanding balance and total commitment under the Credit Agreement consisted of the following:



**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 6 – SECURED TERM LOAN (Continued)**

	September 30, 2023		December 31, 2022	
	Outstanding Balance	Total Commitment	Outstanding Balance	Total Commitment
Secured Term Loan	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000
Total	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000

On February 22, 2022, the Company, together with its Credit Parties, entered into a fourth amendment to the Credit and Guaranty Agreement. This amendment waived the step-down provisions of the maximum total net leverage financial covenant in connection with the February 2022 rights offering, however the step-down provision remains in place for future capital raises.

The Credit Agreement contains affirmative and negative covenants binding the Company and its subsidiaries that are customary for credit facilities of this type, including, but not limited to: minimum asset coverage ratio; minimum unencumbered assets ratio; maximum total net leverage ratio; minimum tangible net worth; and an interest charge coverage ratio. As of September 30, 2023 and December 31, 2022 we were in compliance with these covenants.

The Credit Agreement contains events of default that are customary for facilities of this type, including, but not limited to, nonpayment of principal, interest, fees and other amounts when due, violation of covenants, cross default with material indebtedness, and change of control.

**NOTE 7 - MSRs**

As of September 30, 2023, the Company retained the servicing rights associated with an aggregate principal balance of \$ 68,979,603 of residential mortgage loans that the Company had previously transferred to residential mortgage loan securitization trusts. The Company's MSRs are held and managed at the Company's taxable REIT subsidiary ("TRS"), and the Company employs two licensed sub-servicers to perform the related servicing activities.

The following table presents the Company's MSR activity for the nine months ended September 30, 2023 and the nine months ended September 30, 2022:

	September 30, 2023	September 30, 2022
Balance at beginning of period	\$ 795,656	\$ 551,997
Changes in fair value due to:		
Changes in valuation inputs or assumptions used in valuation model	14,744	358,436
Other changes to fair value <sup>(1)</sup>	( 62,093 )	( 92,526 )
Balance at end of period	\$ 748,307	\$ 817,907
Loans associated with MSRs <sup>(2)</sup>	\$ 68,979,603	\$ 76,207,213
MSR values as percent of loans <sup>(3)</sup>	1.08 %	1.07 %

(1) Amounts represent changes due to realization of expected cash flows and prepayment of principal of the underlying loan portfolio.

(2) Amounts represent the unpaid principal balance of loans associated with MSRs outstanding at September 30, 2023 and September 30, 2022, respectively.

(3) Amounts represent the carrying value of MSRs at September 30, 2023 and September 30, 2022, respectively divided by the outstanding balance of the loans associated with these MSRs.

The following table presents the servicing income recorded on the Company's consolidated statements of operations for the three and nine months ended September 30, 2023 and September 30, 2022:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022
Servicing income, net	\$ 70,842	\$ 62,451
Total servicing income	\$ 70,842	\$ 62,451
	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Servicing income, net	\$ 167,766	\$ 185,685
Total servicing income	\$ 167,766	\$ 185,685

**NOTE 8 - FAIR VALUE**

The following tables summarize the valuation of the Company's assets and liabilities carried at fair value on a recurring basis within the fair value hierarchy levels as of September 30, 2023 and December 31, 2022:



**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 8 – FAIR VALUE (Continued)**

September 30, 2023				
	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Unobservable inputs Level 3	Balance as of September 30, 2023
Assets:				
Mortgage servicing rights	—	—	\$ 748,307	\$ 748,307
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 748,307</b>	<b>\$ 748,307</b>

December 31, 2022				
	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Unobservable inputs Level 3	Balance as of December 31, 2022
Assets:				
Mortgage servicing rights	—	—	\$ 795,656	\$ 795,656
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 795,656</b>	<b>\$ 795,656</b>

As of September 30, 2023 and December 31, 2022, the Company had \$ 748,307 and \$ 795,656 , respectively, in Level 3 assets. The Company's Level 3 assets are comprised of MSRs. For more detail about Level 3 assets, also see Notes 2 and 7.

The following table provides quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's MSRs classified as Level 3 fair value assets at September 30, 2023 and December 31, 2022:

As of September 30, 2023			
Valuation Technique	Unobservable Input	Range	Weighted Average
Discounted cash flow	Constant prepayment rate	8.0 - 8.4 %	8.0 %
	Discount rate	12.0 %	12.0 %
As of December 31, 2022			
Valuation Technique	Unobservable Input	Range	Weighted Average
Discounted cash flow	Constant prepayment rate	8.0 - 9.4 %	8.1 %
	Discount rate	12.0 %	12.0 %

As discussed in Note 2, GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. The following table details the carrying amount, face amount and fair value of the financial instruments described in Note 2:

September 30, 2023				
	Level in Fair Value Hierarchy	Carrying Value	Face Amount	Fair Value
Assets:				
Cash and cash equivalents	1	\$ 43,408,581	\$ 43,408,581	\$ 43,408,581
Restricted cash	1	6,225,360	6,225,360	6,225,360
Commercial mortgage loans held-for-investment, net	3	1,350,831,756	1,363,586,916	1,350,607,602
<b>Total</b>		<b>\$ 1,400,465,697</b>	<b>\$ 1,413,220,857</b>	<b>\$ 1,400,241,543</b>
Liabilities:				
Collateralized loan obligations	2	\$ 1,145,317,374	\$ 1,151,450,000	\$ 1,132,023,500
Secured Term Loan	3	47,157,418	47,750,000	44,901,940
<b>Total</b>		<b>\$ 1,192,474,792</b>	<b>\$ 1,199,200,000</b>	<b>\$ 1,176,925,440</b>

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 8 – FAIR VALUE (Continued)**

December 31, 2022				
	Level in Fair Value Hierarchy	Carrying Value	Face Amount	Fair Value
<b>Assets:</b>				
Cash and cash equivalents	1	\$ 43,858,515	\$ 43,858,515	\$ 43,858,515
Restricted cash	1	3,507,850	3,507,850	3,507,850
Commercial mortgage loans held-for-investment, net	3	1,071,889,518	1,076,865,099	1,064,407,588
<b>Total</b>		<b>\$ 1,119,255,883</b>	<b>\$ 1,124,231,464</b>	<b>\$ 1,111,773,953</b>
<b>Liabilities:</b>				
Collateralized loan obligations	2	\$ 829,310,498	\$ 833,750,000	\$ 803,308,375
Secured term loan	3	46,971,042	47,750,000	44,563,236
<b>Total</b>		<b>\$ 876,281,540</b>	<b>\$ 881,500,000</b>	<b>\$ 847,871,611</b>

Estimates of cash and cash equivalents and restricted cash are measured using quoted prices, or Level 1 inputs. Estimates of the fair value of collateralized loan obligations are measured using observable, quoted market prices, in active markets, or Level 2 inputs. All other fair value significant estimates are measured using unobservable inputs, or Level 3 inputs. See Note 2 for further discussion regarding fair value measurement of certain of our assets and liabilities.

**NOTE 9 - RELATED PARTY TRANSACTIONS**
**Management and Incentive Fee**

The Company is externally managed and advised by the Manager. Pursuant to the terms of the management agreement, the Company pays the manager a management fee equal to 1.5 % of Stockholders' Equity per annum, calculated and payable quarterly ( 0.375 % per quarter) in arrears. For purposes of calculating the management fee, the Company's stockholders' equity includes the sum of the net proceeds from all issuances of the Company's equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus the Company's retained earnings at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less any amount that the Company paid for repurchases of the Company's common stock since inception, and excluding any unrealized gains, losses or other items that did not affect realized net income (regardless of whether such items were included in other comprehensive income or loss, or in net income). This amount will be adjusted to exclude one-time events pursuant to changes in GAAP and certain non-cash items after discussions between the Manager and the Company's independent directors and approval by a majority of the Company's independent directors. To the extent asset impairment reduces the Company's retained earnings at the end of any completed calendar quarter, it will reduce the management fee for such quarter. The Company's stockholders' equity for the purposes of calculating the management fee could be greater than the amount of stockholders' equity shown on the consolidated financial statements. Additionally, starting in the first full calendar quarter following January 3, 2020, the Company is also required to pay the Manager a quarterly incentive fee equal to 20 % of the excess of Core Earnings (as defined in the management agreement) over the product of (i) Stockholders' Equity as of the end of such fiscal quarter, and (ii) 8 % per annum. The term of our management agreement expires on January 3, 2024, with automatic, one-year renewals thereafter.

For the three months ended September 30, 2023, the Company incurred management fees of \$ 1,072,569 (September 30, 2022: \$ 1,096,144 ), recorded as "Management and incentive fees" in the consolidated statement of operations, of which \$ 1,080,000 (September 30, 2022: \$ 1,095,000 ) was accrued but had not been paid, included in "Fees and expenses payable to Manager" in the consolidated balance sheets.

For the three months ended September 30, 2023 and the three months ended September 30, 2022, the Company did not incur any incentive fees.

For the nine months ended September 30, 2023, the Company incurred management fees of \$ 3,253,205 (September 30, 2022: \$ 3,111,413 ), recorded as "Management and incentive fees" in the consolidated statement of operations, of which \$ 1,080,000 (September 30, 2022: \$ 1,095,000 ) was accrued but had not been paid, included in "Fees and expenses payable to Manager" in the consolidated balance sheets.

For the nine months ended September 30, 2023 and the nine months ended September 30, 2022, the Company did not incur any incentive fees.

**Expense Reimbursement**

Pursuant to the management agreement, the Company is required to reimburse the Manager for operating expenses related to the Company incurred by the Manager, including accounting, auditing and tax services, technology and office facilities, operations, compliance, legal and filing fees, and miscellaneous general and administrative costs, including the cost of non-investment management personnel of the Manager who spend all or a portion of their time managing the Company's affairs. The Manager has agreed to certain limitations on manager expense reimbursement from the Company.

For the three months ended September 30, 2023, the Company incurred reimbursable expenses of \$ 284,859 (September 30, 2022: \$ 555,307 ), recorded as "operating expenses reimbursable to Manager" in the consolidated statement of operations, of which \$ 284,097 (September 30, 2022: \$ 553,799 ) was accrued but had not yet been paid, included in "fees and expenses payable to Manager" in the consolidated balance sheets. Per the management agreement, any exit fees waived by the Company as a result of permanent financing by the Manager or any of its affiliates, shall result in a reduction to reimbursed expenses by an amount equal to 50 % of the amount of any such waived exit fee. For the three months ended September 30, 2023, the Company waived \$ 608,180 in gross exit fees, reducing reimbursed expenses by \$ 304,090 and for the three months ended September 30, 2022, the Company waived \$ 204,400 in gross exit fees, reducing reimbursed expenses due to the Manager by \$ 102,200 .



**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 9 - RELATED PARTY TRANSACTIONS (Continued)**

For the nine months ended September 30, 2023, the Company incurred reimbursable expenses of \$ 1,372,511 (September 30, 2022: \$ 1,594,662 ), recorded as "operating expenses reimbursable to Manager" in the consolidated statement of operations, of which \$ 284,097 (September 30, 2022: \$ 553,799 ) was accrued but had not yet been paid, included in "fees and expenses payable to Manager" in the consolidated balance sheets. Per the management agreement, any exit fees waived by the Company as a result of permanent financing by the Manager or any of its affiliates, shall result in a reduction to reimbursed expenses by an amount equal to 50 % of the amount of any such waived exit fee. For the nine months ended September 30, 2023, the Company waived \$ 775,680 in gross exit fees, reducing reimbursed expenses by \$ 387,840 and for the nine months ended September 30, 2022, the Company waived \$ 903,947 in gross exit fees, reducing reimbursed expenses due to the Manager by \$ 451,974 .

In connection with the LMF 2023-1 Financing, Lument IM absorbed approximately \$ 1.1 million in debt issuance costs for which it did not seek reimbursement from the Company.

**Manager Equity Plan**

The Company had in place a Manager Equity Plan, which expired December 18, 2022, under which the Company had the ability to provide equity compensation to the Manager and the Company's independent directors, consultants, or officers. The Manager, in its sole discretion, could allocate any awards it received under the Manager Equity Plan to its directors, officers, employees or consultants. The Company was able to issue under the Manager Equity Plan up to 3.0 % of the total number of issued and outstanding shares of common stock (on a fully diluted basis) at the time of each award.

The following table summarizes the activity related to restricted common stock granted under the Manager Equity Plan for the nine months ended September 30, 2023 and September 30, 2022:

	Nine Months Ended September 30,			
	2023		2022	
	Shares	Weighted Average Grant Date Fair Market Value	Shares	Weighted Average Grant Date Fair Market Value
Outstanding Unvested Shares at Beginning of Period	6,000	\$ 2.27	4,500	\$ 4.18
Granted	—	—	6,000	2.27
Vested	( 6,000 )	2.27	( 4,500 )	\$ 4.18
Outstanding Unvested Shares at End of Period	<u>—</u>	<u>\$ —</u>	<u>6,000</u>	<u>\$ 2.27</u>

For the period ended September 30, 2023, the Company recognized compensation expense related to restricted common stock of \$ 6,194 (2022: \$ 12,547 ). The Company has no unrecognized compensation expense of as of September 30, 2023 (2022: \$ 9,627 ) for unvested shares of restricted common stock.

**Lument Structured Finance**

During the second quarter of 2023, the 2021-FL1 CLO purchased two loans with an aggregate unpaid principal balance of \$ 48.6 million at par from LSF and purchased two funded loan advances with an unpaid principal balance of \$ 1.7 million at par from LSF. Additionally, the 2021-FL1 CLO purchased one loan with an aggregate unpaid principal balance of \$ 6.1 million at a discount of \$ 0.1 million and purchased seventeen funded loan advances with an aggregate unpaid principal balance of \$ 16.5 million at a discount of \$ 0.2 million from LSF.

During the third quarter of 2023, the 2021-FL1 CLO purchased one loan with an aggregate unpaid principal balance of \$ 6.1 million at par and LMF 2023-1 Financing purchased three loans with an aggregate unpaid principal balance of \$ 48.8 million at par from Lument Structured Finance ("LSF"), an affiliate of our Manager and the 2021-FL1 CLO purchased one funded loan advance with an unpaid principal balance of \$ 4.0 million at par and from LSF. Additionally, the 2021-FL1 CLO purchased four loans with an unpaid principal balance of \$ 66.0 million at a discount to par of \$ 1.2 million and LMF 2023-1 Financing purchased twenty loans with an unpaid principal balance of \$ 326.9 million at a discount to par of \$ 5.9 million and one funded loan advance with an unpaid principal balance of \$ 0.4 million at par from LSF.

During the first quarter of 2022, (a) the 2021-FL1 CLO purchased eight loans with an aggregate unpaid principal balance of \$ 108.9 million at par from LSF and (b) Lument Commercial Mortgage Trust ("LCMT") purchased six loans with an aggregate unpaid principal balance of \$ 76.0 million at par from LSF.

During the second quarter of 2022, (a) the 2021-FL1 CLO purchased three loans with an aggregate unpaid principal balance of \$ 31.2 million at par from LSF and (b) LCMT purchased six loans with an unpaid principal balance of \$ 76.0 million at par from LSF.

During the third quarter of 2022, the 2021-FL1 CLO purchased five loans with an aggregate unpaid principal balance of \$ 47.5 million at par from LSF.

**Lument Real Estate Capital**

Lument Real Estate Capital, LLC ("LREC"), an affiliate of the Manager, was appointed as the servicer and special servicer with respect to mortgage assets for the 2021-FL1 CLO in June 2021 and LMF 2023-1 Financing in July 2023 and continues to serve in this role.

**Lument IM**



Lument IM was appointed as the collateral manager with respect to the 2021-FL1 CLO in June 2021 and LMF 2023-1 Financing in July 2023, and continues to serve in this role. Lument IM has agreed to waive all its entitlements to collateral management fees for so long as Lument IM or an affiliate is the collateral manager and also the manager of Lument Finance Trust, Inc.

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 9 - RELATED PARTY TRANSACTIONS (Continued)**

In connection with the LMF 2023-1 Financing, Lument IM absorbed approximately \$ 1.1 million in debt issuance costs for which it did not seek reimbursement from the Company.

***Lument Investment Holdings***

On February 22, 2022, Lument Investment Holdings purchased 13,071,895 shares of common stock from the transferable common stock rights offering at a price of \$ 3.06 per share.

***Hunt Companies, Inc.***

One of the Company's directors is also Chief Executive Officer and President of Hunt Companies, Inc. ("Hunt") and is a member of the Hunt board of directors, with which affiliates of the Manager have a commercial business relationship. The Manager's affiliates may from time to time sell commercial mortgage loans to Hunt or various of its subsidiaries and affiliates.

On February 22, 2022, an affiliate of Hunt Companies, Inc., purchased 3,524,851 shares of common stock from the transferable common stock rights offering at a price of \$ 3.06 per share.

**NOTE 10 - GUARANTEES**

The Company, through FOAC, is party to customary and standard loan repurchase obligations in respect of residential mortgage loans that it has sold into securitizations or to third parties, to the extent it is determined that there has been a breach of standard seller representations and warranties in respect of such loans. To date, the Company has not been required to repurchase any loan due to a claim of breached seller reps and warranties.

In July 2016, the Company announced that it would no longer aggregate and securitize residential mortgage loans; however, the Company sought to capitalize on its infrastructure and knowledge to become the provider of seller eligibility review and backstop services to MAXEX. MAXEX's wholly owned clearinghouse subsidiary, MAXEX Clearing LLC, formerly known as Central Clearing and Settlement LLC ("MAXEX Clearing LLC"), functions as the central counterparty with which buyers and sellers transact, and acts as the buyer's counterparty for each transaction. Pursuant to a Master Agreement dated June 15, 2016, as amended on August 29, 2016, January 30, 2017 and June 27, 2018, among MAXEX, MAXEX Clearing LLC and FOAC (the "Master Agreement"), FOAC provided seller eligibility review services under which it reviewed, approved and monitored sellers that sold loans via MAXEX Clearing LLC. Once approved, and having signed the standardized loan sale contract, the seller sold loan(s) to MAXEX Clearing LLC, and MAXEX Clearing LLC simultaneously sold loan(s) to the buyer on substantially the same terms including representations and warranties. The Master Agreement was terminated on November 28, 2018 (the "MAXEX Termination Date"). To the extent that a seller approved by FOAC prior to the MAXEX Termination Date failed to honor its obligations to repurchase a loan based on an arbitration finding that it breached its representations and warranties, FOAC was obligated to backstop the seller's repurchase obligation. The term of the backstop guarantee is the earlier of the contractual maturity of the underlying mortgage, or its earlier repayment in full; however, the incidence of claims for breaches of representations and warranties over time is considered unlikely to occur more than five years from the sale of a mortgage. FOAC's obligations to provide further seller eligibility review and backstop guarantee services terminated on the MAXEX Termination Date. Pursuant to an Assumption Agreement dated December 31, 2018, among MAXEX Clearing LLC and FOAC, MAXEX Clearing LLC assumed all of FOAC's obligations under its backstop guarantees and agreed to indemnify and hold FOAC harmless against any losses, liabilities, costs, expenses and obligations under the backstop guarantee. FOAC paid MAXEX Clearing LLC, as the replacement backstop provider, a fee of \$ 426,770 (the "Alternate Backstop Fee"). MAXEX Clearing LLC represented to FOAC in the Assumption Agreement that it (i) is rated at least "A" (or equivalent) by at least one nationally recognized statistical rating agency or (ii) has (a) adjusted tangible net worth of at least \$ 20 million and (b) minimum available liquidity equal to the greater of (x) \$ 5 million and (y) 0.1 % multiplied by the scheduled unpaid principal balance of each outstanding loan covered by the backstop guarantees. MAXEX's chief financial officer is required to certify ongoing compliance by MAXEX Clearing LLC with the aforementioned criteria on a quarterly basis and if MAXEX Clearing LLC fails to satisfy such criteria, MAXEX Clearing LLC is required to deposit into an escrow account for FOAC's benefit an amount equal to the greater of (A) the unamortized Alternate Backstop Fee for each outstanding loan covered by the backstop guarantee and (B) the product of 0.01 % multiplied by the scheduled unpaid principal balance of each outstanding loan covered by the backstop guarantees.

The maximum potential amount of future payments that the Company could be required to make under the outstanding backstop guarantees, which represents the outstanding balance of all underlying mortgage loans sold by approved sellers to MAXEX Clearing LLC, was estimated to be \$ 145 million and \$ 172 million as of September 30, 2023 and December 31, 2022, respectively, although the Company believes this amount is not indicative of the Company's actual potential losses. Amounts payable in excess of the outstanding principal balance of the related mortgage, for example any premium paid by the loan buyer or costs associated with collecting mortgage payments, are not currently estimable. Amounts that may become payable under the backstop guarantee are normally recoverable from the related seller, as well as from any payments received on (or from the sale of property securing) the mortgage loan repurchased and, as noted above, MAXEX Clearing LLC has assumed all of FOAC's obligations in respect of its backstop guarantees. Pursuant to the Master Agreement, FOAC is required to maintain minimum available liquidity equal to the greater of (i) \$ 5.0 million or (ii) 0.10 % of the aggregate unpaid principal balance of loans backstopped by FOAC, either directly or through a credit support agreement acceptable by MAXEX. As of September 30, 2023, the Company was not aware of any circumstances expected to lead to the triggering of a backstop guarantee obligation.

In addition, the Company enters into certain contracts that contain a variety of indemnification obligations, principally with the Manager, brokers and counterparties to repurchase agreements. The maximum potential future payment amount the Company could be required to pay under these indemnification obligations is unlimited. The Company has not incurred any costs to defend lawsuits or settle claims related to the indemnification obligations. As a result, the estimated fair value of these agreements is minimal. Accordingly, the Company recorded no liabilities for these agreements as of September 30, 2023.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES*****Litigation***



**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

---

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

From time to time, LFT may be involved in various claims and legal actions arising in the ordinary course of business. LFT establishes an accrued liability for legal proceedings only when those matters present loss contingencies that are both probable and reasonably estimable.

As of September 30, 2023, LFT was not involved in any material legal proceedings regarding claims or legal actions against LFT.

***Unfunded Commitments***

As of September 30, 2023, LCMT had \$ 6.7 million of unfunded commitments related to loans held in the 2021-FL1 CLO. These commitments are not reflected in the Company's consolidated balance sheets.

As of September 30, 2023, LSF, an affiliate of the Manager, had \$ 52.7 million of unfunded commitments related to loans held in the 2021-FL1 CLO. These commitments are not reflected on the Company's consolidated balance sheets.

As of September 30, 2023, LSF, had \$ 25.1 million of unfunded commitments related to loans held in LMF 2023-1 Financing. These commitments are not reflected on the Company's consolidated balance sheets.

As of December 31, 2022, LSF, had \$ 78.4 million of unfunded commitments related to loans held in the 2021-FL1 CLO. These commitments are not reflected on the Company's consolidated balance sheets.

As of December 31, 2022, LSF, had \$ 4.7 million of unfunded commitments related to loans held in LCMT. These commitments are not reflected on the Company's consolidated balance sheets.

Future loan fundings comprise funding for capital improvements, leasing costs, interest and carry costs, and fundings will vary depending on the progress of the business plan and cash flows at the mortgage assets. Therefore, the exact timing and amounts of such future loan fundings are uncertain and will depend on the current and future performance of the underlying mortgage assets.

**NOTE 12 - EQUITY*****Common Stock***

The Company has 450,000,000 authorized shares of common stock, par value \$ 0.01 per share, with 52,231,152 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively.

On February 22, 2022, the Company closed a transferable common stock rights offering. The Company issued and sold 27,277,269 shares of common stock at a price of \$ 3.06 per share resulting in gross proceeds of approximately \$ 83.5 million.

***Stock Repurchase Program***

On December 15, 2015, the Board authorized a stock repurchase program (or the "Repurchase Program"), to repurchase up to \$ 10 million of the Company's outstanding common stock. Shares of the Company's common stock may be purchased in the open market, including through block purchases, or through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b-18(b)(1) of the Securities Exchange Act of 1934, as amended. The timing, manner, price and amount of any repurchases will be determined at the Company's discretion and the program may be suspended, terminated or modified at any time for any reason. Among other factors, the Company intends to only consider repurchasing shares of the Company's common stock when the purchase price is less than the Company's estimate of the Company's current net asset value per common share. Shares of common stock repurchased by the Company under the Repurchase Program, if any, will be canceled and, until reissued by the Company, will be deemed to be authorized but unissued shares of the Company's common stock. No share repurchases have been made since January 19, 2016. Through September 30, 2023, the Company had repurchased 126,856 shares of common stock at a weighted average share price of \$ 5.09. No share repurchases have been made since January 19, 2016. As of September 30, 2023, \$ 9.4 million of common stock remained authorized for future share repurchase under the Repurchase Program.

***Preferred Stock***

At September 30, 2023 and December 31, 2022, the Company was authorized to issue up to 50,000,000 shares of preferred stock, par value \$ 0.01 per share, with 2,400,000 shares of Series A Preferred Stock issued and outstanding as of September 30, 2023 and December 31, 2022, respectively. Voting and other rights and preferences will be determined by the Board upon issuance.

On May 5, 2021, LFT issued 2,400,000 shares of Series A Preferred Stock, and received net proceeds, after underwriting discounts and commissions but before offering expenses payable by the Company, of \$ 58.1 million. The Series A Preferred Stock is redeemable, at LFT's option, at a liquidation preference price of \$ 25.00 per share plus accrued dividends commencing on May 5, 2026. Dividends on the Series A Preferred Stock are payable quarterly in arrears beginning on July 15, 2021.

***Distributions to Stockholders***

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

## Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 12 – EQUITY (Continued)**

For the 2023 taxable year to date, the Company has declared dividends to common stockholders totaling \$ 9,923,919 , or \$ 0.19 per share. The following table presents cash dividends declared by the Company on its common stock during the nine months ended September 30, 2023:

Declaration Date	Record Date	Payment Date	Dividend Amount	Cash Dividend Per Weighted Average Share
March 16, 2023	March 31, 2023	April 17, 2023	\$ 3,133,869	\$ 0.060
June 14, 2023	June 30, 2023	July 17, 2023	\$ 3,133,869	\$ 0.060
September 14, 2023	September 29, 2023	October 16, 2023	\$ 3,656,181	\$ 0.070

The following table presents cash dividends declared by the Company on its Series A Preferred stock for the nine months ended September 30, 2023:

Declaration Date	Record Date	Payment Date	Dividend Amount	Cash Dividend Per Weighted Average Share
March 16, 2023	April 3, 2023	April 17, 2023	\$ 1,181,250	\$ 0.49219
June 14, 2023	July 3, 2023	July 17, 2023	\$ 1,181,250	\$ 0.49219
September 14, 2023	October 2, 2023	October 16, 2023	\$ 1,181,250	\$ 0.49219

**Non-controlling Interests**

On November 29, 2018, LCMT, which is an indirect wholly-owned subsidiary of the Company that has elected to be taxed as a REIT for U.S. Federal income tax purposes, issued 125 shares of Series A Preferred Shares ("LCMT Preferred Shares"). Net proceeds to LCMT were \$ 99,500 representing \$ 125,000 in equity raised, less \$ 25,500 in expenses and is reflected as "Non-controlling interests" in the Company's consolidated balance sheets. Dividends on the LCMT Preferred Shares are cumulative annually, in an amount equal to 12 % of the initial purchase price plus any accrued unpaid dividends. The LCMT Preferred Shares are redeemable at any time by LCMT. The redemption price through December 31, 2020 was 1.1 x the initial purchase price plus all accrued and unpaid dividends, and the initial purchase price plus all accrued and unpaid dividends thereafter. The holders of the LCMT Preferred Shares have limited voting rights, which do not entitle the holders to participate or otherwise direct the management of LCMT or the Company. The LCMT Preferred Shares are not convertible into or exchangeable for any other property or securities of LCMT or the Company. Dividends on the LCMT Preferred Shares, which amounted to \$ 15,000 for the year ended December 31, 2022 are reflected in "Dividends to preferred stockholders" in the Company's consolidated statements of operations. As of September 30, 2023, LCMT had \$ 3,791 in accrued dividends on the LCMT Preferred Shares which are reflected in "dividends to preferred stockholders" in the Company's consolidated statements of operations of which \$ 3,791 were accrued and unpaid dividends on the LCMT Preferred Shares which are reflected in "Dividends payable" in the Company's consolidated balance sheet.

**Independent Directors Stock-for-Fees Program**

Upon the recommendation of the Compensation Committee of the Board, on April 20, 2023, the Board has adopted the Independent Directors Stock-for-Fees Program (the "Stock-for-Fees Program"). The purpose of the Stock-for-Fees Program is to promote the long-term success of the Company and further align the interests of the Company's independent directors with the interests of its stockholders by providing the independent directors with an opportunity to elect to receive their Director Fees (as defined below) in the form of shares of common stock.

Pursuant to the Stock-for-Fees Program, an independent director may elect to exchange all or a portion of such director's unpaid Director Fees for the right to receive payment of such unpaid fees in the form of shares of common stock. Such election will apply to all Director Fees that would otherwise have been paid (but for such election) in the fiscal quarter that commences after the date the independent director's election form is filed with and received by the Company and will continue for each fiscal quarter through and until the fiscal quarter that commences after such time as the director files a new election form that is received by the Company modifying or terminating such prior election or, if earlier, the date such Director terminates service on the Board. Unless otherwise approved by the Board, an election by an independent directors will be made only in an open trading window pursuant to the Company's insider trading policy. Unless otherwise approved by the Board, an independent director may not make more than one election in any six-month period of time. Any Director Fees that an independent director elects to receive in the form of shares of common stock are referred to as "Exchanged Fees."

Upon any Exchange Date (as defined below) that occurs after an independent director files an election form that is received by the Company, the independent director will be entitled to receive a number of shares of common stock determined by dividing (i) the amount of the Exchanged Fees that would otherwise have been paid to the independent director in cash on such Exchange Date but for such election, by (ii) the Fair Market Value (as defined below) of a share of common stock as of such Exchange Date, and rounding down to the nearest whole share. Any fractional amount less than the Fair Market Value of a share of common stock as of such Exchange Date will be paid in cash. Any shares of common stock acquired by an independent director pursuant to the Stock-for-Fees Program will be fully vested at all times.

The maximum aggregate number of shares of common stock issuable pursuant to the Stock-for-Fees Program is 2,611,555 . The maximum aggregate number of shares issuable to an independent director pursuant to the Stock-for-Fees Program shall not exceed 522,311 shares of common stock. The Company has not issued any shares pursuant to the Stock-for-Fees Program as of September 30, 2023.

For purposes of this Stock-for-Fees Program, the following definitions apply:

"Director Fees" means the annual retainer and meeting fees, to the extent otherwise payable in cash, payable to an independent director for services as a member of the Board.

---

**LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2023

**NOTE 12 – EQUITY (Continued)**

"Exchange Date" means any date on which the Company pays Director Fees to independent directors.

"Fair Market Value" means, with respect to an Exchange Date, the average of the closing prices of a share of the Company's common stock as reported on the composite tape for securities listed on the NYSE for the period of ten trading days ending on the trading day immediately preceding the Exchange Date.

**NOTE 13 - EARNINGS PER SHARE**

In accordance with ASC 260, outstanding instruments that contain rights to non-forfeitable dividends are considered participating securities. The Company is required to apply the two-class method or the treasury stock method of computing basic and diluted earnings per share when there are participating securities outstanding. The Company has determined that outstanding unvested restricted shares issued under the Manager Equity Plan are participating securities, and they are therefore included in the computation of basic and diluted earnings per share. The following tables provide additional disclosure regarding the computation for the three and nine months ended September 30, 2023 and September 30, 2022:

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022	
Net income		\$ 6,359,727		\$ 1,500,275
Less dividends:				
Common stock	\$ 3,656,181		\$ 3,133,869	
Preferred stock	1,185,042		1,185,042	
		4,841,223		4,318,911
<b>Undistributed earnings (deficit)</b>		<b>\$ 1,518,504</b>		<b>\$ ( 2,818,636 )</b>

	Unvested Share-Based Payment Awards		Unvested Share-Based Payment Awards	
		Common Stock		Common Stock
Distributed earnings	\$ 0.00	\$ 0.07	\$ 0.06	\$ 0.06
Undistributed earnings (deficit)	0.00	0.03	0.00	( 0.05 )
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.10</b>	<b>\$ 0.06</b>	<b>\$ 0.01</b>

	For the three months ended September 30,	
	2023	2022
Basic weighted average shares of common stock	52,231,152	52,225,152
Weighted average of non-vested restricted stock	—	6,000
Diluted weighted average shares of common stock outstanding	<b>52,231,152</b>	<b>52,231,152</b>

	Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022	
Net income		\$ 14,700,645		\$ 7,798,926
Less dividends:				
Common stock	\$ 9,923,919		\$ 9,401,247	
Preferred stock	3,555,042		3,555,042	
		13,478,961		12,956,289
<b>Undistributed earnings (deficit)</b>		<b>\$ 1,221,684</b>		<b>\$ ( 5,157,363 )</b>

	Unvested Share-Based Payment Awards		Unvested Share-Based Payment Awards	
		Common Stock		Common Stock
Distributed earnings	\$ 0.19	\$ 0.19	\$ 0.20	\$ 0.20
Undistributed earnings (deficit)	0.02	0.02	0.00	( 0.11 )
<b>Total</b>	<b>\$ 0.21</b>	<b>\$ 0.21</b>	<b>\$ 0.20</b>	<b>\$ 0.09</b>

	For the nine months ended September 30,	
	2023	2022
Basic weighted average shares of common stock	52,227,504	47,026,745
Weighted average of non-vested restricted stock	3,648	5,088
Diluted weighted average shares of common stock outstanding	<b>52,231,152</b>	<b>47,031,833</b>

#### **NOTE 14 - SEGMENT REPORTING**

The Company invests in a portfolio comprised of commercial mortgage loans and other mortgage-related investments, and operates as a single reporting segment.

#### **NOTE 15 - INCOME TAXES**

The Company has elected to be treated as a REIT under federal income tax laws. As a REIT, the Company must generally distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any capital net gain, in order for U.S. federal income not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws.

Certain activities of the Company that produce prohibited income are conducted through a TRS, FOAC, to protect REIT election and FOAC is therefore subject to tax as a U.S. C-Corporation. To maintain our REIT election, the Company must continue to meet certain ownership, asset and income requirements set forth in the Code. As further discussed below, the Company may be subject to non-income taxes on excess amounts of assets or income that cause a failure of any of the REIT testing requirements. As of September 30, 2023 and December 31, 2022, we were in compliance with all REIT requirements.

As of September 30, 2023, tax years 2019 through 2022 remain subject to examination by taxing authorities.

#### **NOTE 16 - SUBSEQUENT EVENTS**

We have evaluated subsequent events occurring through the date that these consolidated financial statements were issued, and determined that no subsequent events occurred that would require accrual or additional disclosure.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

In this Quarterly Report on Form 10-Q, or this "report," we refer to Lument Finance Trust as "we," "us," or "our," unless we specifically state otherwise or the context indicates otherwise. We refer to our external manager, Lument Investment Management, as our "Manager" or "Lument IM".

The following discussion should be read in conjunction with our consolidated financial statements and the accompanying notes to our financial statements which are included in Item 1 of this report, as well as information contained in our Annual Report on Form 10-K for the year ended December 31, 2022, or our 2022 10-K, filed with the Securities and Exchange Commission, or SEC, on March 23, 2023.

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements intended to qualify for the safe harbor contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended. Forward-looking statements are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. In addition, our management may from time to time make oral forward-looking statements. You can identify forward-looking statements by use of words such as "believe," "expect," "anticipate," "estimate," "project," "plan," "continue," "intend," "should," "may," "will," "seek," "would," "could" or the negative of these words and phrases or similar words and phrases, or by discussions of strategy, plans or intentions. Statements regarding the following subjects, among others, may be forward-looking: the return on equity; the yield on investments; the ability to borrow to finance assets; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us on the date of this quarterly report. Actual results may differ from expectations, estimates and projections. Readers are cautioned not to place undue reliance on forward-looking statements in this quarterly report and should consider carefully the risk factors described in Part I, Item 1A "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2022 in evaluating these forward-looking statements. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. It is not possible to predict or identify all such risks. Additional information concerning these and other risk factors are contained in our 2022 10-K which is available on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

### Overview

We are a Maryland corporation that is focused on investing in, originating, financing and managing a portfolio of commercial real estate ("CRE") debt investments.

In January 2020, we entered into a series of transactions with subsidiaries of ORIX Corporation USA ("ORIX USA"), a diversified financial company with the ability to provide investment capital and asset management services to clients in the corporate, real estate and municipal finance sectors. We entered into a new management agreement with Lument IM, while another affiliate of ORIX USA purchased an ownership stake of approximately 5.0% through a privately-placed stock issuance. On February 22, 2022, the affiliate purchased an additional 13,071,895 shares of common stock from the transferable common stock rights offering, increasing its beneficial ownership in the Company to approximately 27.4%. These transactions have enhanced the scale of LFT and are expected to generate shareholder value through leveraging ORIX USA's expansive originations, asset management and servicing platform.

Lument IM is an affiliate of Lument, a nationally recognized leader in multifamily and seniors housing and health care finance. The Company leverages Lument's broad platform and significant expertise when originating, underwriting and asset managing its investments.

We invest primarily in transitional floating rate CRE mortgage loans with an emphasis on middle market multifamily assets. We may also invest in other CRE-related investments including mezzanine loans, preferred equity, commercial mortgage-backed securities, fixed rate loans, construction loans and other CRE debt instruments. We finance our current investments in transitional multifamily and other CRE loans primarily through matched term non-recourse secured borrowings, including collateralized loan obligations ("CLO"), which are not subject to margin calls or additional collateralization requirements. We may utilize warehouse repurchase agreements or other forms of financing in the future. Our primary sources of income are net interest from our investment portfolio and non-interest income from our mortgage loan-related activities. Net interest income represents the interest income we earn on investments less the expense of funding these investments.

Our investments typically have the following characteristics:

- Sponsors with experience in particular real estate sectors and geographic markets;
- Located in U.S. markets with multiple demand drivers, such as growth in employment and household formation;
- Fully funded principal balance greater than \$5 million and generally less than \$75 million;
- Loan to Value ratio up to 85% of as-is value and up to 75% of as-stabilized value;
- Floating rate loans tied to one-month term SOFR, previously to one-month U.S. denominated LIBOR, and/or any applicable replacement index in the future; and
- Three-year term with two one-year extension options.

We believe that our current investment strategy provides significant opportunities to achieve attractive risk-adjusted returns for our stockholders over time. However, to capitalize on the investment opportunities at different points in the economic and real estate investment cycle, we may modify or expand our investment strategy. We believe that the flexibility of our strategy, which is supported by the significant CRE experience of Lument's investment team, and the extensive resources of ORIX USA, will allow us to take advantage of changing market conditions to maximize risk-adjusted returns for our stockholders.

We have elected to be taxed as a REIT and comply with the provisions of the Internal Revenue Code with respect thereto. Accordingly, we are generally not subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders so long as we maintain our qualification as a REIT. Our continued qualification as a REIT depends on our ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code relating to, among other things, the source of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our capital stock. Even if we maintain our qualification as a REIT, we may become subject to some federal, state and local taxes on our income generated in our wholly owned taxable REIT subsidiary, Five Oaks Acquisition Corp. ("FOAC").



## Recent Developments

The year ended December 31, 2022 and the period ended September 30, 2023 have been characterized by significant volatility in global markets, primarily driven by heightened inflation, rising interest rates, slowing economic growth, geopolitical uncertainty and instability in the banking sector following multiple regional bank failures. Central banks have responded to rapidly rising inflation with tightening monetary policy actions that have and are likely to continue to create headwinds to economic growth.

The U.S. Federal Reserve has taken action to increase interest rates in order to control inflation which has created further uncertainty for the economy and our borrowers. Although our business model is such that rising interest rates will, all else being equal, correlate to increases in our net income, increases in interest rates may adversely affect our existing borrowers' ability to meet their debt obligations and execute their property-level business plans. Additionally, the anticipated further rise in interest rates and unpredictable geopolitical landscape may cause further dislocation in the capital markets resulting in a continued reduction of available liquidity and an increase in borrowing costs. A lack of liquidity for a prolonged period of time could limit our ability to grow this business. It is difficult to predict the full impact on the debt capital markets of recent changes, and any future changes in interest rates.

## Third Quarter 2023 Summary

- On July 12, 2023, the Company entered into and closed LMF 2023-1, a collateralized commercial real estate financing, secured by \$386.4 million of first lien floating-rate multifamily mortgage assets. The financing consisted of \$270.4 million of an investment-grade rated senior secured floating rate loan that was placed with a private lender and approximately \$47.3 million of investment-grade notes that were issued and sold to an affiliate of our external Manager, Lument IM. The Company retained \$68.6 million of subordinate notes. LMF 2023-1 is a matched-term non-recourse CRE secured borrowing which is not subject to margin calls or additional collateralization requirements.
- Acquired twenty-nine loans and funded two loan advances with an initial unpaid principal balance of \$452.1 million and a weighted average interest rate of 30-day term SOFR plus 3.66%.
- On September 14, 2023, the Company announced its third quarter common dividend of \$0.07 per share of common stock, which represents a 17% increase over the second quarter dividend of \$0.06 per share of common stock.
- On September 14, 2023, the Company announced its third quarter preferred dividend of \$0.49219 per share of Series A Preferred Stock.

## Factors Impacting Our Operating Results

**Market conditions.** The results of our operations are and will continue to be affected by a number of factors and primarily depend on, among other things, the level of our net interest income, the market value of our assets and the supply of, and demand for, our target assets in the marketplace. Our net interest income, will vary primarily as a result of changes in market interest rates and prepayment speeds, and by the ability of the borrowers underlying our commercial mortgage loans to continue making payments in accordance with the contractual terms of their loans, which may be impacted by unanticipated credit events experienced by such borrowers. Interest rates vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. Our operating results will also be affected by general U.S. real estate fundamentals and the overall U.S. economic environment. In particular, our strategy is influenced by the specific characteristics of the underlying real estate markets, including prepayment rates, credit market conditions and interest rates. This year has been characterized by significant volatility in global markets, driven by investor concerns over inflation, rising interest rates, slowing economic growth, geopolitical uncertainty and instability in the banking sector.

**Changes in market interest rates.** Generally, our business model is such that rising interest rates will increase our net interest income, while declining interest rates will decrease our net interest income. As of September 30, 2023, 99.9% of our investments by total investment exposure earned a floating rate of interest, of which 100.0% were indexed to 30-day term SOFR, and all of our collateralized loan obligations and secured financings were indexed to 30-day term SOFR, and as a result we are less sensitive to variability in our net interest income resulting from interest rate changes. As of September 30, 2023, 99.0% of the loans in our commercial mortgage loan portfolio are structured with SOFR floors with a weighted average SOFR floor of 0.41%, none of which currently has a floor greater than the current spot interest rate. When interest rates are above our average interest rate floor, an increase in interest rates will increase our interest income. Alternatively, when interest rates are below our average interest rate floor, an increase in interest rates will decrease our net interest income until such time as interest rates rise above our average interest rate floor. Although our Manager is currently originating loans with SOFR floors, there can be no assurance that we will continue to obtain SOFR floors on future originations or acquisitions. Similarly, net interest income is also impacted by the spread in our commercial mortgage loan portfolio. As of September 30, 2023, the weighted average spread of our commercial loan portfolio was 3.56%, but there is no assurance that these spreads will be maintained as market environments fluctuate.

The Federal Reserve maintained the federal funds target range at 0.0% to 0.25% for much of 2021. However in March 2022, the Federal Reserve approved a 0.25% rate increase and subsequently increased rates an additional six times during 2022, raising the federal funds target range to 4.25% to 4.50%. On February 2, 2023, March 20, 2023, May 3, 2023 and July 26, 2023, the Federal Reserve approved its eighth, ninth, tenth and eleventh rate increases, increasing the federal funds target range to 5.25% to 5.50%. The Federal Reserve has indicated that they remain highly attentive to inflation risks and foresee potential for further increases in interest rates throughout 2023 and into 2024.

In addition to the risk related to fluctuations in cash flows associated with movements in interest rates, there is also the risk of non-performance on floating rate assets. In the case of significant increase in interest rates, the additional debt service payments due from our borrowers may strain the operating cash flows of the real estate assets underlying our mortgages and/or impact their ability to refinance outstanding debt at, or prior to, maturity.

On November 30, 2020, the ICE Benchmark Administration ("IBA"), with the support of the United States Federal Reserve and United Kingdom's Financial Conduct Authority ("FCA"), announced plans to consult on ceasing publication of LIBOR on December 31, 2021 for only the one week and two month LIBOR tenors, and on June 30, 2023 for all other LIBOR tenors. While this announcement extended the transition period to June 2023, the United States Federal Reserve concurrently issued a statement advising banks to stop new LIBOR issuances by the end of 2021. On March 5, 2021, the FCA confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative: (a) immediately after December 31, 2021, in the case of the one week and two month U.S. dollar settings; and (b) immediately after June 30, 2023, in the case of the remaining U.S. dollar settings. In November 2022, the FCA announced a public consultation regarding whether it should compel the IBA to continue publishing "synthetic" USD LIBOR setting from June 2023 to the end of September 2024. The Alternative Reference Rate Committee ("ARRC"), a committee convened by the Federal Reserve that includes major market participants, proposed an alternative rate to replace U.S. Dollar LIBOR: the Secured Overnight Financing Rate ("SOFR"). On July 29, 2021 the ARRC ratified term rates for the one-, three- and six-month tenors based on SOFR futures traded. As of September 30, 2023, 100.0% of our commercial loans by principal balance and 100% of our collateralized loan obligations bear interest indexed to 30-day term SOFR.



**Credit risk.** Our commercial mortgage loans and other investments are also subject to credit risk. The performance and value of our loans and other investments depend upon the sponsor's ability to operate properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us. To monitor this risk, the Manager's asset management team reviews our portfolio and maintains regular contact with borrowers, co-lenders and local market experts to monitor the performance of the underlying collateral, anticipate borrower, property and market issues and, to the extent necessary or appropriate, enforce our rights as lender. The market values of commercial mortgage assets are subject to volatility and may be adversely affected by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and potential proceeds available to a borrower to repay the underlying loans, which could also cause us to suffer losses. As of September 30, 2023, 96.4% of the commercial mortgage loans in our portfolio were current as to principal and interest. Additionally, we have reviewed the loans designated as Default Risk for impairment. Impairment of these loans, which are collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. We can provide no assurances that our borrowers will remain current as to principal and interest, or that we will not enter into forbearance agreements or loan modifications in order to protect the value of our commercial mortgage loan assets. Should that occur, it could have a material negative impact on our results of operations.

**Liquidity and financing markets.** Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to pay dividends, fund investments and repay borrowings and other general business needs. Our primary sources of liquidity have been proceeds of common or preferred stock issuances, net proceeds from corporate debt obligations, net cash provided by operating activities and other financing arrangements. We finance our commercial mortgage loans primarily with non-recourse secured borrowings, the maturities of which are matched to the maturities of the loans, and which are not subject to margin calls or additional collateralization requirements. However, to the extent that we seek to invest in additional commercial mortgage loans outside of our secured borrowings, we will in part be dependent on our ability to issue additional collateralized loan obligations, to secure alternative financing facilities or to raise additional common or preferred equity. The anticipated further rise in interest rates and unpredictable geopolitical landscape may cause a continued dislocation in the capital markets resulting in a continual reduction of available liquidity and an increase in borrowing costs. A lack of liquidity for a prolonged period of time could limit our ability to grow this business.

**Prepayment speeds.** Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, causing the return on certain investments to be less than expected. As we receive prepayments of principal on our assets, any premiums paid on such assets are amortized against interest income. In general, an increase in prepayment rates accelerates the amortization of purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates accelerates the accretion of purchase discounts, thereby increasing the interest earned on the assets. With the exception of twenty-six loans acquired and seventeen funded loan advances with an initial aggregate unpaid principal balance of \$415.8 million with an aggregate purchase discount of \$7.5 million and one loan with an aggregate unpaid principal balance of \$19.6 million with a purchase premium of \$51,251, all of our commercial mortgage loans were acquired at par. As of September 30, 2023, our aggregate unamortized purchase premium was \$3,052 and our aggregate unamortized purchase discount was \$7.0 million, and accordingly we do not believe this to be a material risk to interest income for us at present. Additionally, we are subject to prepayment risk associated with the terms of our secured borrowings. Due to the generally short-term nature of transitional floating-rate commercial mortgage loans, our secured borrowings include a reinvestment period during which principal repayments and prepayments on our commercial mortgage loans may be reinvested in similar assets, subject to meeting certain eligibility criteria. The reinvestment period for the 2021-FL1 CLO remains in place through December 2023 and for LMF 2023-1 through July 2025. While the interest-rate spreads of our secured borrowings are fixed until they are repaid, the terms, including spreads, of newly originated loans are subject to uncertainty based on a variety of factors, including market and competitive conditions, which remain uncertain and volatile in light of the current inflationary environment. To the extent that such conditions result in lower spreads on the assets in which we reinvest, we may be subject to a reduction in interest income in the future. However, our loan agreements provide for prepayment penalties which are intended to offset any potential reduction in future interest income.

**Changes in market value of our assets.** We account for our commercial mortgage loans at amortized cost. As such, our earnings will generally not be directly impacted by changes in the market values of these loans. However, if a loan is considered to be impaired as a result of adverse credit performance, an allowance is recorded to reduce the carrying value through a charge to the provision for credit losses. Impairment is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. Provisions for (reversal of) credit losses will directly impact our earnings.

**Governmental actions.** Since 2008, when both Fannie Mae and Freddie Mac were placed under the conservatorship of the U.S. government, there have been a number of proposals to reform the U.S. housing finance system in general, and Fannie Mae and Freddie Mac in particular. We anticipate debate on residential housing and mortgage reform to continue through 2023 and beyond, and as such it remains unclear what shape any reform would take and what impact, if any, reform would have on mortgage REITs.

## **Key Financial Measure and Indicators**

As a real estate investment trust, we believe the key financial measures and indicators for our business are earnings per share, dividends declared, Distributable Earnings, and book value per share of common stock. For the three months ended September 30, 2023, we recorded earnings per share of \$0.10, declared a quarterly dividend of \$0.07 per share, and reported \$0.11 per share of Distributable Earnings. In addition, our book value per share of common stock was \$3.46.

As further described below, Distributable Earnings is a measure that is not prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, which helps us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan portfolio and operations. In addition, Distributable Earnings is a performance metric we consider when declaring our dividends.



## Earnings Per Share and Dividends Declared

The following table sets forth the calculation of basic and diluted net income per share and dividends declared per share:

	Three Months Ended	
	September 30, 2023	June 30, 2023
Net income <sup>(1)</sup>	\$ 5,174,685	\$ 1,389,185
Weighted-average shares outstanding, basic and diluted	52,231,152	52,231,152
Net income per share, basic and diluted	\$ 0.10	\$ 0.03
Dividends declared per share	\$ 0.07	\$ 0.06

(1) Represents net income attributable to Lument Finance Trust, Inc.

## Distributable Earnings

Distributable Earnings is a non-GAAP financial measure, which we define as GAAP net income (loss) attributable to holders of common stock, or, without duplication, owners of our subsidiaries, computed in accordance with GAAP, including realized losses not otherwise included in GAAP net income (loss) and excluding (i) non-cash equity compensation, (ii) depreciation and amortization, (iii) any unrealized gains or losses or other similar non-cash items that are included in net income for that applicable reporting period, regardless of whether such items are included in other comprehensive income (loss) or net income (loss), and (iv) one-time events pursuant to changes in GAAP and certain material non-cash income or expense items after discussions with the Board and approved by a majority of the Company's independent directors.

While Distributable Earnings excludes the impact of any unrealized provisions for credit losses, any credit losses are charged off and realized through Distributable Earnings when deemed non-recoverable. Non-recoverability is determined (i) upon the resolution of a loan (i.e. when the loan is repaid, fully or partially, or in the case of foreclosures, when the underlying asset is sold), or (ii) with respect to any amount due under any loan, when such amount is determined to be non-collectible.

We believe that Distributable Earnings provides meaningful information to consider in addition to our net income (loss) and cash flows from operating activities determined in accordance with GAAP. We believe Distributable Earnings is a useful financial metric for existing and potential future holders of our common stock as historically, over time, Distributable Earnings has been a strong indicator of our dividends per share. As a REIT, we generally must distribute annually at least 90% of our taxable income, subject to certain adjustments, and therefore we believe our dividends are one of the principal reasons stockholders may invest in our common stock. Refer to Note 15 to our consolidated financial statements for further discussion of our distribution requirements as a REIT. Furthermore, Distributable Earnings help us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan portfolio and operations, and is a performance metric we consider when declaring our dividends.

Distributable Earnings does not represent net income (loss) or cash generated from operating activities and should not be considered as an alternative to GAAP net income (loss), or an indication of GAAP cash flows from operations, a measure of our liquidity, or an indication of funds available for our cash needs. In addition, our methodology for calculating Distributable Earnings may differ from the methodologies employed by other companies to calculate the same or similar performance measures, and accordingly, our reported Distributable Earnings may not be comparable to the Distributable Earnings reported by other companies.

The following table provides a reconciliation of Distributable Earnings to GAAP net income:

	Three Months Ended	
	September 30, 2023	June 30, 2023
Net income attributable to common stockholders	\$ 5,174,685	\$ 1,389,185
Realized loss on commercial mortgage loans	—	—
Unrealized loss on mortgage servicing rights	(1,573)	(206)
Unrealized provision for credit losses	791,563	555,083
Recognized compensation expense related to restricted common stock	—	2,836
Adjustment for income taxes	19,803	223
Distributable Earnings	\$ 5,984,478	\$ 1,947,121
Weighted-average shares outstanding, basic and diluted	52,231,152	52,231,152
Distributable Earnings per share, basic and diluted	\$ 0.11	\$ 0.04

## Book Value Per Share of Common Stock

The following table calculates our book value per share of common stock:

	September 30, 2023	June 30, 2023
Total stockholders' equity	\$ 240,495,847	\$ 238,991,695
Less preferred stock (liquidation preference of \$25.00 per share)	(60,000,000)	(60,000,000)
Total common stockholders' equity	180,495,847	178,991,695
Shares of common stock issued and outstanding at period end	52,231,152	52,231,152
Book value per share of common stock <sup>(1)</sup>	\$ 3.46	\$ 3.43





(1) Book value as of September 30, 2023 and June 30, 2023 includes the impact of an estimated CECL allowance of \$4,716,230 or \$0.09 per common share and \$3,897,895 or \$0.07 per common share, respectively.

## Investment Portfolio

### Commercial Mortgage Loans

As of September 30, 2023, we have determined that we are the primary beneficiary of the 2021-FL1 CLO. Accordingly, the Company consolidated the assets, liabilities, income and expenses of the underlying issuing entities, collateralized loan obligations.

The following table details our loan activity by unpaid principal balance:

	Commercial Mortgage Loans Held-for-Investment
<b>Balance at December 31, 2022</b>	<b>\$ 1,071,889,518</b>
Purchases and fundings	517,608,525
Proceeds from principal repayments	(234,559,887)
Accretion of purchase discount	431,009
Amortization of purchase premium	(16,201)
Accretion of deferred loan fees	195,022
Cumulative-effect adjustment upon adoption of ASU 2016-13	(3,549,501)
Release of credit losses, net	(1,166,729)
<b>Balance at September 30, 2023</b>	<b>\$ 1,350,831,756</b>

The following table details overall statistics for our loan portfolio as of September 30, 2023 and December 31, 2022:

Loan Type	Unpaid Principal		Loan Count	Weighted Average		
	Balance	Carrying Value <sup>(1)</sup>		Floating Rate Loan %	Coupon <sup>(2)</sup>	Term (Years) <sup>(3)</sup>
<u>September 30, 2023</u>						
<u>Loans held-for-investment</u>						
Senior secured loans <sup>(3)</sup>	\$ 1,363,109,256	\$ 1,355,547,986	87	100.0 %	8.8 %	3.1
Allowance for credit losses	N/A	(4,716,230)				
	<u>\$ 1,363,109,256</u>	<u>\$ 1,350,831,756</u>	<u>87</u>	100.0 %	8.8 %	3.1

  

Loan Type	Unpaid Principal		Loan Count	Weighted Average		
	Balance	Carrying Value		Floating Rate Loan %	Coupon <sup>(1)</sup>	Term (Years) <sup>(2)</sup>
<u>December 31, 2022</u>						
<u>Loans held-for-investment</u>						
Senior secured loans <sup>(3)</sup>	\$ 1,076,865,099	\$ 1,076,148,186	71	100.0 %	7.6 %	3.1
Allowance for credit losses	NA	(4,258,668)				
	<u>\$ 1,076,865,099</u>	<u>\$ 1,071,889,518</u>	<u>71</u>	100.0 %	7.6 %	3.1

(1) Carrying Value includes \$7,023,177 in unamortized purchase discounts as of September 30, 2023.

(2) Weighted average coupon assumes applicable one-month LIBOR of 4.18% as of December 31, 2022 and 30-day Term Secured Overnight Financing Rate ("SOFR") of 5.33% and 4.19% as of September 30, 2023 and December 31, 2022, respectively, inclusive of weighted average interest rate floors of 0.41% and 0.27%, respectively. As of September 30, 2023, 100.0% of the investments by total investment exposure earned a floating rate indexed to 30-day Term SOFR. As of December 31, 2022, 77.4% of the investments by total investment exposure earned a floating rate indexed to one-month LIBOR and 22.6% of the investments by total investment exposure earned a floating rate indexed to 30-day Term SOFR.

(3) Weighted average remaining term assumes all extension options are exercised by the borrower, provided, however, that our loans may be repaid prior to such date.

(4) As of September 30, 2023, \$1,338,635,160 of the outstanding senior secured loans were held in VIEs and \$12,196,596 of the outstanding senior secured loans were held outside of VIEs. As of December 31, 2022, \$996,511,403 of the outstanding senior secured loans were held in VIEs and \$75,378,115 of the outstanding senior secured loans were held outside VIEs.



The table below sets forth additional information relating to the Company's portfolio as of September 30, 2023:

	Form								Max	
	Loan of	Origination	Total Loan	Current Principal		Property		Remaining		
#	Investment	Date	Commitment <sup>(1)</sup>	Amount	Location	Type	Coupon	Term (Years)	LTV <sup>(2)</sup>	
	Senior	December				Multi-	1mS +			
1	secured	16, 2021	\$ 54,455,784	\$ 51,375,000	Daytona, FL	Family	3.2	3.3	71.7	
	Senior	November			Virginia	Multi-	1mS +			
2	secured	22, 2019	\$ 42,600,000	\$ 36,781,588	Beach, VA	Family	3.3	0.2	77.1	
	Senior	June 28,				Multi-	1mS +			
3	secured	2021	\$ 39,263,000	\$ 36,658,084	Barrington, NJ	Family	3.2	2.8	78.1	
	Senior	June 8,			Chattanooga,	Multi-	1mS +			
4	secured	2021	\$ 35,877,500	\$ 33,360,000	TN	Family	3.8	2.8	79.8	
	Senior	March 22,				Multi-	1mS +			
5	secured	2022	\$ 32,996,700	\$ 31,876,244	Seneca, SC	Family	3.4	3.6	74.5	
	Senior	June 28,				Multi-	1mS +			
6	secured	2022	\$ 33,550,000	\$ 31,602,808	Dallas, TX	Family	3.9	3.8	71.6	
	Senior	December				Multi-				
7	secured	29, 2021	\$ 34,464,000	\$ 30,709,146	Multi, NC	Family	1mS + 4	3.3	59.9	
	Senior	June 8,				Multi-	1mS +			
8	secured	2021	\$ 32,500,000	\$ 30,576,666	Miami, FL	Family	3.3	2.8	74.3	
	Senior	May 20,				Multi-	1mS +			
9	secured	2021	\$ 33,000,000	\$ 30,220,508	Marietta, GA	Family	3.2	2.8	77.0	
	Senior	August 25,			Wilmington,	Multi-				
10	secured	2022	\$ 30,700,000	\$ 28,653,440	NC	Family	1mS + 4	4.0	71.5	
	Senior	June 7,			San Antonio,	Multi-	1mS +			
11	secured	2021	\$ 29,400,000	\$ 27,569,521	TX	Family	3.5	2.8	80.0	
	Senior	August 26,				Multi-	1mS +			
12	secured	2021	\$ 27,268,000	\$ 25,440,413	Clarkston, GA	Family	3.6	2.9	79.0	
	Senior	November				Multi-	1mS +			
13	secured	15, 2021	\$ 26,003,000	\$ 24,330,000	El Paso, TX	Family	3.2	3.3	76.0	
	Senior	October				Multi-	1mS +			
14	secured	18, 2021	\$ 28,250,000	\$ 23,348,000	Cherry Hill, NJ	Family	3.1	3.2	72.4	
	Senior	August 26,				Multi-	1mS +			
15	secured	2021	\$ 23,370,000	\$ 22,872,354	Union City, GA	Family	3.5	3.0	70.4	
	Senior	March 22,				Multi-	1mS +			
16	secured	2022	\$ 22,845,000	\$ 21,934,375	York, PA	Family	3.3	3.6	79.2	
	Senior	November				Multi-	1mS +			
17	secured	16, 2021	\$ 21,975,000	\$ 21,916,753	Dallas, TX	Family	3.3	3.3	73.5	
	Senior	July 8,				Multi-	1mS +			
18	secured	2022	\$ 23,095,000	\$ 21,818,465	Arlington, TX	Family	3.8	3.9	67.1	
	Senior	August 31,				Multi-	1mS +			
19	secured	2021	\$ 21,750,000	\$ 21,644,684	Houston, TX	Family	3.4	3.0	74.2	
	Senior	November								
20	secured	29, 2022	\$ 21,283,348	\$ 20,360,000	Glendale, WI	Healthcare	1mS + 4	3.3	45.0	
	Senior	June 10,				Multi-	1mS +			
21	secured	2022	\$ 21,468,240	\$ 20,250,372	Various, GA	Family	3.8	3.8	75.8	
	Senior	October				Self	1mS +			
22	secured	13, 2017	\$ 20,000,000	\$ 19,648,818	Seattle, WA	Storage	3.7	1.2	46.5	
	Senior	November				Multi-	1mS +			
23	secured	5, 2021	\$ 20,965,000	\$ 19,625,274	Orlando, FL	Family	3.1	3.2	78.1	
	Senior	April 13,				Multi-	1mS +			
24	secured	2022	\$ 20,651,725	\$ 18,989,494	Decatur, GA	Family	3.6	3.7	75.7	
	Senior	November								
25	secured	21, 2022	\$ 21,135,000	\$ 18,920,000	Houston, TX	Healthcare	1mS + 4	3.3	67.0	
	Senior	November				Multi-	1mS +			
26	secured	23, 2021	\$ 19,925,000	\$ 18,834,024	Orange, NJ	Family	3.3	3.3	78.0	
	Senior	February				Multi-	1mS +			
28	secured	2, 2022	\$ 19,740,000	\$ 18,660,822	Houston, TX	Family	3.5	3.4	77.5	
	Senior	February				Multi-	1mS +			
27	secured	11, 2022	\$ 22,165,000	\$ 18,588,488	Tampa, FL	Family	3.8	3.5	72.8	

27	secured	11, 2022	\$	20,165,000	\$	18,599,480	Tampa, FL	Family	3.6	3.5	78.0
29	Senior secured	October 12, 2021	\$	17,500,000	\$	17,500,000	Atlanta, GA	Multi-Family	1mS + 3.3	1.1	42.9
30	Senior secured	May 26, 2022	\$	17,500,000	\$	17,263,000	Brooklyn, NY	Multi-Family	1mS + 3.8	1.8	64.3
31	Senior secured	March 31, 2022	\$	18,140,000	\$	16,956,276	Tallahassee, FL	Multi-Family	1mS + 3.3	3.6	74.8

32	Senior secured	November 10, 2022	\$	18,590,000	\$	16,690,000	Austin, TX	Healthcare	1mS + 4	3.3	65.0
33	Senior secured	December 1, 2021	\$	16,071,800	\$	15,449,323	Horn Lake, MS	Multi-Family	1mS + 3.4	3.3	75.7
34	Senior secured	February 1, 2022	\$	16,160,000	\$	15,400,000	San Antonio, TX	Multi-Family	1mS + 3.5	3.4	79.8
35	Senior secured	April 6, 2022	\$	16,400,000	\$	15,347,180	Vineland, NJ	Multi-Family	1mS + 3.8	3.6	77.0
36	Senior secured	April 6, 2022	\$	17,443,500	\$	15,156,425	Haltom City, TX	Multi-Family	1mS + 3.5	3.6	74.1
37	Senior secured	December 2, 2021	\$	16,250,000	\$	15,010,343	Colorado Springs, CO	Multi-Family	1mS + 3.1	3.3	72.5
38	Senior secured	February 22, 2022	\$	18,241,527	\$	15,000,000	Philadelphia, PA	Multi-Family	1mS + 3.8	3.5	80.0
39	Senior secured	June 15, 2022	\$	15,371,600	\$	14,511,455	Denton, TX	Multi-Family	1mS + 3.9	3.8	73.0
40	Senior secured	July 26, 2022	\$	17,100,000	\$	14,351,599	Atlanta, GA	Multi-Family	1mS + 3.7	3.9	65.2
41	Senior secured	April 12, 2021	\$	15,000,000	\$	14,193,375	Cedar Park, TX	Multi-Family	1mS + 3.9	2.7	66.7
42	Senior secured	April 27, 2022	\$	15,000,000	\$	14,171,704	Houston, TX	Multi-Family	1mS + 3.7	3.7	79.6
43	Senior secured	January 13, 2022	\$	15,180,000	\$	14,119,842	Indianapolis, IN	Multi-Family	1mS + 3.8	3.4	80.0
44	Senior secured	November 21, 2022	\$	15,735,000	\$	14,030,000	Southlake, TX	Healthcare	1mS + 4	3.3	48.0
45	Senior secured	December 28, 2021	\$	14,000,000	\$	14,000,000	Houston, TX	Multi-Family	1mS + 3.3	3.3	71.2
46	Senior secured	May 13, 2022	\$	18,500,000	\$	13,885,769	Decatur, AL	Multi-Family	1mS + 3.5	3.8	59.2
47	Senior secured	June 10, 2022	\$	15,250,000	\$	13,625,505	Blakely, PA	Multi-Family	1mS + 3.9	3.8	75.0
48	Senior secured	December 13, 2021	\$	15,656,650	\$	12,600,000	Evansville, IN	Multi-Family	1mS + 3.4	3.3	74.3
49	Senior secured	January 25, 2022	\$	13,000,000	\$	12,249,079	Corpus Christi, TX	Multi-Family	1mS + 3.6	3.4	78.8
50	Senior secured	August 16, 2021	\$	12,196,596	\$	12,196,596	Columbus, OH	Multi-Family	1mS + 3.7	3.0	75.0
51	Senior secured	October 1, 2021	\$	13,775,000	\$	12,100,000	Nashville, TN	Multi-Family	1mS + 3.5	3.1	79.1
52	Senior secured	May 12, 2022	\$	12,750,000	\$	11,926,591	Ypsilanti, MI	Multi-Family	1mS + 3.5	3.8	68.4
53	Senior secured	December 10, 2021	\$	13,000,000	\$	11,662,582	Los Angeles, CA	Multi-Family	1mS + 3.6	3.3	67.9
54	Senior secured	June 28, 2022	\$	12,880,000	\$	11,470,000	Colorado Springs, CO	Multi-Family	1mS + 3.9	3.8	73.1
55	Senior secured	March 4, 2022	\$	12,047,625	\$	11,467,505	Houston, TX	Multi-Family	1mS + 3.5	3.5	78.3
56	Senior secured	April 14, 2022	\$	11,823,000	\$	11,287,602	Irving, TX	Multi-Family	1mS + 3.5	3.7	74.9
57	Senior secured	October 28, 2021	\$	12,250,000	\$	11,202,535	Tampa, FL	Multi-Family	1mS + 3.1	3.2	75.7
58	Senior secured	April 23, 2021	\$	11,600,000	\$	10,986,357	Tualatin, OR	Multi-Family	1mS + 3.3	2.7	73.9
59	Senior secured	May 3, 2022	\$	11,349,250	\$	10,818,945	Port Richey, FL	Multi-Family	1mS + 3.6	3.7	79.1
60	Senior secured	September 30, 2021	\$	11,300,000	\$	10,795,000	Clearfield, UT	Multi-Family	1mS + 3.3	3.1	68.0
61	Senior secured	December 29, 2021	\$	11,000,000	\$	10,615,094	Phoenix, AZ	Multi-Family	1mS + 3.8	3.3	75.9

62	Senior secured	December 2, 2021	\$	9,975,000	\$	9,975,000	Tomball, TX	Multi-Family	1mS + 3.5	3.3	68.5
63	Senior secured	November 23, 2021	\$	10,706,000	\$	9,856,000	Atlanta, GA	Multi-Family	1mS + 3.5	3.3	79.5
64	Senior secured	January 14, 2022	\$	10,234,000	\$	9,609,250	Houston, TX	Multi-Family	1mS + 3.6	3.4	78.8

65	Senior secured	July 14, 2022	\$	10,153,000	\$	9,429,206	Bradenton, FL	Multi-Family	1mS + 3.9	3.9	74.4
66	Senior secured	August 5, 2022	\$	10,232,000	\$	9,127,649	San Antonio, TX	Multi-Family	1mS + 4.4	3.9	75.0
67	Senior secured	October 21, 2021	\$	11,500,000	\$	9,100,000	Madison, TN	Multi-Family	1mS + 3.3	3.2	68.4
68	Senior secured	October 29, 2021	\$	9,000,000	\$	8,717,380	Riverside, MO	Multi-Family	1mS + 3.5	3.2	76.6
69	Senior secured	May 12, 2021	\$	8,950,000	\$	8,220,000	Lakeland, FL	Multi-Family	1mS + 3.5	2.8	76.8
70	Senior secured	June 22, 2022	\$	9,772,000	\$	8,175,500	Des Moines, IA	Multi-Family	1mS + 4	3.8	72.0
71	Senior secured	May 26, 2022	\$	8,497,500	\$	8,116,833	Haltom City, TX	Multi-Family	1mS + 4	3.8	74.4
72	Senior secured	June 24, 2022	\$	7,934,160	\$	7,934,160	Moncks Corner, SC	Multi-Family	1mS + 4.2	3.8	67.8
73	Senior secured	November 16, 2021	\$	7,680,000	\$	7,680,000	Cape Coral, FL	Multi-Family	1mS + 3.4	1.3	79.2
74	Senior secured	September 28, 2021	\$	8,125,000	\$	7,286,000	Chicago, IL	Multi-Family	1mS + 3.8	3.1	75.9
75	Senior secured	July 1, 2021	\$	7,285,000	\$	7,169,838	Harker Heights, TX	Multi-Family	1mS + 3.7	2.8	72.3
76	Senior secured	October 7, 2022	\$	7,000,000	\$	7,000,000	Fairborn, OH	Multi-Family	1mS + 4.1	2.2	79.1
77	Senior secured	December 19, 2022	\$	6,325,000	\$	6,325,000	Asheville, NC	Multi-Family	1mS + 3.8	1.8	41.1
78	Senior secured	October 24, 2022	\$	6,100,000	\$	6,100,000	Various, FL	Healthcare	1mS + 4.5	2.2	71.0
79	Senior secured	April 8, 2022	\$	6,191,853	\$	6,096,412	St. Petersburg, FL	Multi-Family	1mS + 4	3.7	75.5
80	Senior secured	April 27, 2022	\$	55,220,000	\$	6,000,000	North Brunswick, NJ	Multi-Family	1mS + 3.4	3.7	79.9
81	Senior secured	May 21, 2021	\$	7,172,000	\$	5,994,000	Youngtown, AZ	Multi-Family	1mS + 3.8	2.8	71.4
82	Senior secured	July 14, 2021	\$	6,048,000	\$	5,913,912	Birmingham, AL	Multi-Family	1mS + 3.8	2.9	71.7
83	Senior secured	October 26, 2021	\$	6,807,000	\$	5,812,000	Indianapolis, IN	Multi-Family	1mS + 4	3.2	77.1
84	Senior secured	November 19, 2021	\$	6,453,000	\$	5,519,604	Huntsville, AL	Multi-Family	1mS + 3.9	3.3	78.8
85	Senior secured	April 30, 2021	\$	5,472,000	\$	5,285,500	Daytona Beach, FL	Multi-Family	1mS + 3.8	2.7	77.4
86	Senior secured	December 13, 2021	\$	6,799,000	\$	5,250,000	Evansville, IN	Multi-Family	1mS + 3.4	3.3	73.9
87	Senior secured	December 28, 2021	\$	38,800,000	\$	2,800,000	Houston, TX	Multi-Family	1mS + 3.3	3.3	71.2

(1) See Note 11 Commitments and Contingencies to our consolidated financial statements for further discussion of unfunded commitments.

(2) LTV as of the date the loan was originated by a Hunt/ORIX affiliate and is calculated after giving effect to capex and earn-out reserves, if applicable. LTV has not been updated for any subsequent draws or loan modifications and is not reflective of any changes in value, which may have occurred subsequent to the origination date.

We did not have any impaired loans, non-accrual loans, or loans in maturity default other than the loans discussed below as of September 30, 2023 or December 31, 2022.

In February 2023, in connection with the sale of the office building collateralizing an impaired loan by the borrower to an unaffiliated third-party, the Company accepted a discounted payoff of approximately \$6.0 million on the impaired loan, which had an unpaid principal balance of \$10.3 million. An allowance for credit loss of \$4.3 million was recorded for this impaired loan in the year ended December 31, 2022. Upon the discounted payoff, a \$4.3 million charge off against the allowance for credit losses was recorded, with de minimis impact to income in the nine months ended September 30, 2023.

During the period ended September 30, 2023, management identified three loans, collateralized by multifamily properties, with an unpaid principal value of \$68.6 million as impaired due to actual or expected monetary default; however, no specific asset reserves were required after analysis of underlying collateral value. These loans are on non-accrual status as a result of actual or expected monetary default and impaired loan classification.

We maintain strong relationships with our borrowers and utilized those relationships to address potential impacts on loans secured by properties experiencing cash flow pressure. All of our loans are current with respect to principal and interest, other than the loan discussed above, however, we will continue to engage in discussions with them should these difficulties arise.



We have not entered into any forbearance agreements or adverse material loan modifications to date, on our current loan portfolio. However, we can provide no assurances that our borrowers will remain current as to principal and interest, or that we will not enter into any forbearance agreements or material loan modifications in order to protect the value of our commercial mortgage loan assets.

As discussed in Note 2 to our consolidated financial statements, our Manager performs a quarterly review of our loan portfolio, assesses the performance of each loan, and assigns a risk rating between "1" and "5," from less risk to greater risk. The weighted average risk rating of our total loan exposure was 3.4 as of September 30, 2023 and 3.0 as of December 31, 2022, respectively. The change in underlying risk rating consisted of loans that paid off with a risk rating of "2" of \$34.3 million, "3" of \$160.0 million and a risk rating of "5" of \$10.8 million, offset by the purchase of commercial mortgage loans with a risk rating of "2" of \$63.7 million, "3" of \$395.3 million and "4" of \$32.0 million during the nine months ended September 30, 2023. Additionally, \$70.0 million of loans with a risk rating of "2" transitioned to a risk rating of "3," and \$187.6 million of loans with a risk rating of "3" transitioned to a risk rating of "4" and \$56.0 million of loans with a risk rating of "3" transitioned to a risk rating of "5". The following table presents the principal balance and net book value based on our internal risk ratings:

**September 30, 2023**

Risk Rating	Number of Loans	Outstanding Principal	Amortized Cost by Year of Origination				
			2023	2022	2021	2019	2017
1	—	\$ —	—	—	—	—	—
2	7	113,292,630	—	111,578,471	—	—	—
3	59	914,218,238	—	391,872,631	493,653,236	—	19,631,380
4	18	266,994,932	—	102,420,800	163,078,861	—	—
5	3	68,603,457	—	—	31,814,789	36,781,588	—
	<b>87</b>	<b>\$ 1,363,109,257</b>	<b>—</b>	<b>605,871,902</b>	<b>688,546,886</b>	<b>36,781,588</b>	<b>19,631,380</b>

**Collateralized Loan Obligations and Secured Financings**

We may seek to enhance returns on our commercial mortgage loan investments through securitizations, or CLOs, if available, as well as the utilization of warehouse repurchase agreement financing. To the extent available, we intend to securitize the senior portion of some of our loans, while retaining the subordinate securities in our investment portfolio. The securitizations of this senior portion will be accounted for as either a "sale" or as a "financing." If they are accounted for as a sale, the loan will be removed from the balance sheet and if they are accounted for as a financing the loans will be classified as "commercial mortgage loans held-for-investment" in our consolidated balance sheets, depending on the structure of the securitization. As of September 30, 2023, the combined carrying amounts and outstanding principal balances of our collateralized loan obligations and secured financings were \$1,145.3 million and \$1,151.5 million, respectively. See Note 4 to our consolidated financial statements included in this Quarterly Report on Form 10-Q for additional terms and details of our CLOs.

**FOAC and Our Residential Mortgage Loan Business**

In June 2013, we established FOAC as a Taxable REIT Subsidiary, or TRS, to increase the range of our investments in mortgage-related assets. Until August 1, 2016, FOAC aggregated mortgage loans primarily for sale into securitization transactions, with the expectation that we would purchase the subordinated tranches issued by the related securitization trusts, and that these would represent high quality credit investments for our portfolio. Residential mortgage loans for which FOAC owns the MSRs continue to be directly serviced by one or more licensed sub-servicers since FOAC does not directly service any residential mortgage loans.

As noted earlier, we previously determined to cease the aggregation of prime jumbo loans for the foreseeable future, and therefore no longer maintain warehouse financing to acquire prime jumbo loans. We do not expect the previous changes to our mortgage loan business strategy to impact the existing MSRs that we own, or the securitizations we have sponsored to date.

Pursuant to a Master Agreement dated June 15, 2016, as amended on August 29, 2016, January 30, 2017 and June 27, 2018, among MAXEX, LLC ("MAXEX"), MAXEX Clearing LLC, MAXEX's wholly-owned clearinghouse subsidiary and FOAC, FOAC provided seller eligibility review services under which it reviewed, approved and monitored sellers that sold loans via MAXEX Clearing LLC. To the extent that a seller approved by FOAC failed to honor its obligations to repurchase a loan based on an arbitration finding that it breached its representations and warranties, FOAC was obligated to backstop the seller's repurchase obligation. The term of such backstop guarantee was the earlier of the contractual maturity of the underlying mortgage and its repayment in full. However, the incidence of claims for breaches of representations and warranties over time is considered unlikely to occur more than five years from the sale of a mortgage. FOAC's obligations to provide such seller eligibility review and backstop guarantee services terminated on November 28, 2018. Pursuant to an Assumption Agreement dated December 31, 2018, among MAXEX Clearing LLC and FOAC, MAXEX Clearing LLC assumed all of FOAC's obligations under its backstop guarantees and agreed to indemnify and hold FOAC harmless against any losses, liabilities, costs, expenses and obligations under the backstop guarantee. FOAC paid MAXEX Clearing LLC, as the replacement backstop provider, a fee of \$426,770 (the "Alternative Backstop Fee"). MAXEX Clearing LLC represented to FOAC in the Assumption Agreement that it (i) is rated at least "A" (or equivalent) by at least one nationally recognized statistical rating agency or (ii) has (a) adjusted tangible net worth of at least \$20.0 million and (b) minimum available liquidity equal to the greater of (x) \$5.0 million and (y) 0.1% multiplied by the scheduled unpaid principal balance of each outstanding loan covered by the backstop guarantees. MAXEX's chief financial officer is required to certify ongoing compliance by MAXEX Clearing LLC with the aforementioned criteria on a quarterly basis and if MAXEX Clearing LLC fails to satisfy such criteria, MAXEX Clearing LLC is required to deposit into an escrow account FOAC's benefit an amount equal to the greater of (A) the unamortized Alternative Backstop Fee for each outstanding loan covered by the backstop guarantee and (B) the product of 0.01% multiplied by the scheduled unpaid principal balance of each outstanding loan covered by the backstop guarantees. See Note 10 to our consolidated financial statements included in this Quarterly Report on form 10-Q for a further description of MAXEX.



## Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and use of assumptions as to future uncertainties. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to understanding our financial statements because they involve significant judgments and uncertainties that could affect our reported assets and liabilities, as well as our reported revenues and expenses. All of these estimates reflect our best judgments about current, and for some estimates, future economic and market conditions and their effects based on information available as of the date of the financial statements. If conditions change from those expected, it is possible that the judgments and estimates described below could change, which may result in a change in our interest income recognition, allowance for credit losses, future impairment of our investments, and valuation of our investment portfolio, among other effects. We believe that the following accounting policies are among the most important to the portrayal of our financial condition and results of operations and require the most difficult, subjective or complex judgments.

### Commercial Mortgage Loans Held-for-Investment

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") and amendments, which replaces the incurred loss methodology with an expected loss model known as the Current Expected Credit Loss ("CECL") model. CECL amends the previous credit loss model to reflect a reporting entity's current estimate of all expected credit losses, not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, and off-balance sheet credit exposures such as unfunded loan commitments. The allowance for credit losses required under ASC 2016-13 is included in "Allowance for credit losses" on our consolidated balance sheets. The allowance for credit losses attributed to unfunded loan commitments is included in "Other liabilities" in the consolidated balance sheets. The initial CECL reserve recorded on January 1, 2023 is reflected as a direct charge to retained earnings on our consolidated statements of changes in equity; however subsequent changes to the CECL reserve are recognized through net income on our consolidated statements of operations. In connection with the adoption of ASU 2016-13, we recorded a \$3.6 million decrease to accumulated earnings as of January 1, 2023.

The Company's implementation process included a selection of a credit loss analytical model, completion and documentation of policies and procedures, changes to internal reporting processes and related internal controls and additional disclosures. A control framework for governance, data, forecast and model controls was developed to support the CECL process. Estimating an allowance for credit losses requires significant judgment and a variety of subjective assumptions, including (i) determination of relevant historical loan loss data sets, (ii) the current credit quality of loans and operating performance of loan collateral and the Company's expectations of performance and (iii) expectation of macroeconomic conditions over the relevant time period.

In the absence of any Company history of valuation reserves or realized loan losses since our inception in 2013, other than one office loan, see Note 3 for more information, the Company elected to utilize a widely-used analytical model incorporating a loss-given-default methodology and loan performance data for over 100,000 commercial real estate loans dating back to 1998. The Company expects to use this data set, or variants of it, unless the Company develops its own sufficient history of realized losses. The Company selected for use in its CECL estimate a weighted macroeconomic forecast that includes baseline, optimistic and pessimistic scenarios during the reasonable forecast period. The Company determined the key variables driving its CECL loss estimate are debt service coverage ratio and LTV ratio. Other notable variables include property type, property location and loan vintage.

The Company evaluates each loan rated Default Risk or above as to whether it is impaired on a quarterly basis. Impaired loans are individually evaluated based on the Company's quarterly assessment of each loan and assignment of a risk rating. Impairment occurs when the Company determines that the facts and circumstances of the loan deem it probable that the Company will not be able to collect all amounts due in accordance with the contractual terms of the loan. If a loan is considered to be impaired, an allowance is recorded to reduce the carrying value of the loan through a charge to the provision for (reversal of) credit losses. Impairment of these loans, all of which are deemed collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, actions of other lenders, and other factors deemed necessary by the Manager. Actual losses, if any, could ultimately differ from estimated losses.

The following table illustrates the day-one financial statement impact of the adoption of ASU 2016-13 on January 1, 2023:

	Pre-adoption	Transition adjustment	Post-adoption
<b>Assets</b>			
Commercial mortgage loans, held-for-investment	\$ 1,076,148,186	\$ —	\$ 1,076,148,186
Less: Allowance for credit losses	(4,258,668)	(3,549,501)	(7,808,169)
Commercial mortgage loans, held-for-investment, net	\$ 1,071,889,518	\$ (3,549,501)	\$ 1,068,340,017
<b>Liabilities</b>			
Other liabilities <sup>(1)</sup>	\$ 583,989	\$ 41,939	\$ 625,928
<b>Equity</b>			
Accumulated earnings	\$ 31,250,852	\$ (3,591,440)	\$ 27,659,412

(1) Includes reserve for unfunded loan commitments

Quarterly, the Company assesses the risk factors of each loan classified as held-for-investment and assigns a risk rating based on a variety of factors, including, without limitation, debt-service coverage ratio ("DSCR"), loan-to-value ratio ("LTV"), property type, geographic and local market dynamics, physical condition, leasing and tenant profile, adherence to business plan and exit plan, maturity default risk and project sponsorship. The Company's loans are rated on a 5-point scale, from least risk to greatest risk, respectively, which ratings are described as follows:

1. **Very Low Risk:** exceeds expectations and is outperforming underwriting or it is very likely that the underlying loan can be refinanced easily in the period's prevailing



2. **Low Risk:** meeting or exceeding underwritten expectations
3. **Moderate Risk:** consistent with underwritten expectations or the sponsor may be in the early stages of executing the business plan and the loan structure appropriately mitigates additional risks
4. **High Risk:** potential risk of default, a loss may occur in the event of default
5. **Default Risk:** imminent risk of default, a loss is likely in the event of default

#### Capital Allocation

The following tables set forth our allocated capital by investment type at September 30, 2023 and December 31, 2022:

This information represents non-GAAP financial measures within the meaning of Item 10(e) of Regulation S-K, as promulgated by the SEC. We believe that this non-GAAP information enhances the ability of investors to better understand the capital necessary to support each income-earning asset category, and thus our ability to generate operating earnings. While we believe that the non-GAAP information included in this report provides supplemental information to assist investors in analyzing our portfolio, these measures are not in accordance with GAAP, and they should not be considered a substitute for, or superior to, our financial information calculated in accordance with GAAP.

September 30, 2023				
	Commercial Mortgage		Unrestricted Cash <sup>(1)</sup>	Total <sup>(2)</sup>
	Loans	MSRs		
Carrying Value	\$ 1,350,831,756	\$ 748,307	\$ 43,408,581	\$ 1,394,988,644
Collateralized Loan Obligations	(1,145,317,374)	—	—	(1,145,317,374)
Other <sup>(3)</sup>	35,983,457	—	(4,127,322)	31,856,135
Restricted Cash	6,225,360	—	—	6,225,360
Capital Allocated	<u>\$ 247,723,199</u>	<u>\$ 748,307</u>	<u>\$ 39,281,259</u>	<u>\$ 287,752,765</u>
% Capital	<u>86.1 %</u>	<u>0.3 %</u>	<u>13.6 %</u>	<u>100.0 %</u>

December 31, 2022				
	Commercial Mortgage		Unrestricted Cash <sup>(1)</sup>	Total <sup>(2)</sup>
	Loans	MSRs		
Carrying Value	\$ 1,071,889,518	\$ 795,656	\$ 43,858,515	\$ 1,116,543,689
Collateralized Loan Obligations	(829,310,498)	—	—	(829,310,498)
Other <sup>(3)</sup>	3,533,345	—	(4,301,847)	(768,502)
Restricted Cash	3,507,850	—	—	3,507,850
Capital Allocated	<u>\$ 249,620,215</u>	<u>\$ 795,656</u>	<u>\$ 39,556,668</u>	<u>\$ 289,972,539</u>
% Capital	<u>86.1 %</u>	<u>0.3 %</u>	<u>13.6 %</u>	<u>100.0 %</u>

(1) Includes cash and cash equivalents.

(2) Includes the carrying value of our Secured Term Loan.

(3) Includes principal and interest receivable, investment related receivable, prepaid and other assets, interest payable, dividend payable and accrued expenses and other liabilities.

#### Results of Operations

The table below presents information from our Statement of Operations for the three and nine months ended September 30, 2023 and September 30, 2022, respectively:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	(unaudited)	(unaudited)		
<b>Revenues:</b>				
Interest income:				
Commercial mortgage loans held-for-investment	\$ 31,067,350	\$ 14,743,563	\$ 74,830,619	\$ 37,386,399
Cash and cash equivalents	789,442	4,969	1,878,550	14,736
Interest expense:				
Collateralized loan obligations and secured financings	(21,364,918)	(8,317,893)	(48,597,825)	(17,607,021)
Secured Term Loan	(947,509)	(947,509)	(2,811,631)	(2,807,362)
Net interest income	9,544,365	5,483,130	25,299,713	16,986,752
<b>Expenses:</b>				
Management and incentive fees	1,072,569	1,096,144	3,253,205	3,111,413
General and administrative expenses	861,447	851,528	2,692,236	2,664,680
Operating expenses reimbursable to Manager	284,859	555,307	1,372,511	1,594,662

Other operating expenses	168,062	83,574	2,042,346	237,572
Compensation expense	58,750	73,016	182,444	178,797
Total expenses	2,445,687	2,659,569	9,542,742	7,787,124
<b>Other income and expense:</b>				
Provision for credit losses, net	(791,563)	(1,521,023)	(1,166,962)	(1,872,937)
Change in unrealized (loss) gain on mortgage servicing rights	1,573	37,312	(47,350)	265,910
Servicing income, net	70,842	62,451	167,766	185,685
Total other income and expense	(719,148)	(1,421,260)	(1,046,546)	(1,421,342)
Net income before provision for income taxes	6,379,530	1,402,301	14,710,425	7,778,286
Benefit from (provision for) income taxes	(19,803)	97,974	(9,780)	20,640
Net income	6,359,727	1,500,275	14,700,645	7,798,926
Dividends accrued to preferred stockholders	(1,185,042)	(1,185,042)	(3,555,042)	(3,555,042)
Net income attributable to common stockholders	\$ 5,174,685	\$ 315,233	\$ 11,145,603	\$ 4,243,884
Earnings per share:				
Net income attributable to common stockholders (basic and diluted)	\$ 5,174,685	\$ 315,233	\$ 11,145,603	\$ 4,243,884
Weighted average number of shares of common stock outstanding	52,231,152	52,231,152	52,231,152	47,031,833
Basic and diluted income per share	\$ 0.10	\$ 0.01	\$ 0.21	\$ 0.09
Dividends declared per share of common stock	\$ 0.07	\$ 0.06	\$ 0.19	\$ 0.18

### Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

#### Net Income Summary

For the three months ended September 30, 2023, our net income attributable to common stockholders was \$5,174,685, or \$0.10 basic and diluted net income per average share, compared with net income of \$315,233, or \$0.01 basic and diluted net income per average share, for the three months ended September 30, 2022. The principal drivers of this net income increase was an increase in net interest income from \$5,483,130 for the three months ended September 30, 2022 to \$9,544,365 for the three months ended September 30, 2023, a decrease in total other loss from \$1,421,260 for the three months ended September 30, 2022 to \$719,148 for the three months ended September 30, 2023 and a decrease in total expenses from \$2,659,569 for the three months ended September 30, 2022 to \$2,445,687 for the three months ended September 30, 2023.

#### Net Interest Income

For the three months ended September 30, 2023 and the three months ended September 30, 2022, our net interest income was \$9,544,365 and \$5,483,130, respectively. The increase was primarily due to (i) a \$317.2 million increase in weighted-average principal balance of our loan portfolio; (ii) a 309bps increase in weighted-average floating rate of our loan portfolio; (iii) a 19bps increase in weighted-average spread on the loan portfolio; (iv) an increase in exit/extension fees of \$0.2 million; (v) accretion of purchase discount of \$0.4 million and (vi) an increase in interest earned on cash of \$0.9 million for the three months ended September 30, 2023 compared to the corresponding period in 2022. This was partially offset by (i) a \$279.7 million increase in weighted-average principal balance of our secured borrowings; (ii) a 310bps increase in weighted-average floating rate for our secured borrowing liabilities for the three months ended September 30, 2023 compared to the corresponding period in 2022 and (iii) a 50bps increase in weighted-average spread for our secured borrowing liabilities and (iv) amortization of debt issuance costs of \$0.2 million for the three months ended September 30, 2023 compared to the corresponding period in 2022.

As disclosed above, we experienced an increase of \$0.2 million in exit and extension fees in the three months ended September 30, 2023. The primary driver of this change was attributed to exit fees. For the three months ended September 30, 2023, we experienced loan payoffs on four loans with net principal balances of \$48.9 million which generated exit fees of \$0.5 million included in interest income and four loans with net principal balance of \$60.8 million which waived exit fees of \$0.6 million resulting in a reduction to expense reimbursement of \$0.3 million included in operating expenses reimbursable to Manager. For the three months ended September 30, 2022, we experienced loan payoffs on two loans with net principal balances of \$13.6 million which generated exit fees of \$0.1 million included in interest income and two loans with net principal balance \$20.4 million which waived exit fees of \$0.2 million resulting in a reduction to expense reimbursement of \$0.1 million included in operating expenses reimbursable to Manager.

#### Other Income and Expense

For the three months ended September 30, 2023, our other loss was \$719,148. This loss was driven by provision for credit losses of \$791,563 primarily related to an increase in loan portfolio as a result of the loans acquired in the LMF 2023-1 Financing as well as changes in the macroeconomic forecast, which more than offset net servicing income of \$70,842 and net unrealized gains on mortgage servicing rights of \$1,573 as a result of increased interest rates in the period.

For the three months ended September 30, 2022, our other loss was \$1,421,260. This loss was driven by provision for credit losses of \$1,521,023, which more than offset net servicing income of \$62,451 and net unrealized gains on mortgage servicing rights of \$37,312.

The period-over-period decrease to other loss was primarily due to the change in provision for credit losses.





## Expenses

For the three months ended September 30, 2023, we incurred management and incentive fees of \$1,072,569 representing amounts payable to our Manager under our management agreement. We also incurred operating expenses of \$1,373,118, of which \$284,859 was payable to our Manager and \$1,088,259 was payable directly by us.

For the three months ended September 30, 2022, we incurred management and incentive fees of \$1,096,144 representing amounts payable to our Manager under our management agreement. We also incurred operating expenses of \$1,563,425 of which \$555,307 was payable to our Manager and \$1,008,118 was payable directly by us.

The period-over-period decrease in operating expenses primarily reflects a decrease in accounting, compensation, insurance, investor relations, listing and expense reimbursement fees, which more than offset an increase in administration, bank, CLO, legal and professional fees..

## Income Tax (Benefit) Provision

For the three months ended September 30, 2023, the Company recognized a provision for income taxes of \$19,803 and for the three months ended September 30, 2022, the Company recognized a provision for income taxes in the amount of \$97,974. The period-over-period decrease in tax provision primarily reflects the change in gross deferred revenue at FOAC due to the change in unrealized loss on mortgage servicing rights.

## ***Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022***

### Net Income Summary

For the nine months ended September 30, 2023, our net income attributable to common stockholders was \$11,145,603, or \$0.21 basic and diluted net income per average share, compared with net income of \$4,243,884, or \$0.09 basic and diluted net income per average share, for the nine months ended September 30, 2022. The principal drivers of this net income increase was an increase in net interest income from \$16,986,752 for the nine months ended September 30, 2022 to \$25,299,713 for the nine months ended September 30, 2023 which more than offset a decrease in total other loss from \$1,421,342 for the nine months ended September 30, 2022 to \$1,046,546 for the nine months ended September 30, 2023 which more than offset an increase in total expenses from \$7,787,124 for the nine months ended September 30, 2022 to \$9,542,742 for the nine months ended September 30, 2023.

### Net Interest Income

For the nine months ended September 30, 2023 and the nine months ended September 30, 2022, our net interest income was \$25,299,713 and \$16,986,752, respectively. The increase was primarily due to (i) a \$97.1 million increase in weighted-average principal balance of our loan portfolio; (ii) a 393bps increase in weighted-average floating rate of our loan portfolio; (iii) a 12bps increase in weighted-average spread on the loan portfolio; (iv) an increase in exit/extension fees of \$0.4 million for our loan portfolio for the nine months ended September 30, 2023 compared to the corresponding period in 2022; (v) accretion of purchase discount of \$0.3million and (vi) an increase in interest earned on cash of \$2.2 million for the nine months ended September 30, 2023 compared to the corresponding period in 2022. This was partially offset by (i) a \$94.3 million increase in weighted-average principal balance of our secured borrowings; (ii) a 392bps increase in weighted-average floating rate for our secured borrowing liabilities for the nine months ended September 30, 2023 compared to the corresponding period in 2022; (iii) a 20bps increase in weighted-average spread for our secured borrowing liabilities and (iv) amortization of debt issuance costs of \$0.2 million for the nine months ended September 30, 2023 compared to the corresponding period in 2022.

As disclosed above, we experienced an increase of \$0.4 million in exit and extension fees in the nine months ended September 30, 2023. The primary driver of this change was attributed to exit fees. For the nine months ended September 30, 2023, we experienced loan payoffs on ten loans with net principal balances of \$132.9 million which generated exit fees of \$1.7 million included in interest income and five loans with net principal balance of \$94.3 million which waived exit fees of \$0.8 million resulting in a reduction to expense reimbursement of \$0.4 million included in operating expenses reimbursable to Manager. For the nine months ended September 30, 2022, we experienced loan payoffs on twelve loans with net principal balances of \$133.1 million which generated exit fees of \$1.3 million included in interest income and six loans with net principal balance \$90.4 million which waived exit fees of \$0.9 million resulting in a reduction to expense reimbursement of \$0.5 million included in operating expenses reimbursable to Manager.

### Other Income and Expense

For the nine months ended September 30, 2023, our other loss was \$1,046,546. This loss was driven by provision for credit losses of \$1,166,962 primarily related to an increase in loan portfolio as a result of the loans acquired in the LMF 2023-1 Financing as well as changes in macroeconomic forecast and net unrealized losses on mortgage servicing rights of \$47,350 as a result of reduction in principal balance in the period which more than offset net servicing income of \$167,766.

For the nine months ended September 30, 2022, our other loss was \$1,421,342. This loss was driven by provision for credit losses of \$1,872,937 which more than offset net servicing income of \$185,685 and net unrealized gains on mortgage servicing rights of \$265,910.

The period-over-period decrease to other loss was primarily due to the change in provision for credit losses.

## Expenses

For the nine months ended September 30, 2023, we incurred management and incentive fees of \$3,253,205 representing amounts payable to our Manager under our management agreement. We also incurred operating expenses of \$6,289,537, of which \$1,372,511 was payable to our Manager and \$4,917,026 was payable directly by us.

For the nine months ended September 30, 2022, we incurred management and incentive fees of \$3,111,413 representing amounts payable to our Manager under our management agreement. We also incurred operating expenses of \$4,675,711 of which \$1,594,662 was payable to our Manager and \$3,081,049 was payable directly by us.



The period-over-period increase in operating expenses primarily reflects the impact of expensed deal costs of \$1.7 million related to the abandonment of a previously contemplated public CRE CLO as well as an increase in administration, audit, bank, CLO, data, professional and surveillance fees which more than offset a decrease in accounting, insurance and listing fees.

#### Income Tax (Benefit) Provision

For the nine months ended September 30, 2023, the Company recognized a benefit from income taxes of \$9,780 and for the nine months ended September 30, 2022, the Company recognized a benefit from income taxes in the amount of \$20,640. The period-over-period increase in tax benefit primarily reflects the change in gross deferred revenue at FOAC due to the change in unrealized loss on mortgage servicing rights.

#### **Liquidity and Capital Resources**

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to pay dividends, fund investments, comply with margin requirements, if any, and repay borrowings and other general business needs. Our primary sources of liquidity have been met with net proceeds of common or preferred stock issuance, net proceeds from debt offerings and net cash provided by operating activities. We have added to our liquidity position in February 2022, by completing a transferable common stock rights offering issuing and selling 27,277,269 shares of common stock for net proceeds of approximately \$81.1 million and in May 2021 by issuing 2,400,000 shares of 7.875% Series A Cumulative Redeemable Preferred Stock resulting in net proceeds (after underwriting discount and commission but before operating expense) of \$58.1 million. We finance our commercial mortgage loans primarily with non-recourse match term secured borrowings, which are not subject to margin calls or additional collateralization requirements. On June 14, 2021, we closed the 2021-FL1 CLO issuing eight tranches of CLO notes totaling \$903.8 million. Of the total CLO notes issued \$833.8 million were investment grade notes issued to third-party investors and \$70.0 million were below investment-grade notes retained by us. On July 12, 2023, we closed LMF 2023-1 placing \$270.4 million of an investment-grade rated senior secured floating-rate loan with a private lender, issued and sold approximately \$47.3 million of investment-grade rated notes to an affiliate of our Manager and retained the subordinate interests in the issuing vehicle of approximately \$68.6 million. On August 23, 2021 we drew an additional \$7.5 million of our Secured Term Loan pursuant to the Third Amendment. As of September 30, 2023, our balance sheet included \$47.8 million of a secured term loan and \$1,151.5 million in collateralized loan financing, gross of discounts and debt issuance costs. Our secured term loan matures in February 2026, our collateralized loan financing is term-matched and matures in 2039 or later and our collateralized financing is match-termed and matures in 2032 or later. However, to the extent that we seek to invest in additional commercial mortgage loans, we will in part be dependent on our ability to issue additional collateralized loan obligations to secure alternative financing facilities or to raise additional common or preferred equity. The anticipated continual rise in interest rates and unpredictable geopolitical landscape may cause a further dislocation in the capital markets resulting in a continual reduction of available liquidity and an increase in borrowing costs. A lack of liquidity for a prolonged period of time could limit our ability to grow this business.

If we were required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we previously recorded our assets, particularly in a financial market that has been significantly disrupted and less liquid as a result of the current inflationary environment. Assets that are illiquid are more difficult to finance, and to the extent that we use leverage to finance assets that become illiquid, we may lose that leverage or have it reduced if such leverage is, at least in part, dependent on the market value of our assets. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. As a result, our ability to sell assets or vary our portfolio in response to changes in economic and other conditions may be limited by liquidity constraints, which could adversely affect our results of operations and financial condition. We seek to limit our exposure to illiquidity risk to the extent possible, by ensuring that the secured borrowings that we use to finance our commercial mortgage loans are not subject to margin calls or other limitations that are dependent on the market value of the related loan collateral.

We intend to continue to maintain a level of liquidity in relation to our assets that enables us to meet reasonably anticipated investment requirements and unforeseen business needs but that also allows us to be substantially invested in our target assets. We may misjudge the appropriate amount of our liquidity by maintaining excessive liquidity, which would lower our investment returns, or by maintaining insufficient liquidity, which would force us to liquidate assets into unfavorable market conditions and harm our operating results. As of September 30, 2023, we had unrestricted cash and cash equivalents of \$43.4 million, compared to \$43.9 million as of December 31, 2022.

As of September 30, 2023, we had \$47.8 million in outstanding principal under our Senior Secured Term Loan, with a borrowing rate of 7.25%. As of September 30, 2023, the ratio of our recourse debt to equity was 0.2:1.

As of September 30, 2023, we consolidated the assets and liabilities of the 2021-FL1 CLO and LMF 2023-1 collateralized financings. The assets of the 2021-FL1 CLO and LMF 2023-1 are restricted and can only be used to fulfill their respective obligations, and accordingly the obligations of the trust, which we classify as collateralized loan obligations, do not have any recourse to us as the consolidator of the trust. As of September 30, 2023, the carrying value of these non-recourse liabilities aggregated to \$1,145.3 million. As of September 30, 2023, our total debt to equity ratio was 5.0:1 on a GAAP basis.

As of September 30, 2023, LCMT had \$6.7 million of unfunded commitments related to loans held in LFT 2021-FL1, Ltd.

#### **Cash Flows**

The following table sets forth changes in cash, cash equivalents and restricted cash for the nine months ended September 30, 2023 and 2022:

	For the three months ended September 30,	
	2023	2022
Cash Flows From Operating Activities	\$ 15,513,382	\$ 11,736,702
Cash Flows From Investing Activities	(314,183,496)	(22,261,076)
Cash Flows From Financing Activities	300,937,690	68,952,733
Net Increase in Cash, Cash Equivalents and Restricted Cash	\$ 2,267,576	\$ 58,428,359



During the nine months ended September 30, 2023, cash, cash equivalents and restricted cash increased by \$2.3 million and for the nine months ended September 30, 2022, cash, cash equivalents and restricted cash increased by \$58.4 million.

### ***Operating Activities***

For the nine months ended September 30, 2023 and 2022, net cash provided operating activities totaled \$15.5 million and \$11.7 million, respectively. For the nine months ended September 30, 2023, our cash flows from operating activities were primarily driven by interest received from the junior retained notes and preferred shares of the 2021-FL1 CLO and LMF 2023-1 of \$24.3 million, interest received from our senior secured loans held outside the VIE we consolidate of \$1.5 million, interest received on cash accounts of \$1.9 million and cash received from mortgage servicing rights of \$0.2 million exceeding cash interest expense paid on our Secured Term Loan of \$2.6 million, management and incentive fees of \$3.3 million, expense reimbursements of \$1.6 million and other operating expenditures of \$4.7 million. For the nine months ended September 30, 2022, our cash flows from operating activities were primarily driven by interest received from the junior retained notes and preferred shares of the 2021-FL1 CLO of \$20.1 million, interest received from our senior secured loans held outside VIE's we consolidate of \$1.7 million and cash received from mortgage servicing rights of \$0.2 million exceeding cash interest expense paid on our Secured Term Loan of \$2.6 million, management and incentive fees of \$3.1 million, expense reimbursement of \$1.8 million and other operating expenditures of \$2.8 million.

### ***Investing Activities***

For the nine months ended September 30, 2023, net cash used in investing activities totaled \$314.2 million. This was the result of cash used for the purchase and funding of commercial mortgage loans held for investment exceeding the principal repayment of commercial mortgage loans held for investment during the period. For the nine months ended September 30, 2022 net cash used in investing activities totaled \$22.3 million. This was the result of cash used for the purchase and funding of commercial mortgage loans held for investment exceeding the principal repayment of commercial mortgage loans held for investment during the period.

### ***Financing Activities***

For the nine months ended September 30, 2023, net cash provided by financing activities totaled \$300.9 million and primarily related to proceeds from issuance of an investment-grade senior secured floating rate loan of \$270.4 million and issuance of \$47.3 million in investment-grade rated notes which more than offset payments of common stock dividends of \$9.4 million, payments of preferred stock dividends of \$3.6 million and payment of debt issuance costs of \$3.8 million. For the nine months ended September 30, 2022, net cash provided by financing activities totaled \$69.0 million and primarily related to proceeds from issuance of common stock of \$81.1 million which more than offset payments of common stock dividends of \$8.5 million, payment of preferred stock dividends of \$3.6 million and payment of debt issuance costs of \$0.1 million.

### **Forward-Looking Statements Regarding Liquidity**

Based upon our current portfolio, leverage rate and available borrowing arrangements, we believe that the net proceeds of our prior equity sales combined with cash flow from operations will be sufficient to enable us to meet anticipated short-term (one year or less) liquidity requirements to fund our investment activities, pay fees under our management agreement, fund our distributions to stockholders and for other general corporate expenses.

Our ability to meet our long-term (greater than one-year) liquidity and capital resource requirements will be subject to, amongst other things, obtaining additional debt financing and equity capital. We may increase our capital resources by obtaining long-term credit facilities, additional secured borrowings, including collateralized loan obligations, or making additional public or private offerings of equity or debt securities, possibly including classes of preferred stock, common stock and senior and subordinated notes.

To maintain our qualification as a REIT, we generally must distribute annually at least 90% of our "REIT taxable income" (determined without regard to the deduction for dividends paid and excluding net capital gain). These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations.

### **Off-Balance Sheet Arrangements**

As of September 30, 2023, we did not maintain any relationships with unconsolidated financial partnerships, or special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, as of September 30, 2023, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

In connection with the provision of seller eligibility and backstop guarantee services provided to MAXEX, we previously accounted for the related non-contingent liability at its fair value on our consolidated balance sheet as a liability. As of September 30, 2023, pursuant to an Assumption Agreement dated December 31, 2018, among MAXEX Clearing LLC and FOAC, MAXEX Clearing LLC assumed all of FOAC's obligations under its backstop guarantees and agreed to indemnify and hold FOAC harmless against any losses, liabilities, costs, expenses and obligations under the backstop guarantee, see Note 10 for further information.

### **Distributions**

We intend to continue to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its "REIT taxable income" (determined without regard to the deduction for dividends paid and excluding net capital gain) and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its "REIT taxable income." We have historically made regular monthly distributions, and with effect from the third quarter of 2018 we now make regular quarterly distributions, to our stockholders in an amount equal to all or substantially all of our REIT taxable income. Although FOAC no longer aggregates and securitizes residential mortgages, it continues to generate taxable income from MSRs and other mortgage-related activities. This taxable income will be subject to regular corporate income taxes. We generally anticipate the retention of profits generated and taxed at FOAC. Before we make any distribution on our common stock, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and any debt service obligations on debt payable. If cash available for distribution to our stockholders is less than our taxable income, we could be required to sell assets or borrow funds to make cash distributions, or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.



If substantially all of our taxable income has not been paid by the close of any calendar year, we may declare a special dividend prior to the end of such calendar year, to achieve this result. On September 14, 2023, we announced that our Board had declared a cash dividend rate for the third quarter of 2023 of \$0.07 per share of common stock which was paid on October 16, 2023 and declared a cash dividend rate for the third quarter of 2023 of \$0.49219 per share of Series A Preferred Stock which was paid on October 16, 2023.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

Not applicable.



## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e)) under the Securities Exchange Act of 1934, as amended, or Exchange Act, that are designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to paragraph (b) of Exchange Act Rules 13a-15 or 15d-15 as of September 30, 2023. Based upon our evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2023.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 or 15d-15 that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of the date hereof, neither we nor, to our knowledge, our Manager, are subject to any legal proceedings that we or our Manager considers to be material (individually or in the aggregate).

### **Item 1A. Risk Factors**

There have been no material changes to the Risk Factors previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2022.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

**Item 6. Exhibits**

The exhibits listed on the accompanying Index of Exhibits are filed or furnished herewith, as applicable, as a part of this report. Such Index is incorporated herein by reference.

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
31.1*	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1**	<a href="#"><u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2**	<a href="#"><u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
*	Filed herewith
**	Furnished herewith
***	Management contract or compensatory plan in which directors and/or executive officers are eligible to participate

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### LUMENT FINANCE TRUST, INC.

Dated: November 13, 2023

By /s/ James P. Flynn  
James P. Flynn  
Chief Executive Officer (Principal Executive Officer), President and  
Chairman of the Board

Dated: November 13, 2023

By /s/ James A. Briggs  
James A. Briggs  
Chief Financial Officer (Principal Financial Officer and Principal  
Accounting Officer)

**Certification of Principal Executive Officer Pursuant to Section 302  
of the Sarbanes-Oxley Act of 2002**

I, James P. Flynn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lument Finance Trust, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over the financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023

/s/ James P. Flynn

James P. Flynn

Chief Executive Officer (principal executive officer) and President

**Certification of Principal Financial Officer Pursuant to Section 302  
of the Sarbanes-Oxley Act of 2002**

I, James A. Briggs, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lument Finance Trust, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over the financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023

/s/ James A. Briggs

James A. Briggs

Chief Financial Officer (principal financial officer and principal accounting officer)

**CERTIFICATION PURSUANT TO  
17 CFR 240.15d-14(b) AND  
18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Lument Finance Trust, Inc. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James P. Flynn, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to 17 CFR 240.15d-14(b) and 18 U.S.C. Section 1350, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2023

/s/ James P. Flynn

James P. Flynn

Chief Executive Officer (principal executive officer) and President

A signed original of this written statement required by Section 906 has been provided to Lument Finance Trust, Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
17 CFR 240.15d-14(b) AND  
18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Lument Finance Trust, Inc. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James A. Briggs, as Chief Financial Officer (principal financial officer and principal accounting officer) of the Company, certify, pursuant to 17 CFR 240.15d-14(b) and 18 U.S.C. Section 1350, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2023

/s/ James A. Briggs

James A. Briggs

Chief Financial Officer (principal financial officer and principal  
accounting officer)

A signed original of this written statement required by Section 906 has been provided to Lument Finance Trust, Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.