

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

RAIT FUNDING, LLC,
a Delaware limited liability company, *et al.*¹

Debtors.

Chapter 11
Case No. 19-11915 (BLS)

(Jointly Administered)

Hearing Date: December 5, 2019 at 10:00 a.m.
Objection Deadline: December 2, 2019 at noon.

**MOTION OF THE AD HOC COMMITTEE OF PREFERRED EQUITY SECURITY
HOLDERS OF RAIT FINANCIAL TRUST TO TERMINATE THE DEBTORS'
EXCLUSIVE PERIOD TO PROPOSE AND SOLICIT ACCEPTANCES OF A PLAN OF
REORGANIZATION**

The Ad Hoc Committee of Holders of Preferred Equity (the “**Ad Hoc Committee**”) Issued by RAIT Financial Trust (“**RAIT Parent**”), by its attorneys, moves the Court (the “**Motion**”) pursuant to section 1121(d)(1) of title 11 of the United States Code (the “**Bankruptcy Code**”), for an entry of an order, substantially in the form annexed hereto as **Exhibit A**, terminating the Debtors’ exclusive period to propose and solicit acceptances of a plan of reorganization. In support of this Motion, the Ad Hoc Committee respectfully states as follows:

PRELIMINARY STATEMENT

1. The Debtors’ exclusivity period during which they, and only they, may file a plan must be terminated to preserve the rights of disenfranchised equity holders. There is no reason

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number (if applicable), are as follows: RAIT Funding, LLC, a Delaware limited liability company (9983); RAIT Financial Trust, a Maryland real estate investment trust (9819); RAIT General, Inc., a Maryland corporation (9987); RAIT Limited, Inc., a Maryland corporation (9773); Taberna Realty Finance Trust, a Maryland real estate investment trust (3577); RAIT JV TRS, LLC, a Delaware limited liability company (3190); and RAIT JV TRS Sub, LLC, a Delaware limited liability company (4870).

for this Court to allow the Debtors to proceed on their plan of reorganization (the “**Plan**”) [Docket No. 139], without there being an alternative competing plan providing different and better treatment for creditors and equity stakeholders to consider. Doing so would in essence compel estate stakeholders to either accept an unsatisfactory plan or have no recovery at all, clearly an unfair result. Instead, the Ad Hoc Committee has proposed a fully funded and confirmable alternative structure for paying claims in full and providing equity holders with far better treatment than that proposed by the Debtors and CF RFP Holdings LLC, an entity owned by funds managed by affiliates of Fortress Investment Group LLC (“**Fortress**”) to be consummated under a plan of reorganization (the “**AHC Plan**”).

2. The Ad Hoc Committee and its representatives have had dozens of meetings and calls over the past month, primarily with private investment funds and multiple, multi-billion dollar institutions, about financing the AHC Plan. As set forth in the *Objection Of Ad Hoc Committee Of Holders Of Preferred Equity Issued By Rait Financial Trust To Debtors’ Motion For Approval Of The Sale Of Substantially All Of Its Assets* (the “**Sale Objection**”) [Docket No. 203], the Ad Hoc Committee, in coordination with Never Summer Holdings LLC, negotiated a Commitment Letter with Magnetar Capital LLC and its affiliate Magnetar Financial LLC (“**MFL**”) on behalf of one or more funds or accounts managed by MFL (collectively, “**Magnetar**”) and Moab Partners, L.P. (“**Moab**,” collectively, with Magnetar, the “**New Investors**”) to provide \$50 million in AHC Plan funding (Magnetar and MOAB manage \$13 billion and \$750 million, respectively). The AHC Plan will provide payment to all creditors in accordance with their contractual rights and facilitate the Debtors’ emergence from Chapter 11 with at least \$65 million in shareholders’ equity. A Term Sheet reflecting the treatment of

classes of claims and interests under the AHC Plan and other significant AHC Plan terms was filed with the Sale Objection.²

3. The Ad Hoc Committee submits, and will demonstrate at the hearing on this matter, that the Debtors' enterprise value is between \$190 million and \$240 million. The headline number under the Equity and Asset Purchase Agreement with Fortress, which will provide the source of funding for the Debtors' Plan, purports to be \$174.4 million, but that includes a significant amount of the Debtors' own cash. The actual cash consideration being provided by Fortress is only about \$129 million (the "Sale").

4. As of the Petition Date, the Debtors' principal assets consisted of \$300 million of commercial real estate loans (none of which was in default) held by two non-Debtor affiliates, RAIT FL7 ("FL7") and RAIT FL8 ("FL8"). This valuable portfolio of approximately 20 commercial real estate loans is held by the Debtors in the form of commercial mortgage backed securities ("CMBS"), *i.e.*, pools of commercial mortgages which pay interest and principal to investors in accordance with an agreed waterfall. Each of the loans is currently deemed "performing" by the collateral manager, which is RAIT Parent itself. Since the bankruptcy filing on August 30, 2019, \$67 million of these loans has been repaid, leaving a balance of \$233 million. These loans are short-term and first lien, with approximately 99% of maturities before March 2021. While some loans provide for borrower extensions, they also have often been repaid prior to their stated maturity dates. The Ad Hoc Committee notes, and asks that the Court take judicial notice, that the commercial mortgage market is healthy, interest rates are low, and borrowers are experiencing strong competition among lenders for their business.

² The Commitment Letter and Term Sheet are annexed hereto as **Exhibit B**.

5. The organic, scheduled liquidation of this collateral will enable the CMBS entities to pay off all of their debt, including approximately \$65 million of FL7 debt and \$45 million FL8 debt held by RAIT itself, or \$110 million, by February 2021. From the perspective of potential funders of additional capital for RAIT Parent, the pay-down of collateral in FL7 and FL8 - and thereby the senior notes issued by those entities - improves the value of RAIT Parent's interests in those CMBS entities, as it accelerates the period within which RAIT Parent would expect to receive a pay-down of its holdings.

6. Other significant assets at RAIT Parent include its 10 real estate properties, carried at \$113.6 million as of June 30, 2019, but which carry significant indebtedness, some of which is owned by RAIT Parent via its CDO I securitization. RAIT Parent owned \$38.9 million of CDO I's securities as of June 30, 2019, of which \$24.0 million were pledged to the Taberna Note. RAIT Parent also directly owns mortgages previously held by RAIT CDO II, which paid off its non-RAIT securities holders in the fourth quarter of 2018, allowing RAIT Parent to bring the CDO's assets directly onto its own balance sheet.

7. If the Sale to Fortress were to be approved on its current terms, Fortress would receive an immediate windfall in the form of the Debtors' balance sheet cash, exceeding \$40 million, and the short-term pay-down of approximately \$110 million from the 20 or so commercial mortgages held in FL7 and FL8. Thus, Fortress will receive the full benefit of the Debtors' remaining assets after FL7 and FL8 are liquidated. Stated another way, Fortress is investing \$129 million and if the Sale and Plan go forward, the Debtor will return almost \$150 million to Fortress within 16 months from the Debtors' own cash and self-liquidating FL7 and FL8 securities. This windfall, of course, comes at the expense of the preferred shareholders who, without termination of exclusivity, will be forced either to accept such an unsatisfactory plan or

to reject it and have no ready alternative to which to turn, and perhaps face the prospect of a conversion to a liquidation. With such a valuable and liquid asset pool, it cannot be gainsaid that a plan of reorganization such as that being assembled by the Ad Hoc Committee that allows such value to be fully realized over the next 16 months is a mechanism to maximize value far superior to the sale to Fortress.

8. There is no reason for this Court to approve the Debtors' plan that wipes out preferred shareholders when preferred shareholders are in fact "in the money," and the AHC Plan will permit the preferred shareholders to realize the value to which they are entitled.

9. In its 10-Q for the period ended June 30, 2019, filed on November 7, 2019,³ RAIT Parent represents that shareholders' equity was \$64,454,000. Importantly, shareholders' equity at fair value even exceeds that figure. After adjusting the Debtors' investment in mortgage loans to reflect fair value (\$333,668,000 in mortgage loans at fair value versus \$361,134,000 carrying value [**Exhibit C**, page 26]), shareholders' equity would be reduced by \$27,466,000 to \$36,988,000. However, the consolidated balance sheet in the 10-Q includes shareholders' deficits for RAIT Securitizations and RAIT VIE Properties in the amounts of \$21,918,000 and \$6,836,000, respectively [**Exhibit C**, page 31], which are non-recourse and for which RAIT Parent therefore has no liability. Once those non-Debtor shareholders' deficits in the aggregate amount of \$28,754,000 are eliminated, the fair value of shareholders' equity is \$65,742,000.

10. Thus, one can only conclude, and RAIT Parent now must concede, that there is a substantial likelihood that equity holders will receive a meaningful distribution if allowed to file the AHC Plan. At least there would be a meaningful distribution to equity if the Debtors were not pursuing a misguided sale process designed to wipe out that substantial quantum of

³ See **Exhibit C**.

shareholders' equity for no legitimate reason. Nor does there appear to be any evidence of a substantial decrease in value since June 30, 2019. In fact, the Debtors' assets appear to be performing well and providing significant liquidity to the estates.

11. Based on the foregoing, the Court should terminate the Debtors' exclusivity and permit the Ad Hoc Committee to advance the AHC Plan that actually will maximize value for the benefit of all constituencies.

BACKGROUND

12. On August 30, 2019 (the "**Petition Date**"), the Debtors each commenced a voluntary case under chapter 11 of the Bankruptcy Code. On September 4, 2019, the Court entered an Order Directing Joint Administration of the Debtors under case number 19-11915(BLS) [Docket No. 25].

13. The Debtors are continuing operations and management as debtors in possessions pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

14. On September 9, 2019 the Debtors filed their Motion for Entry of an Order (I) Establishing the Bidding Procedures, Including Approval of A Break-Up Fee and Expense Reimbursement, (II) Approving Sale of Substantially All of the Debtors' Assets Free and Clear of All Liens, Claims, Interests and Encumbrances, and (III) Granting Related Relief (the "**Sale Motion**") [Docket No. 53].

15. On September 17, 2019, the U.S. Trustee filed a Notice of Appointment of the Unsecured Creditors' Committee [Docket No. 65].

16. On October 14, 2019, the Debtors filed the Plan and the Disclosure Statement for the Plan. [Docket No. 139 and 140, respectively]

17. On November 18, 2019, counsel for the Ad Hoc Committee filed their Notice of Appearance, Rule 2019 Statement and Objection to the Sale Motion [Docket No. 200, 201 and 203, respectively].

JURISDICTION, VENUE AND STATUTORY PREDICATE

18. This Court has jurisdiction over this Motion pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2). The Ad Hoc Committee consents to entry of a final order by the Bankruptcy Court determining this Motion.

19. The statutory predicate for the relief sought herein is section 1121(d)(1) of the Bankruptcy Code.

BASIS FOR THE RELIEF REQUESTED

20. “Only the debtor may file a plan until after 120 days after the date of the order for relief under” chapter 11. 11 U.S.C. § 1121(b). The underlying purpose of exclusivity “at the outset of a Chapter 11 case” gives a debtor “the unqualified opportunity to negotiate a settlement and propose a plan of reorganization without interference from creditors and other interests.” *In re Texaco Inc.*, 81 B.R. 806, 809 (Bankr. S.D.N.Y. 1988) (citing H.R.Rep. No. 595, 95th Cong., 2d Sess. 221–222 (1978), U.S. Code Cong. & Admin. News 1978, p. 5787).

21. Section 1121, however, also embodies “a congressional acknowledgement that creditors, whose money is invested in the enterprise no less than the debtor’s, have a right to a say in the future of that enterprise.” *In re Timbers of Inwood Forest Associates, Ltd.*, 808 F.2d 363, 372 (5th Cir. 1987), *aff’d* 484 U.S. 365 (1988). The statute “was designed, and should be faithfully interpreted, to limit the delay that makes creditors the hostages of Chapter 11 debtors.” *Id.*

22. This Court may reduce or terminate the exclusivity periods upon motion and for “cause” shown, 11 U.S.C. § 1121(d)(1), and “[t]he party who seeks the extension or the reduction of the exclusivity periods has the burden of establishing cause.” *In re Texaco Inc.*, 76 B.R. 326 (Bankr. S.D.N.Y. 1987) (collecting cases). The ultimate decision on exclusivity rests within the discretion of the bankruptcy court. *See First Am. Bank of N.Y. v. S.W. Gloves & Safety Equip., Inc.*, 64 B.R. 963, 965-66 (D. Del. 1986).

23. Although the Bankruptcy Code does not define “cause”, courts have looked to the legislative history of section 1121(d) for guidance. *See In re Gibson & Cushman Dredging Corp.*, 101 B.R. 405, 409 (E.D.N.Y. 1989); *In re Amko Plastics, Inc.*, 197 B.R. 74, 77 (Bankr. S.D. Ohio 1996). Courts may also consider the following factors:

- a. the size and complexity of the case;
- b. the necessity of sufficient time to negotiate and prepare adequate information;
- c. the existence of good faith progress toward reorganization;
- d. whether the debtor is paying its debts as they come due;
- e. whether the debtor has demonstrated reasonable prospects for filing a viable plan;
- f. whether the debtor has made progress in negotiating with creditors;
- g. the length of time the case has been pending;
- h. whether the debtor is seeking the extension to pressure creditors;
and
- i. whether unresolved contingencies exist.

See In re Cent. Jersey Airport Servs., LLC, 282 B.R. 176, 184 (Bankr. D.N.J. 2002) (citing *In re Service Merchandise Co.*, 256 B.R. 744, 751 (Bankr. M.D. Tenn. 2000); *In re Crescent Mfg.*, 122 B.R. 979, 982 (Bankr. N.D. Ohio 1990); *In re McLean Indus. Inc.*, 87 B.R. 830, 834

(Bankr. S.D.N.Y. 1987); *See also In re Adelpia Commc'ns Corp.*, 352 B.R. 578, 587 (Bankr. S.D.N.Y. 2006), *clarified on denial of reconsideration*, No. 02-41729, 2006 WL 2927222 (Bankr. S.D.N.Y. Oct. 10, 2006); *In re Borders Grp., Inc.*, 460 B.R. 818 (Bankr. S.D.N.Y. 2011).

24. Weighing these factors, the Debtors have not set forth a plan that adequately provides for all of the parties, especially considering the Ad Hoc Committee's ability to identify in very short order significant sources of recovery for the preferred equity holders and obtain a \$50 million commitment to fund the AHC Plan:⁴

- a. The size and complexity of the case. The Ad Hoc Committee has demonstrated the ease with which the AHC Plan can be formulated and provide for a substantial return to the preferred equity security holders who would otherwise be receiving nothing under the Debtors' proposed plan.
- b. The necessity of sufficient time to negotiate and prepare adequate information. Any argument by the Debtors regarding a lack of sufficient time to negotiate and propose a plan falls flat as the Debtors have already filed their Plan but it is seriously deficient.
- c. The existence of good faith progress toward reorganization. The Debtors cannot demonstrate good faith effort towards reorganization where the rights of the preferred shareholders have been ignored, the Plan offers the assets of the Debtor to Fortress for less than fair value and the Debtors have, among other things, engaged in bid chilling. *See* Sale Objection [Docket No. 203]. "In evaluating whether a plan has been filed in good faith, a court should look to the totality of the circumstances, including: (1) whether a plan comports with the provisions and purpose of the Code and the chapter under which it is proposed, (2) whether a plan is feasible, (3) whether a plan is proposed with honesty and sincerity, and (4) whether a plan's terms or the process used to seek its confirmation was fundamentally fair." *In re Riviera Drilling & Expl. Co.*, No. BR 10-11902, 2012 WL 6719591, at *6 (Bankr. D. Colo. Dec. 19, 2012), *aff'd*, 502 B.R. 863 (10th Cir. BAP (Colo.) 2013) (citing *In re Global Water Technologies, Inc.*, 311 B.R. 896, 903 (Bankr. D. Colo. 2004)). Here, the Debtors cannot overcome the burden of demonstrating a good faith plan of reorganization because the Debtors have not provided any recovery for preferred shareholders even though they are "in the money." Yet, the AHC Plan would provide preferred equity security holders a substantial recovery.

⁴ The Committee submits that some of the factors identified in *Cent. Jersey Airport Servs., LLC* are not relevant in this atypical situation where the facts are unique.

- d. Whether the Debtors have demonstrated reasonable prospects for filing a viable plan. The Plan set forth by the Debtors will ultimately fail. Confirmation of any plan of reorganization under Chapter 11 will require this Court to evaluate the best interests of the shareholders. “Congress created a provision in the Bankruptcy Code that is commonly referred to as the ‘best interest ... test.’ 11 U.S.C. § 1129(a)(7)(A)(i–ii). Under the test, every creditor [and shareholder] to a Chapter 11 reorganization plan must receive at least the liquidation value of its claim [or interest] under the plan as it would in a Chapter 7 proceeding against the debtor in order for the court to find the plan is in the creditors’ [and shareholders’] best interest. The bankruptcy courts determine this liquidation value by ‘conjur[ing] up a hypothetical [C]hapter 7 liquidation that would be conducted on the effective date of the plan.’” *In re W.R. Grace & Co.*, 475 B.R. 34, 141 (D. Del. 2012), *aff’d sub nom. In re WR Grace & Co.*, 729 F.3d 332 (3d Cir. 2013), and *aff’d*, 532 F. App’x 264 (3d Cir. 2013), and *aff’d*, 729 F.3d 311 (3d Cir. 2013), and *aff’d sub nom. In re WR Grace & Co.*, 729 F.3d 332 (3d Cir. 2013). Applying this test to the facts set forth in this Motion, the Plan filed by the Debtors does not satisfy the “best interest” test with respect to shareholders as the value of the assets exceeds all liabilities.

Moreover, because a superior transaction is at hand under which equity would realize value rather than being wiped out, the Plan discriminates unfairly and thus violates section 1129(b)(1).

- e. Whether the Debtors have made progress in negotiating with creditors. The Debtors have not made any progress in negotiating with the Ad Hoc Committee. As set forth in the Sale Objection, favorable treatment was given to Fortress in negotiating the Sale, ultimately at a total loss to the preferred equity security holders. Despite the efforts of the Ad Hoc Committee, the Debtors have not engaged in any meaningful negotiations. Termination of the exclusivity period is needed to bring the Debtors to negotiate, settle and compromise through a competing plan whereby the all parties in interest can realize greater value. See, *In re Timbers of Inwood Forest Associates, Ltd.*, 808 F.2d 363, 372 (5th Cir. 1987), *aff’d* 484 U.S. 365 (1988) (“Section 1121 was designed, and should be faithfully interpreted, to limit the delay that makes creditors the hostages of Chapter 11 debtors.”).
- f. The length of time the case has been pending. The cases were filed less than three months ago. Despite the relative infancy of the cases, the Debtors are looking to sell substantially all of their assets to Fortress at fire sale prices, and propose a plan that woefully undervalues the potential recovery to all constituents. To head off the potential that significant enterprise value will be lost, the AHC Plan not only pays all creditors in full, it also maximizes a return to the preferred equity.

25. As set forth in *Situation Management Systems, Inc.*, the Court should look to the Debtors' use of the exclusivity period to force parties in interest to accept an unsatisfactory or unconfirmable plan. *In re Situation Mgmt. Sys., Inc.*, 252 B.R. 859, 863 (Bankr. D. Mass. 2000). Clearly the Ad Hoc Committee finds the proposed Plan unsatisfactory as it does not provide for any recovery for equity, despite the Debtors' own proof to the contrary in the RAIT Parent 10-Q. The continuation of the exclusivity period will be futile and to the unfair detriment of the Ad Hoc Committee.

26. The Ad Hoc Committee seeks to file the AHC Plan to provide recovery to all parties in interest, including the preferred equity security holders. Given the Debtors' failure to file a plan that is in the best interests of all parties in interest, the Court should exercise its discretionary authority to terminate the exclusivity period and allow the Ad Hoc Committee to file its competing AHC Plan.

NOTICE

27. Notice of this Motion will be given to counsel for (i) the Debtors, (ii) the U.S. Trustee, (iii) the Official Committee of Unsecured Creditors, and (iv) through the Court's CM/ECF system, all other parties having filed a request for notice. It is respectfully submitted that, in light of the nature of the relief requested, no other or further notice need be given.

28. No prior motion for the relief requested herein has been filed in this or any other court.

WHEREFORE, the Ad Hoc Committee requests that this Court grant this Motion, terminate the Debtors' exclusivity and afford the Ad Hoc Committee such other relief as the Court deems proper.

DATED: November 21, 2019

Respectfully submitted,

/s/Joseph H. Huston, Jr.
Joseph H. Huston, Jr. (No. 4035)
Stevens & Lee, P.C.
919 North Market Street, Suite 1300
Wilmington, DE 19801
Phone: (302) 425-3310
Fax: (610) 371-7972
Email: jhh@stevenslee.com

-and-

Nicholas F. Kajon*
Constantine Pourakis*
Andreas D. Milliaressis*
Stevens & Lee, P.C.
485 Madison Avenue, 20th Floor
New York, NY 10022
Telephone: (212) 319-8500
Fax: (212) 319-8505
Email: nfk/cp/adm@stevenslee.com
*Admission *pro hac vice* pending

*Counsel to Ad Hoc Committee of Preferred Equity
Security Holders of RAIT Financial Trust*

EXHIBIT A

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

RAIT FUNDING, LLC,
a Delaware limited liability company, *et al.*¹

Debtors.

Chapter 11
Case No. 19-11915 (BLS)

(Jointly Administered)

Related to Docket No. _____
Hearing Date: December 5, 2019 at 10:00 a.m.
Objection Deadline: December 2, 2019 at noon.

**PROPOSED ORDER GRANTING THE MOTION OF THE AD HOC COMMITTEE OF
PREFERRED EQUITY SECURITY HOLDERS OF RAIT FINANCIAL TRUST TO
TERMINATE THE DEBTORS' EXCLUSIVE PERIOD TO PROPOSE AND SOLICIT
ACCEPTANCES OF A PLAN OF REORGANIZATION**

Upon the motion, dated November 21, 2019 (the “**Motion**”)² filed by the Ad Hoc Committee of Holders of Preferred Equity (the “**Ad Hoc Committee**”) issued by RAIT Financial Trust, seeking entry of an order terminating the Debtors’ exclusive period to propose and solicit acceptances of a plan of reorganization pursuant to section 1121(d)(1) of title 11 of the United States Code (the “**Bankruptcy Code**”)

IT IS HEREBY ORDERED THAT:

1. The Motion is GRANTED as set forth herein.
2. The exclusivity period under which the Debtors may file a plan is hereby terminated and the Ad Hoc Committee is permitted to file a competing plan of reorganization.

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number (if applicable), are as follows: RAIT Funding, LLC, a Delaware limited liability company (9983); RAIT Financial Trust, a Maryland real estate investment trust (9819); RAIT General, Inc., a Maryland corporation (9987); RAIT Limited, Inc., a Maryland corporation (9773); Taberna Realty Finance Trust, a Maryland real estate investment trust (3577); RAIT JV TRS, LLC, a Delaware limited liability company (3190); and RAIT JV TRS Sub, LLC, a Delaware limited liability company (4870).

² Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Motion.

3. This Court shall retain jurisdiction with respect to all matters arising from or relating to the interpretation and implementation of this Order.

Dated: December __ 2019

HONORABLE BRENDAN LINEHAN SHANNON
UNITED STATES BANKRUPTCY JUDGE

EXHIBIT B



Ken Grossman
c/o Nicholas F. Kajon
Stevens & Lee
485 Madison Avenue, 20th Floor
New York, NY 10022

November 18, 2019

Magnetar Capital LLC and its affiliate Magnetar Financial LLC ("MFL") on behalf of one or more funds or accounts managed by MFL (collectively, "Magnetar") and Moab Capital Partners, LLC and its affiliate Moab Private Investments, L.P. (collectively, "Moab Partners") on behalf of one or more funds or accounts managed by Moab Partners, (Magnetar and Moab collectively to be referred to as "New Investors") are pleased to present this indicative term sheet to the Ad-Hoc Committee of Preferred Holders for the purpose of financing a recapitalization or Chapter 11 plan of RAIT Funding LLC, et al. ("RAIT" or "the Company").

The New Investors wish to explore a transaction to support the Ad Hoc Committee of Preferred Holders of RAIT with an investment to recapitalize and strengthen the ongoing balance sheet of RAIT and manage the business with the goal of creating value for more stakeholders. We believe the strong assets of the business, historical positive book value and near term liquidity improvements due to impending loan repayments create an opportunity to reposition/recapitalize the Company for the benefit of stakeholders which are ignored in the current Plan of Reorganization ("POR"). We would like to work with the Preferred Shareholders to help realize that value.

Magnetar Capital was founded in 2005 and is a leading alternative investment manager with expertise in real estate, structured products, energy, and fixed income using both quantitative and fundamental strategies. The Firm invests across public and private markets, geographies, and company capital structures, leveraging deep fundamental analysis and quantitative rigor. Magnetar manages approximately \$12 billion dollars in assets for its investors and has a strong track record of value creation since inception.

Moab Partners, founded in 2006, manages approximately \$750 million in an event-driven strategy focused on stressed credit and value equity. The Firm invests across all sectors in private and public companies. Moab Partners has extensive experience in the bankruptcy process. Moab Partners' founder, Michael Rothenberg has sat on numerous official creditor and steering committees through bankruptcy proceedings in Delaware.

The New Investors would propose to commit \$50 million, subject to business, legal and tax due diligence, as well as definitive documentation, which when combined with RAIT's cash balances and current 2019 bondholders who are willing to extend their maturities, will allow for the outstanding indebtedness of RAIT to be refinanced, and strengthen RAIT's liquidity for all of its creditors and stakeholders. The Preferred Holders, who are entitled to no recovery under the current POR, will be entitled to the vast majority of residual value in the reorganized company. We have reviewed the public company filings, securitization monitoring reports and followed the

case closely and would welcome the opportunity to enter into a traditional and expedited confirmatory due diligence period.

To continue to help create value for all stakeholders, the New Investors propose to establish an entity (the "SPV") which will manage the assets of the Company on an ongoing basis. The SPV would take over the investment management of RAIT which will generate substantial cost savings. Compensation to the SPV would consist of a management fee plus an incentive fee which better aligns management compensation with the growth of RAIT's book value. For historical perspective, in 2018, RAIT recorded \$10.6 million in compensation expense in addition to \$15.9 million in General and administrative expense. The New Investors are confident they will vastly reduce these expenses as another lever to deliver value for all stakeholders including the Preferred Holders. Further, the New Investors will be incentivized through their ability to drive book value per share for the reorganized entity. The New Investors intend to focus RAIT's investment strategy to align with their expertise in real estate and middle market loans. The new effort will lead to a simplification and reduction of the current cost burden on the Company and will allow the reorganized RAIT to emerge on solid footing and the new shareholders to benefit.

We are excited to work with the Ad-Hoc Committee as you look to assert your claim through the bankruptcy process and look forward to the opportunity to help create value on an ongoing basis for RAIT. We hope that you find the terms in the attachment acceptable and look forward to entering into confirmatory diligence

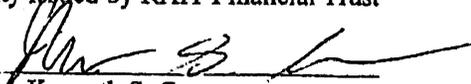
If the terms and conditions contained herein meet with your approval, please indicate your acceptance by executing this letter and returning a copy to us.

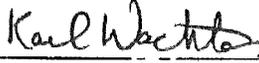
AGREED AND ACCEPTED

Very truly yours,

Ad Hoc Committee of Holders of Preferred Equity Issued by RAIT Financial Trust

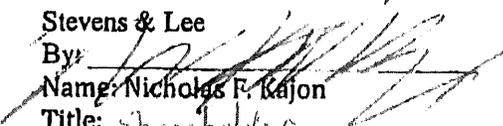
Magnetar Capital LLC

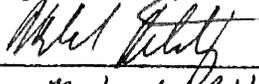
By: 
Name: Kenneth S. Grossman
Title: Agent for Ad Hoc Committee

By: 
Name: Karl Wachter
Title: General Counsel

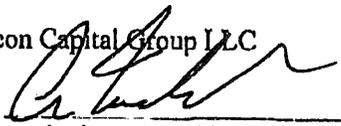
Stevens & Lee

Moab Capital Partners, LLC

By: 
Name: Nicholas F. Rajon
Title: Shareholder

By: 
Name: Michael Rothenberg
Title: President

Odcon Capital Group LLC

By: 
Name: Andrew L. Feldschreiber
Title: Managing Director

RAIT FUNDING, LLC, ET AL.
PRELIMINARY TERM SHEET RESPECTING PLAN OF REORGANIZATION AND EXIT FINANCING

Term	Description
Issuer	The Debtor, RAIT Funding, LLC, et al. ("RAIT"), in the Chapter 11 Case administered under case number Case No. 19-11915 (BLS)(Jointly Administered) in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").
Applicable Debtors	The Plan of Reorganization shall pertain to all Debtors except Taberna Realty Finance Trust (obligor on the Subordinated Taberna Note).
Claim Treatment	<p>Pertaining to all stakeholders other than those of Debtor Taberna Realty Finance Trust:</p> <ul style="list-style-type: none"> • Administrative: 100% Cash Payment • Priority Tax: 100%, paid in 5 annual increments per Bankruptcy Code Section 1129(a)(9)(C) • 7.125% Sr. Notes due 2019: Distribution Election (see below) • 7.625% Sr. Notes due 2024: Replacement Notes • GUCs: Distribution Election • Sub. RF Jr. Note: Unimpaired/Replacement Note • Preferred Interests: 90.0% of new common equity subject to dilution based on exit financing. • Common Interests: No recovery
Distribution Election	<p> Holders of 7.125% Sr. Notes due 2019 and GUCs shall be entitled to vote, not only Plan acceptance/rejection, but also between two distribution options: (1) new 7.125% Sr. Secured Notes due 2022, having substantially the same terms as the 2019 Indenture, plus pro rata allocation of 10.0% of new common equity in the reorganized debtors; and (2) 100% cash payment. Under either Distribution Election, the 2019 Noteholders shall be entitled to post-petition interest at contract rate in the case of 7.125% Sr. Notes due 2019 who elect to exchange and federal judgment rate for non-electing 2019 Noteholders and GUCs. Holders of 7.125% Sr. Notes due 2019 and GUCs that do not vote on the Plan, shall receive new 7.125% Sr. Secured Notes due 2022.</p>
Replacement Notes	<p> Holders of 7.625% Sr. Notes due 2024 and the Sub. RF Jr. Note shall be respectively entitled to new 7.625% Sr. Notes or a Sub. RF Jr. Note, in each case pursuant to indentures having substantially the same terms as the preexisting indentures. Such distributions shall include post-petition interest.</p>
Restructuring Support Agreement ("RSA")	<p> Within seven days of execution of this term sheet, the parties will use commercially reasonable efforts to enter into a Restructuring Support Agreement ("RSA"), subject, with respect to the New Investors, to satisfactory completion of business, legal and tax due diligence as well as definitive documentation, to be prepared for execution by certain holders of the 7.125% Sr. Notes due 2019 and the ad-hoc committee of Preferred Holders controlling ~40% of the Preferred Equity. The RSA shall provide that such signatories are prepared to support the Plan and to make a Distribution Election in favor of new 7.125% Sr. Notes due 2022.</p>

Exit Financing	The Plan shall be funded by a portion of available cash. In addition, on the Plan's Effective Date, \$50 million (or such lesser necessary amount) shall be raised by issuing to capital providers (including the New Investor and the exchanging 2019 bondholders): (1) new debt on economic terms equivalent or better than the 7.125% Sr. Notes; and (2) pro rata allocation of 10.0% common equity in the reorganized Debtors (inclusive of the New Investor Backstop notes).
New Investor(s)	Magnetar Capital LLC on behalf of one or more funds or accounts managed by Magnetar Financial LLC and Moab Capital Partners, LLC (or affiliates) (the "New Investor(s)"), who shall have committed to purchase up to \$50 million of the 2022 Notes (the "Committed Purchase Amount").
New Investor(s) Election	The New Investors shall have the right but not the obligation to purchase a minimum of \$30 million of the 2022 Notes.
New Investor Backstop Pool	In consideration of providing the New Investor Backstop New Investor will receive: <ul style="list-style-type: none"> 1) A backstop fee equal to 10.0% of the Committed Purchase Amount payable in new 7.125% Sr. Secured Notes due 2022 ("New Investor Backstop Notes") 2) Its pro rata share of the 10.0% equity pool which will be granted to the new 7.125% Senior Secured rolling class. <p>In addition if any Reorganization, Liquidation or Plan of Restructuring is implemented by the courts that provides any recovery to the Preferred Equity class and the New Investor has not made an investment, New Investor will receive 10.0% of any such value.</p>
Effective Date	The "Effective Date" means the date on which the Plan is consummated. On the Effective date the Issuer shall (a) issue the 2022 Notes and (b) appoint a temporary manager to administer the assets for the benefit of all stakeholders
Use of Cash Proceeds	Together with cash on hand, cash proceeds from the New Investor and exchanging 2019 Sr. Noteholders shall be used, as provided for in the Plan, to provide exit financing and working capital for reorganized RAIT based upon a feasible post emergence budget.
Treatment Under Section 1145	2022 Notes and new RAIT shares will be exempt from registration under the Securities Act of 1933 by virtue of Section 4(2) thereof or Regulation D promulgated thereunder. 2022 Notes and new RAIT shares will be exempt from registration pursuant to the order confirming the Plan under section 1145 of the Bankruptcy Code to the extent applicable.
Post-Confirmation Governance	The reorganized RAIT Board shall be selected by the Ad Hoc Committee of Preferred Shareholders in coordination with the New Investor, and shall be disclosed in the Plan Supplement (filed 5 days before the voting deadline).
Externalization of Advisory Function	On the Effective Date, the Issuer will become externally managed and will be advised by a newly formed legal entity (the "External Manager") controlled by the New Investor(s). The External Manager will charge an annual base management fee equal to the greater of (i) \$2.0 million and (ii) 1.50% of Total Net Assets once total net assets exceed \$200 million. In addition, the External Manager will earn an annual incentive fee of 17.5% above a hurdle of 6.0% Annualized Return, in line with comparable structures

Governing Law	Applicable Federal law (including conflicts of law rules), and in the absence of applicable Federal law, the law of the State of New York, without regard to conflict of laws doctrine applied in such state.
New Investor Breakup Obligation	Should any New Investor enter into a transaction pertaining to the case materially different than this term sheet without the express written consent of the Ad Hoc Committee, the members of the Ad Hoc Committee shall be entitled to participate in up to 33.33% of the transaction as a participant of the New Investor. The Ad Hoc Committee, or any member thereof, has the right to assign its right to participate in such transaction. The New Investor Breakup Obligation will not be enforceable if the parties are unable to come to acceptable terms and participation levels on the RSA.
Commitment Subject to Due Diligence	Any other provision of this this term sheet notwithstanding, this term sheet is a summary of indicative terms and conditions for discussion purposes only, and is subject to completion of due diligence and review of the Debtors' data room and satisfactory management meetings and other documents and information reasonably requested by the relevant parties and execution of definitive documentation and confirmation of the Plan on terms reasonably acceptable to the Commitment Parties. This Term Sheet does not constitute a commitment on the part of the New Investor(s) and is not binding on New Investor(s).
Successor Preferred Holders	Odeon Capital Group LLC and Stevens & Lee (together, "Advisors"), agree that in the event members of the Ad Hoc Committee sell or otherwise dispose of their Preferred Shares, the Advisors will not communicate with or represent new holders of the Preferred Shares unless they agree to be bound by the terms of the Term Sheet (including amendments and modifications thereto).

EXHIBIT C

10-Q 1 ras-10q_20190630.htm 10-Q

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2019**

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 number **1-14760**

RAIT FINANCIAL TRUST

(Exact Name of Registrant as Specified in its Charter)

Maryland	23-2919819
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
Two Logan Square, 100 N. 18th Street, 23rd Floor, Philadelphia, PA	19103
Address of Principal Executive Offices	Zip Code

(215) 207-2100

Registrant's Telephone Number, Including Area Code

N/A

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Securities registered pursuant to Section 12(b) of the Act: **None**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Not applicable	Not applicable	Not applicable

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 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 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 the 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

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 Act). Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

A total of 1,849,252 common shares of beneficial interest, par value \$1.50 per share, of the registrant were outstanding as of November 1, 2019.

RAIT FINANCIAL TRUST
TABLE OF CONTENTS

	<u>Page</u>
<u>PART I—FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	1
<u>Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018</u>	1
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2019 and 2018</u>	2
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2019 and 2018</u>	3
<u>Consolidated Statement of Changes in Equity for the Three and Six Months Ended June 30, 2019 and 2018</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2019 and 2018</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	39
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	53
Item 4. <u>Controls and Procedures</u>	53
<u>PART II—OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	54
Item 1A. <u>Risk Factors</u>	55
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 3. <u>Defaults Upon Senior Securities</u>	57
Item 6. <u>Exhibits</u>	58
<u>Signatures</u>	62

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

RAIT Financial Trust

Consolidated Balance Sheets

(Unaudited and dollars in thousands, except share and per share information)

	<u>As of June 30, 2019</u>	<u>As of December 31, 2018</u>
Assets		
Investment in mortgage loans, held for investment:		
Commercial mortgage loans, mezzanine loans, and preferred equity interests	\$ 381,279	\$ 502,397
Allowance for loan losses	<u>(20,145)</u>	<u>(22,336)</u>
Total investment in mortgage loans, held for investment, net (including \$352,064 and \$467,656 held by consolidated VIEs, respectively)	361,134	480,061
Investment in mortgage loans, held for sale	4,973	4,873
Investments in real estate, net of accumulated depreciation of \$10,722 and \$8,768, respectively (including \$17,665 and \$18,020 held by consolidated VIEs, respectively)	113,605	107,824
Investments in real estate, held for sale	-	4,918
Cash and cash equivalents	46,705	42,453
Restricted cash	29,282	63,067
Accrued interest receivable	16,754	18,044
Other assets	8,755	10,807
Intangible assets, net of accumulated amortization of \$6,050 and \$5,703, respectively	<u>1,370</u>	<u>1,717</u>
Total assets	<u>\$ 582,578</u>	<u>\$ 733,764</u>
Liabilities and Shareholders' Equity		
Indebtedness, net of unamortized discounts, premiums and deferred financing costs of \$15,256 and \$16,643 respectively (including \$301,711 and \$440,776 held by consolidated VIEs, respectively)	\$ 485,951	\$ 625,916
Accrued interest payable	2,160	2,401
Accounts payable and accrued expenses	2,785	3,330
Borrowers' escrows	22,745	31,343
Other liabilities	<u>4,483</u>	<u>2,268</u>
Total liabilities	518,124	665,258
Preferred shares, \$0.01 par value per share, 25,000,000 shares authorized;		
7.75% Series A cumulative redeemable preferred shares, liquidation preference \$25.00 per share, 8,069,288 shares authorized, 5,727,500 and 5,727,500 shares issued and outstanding, respectively	57	57
8.375% Series B cumulative redeemable preferred shares, liquidation preference \$25.00 per share, 4,300,000 shares authorized, 2,508,797 and 2,508,797 shares issued and outstanding, respectively	25	25
8.875% Series C cumulative redeemable preferred shares, liquidation preference \$25.00 per share, 3,600,000 shares authorized, 1,758,030 and 1,758,030 shares issued and outstanding, respectively	18	18
Common shares, \$1.50 par value per share, 200,000,000 shares authorized 1,849,488 and 1,850,451 issued and outstanding, respectively, including 4,924 and 6,844 unvested restricted common share awards, respectively	2,774	2,776
Additional paid in capital	2,102,435	2,102,274
Accumulated other comprehensive income (loss)	12,673	11,473
Retained earnings (deficit)	<u>(2,053,528)</u>	<u>(2,048,117)</u>
Total shareholders' equity	<u>64,454</u>	<u>68,506</u>
Total liabilities and shareholders' equity	<u>\$ 582,578</u>	<u>\$ 733,764</u>

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

RAIT Financial Trust
Consolidated Statements of Operations
(Unaudited and dollars in thousands, except share and per share information)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenue:				
Investment interest income	\$ 6,063	\$ 16,324	\$ 12,984	\$ 35,189
Investment interest expense	<u>(3,727)</u>	<u>(9,590)</u>	<u>(7,890)</u>	<u>(20,139)</u>
Net interest margin	2,336	6,734	5,094	15,050
Property income	3,323	8,666	6,630	17,482
Fee and other income	<u>99</u>	<u>1,153</u>	<u>187</u>	<u>2,362</u>
Total revenue	5,758	16,553	11,911	34,894
Expenses:				
Interest expense	3,966	6,356	7,962	13,127
Real estate operating expense	1,713	5,402	3,716	11,192
Property management expenses	-	1,739	-	3,670
General and administrative expenses:				
Compensation expense	1,976	3,113	4,205	6,038
Other general and administrative expense	<u>3,637</u>	<u>4,085</u>	<u>7,088</u>	<u>10,423</u>
Total general and administrative expenses	5,613	7,198	11,293	16,461
Acquisition and integration expenses	-	-	-	133
Provision (benefit) for loan losses	(9,509)	14,748	(10,092)	22,780
Depreciation and amortization expense	<u>1,295</u>	<u>2,887</u>	<u>2,679</u>	<u>6,330</u>
Total expenses	<u>3,078</u>	<u>38,330</u>	<u>15,558</u>	<u>73,693</u>
Operating (Loss) Income	2,680	(21,777)	(3,647)	(38,799)
Interest and other income (expense), net	254	94	358	443
Gains (losses) on assets	1,230	(3,211)	1,533	(4,148)
Gains (losses) on deconsolidation of VIEs	-	(8,177)	-	(8,177)
Gains (losses) on extinguishments of debt	(346)	(2,438)	(631)	(3,429)
Asset impairment	(2,781)	(21,625)	(2,807)	(30,816)
Change in fair value of financial instruments	<u>(210)</u>	<u>111</u>	<u>(180)</u>	<u>198</u>
Income (loss) before taxes	827	(57,023)	(5,374)	(84,728)
Income tax benefit (provision)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	827	(57,023)	(5,374)	(84,728)
(Income) loss allocated to preferred shares	<u>(5,071)</u>	<u>6,861</u>	<u>(10,134)</u>	<u>472</u>
Net income (loss) allocable to common shares	<u>\$ (4,244)</u>	<u>\$ (50,162)</u>	<u>\$ (15,508)</u>	<u>\$ (84,256)</u>
Earnings (loss) per share-Basic:				
Earnings (loss) per share-Basic	<u>\$ (2.30)</u>	<u>\$ (27.26)</u>	<u>\$ (8.41)</u>	<u>\$ (45.82)</u>
Weighted-average shares outstanding-Basic	<u>1,844,563</u>	<u>1,839,826</u>	<u>1,844,302</u>	<u>1,838,666</u>
Earnings (loss) per share-Diluted:				
Earnings (loss) per share-Diluted	<u>\$ (2.30)</u>	<u>\$ (27.26)</u>	<u>\$ (8.41)</u>	<u>\$ (45.82)</u>
Weighted average shares outstanding-Diluted	<u>1,844,563</u>	<u>1,839,826</u>	<u>1,844,302</u>	<u>1,838,666</u>

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

RAIT Financial Trust
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited and dollars in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 827	\$ (57,023)	\$ (5,374)	\$ (84,728)
Other comprehensive income (loss):				
Unrealized gains (losses) from change in fair value based on instrument specific credit risk	620	2,021	1,200	3,287
Total other comprehensive income (loss)	620	2,021	1,200	3,287
Comprehensive income (loss)	\$ 1,447	\$ (55,002)	\$ (4,174)	\$ (81,441)

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

RAIT Financial Trust
Consolidated Statement of Changes in Equity
(Unaudited and dollars in thousands, except share information)

	For the three and six months ended June 30, 2019												
	Par Value		Par Value		Par Value		Par Value		Additional	Retained	Total	Total	
	Preferred Shares— Series A	Preferred Shares— Series A	Preferred Shares— Series B	Preferred Shares— Series B	Preferred Shares— Series C	Preferred Shares— Series C	Common Shares	Common Shares					Paid In Capital
Balance, December 31, 2018	5,727,500	\$ 57	2,508,797	\$ 25	1,758,030	\$ 18	1,850,451	\$ 2,776	\$2,102,274	\$ 11,473	\$ (2,048,117)	\$ 68,506	\$ 68,506
Net income (loss)											(6,201)	(6,201)	(6,201)
Common dividends declared											(29)	(29)	(29)
Other comprehensive income (loss), net										580		580	580
Share-based compensation									89			89	89
Common shares activity related to equity compensation								(921)	(2)			(2)	(2)
Balance, March 31, 2019	5,727,500	\$ 57	2,508,797	\$ 25	1,758,030	\$ 18	1,849,530	\$ 2,774	\$2,102,363	\$ 12,053	\$ (2,054,347)	\$ 62,943	\$ 62,943
Net income (loss)											827	827	827
Preferred dividends paid											(8)	(8)	(8)
Other comprehensive income (loss), net										620		620	620
Share-based compensation									72			72	72
Balance, June 30, 2019	5,727,500	\$ 57	2,508,797	\$ 25	1,758,030	\$ 18	1,849,530	\$ 2,774	\$2,102,435	\$ 12,673	\$ (2,053,528)	\$ 64,454	\$ 64,454

	For the three and six months ended June 30, 2018													
	Par Value		Par Value		Par Value		Par Value		Additional	Retained	Total	Noncontrolling	Total	
	Preferred Shares— Series A	Preferred Shares— Series A	Preferred Shares— Series B	Preferred Shares— Series B	Preferred Shares— Series C	Preferred Shares— Series C	Common Shares	Common Shares						Paid In Capital
Balance, December 31, 2017	5,344,353	\$ 53	2,340,969	\$ 23	1,640,425	\$ 17	1,860,903	\$ 2,791	\$2,094,804	\$ 0	\$ (1,921,533)	\$ 176,155	\$ 3,632	\$ 179,787
Cumulative effect adjustments from adoption of recently issued accounting pronouncements									9,257	(8,496)		761		761
Adjusted Balance, January 1, 2018	5,344,353	\$ 53	2,340,969	\$ 23	1,640,425	\$ 17	1,860,903	\$ 2,791	\$2,094,804	\$ 9,257	\$ (1,930,029)	\$ 176,916	\$ 3,632	\$ 180,548
Net income (loss)											(27,705)	(27,705)		(27,705)
Preferred dividends paid											(6,389)	(6,389)		(6,389)
Common dividends declared											(105)	(105)		(105)
Other comprehensive income (loss), net									1,266			1,266		1,266
Share-based compensation									(539)			(539)		(539)
Issuance of noncontrolling interests													76	76
Acquisition of noncontrolling interests									3,239			3,239	(3,582)	(343)
Common shares activity related to equity compensation							(9,369)	(14)	(57)			(71)		(71)
Balance, March 31, 2018	5,344,353	\$ 53	2,340,969	\$ 23	1,640,425	\$ 17	1,851,535	\$ 2,777	\$2,097,447	\$ 10,523	\$ (1,964,228)	\$ 146,612	\$ 126	\$ 146,738
Net income (loss)											(57,023)	(57,023)		(57,023)
Preferred shares issued, net	383,147	4	167,828	2	117,605	1		4,359				4,366		4,366
Preferred dividends paid											(8)	(8)		(8)
Impact of Series D redemption (Note 8)											11,932	11,932		11,932
Other comprehensive income (loss), net									2,021			2,021		2,021
								262				262		262

RAIT Financial Trust
Consolidated Statements of Cash Flows
(Unaudited and dollars in thousands)

	<u>For the Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Operating activities:		
Net income (loss)	\$ (5,374)	\$ (84,728)
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Provision (benefit) for loan losses	(10,092)	22,780
Share-based compensation expense	161	(277)
Depreciation and amortization expense	2,679	6,330
Amortization of deferred financing costs and debt discounts	1,773	5,771
(Amortization) of loan origination fees and costs, net	(249)	(602)
(Amortization) of above/below market leases	(32)	(282)
(Gains) Losses on assets	(1,533)	4,148
(Gains) Losses on extinguishments of debt	631	3,429
(Gains) Losses on deconsolidation of VIEs	—	8,177
Asset impairment	2,807	30,816
Change in fair value of financial instruments	180	(198)
Changes in assets and liabilities:		
Decrease in accrued interest receivable	1,290	326
(Increase) decrease in other assets	597	1,842
(Decrease) increase in accrued interest payable	(240)	(745)
(Decrease) in accounts payable and accrued expenses	(527)	(568)
(Decrease) increase in other liabilities	(111)	17,237
Proceeds from sale of loans originated for sale	—	14,265
Cash flows provided by (used in) operating activities	<u>(8,040)</u>	<u>27,721</u>
Investing activities:		
Origination of loans for investment	(7,632)	(50,826)
Principal repayments on loans	122,636	170,036
Proceeds from sale of interests in floating rate securitizations, net of cash and restricted cash deconsolidated	—	31,874
Investments in real estate	(288)	(1,443)
Proceeds from sale of loans originated for investment	—	108,494
Proceeds from the disposition of real estate	13,255	34,833
(Decrease) in borrowers' escrows	(8,074)	(38,679)
Cash flows provided by (used in) investing activities	<u>119,897</u>	<u>254,289</u>
Financing activities:		
Repayments on secured credit facilities and loans payable on real estate	(372)	(652)
Repayments and repurchase of CDO notes payable and floating rate securitizations	(140,979)	(168,302)
Repurchase of convertible notes and senior notes	—	(41,094)
Repayments of senior secured notes	—	(2,000)
Net proceeds (repayments) related to floating rate loan repurchase agreements	—	(22,313)
Distribution to noncontrolling interests	—	(15)
Acquisition of noncontrolling interests	—	(343)
Issuance of noncontrolling interests	—	76
Common share issuance, net of costs incurred	(2)	(74)
Repurchase of Series D preferred shares	—	(62,046)
Distributions paid to preferred shareholders	(8)	(11,121)
Distributions paid to common shareholders	(29)	(105)
Cash flows (used in) provided by financing activities	<u>(141,390)</u>	<u>(307,989)</u>
Net change in cash, cash equivalents, and restricted cash	<u>(29,533)</u>	<u>(25,979)</u>
Cash, cash equivalents, and restricted cash at the beginning of the period	<u>105,520</u>	<u>211,294</u>
Cash, cash equivalents, and restricted cash at the end of the period	<u>\$ 75,987</u>	<u>\$ 185,315</u>

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

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

NOTE 1: THE COMPANY

RAIT Financial Trust is a self-managed and self-advised Maryland real estate investment trust, or REIT, focused on managing a portfolio of commercial real estate, or CRE, loans and properties. References to “RAIT”, “we”, “us”, and “our” refer to RAIT Financial Trust and its subsidiaries, unless the context otherwise requires.

On August 30, 2019, RAIT and its affiliates RAIT Funding LLC (“RAIT Funding”), RAIT General, Inc. (“RAIT General”), RAIT Limited, Inc. (“RAIT Limited”), Taberna Realty Finance Trust (“TRFT”), RAIT JV TRS, LLC, and RAIT JV TRS Sub, LLC (each, a “Debtor”, and together, the “Debtors”) filed voluntary bankruptcy cases (the “Chapter 11 Cases”) under chapter 11, Title 11 of the U.S. Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”). No other subsidiaries of RAIT filed for bankruptcy protection. The Chapter 11 Cases are jointly administered under the caption *In re: RAIT Funding, LLC, a Delaware limited liability company, et. al.* Each of the Debtors will continue to operate its business as a “debtor in possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. The Bankruptcy Court entered orders approving a variety of first-day relief designed primarily to minimize the impact of the Chapter 11 Cases on our operations and employees. We expect to continue our operations during the pendency of the Chapter 11 Cases.

Immediately prior to the filing of the Chapter 11 Cases, on August 30, 2019, RAIT, RAIT General, RAIT Limited and TRFT (together, the “Sellers”), entered into an Equity and Asset Purchase Agreement (the “Purchase Agreement”) with CF RFP Holdings LLC, a Delaware limited liability company and an entity owned by funds managed by affiliates of Fortress Investment Group LLC (“Buyer”), pursuant to which, among other things, Buyer agreed to purchase certain subsidiaries and assets of the Sellers (together, the “Purchased Assets”) for a purchase price of \$174,424, as adjusted pursuant to a cash adjustment (the “Purchase Price”), including the assumption of certain liabilities. Buyer deposited \$8,721 as an earnest money deposit. The transactions contemplated by the Purchase Agreement (the “Transactions”) will be effected pursuant to a sale process under Section 363 of the Bankruptcy Code. On October 4, 2019, RAIT and the Sellers and the Buyer entered into Amendment No. 1 (the “Amendment”) to the Purchase Agreement which, among other things, (i) provided for an additional deposit by the Buyer in the amount of \$8,721 if Buyer is the winning bidder or back-up bidder in the auction contemplated by the Purchase Agreement or if there is no such auction and (ii) added a mechanism to adjust the Purchase Price for approved expenses associated with certain new, renewed, modified or amended leases that with the consent of Buyer are entered into by a Seller or an affiliate of Seller after the date of the Amendment and prior to the closing of the transactions contemplated by the Purchase Agreement. The Amendment further provided that if Buyer does not approve a proposed new, renewed, modified or amended lease or, if Buyer approves a proposed new, renewed, modified or amended lease, but does not approve all expenses associated therewith, the Sellers will not be in breach of the Purchase Agreement for the consequences of the determination not to enter into such new, renewed, modified or amended lease or make such unapproved payments, as applicable.

On August 29, 2019, RAIT entered into a Restructuring and Plan Support Agreement with TRFT and TP Management LLC, an affiliate of Buyer, in its capacity as delegate collateral manager (“TPM”) (the “Taberna RSA”). On August 31, 2019, RAIT entered into a Restructuring and Plan Support Agreement with RAIT Funding and Kodiak CDO I., Ltd., as holder of certain preferred securities (“Kodiak”, and together with TPM, the “RSA Counterparties”) (the “Kodiak RSA”, and together with the Taberna RSA, the “RSAs”). TPM is the collateral manager and Kodiak is the holder of certain securities that are collateralized by the 2035 Note (defined below, and also referred to as the junior subordinated note, at fair value) and the 2037 Note (defined below, and also referred to as the junior subordinated note, at amortized cost), respectively. Pursuant to the RSAs, each of the RSA Counterparties agreed, among other things, to support, and take reasonable necessary actions in furtherance of, the Transactions, including, among other things, the consummation of the sale of the Purchased Assets under Section 363 of the Bankruptcy Code and support the confirmation of a plan of reorganization of the Debtors. Pursuant to the RSAs, each of the RSA Counterparties has agreed, subject to certain conditions, to accept less than the total unpaid amounts due under the 2035 Note and the 2037 Note. The RSAs contain customary representations and warranties by RAIT, the applicable RAIT subsidiary and the applicable RSA Counterparty. RAIT, the applicable RAIT subsidiary and the applicable RSA Counterparty may terminate their respective RSA under certain circumstances, including, among other things, (a) the failure to satisfy certain bankruptcy-related milestones, (b) the entry of certain orders by, or upon certain actions taken by, the Bankruptcy Court, (c) breaches of representations and obligations under the applicable RSA, and (d) upon the occurrence of a material adverse change.

Subject to certain specific exceptions under the Bankruptcy Code, the Chapter 11 Cases automatically stayed most judicial or administrative actions against the Debtors as well as efforts by creditors to collect on or otherwise exercise rights or remedies with

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

respect to pre-petition claims. As a result, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the Debtors, or to collect on or otherwise exercise rights or remedies with respect to a pre-petition claim are stayed.

On October 2, 2019, the Bankruptcy Court entered an order (the "Bidding Procedures Order") approving the bidding procedures (the "Bidding Procedures") by which the Debtors expect to solicit and select the highest and otherwise best offer for the sale (the "Sale") of the Purchased Assets, establishing related dates and deadlines, approving the Debtor's selection of the Buyer as the "stalking horse bidder," the break-up fee and expense reimbursement contemplated by the Purchase Agreement, approving the process of any auction that might be required under the Bidding Procedures, and granting related relief. Pursuant to the Bidding Procedures Order, the Debtors intend to sell all of their right, title and interest in and to the Purchased Assets free and clear of any pledges, liens, security interests, encumbrances, claims, charges, options, and interests thereon to the maximum extent permitted by Section 363 of the Bankruptcy Code. The deadline for the submission of bids that satisfies the requirements of the Bidding Procedures Order is November 27, 2019 at 12:00 p.m. (prevailing Eastern Time).

On September 27, 2019, the Debtors filed with the Bankruptcy Court its schedules of assets and liabilities and statements of financial affairs setting forth, among other things, the assets and liabilities of each of the Debtors, subject to the assumptions filed in connection therewith. These schedules and statements of financial affairs may be subject to further amendment or modification after filing. On October 14, 2019, the Debtors filed with the Bankruptcy Court its disclosure statement for Debtors' Joint Chapter 11 Plan (the "Disclosure Statement") and the Debtors' Joint Chapter 11 Plan (the "Plan").

Under the priority requirements established by the Bankruptcy Code, pre-petition and post-petition liabilities to creditors must be satisfied in full before the holders of our outstanding preferred shares and common shares are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery for creditors, if any, will not be determined until confirmation and implementation of a plan of reorganization. The outcome of the Chapter 11 Cases remains uncertain at this time and, as a result, we cannot accurately estimate the amounts or value of distributions that creditors may receive. The Plan contemplates that our senior notes, which are publicly traded, RAIT's 7.125% Senior Notes due 2019 (the "7.125% Senior Notes") and 7.625% Senior Notes due 2024 (the "7.625% Senior Notes," and, together with the 7.125% Senior Notes, the "Senior Notes"), will be paid all outstanding principal and all accrued and unpaid interest as of (but excluding) the petition date in accordance with the Bankruptcy Code. The Plan contemplates that our junior subordinated notes will receive less than the total unpaid amounts due under each note consistent with the RSAs. The Plan contemplates that our outstanding preferred shares and common shares will be cancelled upon the effective date of the Plan and that the holders of our outstanding preferred shares and common shares will be entitled to no recovery. Article III of the Disclosure Statement sets forth a summary of the Plan, including a Plan Summary Table summarizing the classification and treatment of claims, along with projected recoveries for each class, all of which is subject to all the qualifications and disclaimers set forth in the Plan.

The filing of the Chapter 11 Cases with the Bankruptcy Court constituted an "Event of Default" under each of: (a) that certain Indenture, dated as of December 10, 2013, by and between RAIT and Wells Fargo Bank, National Association, as trustee, as subsequently modified by supplemental indentures setting forth the terms of the 7.125% Senior Notes (such indenture, the "Supplemental Indenture") and 7.625% Senior Notes, (b) that certain Junior Subordinated Indenture, dated February 12, 2007, by and between RAIT Funding and The Bank of New York Trust Company, National Association, as Trustee, relating to the 2037 Note, and (c) that certain Junior Subordinated Indenture, dated October 25, 2010, by and between TRFT and Wells Fargo Bank, National Association, as Trustee, relating to the 2035 Note (collectively, the "Debt Instruments"). We refer to the Events of Default described in this paragraph as the "Bankruptcy Events of Default." Each of the Debt Instruments provides that upon the occurrence of such an Event of Default, all obligations of RAIT or its applicable affiliate thereunder are accelerated and the principal and accrued interest due thereunder shall be automatically and immediately due and payable. Any efforts to enforce such payment obligations under the Debt Instruments were automatically stayed as a result of the filing of the Chapter 11 Cases with the Bankruptcy Court, and the respective creditors' rights of enforcement in respect of the Debt Instruments are subject to the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As of the date hereof, RAIT or its applicable affiliates had (i) \$65,356 of principal amount of 7.125% Senior Notes outstanding, (ii) \$56,324 of principal amount of 7.625% Senior Notes outstanding, (iii) \$25,100 of principal amount of the 2037 Note, or the junior subordinated note, at amortized cost, outstanding and (iv) \$18,671 of principal amount of the 2035 Note, or the junior subordinated note, at fair value, outstanding.

Furthermore, RAIT's failure to pay the principal amount of 7.125% Senior Notes by their maturity date on August 30, 2019 constituted an "Event of Default" under the Supplemental Indenture.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

The Plan contemplates the appointment of a Plan Administrator (the “Plan Administrator”) to implement the Plan and to distribute any proceeds of the Plan upon confirmation of the Plan by the Bankruptcy Court. We expect that, for the duration of the of the Chapter 11 Cases, our operations will be subject to significant risks and uncertainties associated with Chapter 11 Cases. As a result of these significant risks and uncertainties, our assets, liabilities, shareholders’ equity (deficit), officers and/or trustees could be significantly different following the outcome of the Chapter 11 Cases, and the description of our operations, equity, assets and liabilities included in this report may not accurately reflect our operations, assets and liabilities following the conclusion of the Chapter 11 Cases.

Any fair values utilized or disclosed in our consolidated financial statements to determine the amounts of our assets, liabilities, shareholders’ equity or otherwise were developed for the purpose of complying with the accounting principles established for fair value measurements, as described below. The fair values of our assets, liabilities, shareholders’ equity or otherwise for enterprise value in our Chapter 11 Cases or as a component of the Plan may reflect differing assumptions and methodologies. These estimates of fair value will be subject to a number of approvals and reviews and therefore may be materially different than any fair values utilized in our consolidated financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles, or GAAP. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that the included disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2018 included in our Annual Report on Form 10-K, or the Annual Report. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position and consolidated results of operations, equity and cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

The consolidated statement of cash flows for the six-month period ended June 30, 2018 includes the impact of correcting the reporting of certain activity that occurred in the six-month period ended June 30, 2018 and the three-month period ended March 31, 2018. Specifically, the correction re-classified cash proceeds from certain loan sales that were previously reported within cash flows from operating activities and should have been reported within cash flows from investing activities. The impact of this was a decrease to cash flows from operating activities and an increase to cash flows from investing activities of \$108,494 for the six-month period ended June 30, 2018 (\$89,583 of which related to the three-month period ended March 31, 2018). This correction had no impact to cash and cash equivalents as of June 30, 2018 (or March 31, 2018), nor did it impact any other consolidated financial statement amounts as of June 30, 2018 (or March 31, 2018) or for the six-month period ended June 30, 2018 (or the three-month period ended March 31, 2018).

b. Going Concern Considerations

Under the accounting guidance related to the presentation of financial statements, an entity is required to evaluate on a quarterly basis whether the entity’s current financial condition, including its liquidity sources at the date that the financial statements are issued, will enable the entity to meet its obligations arising within one year of the date the entity’s financial statements are issued and to make a determination as to whether it is probable, under the application of this accounting guidance, that the entity will be able to continue as a going concern over the applicable period. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments that might be necessary should RAIT be unable to continue as a going concern. As a result of the considerations articulated below, there is substantial doubt about RAIT’s ability to continue as a going concern within one year after the date that the financial statements are issued.

Analysis. In applying the accounting guidance, management considered RAIT’s current financial condition and liquidity sources, including current funds available, forecasted future cash flows and RAIT’s conditional and unconditional obligations due

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

over the next twelve months. Management considered the following: (i) the impacts of the Chapter 11 Cases including the Events of Default as described in Note 1: The Company, and (ii) RAIT's recurring costs of operating its business.

As described in Note 1: The Company, the filing of the Chapter 11 Cases with the Bankruptcy Court triggered the Bankruptcy Events of Default and RAIT's failure to pay the principal amount of the 7.125% Senior Notes by their maturity date on August 30, 2019 also constituted an Event of Default. Each of the Debt Instruments provides that upon the occurrence of such an Event of Default, all obligations of RAIT and/or its applicable affiliates thereunder were accelerated and the principal and accrued interest due thereunder was automatically and immediately due and payable. Any efforts to enforce such payment obligations under the Debt Instruments are automatically stayed pursuant to Section 362 of the Bankruptcy Code, and the respective creditors' rights of enforcement in respect of the Debt Instruments are limited. As of the date hereof, the Debt Instruments of RAIT and/or its applicable affiliates had (i) \$65,356 of principal amount of 7.125% Senior Notes outstanding, (ii) \$56,324 of principal amount of 7.625% Senior Notes outstanding, (iii) \$25,100 of principal amount of the 2037 Note, or the junior subordinated note, at amortized cost, outstanding, and (iv) \$18,671 of principal amount of the 2035 Note, or the junior subordinated note, at fair value, outstanding.

RAIT's current sources of liquidity, including its current cash and cash equivalents balance, are not sufficient to satisfy RAIT's obligations arising over the next twelve months. Subject to receiving a higher and otherwise better bid as a result of the Bidding Procedures, RAIT expects to sell substantially all of its assets pursuant to the Purchase Agreement under Section 363 of the Bankruptcy Code and the Bidding Procedures Order for a purchase price of \$174,424, adjusted as provided in the Purchase Agreement, including the assumption of certain liabilities. RAIT's proposed plan of reorganization under the Chapter 11 Cases provides for the ultimate wind down of RAIT's affairs once the transactions contemplated by the Purchase Agreement and the Bidding Procedures are completed and the plan of reorganization is confirmed.

Due to the inherent risks and significant uncertainties associated with the completion of the transactions under the Purchase Agreement, the Plan, the Chapter 11 Cases, and RAIT's recurring costs of operations, there is substantial doubt about RAIT's ability to continue as a going concern within one year after the date that these financial statements are issued.

c. Principles of Consolidation

The consolidated financial statements reflect our accounts and the accounts of our majority-owned and/or controlled subsidiaries. We also consolidate entities that are variable interest entities, or VIEs, where we have determined that we are the primary beneficiary of such entities. The portions of these entities that we do not own are presented as noncontrolling interests as of the dates and for the periods presented in the consolidated financial statements. All intercompany accounts and transactions have been eliminated in consolidation.

Under Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 810, "Consolidation", the determination of whether to consolidate a VIE is based on the power to direct the activities of the VIE that most significantly impact the VIE's economic performance together with either the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. We define the power to direct the activities that most significantly impact the VIE's economic performance as the ability to buy, sell, refinance, or recapitalize assets or entities, and solely control other material operating events or items of the entity. For our commercial mortgage loans, mezzanine loans, and preferred equity investments, certain rights we hold are protective in nature and would preclude us from having the power to direct the activities that most significantly impact the VIE's economic performance. Assuming both criteria are met, we would be considered the primary beneficiary and would consolidate the VIE. We will continually assess our involvement with VIEs and consolidate the VIEs when we are the primary beneficiary. See Note 7: Variable Interest Entities for additional disclosures pertaining to VIEs.

d. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. The items that include significant estimates are fair value of financial instruments and allowance for loan losses. Actual results could differ from those estimates.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

e. Cash and Cash Equivalents

Cash and cash equivalents include cash held in banks and highly liquid investments with maturities of three months or less when purchased. Cash, including amounts restricted, may at times exceed the Federal Deposit Insurance Corporation deposit insurance limit of \$250 per institution. We attempt to mitigate credit risk by placing cash and cash equivalents with major financial institutions. To date, we have not experienced any losses on cash and cash equivalents.

f. Restricted Cash

Restricted cash consists primarily of tenant escrows and borrowers' funds held by us to fund certain expenditures or to be released at our discretion upon the occurrence of certain pre-specified events, and to serve as additional collateral for borrowers' loans. As of June 30, 2019 and December 31, 2018, we had \$25,102 and \$33,300, respectively, of tenant escrows and borrowers' funds.

Restricted cash also includes cash received from the sale, repayment and/or other disposition of assets held by the issuers of our securitizations that are awaiting to be distributed to holders of our CDO notes payable and CMBS securitizations, as well as the proceeds from the issuance of CDO notes payable by securitizations that are restricted for the purpose of funding additional investments in securities subsequent to the balance sheet date. As of June 30, 2019 and December 31, 2018, we had \$4,180 and \$29,767, respectively, of restricted cash held by securitizations.

g. Investments in Commercial Mortgage Loans, Mezzanine Loans and Preferred Equity Interests

We have invested in commercial mortgage loans, mezzanine loans and preferred equity interests. We account for our investments in commercial mortgage loans, mezzanine loans and preferred equity interests that we do not have the intention or ability to sell, at amortized cost. The carrying value of these investments is adjusted for origination discounts/premiums, nonrefundable fees and direct costs for originating loans which are amortized into income on a level yield basis over the terms of the loans.

Loans that we have the intention and ability to sell are classified as held for sale and are measured at the lower of amortized cost or fair value. If the amortized cost exceeds the loan's fair value, we establish a valuation allowance equal to the difference between the amortized cost and fair value.

h. Allowance for Loan Losses, Impaired Loans and Non-accrual Status

We maintain an allowance for loan losses on our investments in commercial mortgage loans, mezzanine loans and preferred equity interests. Management's periodic evaluation of the adequacy of the allowance is based upon expected and inherent risks in the portfolio, the estimated value of underlying collateral, and current economic conditions. The credit quality of our loans is monitored via quantitative and qualitative metrics. Quantitatively we evaluate items such as the current debt service coverage ratio and annual net operating income of the underlying property. Qualitatively we evaluate items such as recent operating performance of the underlying property and history of the borrower's ability to provide financial support. These items together are considered in developing our view of each loan's risk rating which are categorized as either impaired or satisfactory. Management reviews loans for impairment and establishes specific reserves when a loss is probable under the provisions of FASB ASC Topic 310, "Receivables." A loan is impaired when it is probable that we may not collect all principal and interest payments according to the contractual terms. As part of the detailed loan review, we consider many factors about the specific loan, including payment history, asset performance, borrower's financial capability and other characteristics. Management evaluates loans for non-accrual status each reporting period. A loan is placed on non-accrual status when the loan payment deficiencies exceed 90 days unless it is well secured and in the process of collection, or if the collection of principal and interest in full is not probable. Payments received for non-accrual loans are applied to principal until the loan is removed from non-accrual status. Loans are generally removed from non-accrual status when they are making current interest payments. The allowance for loan losses is increased by the provision for loan losses and decreased by charge-offs (net of recoveries). We recognize recoveries when they are received, and we charge off a loan when we determine that all commercially reasonable means of recovering the loan balance have been exhausted. This may occur at a variety of times, including when we receive cash or other assets in a pre-foreclosure sale or take control of the underlying collateral in full satisfaction of the loan upon foreclosure. We consider circumstances such as these to indicate that the loan collection process has ceased and that a loan is uncollectible.

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

Loans which experience a modification to their contractual terms which result in a concession being granted to a borrower experiencing financial difficulties are considered troubled debt restructurings, or TDRs. A concession is deemed granted when, as a result of the restructuring, we do not expect to collect all amounts due, including interest accrued, at the original contractual interest rate. As appropriate, we also consider other qualitative factors in determining whether a concession is deemed granted, including the value of the underlying collateral. We do not consider restructurings that result in a delay in payment, in timing or amount, which is insignificant, to be a concession.

i. Investments in Real Estate

Investments in real estate are shown net of accumulated depreciation. We capitalize those costs that have been determined to improve the real property and depreciate those costs on a straight-line basis over the useful life of the asset. We depreciate real property using the following useful lives: buildings and improvements—30 to 40 years; furniture, fixtures, and equipment—5 to 10 years; and tenant improvements—shorter of the lease term or the life of the asset. Costs for ordinary maintenance and repairs are charged to expense as incurred.

Effective January 1, 2018, FASB ASC Topic 805, “Business Combinations” was amended to clarify the definition of a business by more clearly outlining the requirements for an integrated set of assets and activities to be considered a business and by establishing a practical framework to determine when the integrated set of assets and activities is a business. Prior to January 1, 2018, the properties we acquired were generally considered businesses and were accounted for as business combinations. Subsequent to January 1, 2018, we expect any properties that we acquire to generally not be considered businesses and, therefore, to be accounted for as asset acquisitions.

Under business combination accounting, the fair value of the real estate acquired is allocated to the acquired tangible assets, generally consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases for acquired in-place leases and the value of tenant relationships, based, in each case, on their fair values. Transaction costs and fees incurred related to the acquisition are expensed as incurred. Under asset acquisition accounting, the costs to acquire real estate, including transaction costs related to the acquisition, are accumulated and then allocated to the individual assets and liabilities acquired based upon their relative fair value.

In determining the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the differences between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management’s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease. The capitalized above-market lease values and the capitalized below-market lease values are amortized as an adjustment to property income over the lease term.

The aggregate value of in-place leases is determined by evaluating various factors, including an estimate of carrying costs during the expected lease-up periods, current market conditions and similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions, legal and other related costs. The value assigned to this intangible asset is amortized over the assumed lease up period.

Management reviews our investments in real estate for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review of recoverability is based on an estimate of the future undiscounted cash flows (excluding interest charges) expected to result from the long-lived asset’s use and eventual disposition. These cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a long-lived asset, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property.

j. Revenue Recognition

- 1) *Interest income*—We recognize interest income from investments in commercial mortgage loans, mezzanine loans, and preferred equity interests, and other securities on a yield to maturity basis. Certain of our commercial mortgage loans, mezzanine loans and preferred equity interests permanently provide for the accrual of interest at specified rates which

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

differ from current payment terms (which may have minimum payment rates as low as zero percent). Interest income is recognized on such loans, the majority of which were originated prior to 2011, at the accrual rate subject to management's determination that accrued interest and outstanding principal are ultimately collectible. Management will cease accruing interest on these loans when it determines that the interest income is not collectible based on the value of the underlying collateral using discounted cash flow models and market-based assumptions. The accrued interest receivable associated with these loans as of June 30, 2019 and December 31, 2018 was \$15,175 and \$15,870, respectively. These loans are considered to be impaired when the total amount owed exceeds the estimated value of the underlying collateral. Seven of these loans, with an unpaid principal balance of \$32,906 and \$33,030, respectively, were considered to be impaired as of June 30, 2019 and December 31, 2018, respectively.

For investments that we do not elect to record at fair value under FASB ASC Topic 825, "Financial Instruments", origination fees and direct loan origination costs are deferred and amortized to net investment income, using the effective interest method, over the contractual life of the underlying loan security or loan, in accordance with FASB ASC Topic 310, "Receivables."

For investments that we elect to record at fair value under FASB ASC Topic 825, origination fees and direct loan costs are recorded in income and are not deferred.

- 2) *Property income*—We generate rental income from tenant rent and other tenant-related activities at our consolidated real estate properties. For multifamily real estate properties (which we owned none of as of June 30, 2019), property income is recorded when due from residents and recognized monthly as it is earned and realizable, under lease terms which are generally for periods of one year or less. For retail and office real estate properties, property income is recognized on a straight-line basis from the later of the date of the commencement of the lease or the date of acquisition of the property subject to existing leases, which averages minimum rents over the terms of the leases. For retail and office real estate properties, leases also typically provide for tenant reimbursement of a portion of common area maintenance and other operating expenses to the extent that a tenant's pro rata share of expenses exceeds a base year level set in the lease. Such reimbursements are generally recognized on a monthly basis as billed to tenants.
- 3) *Fee and other income*—We have generated and/or generate, as applicable, fee and other income through our various subsidiaries by (a) providing ongoing asset management services to investment portfolios under cancelable management agreements, and (b) prior to the sale of our retail property manager subsidiary in August 2018, providing property management services to third parties. We recognize revenue for these activities when: (i) a contract has been mutually approved and each party is committed to perform; (ii) both parties can identify the rights of each party; (iii) both parties can identify the payment terms of the contract; (iv) the contract has commercial substance; and (v) it is probable that we will collect substantially all of the consideration to which we are entitled. While we may receive asset management fees when they are earned, we eliminate earned asset management fee income from securitizations while such securitizations are consolidated. During the three and six months ended June 30, 2019, we received \$52 and \$111, respectively, of earned asset management fees, which were eliminated as they were associated with consolidated securitizations. During the three and six months ended June 30, 2018, we received \$152 and \$314, respectively, of earned asset management fees, which were eliminated as they were associated with consolidated securitizations.

Certain components of property income and fee and other income fall within the scope of FASB ASC Topic 606, "Revenue from Contracts with Customers". This topic requires entities to disaggregate revenue into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. In the following table, revenue from contracts with customers is disaggregated by type of revenue.

There have been no changes in the measurement of revenue from contracts with customers resulting from the adoption of ASC 606.

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

Revenue from Contracts with customers	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Property Management Fee income	\$ —	\$ 727	\$ —	\$ 1,493
Parking	—	231	—	433
Leasing Commission income	—	343	—	664
Other miscellaneous	126	229	193	477
Total	\$ 126	\$ 1,530	\$ 193	\$ 3,067

k. Fair Value of Financial Instruments

In accordance with FASB ASC Topic 820, "Fair Value Measurements and Disclosures", fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity for disclosure purposes. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in FASB ASC Topic 820, "Fair Value Measurements and Disclosures" and directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities, are as follows:

- **Level 1:** Valuations are based on unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are equity securities listed in active markets. As such, valuations of these investments do not entail a significant degree of judgment.
- **Level 2:** Valuations are based on quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Fair value assets and liabilities that are generally included in this category are unsecured REIT note receivables, commercial mortgage-backed securities, or CMBS, receivables and certain financial instruments classified as derivatives where the fair value is based on observable market inputs.
- **Level 3:** Inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Generally, assets and liabilities carried at fair value and included in this category are subordinated debentures, and historically included trust preferred obligations and CDO notes payable, where observable market inputs do not exist.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of investment, whether the investment is new, whether the investment is traded on an active exchange or in the secondary market, and the current market condition. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by us in determining fair value is greatest for instruments categorized in Level 3.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the asset or liability at the measurement date. We use prices and inputs that management believes are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be transferred from Level 1 to Level 2 or Level 2 to Level 3.

RAIT Financial Trust**Notes to Consolidated Financial Statements****As of June 30, 2019****(Unaudited and dollars in thousands, except share and per share amounts)**

Many financial instruments have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that buyers in the market are willing to pay for an asset. Ask prices represent the lowest price that sellers in the market are willing to accept for an asset. For financial instruments whose inputs are based on bid-ask prices, we do not require that fair value always be a predetermined point in the bid-ask range. Our policy is to allow for mid-market pricing and adjusting to the point within the bid-ask range that results in our best estimate of fair value.

Fair value for certain of our Level 3 financial instruments is derived using valuation models that include discounted cash flow analyses. These internal valuation models include discounted cash flow analyses using current interest rates, estimates of the term of the particular instrument, specific issuer information and other market data for securities without an active market. In accordance with FASB ASC Topic 820, "Fair Value Measurements and Disclosures", the impact of our own credit spreads is also considered when measuring the fair value of financial assets or liabilities. Where appropriate, valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality and market liquidity. These adjustments are applied on a consistent basis and are based on observable inputs where available. Management's estimate of fair value, requires significant management judgment and is subject to a high degree of variability based upon market conditions, the availability of specific issuer information and management's assumptions.

l. Transfers of Financial Assets

We account for transfers of financial assets under FASB ASC Topic 860, "Transfers and Servicing", as either sales or financings. Transfers of financial assets that result in sales accounting are those in which (1) the transfer legally isolates the transferred assets from the transferor, (2) the transferee has the right to pledge or exchange the transferred assets and no condition both constrains the transferee's right to pledge or exchange the assets and provides more than a trivial benefit to the transferor, and (3) the transferor does not maintain effective control over the transferred assets. If the transfer does not meet these criteria, the transfer is accounted for as a financing. Financial assets that are treated as sales are removed from our accounts with any realized gain (loss) reflected in earnings during the period of sale. Financial assets that are treated as financings are maintained on the balance sheet with proceeds received from the legal transfer reflected as securitized borrowings or security-related receivables.

m. Deferred Financing Costs

Costs incurred in connection with debt financing are deferred and classified within indebtedness and charged to interest expense over the terms of the related debt agreements, under the effective interest method.

n. Intangible Assets

Intangible assets on our consolidated balance sheets represent identifiable intangible assets acquired in business acquisitions. We amortize identified intangible assets to expense over their estimated lives using the straight-line method. We evaluate intangible assets for impairment as events and circumstances change, in accordance with FASB ASC Topic 360, "Property, Plant, and Equipment." The gross carrying amount for our in-place leases and above-market leases was \$7,420 as of June 30, 2019 and December 31, 2018. The accumulated amortization for our intangible assets was \$6,050 and \$5,703 as of June 30, 2019 and December 31, 2018, respectively. We recorded amortization expense of \$193, and \$391 for the three months ended June 30, 2019 and 2018, respectively, and \$386, and \$818 for the six months ended June 30, 2019 and 2018, respectively. Based on the intangible assets identified above, we expect to record amortization expense of intangible assets of \$339 for 2019, \$434 for 2020, \$249 for 2021, \$145 for 2022, \$72 for 2023 and \$131 thereafter. As of June 30, 2019, we have determined that no triggering events occurred that would indicate an impairment to our intangible assets.

o. Derivative Instruments

We have historically entered into interest rate derivative contracts to hedge all or a portion of the interest rate risk associated with certain of our borrowings and/or our fixed rate assets. The principal objective of these arrangements is to minimize the risks and/or costs associated with our operating and financial structure as well as to hedge specific anticipated transactions. While these instruments may impact our periodic cash flows, they benefit us by minimizing the risks and/or costs previously described.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

In accordance with FASB ASC Topic 815, "Derivatives and Hedging", we measure each derivative instrument at fair value and record such amounts in our consolidated balance sheet as either an asset or liability. For derivatives designated in hedging relationships, we determine at inception whether the hedge agreement is highly effective in offsetting the related risk by using regression analysis. For derivatives not designated as hedges, the changes in fair value of the derivative instrument are recorded in earnings. For derivatives cleared through the Chicago Mercantile Exchange, or CME, and the London Clearing House, or LCH, variation margin payments are considered settlements of the related derivatives.

As of June 30, 2019, we had no derivative instruments outstanding.

p. Income Taxes

RAIT and Taberna Realty Finance Trust, or TRFT, have each elected to be taxed as a REIT and to comply with the related provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Accordingly, we generally will not be subject to U.S. federal income tax to the extent of any dividends to shareholders and as long as certain asset, income and share ownership tests are met. If we were to fail to meet these requirements, we would be subject to U.S. federal income tax, which could have a material adverse impact on our results of operations. Management believes that all of the criteria to maintain RAIT's and TRFT's REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods.

We maintain various taxable REIT subsidiaries, or TRSs, which may be subject to U.S. federal, state and local income taxes and foreign taxes. Current and deferred taxes are provided on the portion of earnings (losses) recognized by us with respect to our interest in domestic TRSs. Deferred income tax assets and liabilities are computed based on temporary differences between our GAAP consolidated financial statements and the federal and state income tax basis of assets and liabilities as of the consolidated balance sheet date. We evaluate the realizability of our deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognize a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of our deferred tax assets will not be realized. When evaluating the realizability of our deferred tax assets, we consider estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available, and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires management to forecast our business and general economic environment in future periods. Changes in estimates of deferred tax asset realizability, if any, are included in income tax expense on the consolidated statements of operations.

In the prior year, our TRS entities generated taxable revenue primarily from property management fees for services provided to RAIT properties and third-party properties. In the current year, our TRS entities have not generated any significant taxable revenue. All income taxes are expensed and are paid by the TRSs in the year in which the revenue is received. These income taxes are not eliminated when the related revenue is eliminated in consolidation.

The TRS entities may be subject to tax laws that are complex and potentially subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. Actual income taxes paid may vary from estimates depending upon changes in income tax laws, actual results of operations, and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed. We review the tax balances of our TRS entities quarterly and, as new information becomes available, the balances are adjusted as appropriate.

q. Recent Accounting Pronouncements

Adopted within these Financial Statements

In February 2016, the FASB issued an accounting standard classified under FASB ASC Topic 842, "Leases". This accounting standard states that a lessee should recognize the assets and liabilities that arise from all leases with a term greater than 12 months. The core principle requires the lessee to recognize a liability to make lease payments and a right-of-use ("ROU") asset. The accounting applied by the lessor is relatively unchanged. During 2017 and 2018, the FASB issued multiple amendments to this accounting standard that provide further clarification to this accounting standard. The new standard is effective for us on January 1, 2019, with early adoption permitted. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

period presented in the financial statements as its date of initial application. We have adopted the new standard effective January 1, 2019 and have used the effective date as our date of initial application. The new standard provides a number of optional practical expedients in transition. We have elected the “package of practical expedients” for all our leases that exist at the date of initial application. This package permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We also have elected the practical expedient to not separate lease and non-lease components for all of our leases. The adoption of FASB ASC Topic 842 resulted in the recognition of a lease liability of \$3,008 and a ROU asset of \$2,416 as of the adoption date for one of our operating leases for which we are the lessee. The standard did not have an impact on any of our real estate leases for which we are the lessor.

Not Yet Adopted Within These Financial Statements

In June 2016, the FASB issued an accounting standard classified under FASB ASC Topic 326, “Financial Instruments–Credit Losses”. The amendments in this standard provide an approach based on expected losses to estimate credit losses on certain types of financial instruments. The amendments also modify the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The amendments in this standard expand the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. During 2019, the FASB issued an amendment to this accounting standard which provides further clarification to this accounting standard. This standard and its amendment are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact that this standard will have on our consolidated financial statements.

In August 2018, the FASB issued an accounting standard classified under FASB ASC Topic 820, “Fair Value Measurement”. The amendments in this standard eliminate, add and modify certain disclosure requirements for fair value measurements. For example, entities will no longer have to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The amendments in this accounting standard are effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact that this standard will have on our consolidated financial statements.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

NOTE 3: INVESTMENTS IN COMMERCIAL MORTGAGE LOANS, MEZZANINE LOANS AND PREFERRED EQUITY INTERESTS

Loans Held for Investment

The following table summarizes our investments in commercial mortgage loans, mezzanine loans and preferred equity interests held for investment as of June 30, 2019:

	Unpaid Principal Balance	Unamortized (Discounts) Premiums	Carrying Amount	Number of Loans	Weighted- Average Coupon (1)	Range of Maturity Dates
Commercial Real Estate (CRE)						
Commercial mortgage loans	\$ 332,040	\$ (61)	\$ 331,979	25	6.8%	Jul. 2019 to Jun. 2025
Mezzanine loans	21,114	164	21,278	3	13.3%	Jun. 2020 to Mar. 2023
Preferred equity interests	28,453	(1)	28,452	13	5.9%	Mar. 2023 to Jun. 2029
Total CRE (2)	<u>381,607</u>	<u>102</u>	<u>381,709</u>	<u>41</u>	<u>7.1%</u>	
Deferred fees and costs, net (3)	(430)	-	(430)			
Total	<u>\$ 381,177</u>	<u>\$ 102</u>	<u>\$ 381,279</u>			

- (1) Weighted-average coupon is calculated on the unpaid principal balance, which does not necessarily correspond to the carrying amount.
- (2) Includes \$51,017 of cash flow loans, of which \$5,099 are commercial mortgage loans, \$21,114 are mezzanine loans and \$24,804 are preferred equity interests. See Note 2: Summary of Significant Accounting Policies, (j) Revenue Recognition, for further discussion of our cash flow loans.
- (3) Includes \$1,290 of deferred fees, net of \$860 of deferred costs.

The following table summarizes our investments in commercial mortgage loans, mezzanine loans and preferred equity interests held for investment as of December 31, 2018:

	Unpaid Principal Balance	Unamortized (Discounts) Premiums	Carrying Amount	Number of Loans	Weighted- Average Coupon (1)	Range of Maturity Dates
Commercial Real Estate (CRE)						
Commercial mortgage loans	\$ 453,283	\$ (66)	\$ 453,217	35	6.9%	Feb. 2019 to Jun. 2025
Mezzanine loans	21,114	164	21,278	3	13.3%	Jun. 2020 to Mar. 2023
Preferred equity interests	28,577	(1)	28,576	13	6.0%	Mar. 2023 to Jun. 2029
Total CRE (2)	<u>502,974</u>	<u>97</u>	<u>503,071</u>	<u>51</u>	<u>7.2%</u>	
Deferred fees and costs, net (3)	(674)	-	(674)			
Total	<u>\$ 502,300</u>	<u>\$ 97</u>	<u>\$ 502,397</u>			

- (1) Weighted-average coupon is calculated on the unpaid principal balance, which does not necessarily correspond to the carrying amount.
- (2) Includes \$54,621 of cash flow loans, of which \$8,579 are commercial mortgage loans, \$21,114 are mezzanine loans and \$24,928 are preferred equity interests. See Note 2: Summary of Significant Accounting Policies, (j) Revenue Recognition, for further discussion of our cash flow loans.
- (3) Includes \$2,558 of deferred fees, net of \$1,884 of deferred costs.

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

A loan is placed on non-accrual status if it is delinquent for 90 days or more or if there is uncertainty over full collection of principal and interest, which generally includes our impaired loans that have reserves. The following table summarizes the delinquency statistics of our commercial real estate loans held for investment as of June 30, 2019 and December 31, 2018:

Delinquency Status	As of June 30, 2019					
	Current	30 to 59 days	60 to 89 days	90 days or more	Total	Non-accrual (1)
Commercial mortgage loans	\$ 298,989	\$ 5,098	\$ —	\$ 27,953	\$ 332,040	\$ 56,449
Mezzanine loans	21,114	—	—	—	21,114	8,245
Preferred equity interests	28,453	—	—	—	28,453	7,710
Total	\$ 348,556	\$ 5,098	\$ —	\$ 27,953	\$ 381,607	\$ 72,404

- (1) Includes five loans that are current, but are on non-accrual due to uncertainty over whether we will fully collect principal and interest. Also includes one loan that is 90 days or more past due in accordance with their terms.

Delinquency Status	As of December 31, 2018					
	Current	30 to 59 days	60 to 89 days	90 days or more	Total	Non-Accrual (1)
Commercial mortgage loans	\$ 414,735	\$ —	\$ —	\$ 38,548	\$ 453,283	\$ 46,793
Mezzanine loans	12,222	—	—	8,892	21,114	8,892
Preferred equity interests	28,577	—	—	—	28,577	37,308
Total	\$ 455,534	\$ —	\$ —	\$ 47,440	\$ 502,974	\$ 92,993

- (1) Includes five loans that were current in accordance with their terms, but are on non-accrual due to uncertainty over whether we will fully collect principal and interest, and three loans that are 90 days or more past due in accordance with their terms.

As of June 30, 2019 and December 31, 2018, all of our held for investment commercial mortgage loans, mezzanine loans and preferred equity interests that were 90 days or more past due or in foreclosure were on non-accrual status. As of June 30, 2019, \$51,017 of our loans are cash flow loans, which permanently provide for the accrual of interest at specified rates which differ from current payment terms, and in some cases, do not require current payments. See Note 2: Summary of Significant Accounting Policies, (j) Revenue Recognition, for further discussion of our cash flow loans. As of June 30, 2019, and December 31, 2018, \$72,404 and \$92,993, respectively, of our loans were on non-accrual status and had a weighted-average interest rate of 6.9% and 6.9%, respectively. Also, as of June 30, 2019 and December 31, 2018, five loans with unpaid principal balances of \$25,700, and weighted average interest rate of 11.4%, were not recognizing interest based on the estimated value of the underlying collateral.

Allowance For Loan Losses And Impaired Loans

During the three and six months ended June 30, 2019, we recognized a benefit for loan losses of \$9,509 and \$10,092, respectively. Our provision for loan losses during the three and six months ended June 30, 2019 was primarily driven by a \$9,000 settlement payment received on a loan that was previously charged off. See Note 13: Commitments and Contingencies for further information related to this settlement payment.

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

We closely monitor our loans, which require evaluation for loan loss in two categories: satisfactory and watchlist. Loans classified as satisfactory are loans that are performing consistent with our expectations. Loans classified as watchlist are generally loans that have performed below our expectations, have credit weaknesses or in which the credit quality of the collateral has deteriorated. This is determined by evaluating quantitative factors including debt service coverage ratios, net operating income of the underlying collateral and qualitative factors such as recent operating performance of the underlying property and history of the borrower's ability to provide financial support. We have classified our loans held for investment by credit risk category as of June 30, 2019 and December 31, 2018 as follows:

Credit Status	As of June 30, 2019			
	Commercial Mortgage Loans	Mezzanine Loans	Preferred Equity	Total
Satisfactory	\$ 216,242	\$ —	\$ 5,063	\$ 221,305
Watchlist (1)	115,798	21,114	23,390	160,302
Total	<u>\$ 332,040</u>	<u>\$ 21,114</u>	<u>\$ 28,453</u>	<u>\$ 381,607</u>

(1) Includes \$106,052 of loans that are considered to be impaired and \$54,250 of loans that are not considered to be impaired.

Credit Status	As of December 31, 2018			
	Commercial Mortgage Loans	Mezzanine Loans	Preferred Equity	Total
Satisfactory	\$ 314,104	\$ —	\$ 5,063	\$ 319,167
Watchlist (1)	139,179	21,114	23,514	183,807
Total	<u>\$ 453,283</u>	<u>\$ 21,114</u>	<u>\$ 28,577</u>	<u>\$ 502,974</u>

(1) Includes \$126,645 of loans that are considered to be impaired and \$57,162 of loans that are not considered impaired.

The following tables provide a roll-forward of our allowance for loan losses for our commercial mortgage loans, mezzanine loans and preferred equity interests for the three months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30, 2019			
	Commercial Mortgage Loans	Mezzanine Loans	Preferred Equity	Total
Beginning balance	\$ 10,401	\$ 6,496	\$ 3,830	\$ 20,727
Provision (benefit) for loan losses	(9,449)	—	(60)	(9,509)
Charge-offs, net of recoveries	8,927	—	—	8,927
Ending balance	<u>\$ 9,879</u>	<u>\$ 6,496</u>	<u>\$ 3,770</u>	<u>\$ 20,145</u>

	For the Three Months Ended June 30, 2018			
	Commercial Mortgage Loans	Mezzanine Loans	Preferred Equity	Total
Beginning balance	\$ 8,259	\$ 5,231	\$ 242	\$ 13,732
Provision (benefit) for loan losses	14,748	—	—	14,748
Charge-offs, net of recoveries (1)	(11,781)	—	—	(11,781)
Ending balance	<u>\$ 11,226</u>	<u>\$ 5,231</u>	<u>\$ 242</u>	<u>\$ 16,699</u>

(1) Includes \$1,423 of charge-offs related to loans transferred to held for sale during the three months ended June 30, 2018.

The following tables provide a roll-forward of our allowance for loan losses for our commercial mortgage loans, mezzanine loans and preferred equity interests for the six months ended June 30, 2019 and 2018:

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

	For the Six Months Ended June 30, 2019			
	Commercial Mortgage Loans	Mezzanine Loans	Preferred Equity	Total
Beginning balance	\$ 11,912	\$ 6,496	\$ 3,928	\$ 22,336
Provision (benefit) for loan losses	(9,934)	—	(158)	(10,092)
Charge-offs, net of recoveries	7,901	—	—	7,901
Ending balance	<u>\$ 9,879</u>	<u>\$ 6,496</u>	<u>\$ 3,770</u>	<u>\$ 20,145</u>

	For the Six Months Ended June 30, 2018			
	Commercial Mortgage Loans	Mezzanine Loans	Preferred Equity	Total
Beginning balance	\$ 9,019	\$ 5,622	\$ 242	\$ 12,354
Provision (benefit) for loan losses	19,996	2,784	—	45,614
Charge-offs, net of recoveries (1)	(17,789)	(3,175)	—	(43,085)
Ending balance	<u>\$ 11,226</u>	<u>\$ 5,231</u>	<u>\$ 242</u>	<u>\$ 16,699</u>

(1) Includes \$5,331 of charge-offs related to loans transferred to held for sale during the six months ended June 30, 2018.

Information on those loans considered to be impaired as of June 30, 2019 and December 31, 2018 was as follows:

Impaired Loans	As of June 30, 2019			
	Commercial Mortgage Loans	Mezzanine Loans	Preferred Equity	Total
Impaired loans expecting full recovery	\$ 5,099	\$ 12,869	\$ 19,330	\$ 37,298
Impaired loans with reserves	56,449	8,245	4,060	68,754
Total Impaired Loans (1)	<u>61,548</u>	<u>21,114</u>	<u>23,390</u>	<u>106,052</u>
Allowance for loan losses	<u>\$ 9,879</u>	<u>\$ 6,496</u>	<u>\$ 3,770</u>	<u>\$ 20,145</u>

(1) As of June 30, 2019, there was no unpaid principal relating to previously identified TDRs that are on accrual status.

Impaired Loans	As of December 31, 2018			
	Commercial Mortgage Loans	Mezzanine Loans	Preferred Equity	Total
Impaired loans expecting full recovery	\$ 8,579	\$ 12,869	\$ 19,334	\$ 40,782
Impaired loans with reserves	73,438	8,245	4,180	85,863
Total Impaired Loans (1)	<u>82,017</u>	<u>21,114</u>	<u>23,514</u>	<u>126,645</u>
Allowance for loan losses	<u>\$ 11,912</u>	<u>\$ 6,496</u>	<u>\$ 3,928</u>	<u>\$ 22,336</u>

(1) As of December 31, 2018, there was no unpaid principal relating to previously identified TDRs that are on accrual status.

The average unpaid principal balance and recorded investment of total impaired loans was \$110,835 and \$125,871 during the three months ended June 30, 2019 and 2018, respectively and \$116,105 and \$126,074 for the six months ended June 30, 2019 and 2018, respectively. We recorded interest income from impaired loans of \$0 and \$313 for the three months ended June 30, 2019 and 2018, respectively. We recorded interest income from impaired loans of \$0 and \$440 for the six months ended June 30, 2019 and 2018, respectively.

We have evaluated modifications to our commercial real estate loans to determine if the modification constitutes a troubled debt restructuring, or TDR, under FASB ASC Topic 310, "Receivables". During the three and six months ended June 30, 2019, we determined that restructuring of one commercial real estate loan with an unpaid principal balance totaling \$29,478 constituted a TDR as the interest payment rate was decreased through September 2019 although interest continues to accrue at the original contractual interest rate. During the six months ended June 30, 2018, we determined that restructuring of one commercial real estate loan with an unpaid principal balance totaling \$7,948 constituted a TDR as the interest payment rate was decreased to zero percent and the maturity date was extended. During the six months ended June 30, 2019, and June 30, 2018, there were no TDRs that subsequently defaulted for restructurings that had been entered into within the previous 12 months.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

Loans Held for Sale

In February 2018, we began to pursue a sale of certain loans. In March 2018, we sold these loans, which had unpaid principal balance of \$90,260 and received proceeds of \$43,384 after repayment of \$45,850 of secured warehouse facility debt and \$349 of interest. We recognized a loss of \$930 on these loans.

During March 2018, we transferred nine additional loans to held for sale as we had the intent and ability to sell these loans. The transfer was made at the lower of cost or fair value for each respective loan. During the year ended December 31, 2018, six of these loans were sold or repaid, resulting in a net loss of \$3,280.

During the three months ended, June 30, 2019, one of the remaining loans held for sale was repaid, resulting in a net gain of \$66. The two remaining loans held for sale were measured at the lower of cost or fair value, resulting in a gain of \$221. As of June 30, 2019, these loans had an unpaid principal balance of \$6,599 and a carrying amount of \$4,973.

Loan-to-Real Estate Conversions

In June 2019, we completed the conversion of a portion of a commercial mortgage loan portfolio to real estate owned property. See Note 4: Investments in Real Estate - Acquisitions for further information.

NOTE 4: INVESTMENTS IN REAL ESTATE

The table below summarizes our investments in real estate:

	Book Value	
	As of June 30, 2019	As of December 31, 2018
Office real estate properties	\$ 49,027	\$ 48,760
Retail real estate properties	56,556	49,088
Parcels of land	18,744	18,744
Subtotal	124,327	116,592
Less: Accumulated depreciation and amortization	(10,722)	(8,768)
Investments in real estate, net	<u>\$ 113,605</u>	<u>\$ 107,824</u>

As of June 30, 2019, our investments in real estate were comprised of land of \$41,119 and buildings and improvements of \$83,208. As of December 31, 2018, our investments in real estate were comprised of land of \$36,905 and buildings and improvements of \$79,687.

As of June 30, 2019, our investments in real estate of \$124,327 were financed through \$40,351 of mortgage loans or other debt held by third parties and \$96,168 of mortgage loans held directly by RAIT or through our RAIT I securitization. As of December 31, 2018, our investments in real estate of \$116,592 were financed through \$40,724 of mortgage loans or other debt held by third parties and \$80,562 of mortgage loans held directly by RAIT or through our RAIT I securitization. Together, along with the other commercial real estate loans held by our RAIT I securitization, these mortgage loans serve as collateral for the CDO notes payable issued by our RAIT I securitization. All intercompany balances and interest charges are eliminated in consolidation.

The following table represents the minimum future lease payments for our office and retail properties as of June 30, 2019.

2019	\$ 4,776
2020	7,930
2021	5,690
2022	3,703
2023	1,980
2024 and thereafter	5,168
Total	<u>\$ 29,247</u>

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

Acquisitions:

As described in Note 3: Investments in Commercial Mortgage Loans, Mezzanine Loans and Preferred Equity Interests, in June 2019, we completed the conversion of a portion of a commercial mortgage loan portfolio with a carrying value of \$7,448 to real estate owned property. The conversion resulted in approximately \$7,448 of real estate assets being reflected on our consolidated balance sheet.

Property Sales:

During the six months ended June 30, 2019, we disposed of two real estate owned properties. The below table summarizes the current year dispositions and also presents each property's contribution to net income (loss) allocable to common shares, excluding the impact of any gain (loss) on sale:

Property Name	Property Type	Date of Sale	Sale Price	Gain (loss) on sale	Net income (loss) allocable to common shares	
					For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Rte 18 Central Plaza	Retail	2/26/2019	\$ 5,100	\$ -	\$ 5	\$ (55)
735 Collins Ave	Retail	5/14/2019	8,705	943	(17)	(17)
Total			<u>\$ 13,805</u>	<u>\$ 943</u>	<u>\$ (12)</u>	<u>\$ (72)</u>

NOTE 5: INDEBTEDNESS

We maintain various forms of short-term and long-term financing arrangements.

The following tables summarize our total recourse and non-recourse indebtedness as of June 30, 2019 and December 31, 2018, but do not reflect any potential impacts of the Chapter 11 Cases or any other "Event of Default" as discussed in Note 1: The Company or otherwise in "Defaults on Recourse Indebtedness" below.

The following table summarizes our total recourse and non-recourse indebtedness as of June 30, 2019:

Description	Unpaid Principal Balance	Unamortized Discount/Premium and Deferred Financing Costs	Carrying Amount	Weighted-Average Interest Rate	Contractual Maturity
Recourse indebtedness:					
7.625% Senior Notes	\$ 56,324	\$ (1,107)	\$ 55,217	7.6%	Apr. 2024
7.125% Senior Notes	65,356	(92)	65,264	7.1%	Aug. 2019
Junior subordinated notes, at fair value (1)	18,671	(13,581)	5,090	6.6%	Mar. 2035
Junior subordinated notes, at amortized cost	25,100	—	25,100	5.1%	Apr. 2037
Total recourse indebtedness	<u>165,451</u>	<u>(14,780)</u>	<u>150,671</u>	<u>6.9%</u>	
Non-recourse indebtedness:					
CDO notes payable, at amortized cost (2)(3)	99,875	—	99,875	2.4%	Nov. 2046
CMBS securitizations (4)(5)	195,530	(291)	195,239	4.5%	Jun. 2037 to Dec. 2037
Loans payable on real estate	40,351	(185)	40,166	4.7%	Oct. 2021 to Dec. 2021
Total non-recourse indebtedness	<u>335,756</u>	<u>(476)</u>	<u>335,280</u>	<u>3.9%</u>	
Total indebtedness	<u>\$ 501,207</u>	<u>\$ (15,256)</u>	<u>\$ 485,951</u>	<u>4.9%</u>	

(1) Relates to liabilities which we elected to record at fair value under FASB ASC Topic 825.

(2) Excludes CDO notes payable purchased by us which are eliminated in consolidation.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

- (3) Collateralized by \$156,339 principal amount of commercial mortgage loans, mezzanine loans, other loans and preferred equity interests, \$94,585 of which is eliminated in consolidation. These obligations were issued by separate legal entities and consequently the assets of the special purpose entities that collateralize these obligations are not available to our creditors.
- (4) Excludes CMBS securitization notes purchased by us which are eliminated in consolidation.
- (5) Collateralized by \$298,988 principal amount of commercial mortgage loans and participation interests in commercial mortgage loans. These obligations were issued by separate legal entities and consequently the assets of the special purpose entities that collateralize these obligations are not available to our creditors.

The following table summarizes our total recourse and non-recourse indebtedness as of December 31, 2018:

Description	Unpaid Principal Balance	Unamortized Discount/Premium and Deferred Financing Costs	Carrying Amount	Weighted- Average Interest Rate	Contractual Maturity
Recourse indebtedness:					
7.625% Senior Notes	\$ 56,324	\$ (1,224)	\$ 55,100	7.6%	Apr. 2024
7.125% Senior Notes	65,356	(359)	64,997	7.1%	Aug. 2019
Junior subordinated notes, at fair value (1)	18,671	(12,561)	6,110	6.4%	Mar. 2035
Junior subordinated notes, at amortized cost	25,100	—	25,100	5.0%	Apr. 2037
Total recourse indebtedness	<u>165,451</u>	<u>(14,144)</u>	<u>151,307</u>	<u>6.9%</u>	
Non-recourse indebtedness:					
CDO notes payable, at amortized cost (2)(3)	116,102	—	116,102	3.1%	Nov. 2046
CMBS securitizations (4)(5)	320,282	(2,274)	318,008	4.0%	Jun. 2037 to Dec. 2037
Loans payable on real estate	40,724	(225)	40,499	4.7%	Oct. 2021 to Dec. 2021
Total non-recourse indebtedness	<u>477,108</u>	<u>(2,499)</u>	<u>474,609</u>	<u>3.9%</u>	
Total indebtedness	<u><u>\$ 642,559</u></u>	<u><u>\$ (16,643)</u></u>	<u><u>\$ 625,916</u></u>	<u><u>4.6%</u></u>	

- (1) Relates to liabilities which we elected to record at fair value under FASB ASC Topic 825.
- (2) Excludes CDO notes payable purchased by us which are eliminated in consolidation.
- (3) Collateralized by \$170,124 principal amount of commercial mortgage loans, mezzanine loans, other loans and preferred equity interests, \$94,191 of which is eliminated in consolidation. These obligations were issued by separate legal entities and consequently the assets of the special purpose entities that collateralize these obligations are not available to our creditors.
- (4) Excludes CMBS securitization notes purchased by us which are eliminated in consolidation.
- (5) Collateralized by \$409,218 principal amount of commercial mortgage loans and participation interests in commercial mortgage loans. These obligations were issued by separate legal entities and consequently the assets of the special purpose entities that collateralize these obligations are not available to our creditors.

Recourse indebtedness refers to indebtedness that is recourse to our general assets. Non-recourse indebtedness consists of indebtedness of consolidated securitizations and loans payable on real estate which is recourse only to specific assets pledged as collateral to the lenders. The creditors of each consolidated securitization have no recourse to our general credit.

The activity in our financing arrangements occurring as of or during the six months ended June 30, 2019 is as follows:

Recourse Indebtedness

7.625% Senior Notes. During the three months ended June 30, 2019, there was no activity other than recurring interest. As of June 30, 2019, \$56,324 of the 7.625% Senior Notes remain outstanding. These notes contain financial covenants that are applicable upon the incurrence of debt as defined in the notes' related indenture including a maximum leverage ratio covenant and a minimum fixed charge ratio covenant. We have not incurred debt, as defined in this indenture, since the three months ended March 31, 2018. As of March 31, 2018, the leverage ratio, calculated in accordance with the indenture, was 74.6% as compared to a maximum leverage ratio not to exceed 80%, and for the preceding four quarters, the fixed charge coverage ratio, calculated in accordance with the indenture, was 1.34x as compared to a minimum fixed charge coverage ratio of no less than 1.20x.

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

7.125% Senior Notes. During the three months ended June 30, 2019, there was no activity other than recurring interest. As of June 30, 2019, \$65,356 of the 7.125% Senior Notes remain outstanding. These notes contain financial covenants that are applicable upon the incurrence of debt as defined in the notes' related indenture including a maximum leverage ratio covenant and a minimum fixed charge ratio covenant. We have not incurred debt, as defined in this indenture, since the three months ended March 31, 2018. As of March 31, 2018, the leverage ratio, calculated in accordance with the indenture, was 74.6% as compared to a maximum leverage ratio not to exceed 80%, and for the preceding four quarters, the fixed charge coverage ratio, calculated in accordance with the indenture, was 1.34x as compared to a minimum fixed charge coverage ratio of no less than 1.20x.

Junior subordinated notes, at fair value. At issuance, we elected to record the \$18,671 junior subordinated notes at fair value under FASB ASC Topic 825, with all subsequent changes in fair value recorded in earnings. Starting in January 2018, in accordance with an update to FASB ASC Topic 825, we began recording the change in fair value due to instrument-specific credit risk in other comprehensive income, with all other changes in fair value recorded in earnings. As of June 30, 2019, the fair value, or carrying amount, of this indebtedness was \$5,090. These notes do not contain financial covenants.

Junior subordinated notes, at amortized cost. During the three months ended June 30, 2019, there was no activity other than recurring interest. These notes do not contain financial covenants.

Non-Recourse Indebtedness

CDO notes payable, at amortized cost. CDO notes payable at amortized cost represent notes issued by RAIT I which were used to finance the acquisition of commercial mortgage loans and mezzanine loans in our commercial real estate portfolio. Generally, CDO notes payable are comprised of various classes of notes payable, with each class bearing interest at variable or fixed rates. The RAIT I securitization contains interest coverage trigger tests, or IC triggers, and overcollateralization trigger tests, or OC triggers. If the IC triggers or OC triggers are not met in a given period, then the interest distributions are redirected from lower rated tranches and used to repay the principal amounts to the senior tranches of CDO notes payable. These conditions and the re-direction of interest distributions continue until the triggers are met by curing the underlying cause of the IC trigger or OC trigger failure, which may include curing payment defaults, paying down the CDO notes payable, or other actions permitted under the relevant securitization indenture.

As of December 31, 2018, RAIT I was meeting all its OC and IC trigger tests. Starting in January 2019 through the date of the filing of this Quarterly Report on Form 10-Q, the Class F/G/H OC test for RAIT I has not been met. In October 2019, the Class F/G/H IC test for RAIT I was not met. As a result, certain interest payments that would have otherwise been directed to the Class J notes and equity issued by RAIT I, which are owned by us, are instead being redirected to pay principal on the most senior class of CDO notes payable that are outstanding. The failure of these tests do not represent an event of default under the RAIT I securitization indenture.

CMBS securitizations As of June 30, 2019, our subsidiary, RAIT 2017-FL7 Trust, or RAIT FL7, had \$184,911 of total collateral at par value, none of which was defaulted. As of June 30, 2019, RAIT FL7 had classes of investment grade senior notes with an aggregate principal balance outstanding of approximately \$119,432 to investors. We currently own the unrated classes of junior notes, including a class with an aggregate principal balance of \$65,479, and the equity, or the retained interests, of RAIT FL7. RAIT FL7 does not have OC triggers or IC triggers.

As of June 30, 2019, our subsidiary, RAIT 2017-FL8 Trust, or RAIT FL8, had \$120,260 of total collateral at par value, none of which was defaulted. As of June 30, 2019, RAIT FL8 had classes of investment grade senior notes with an aggregate principal balance outstanding of approximately \$76,098 to investors. We currently own the unrated classes of junior notes, including a class with an aggregate principal balance of \$44,162, and the equity, or the retained interests, of RAIT FL8. RAIT FL8 does not have OC triggers or IC triggers.

The junior notes that we have retained in our CMBS securitizations include the class of junior notes that is subject to the first dollar of loss.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

Maturity of Indebtedness

Generally, the majority of our indebtedness is payable in full upon the maturity or termination date of the underlying indebtedness. The following table displays the aggregate contractual maturities of our indebtedness outstanding as of June 30, 2019 by year, but does not reflect any potential impacts of the Chapter 11 Cases as discussed in Note 1:

	<u>Recourse indebtedness</u>	<u>Non-recourse indebtedness</u>
2019	\$ 65,356	\$ 376
2020	-	779
2021	-	39,196
2022	-	-
2023	-	-
Thereafter	100,095	295,405
Total	<u>\$ 165,451</u>	<u>\$ 335,756</u>

Defaults on Recourse Indebtedness

The filing of the Chapter 11 Cases with the Bankruptcy Court triggered the Bankruptcy Events of Default, see Note 1: The Company for further information. Furthermore, RAIT's failure to pay the principal amount of the 7.125% Senior Notes by their maturity date on August 30, 2019 constituted an "Event of Default" under the applicable supplemental indenture.

Prior to the filing of the Chapter 11 Cases, on August 20, 2019, RAIT received a notice of default relating to the 7.125% Senior Notes and the 7.625% Senior Notes from the indenture trustee. The notice stated that RAIT has defaulted under Section 4.02 of each of the supplemental indentures that govern those Senior Notes because RAIT failed to timely file the quarterly report for the fiscal quarter ended March 31, 2019 that RAIT is required to file with the Securities and Exchange Commission. The notice demanded RAIT remedy such default. Under the supplemental indentures, the default will not become an "Event of Default" unless RAIT failed to remedy the default within 60 days after the date on which notice was received. If such an "Event of Default" occurred, then in lieu of acceleration of the repayment obligation, RAIT may at its option elect to pay additional interest on the respective Senior Note at an annual rate equal to 0.50% of the principal amount of the respective Senior Note for up to one year after the occurrence of such "Event of Default". Notwithstanding the foregoing, subject to certain specific exceptions under the Bankruptcy Code, the Chapter 11 Cases automatically stayed most judicial or administrative actions against the Debtors as well as efforts by creditors to collect on or otherwise exercise rights or remedies with respect to pre-petition claims.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

NOTE 6: FAIR VALUE OF FINANCIAL INSTRUMENTS*Fair Value of Financial Instruments*

FASB ASC Topic 825, "Financial Instruments" requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. The fair value of investments in mortgage loans, mezzanine loans, preferred equity interests, CDO notes payable, convertible senior notes, junior subordinated notes, and derivative assets and liabilities is based on significant observable and unobservable inputs. The fair value of cash and cash equivalents and restricted cash approximates their carrying amount or unpaid principal balance due to the nature of these instruments.

Fair Value of Investment in Mortgage Loans, Held for Investment

The fair value of mortgage loans held for investment is determined using an exit price notion. Prior to adopting the January 2016 amendment to FASB ASC Topic 825, we measured the fair value of mortgage loans held for investment under an entry price notion. The entry price notion previously applied used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk, and market factors. We determined the fair value on substantially all of our loans for disclosure purposes, on an individual loan basis. The discount rates reflect current market rates for loans with similar terms to borrowers having similar credit quality on an exit price basis.

The following table summarizes the carrying amount and the fair value of our financial instruments as of June 30, 2019:

Financial Instrument	Carrying Amount	Estimated Fair Value
Assets		
Total investment in mortgage loans, held for investment, net	\$ 361,134	\$ 333,668
Investment in mortgage loans, held for sale	4,973	4,973
Cash and cash equivalents	46,705	46,705
Restricted cash	29,282	29,282
Liabilities		
Recourse indebtedness:		
7.625% Senior Notes	55,217	38,300
7.125% Senior Notes	65,264	56,834
Junior subordinated notes, at fair value	5,090	5,090
Junior subordinated notes, at amortized cost	25,100	5,780
Non-recourse indebtedness:		
CDO notes payable, at amortized cost	99,875	75,063
CMBS securitizations	195,239	195,765
Loans payable on real estate	40,166	40,911

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

The following table summarizes the carrying amount and the fair value of our financial instruments as of December 31, 2018:

<u>Financial Instrument</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Assets		
Total investment in mortgage loans, held for investment, net	\$ 480,061	\$ 444,962
Investment in mortgage loans, held for sale	4,873	4,873
Cash and cash equivalents	42,453	42,453
Restricted cash	63,067	63,067
Liabilities		
Recourse indebtedness:		
7.625% Senior Notes	55,100	41,229
7.125% Senior Notes	64,997	58,010
Junior subordinated notes, at fair value	6,110	6,110
Junior subordinated notes, at amortized cost	25,100	6,550
Non-recourse indebtedness:		
CDO notes payable, at amortized cost	116,102	94,513
CMBS securitizations	318,008	320,711
Loans payable on real estate	40,499	40,608

Fair Value Measurements

The following table summarizes information about our liabilities measured at fair value on a recurring basis as of June 30, 2019, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

<u>Liabilities:</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1) (1)</u>	<u>Significant Other Observable Inputs (Level 2) (1)</u>	<u>Significant Unobservable Inputs (Level 3) (1)</u>	<u>Balance as of June 30, 2019</u>
Junior subordinated notes, at fair value	\$ —	\$ —	\$ 5,090	\$ 5,090
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,090</u>	<u>\$ 5,090</u>

- (1) During the six months ended June 30, 2019, there were no transfers between Level 1 and Level 2, and there were no transfers into and/or out of Level 3.

The following table summarizes information about our liabilities measured at fair value on a recurring basis as of December 31, 2018, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

<u>Liabilities:</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1) (1)</u>	<u>Significant Other Observable Inputs (Level 2) (1)</u>	<u>Significant Unobservable Inputs (Level 3) (1)</u>	<u>Balance as of December 31, 2018</u>
Junior subordinated notes, at fair value	\$ —	\$ —	\$ 6,110	\$ 6,110
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,110</u>	<u>\$ 6,110</u>

- (1) During the year ended December 31, 2018, there were no transfers between Level 1 and Level 2, and there were no transfers into and/or out of Level 3.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

When estimating the fair value of our Level 3 financial instruments, management uses various observable and unobservable inputs. These inputs include yields, credit spreads, duration, effective dollar prices and overall market conditions on not only the exact financial instrument for which management is estimating the fair value, but also financial instruments that are similar or issued by the same issuer when such inputs are unavailable. Generally, an increase in the yields, credit spreads or estimated duration will decrease the fair value of our financial instruments. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value, as determined by management, may fluctuate from period to period and any ultimate liquidation or sale of the investment may result in proceeds that may be significantly different than fair value. For the fair value of our junior subordinated notes, at fair value, we estimate the fair value of these financial instruments using significant unobservable inputs. For the junior subordinated notes, at fair value, a discounted cash flow model was used as the valuation technique and the significant unobservable inputs as of June 30, 2019 include a discount rate of 30% and as of December 31, 2018 include a discount rate of 27%. The gains attributable to changes in instrument-specific credit risk were determined by discounting the future cash flows of the notes at base market interest rates and subtracting this amount from the total fair value of the instrument.

The following table summarizes additional information about our liabilities that are measured at fair value on a recurring basis for which we have utilized level 3 inputs to determine fair value for the six months ended June 30, 2019:

<u>Liabilities</u>	<u>Junior Subordinated Notes, at Fair Value</u>	<u>Total Level 3 Liabilities</u>
Balance, as of December 31, 2018	\$ 6,110	\$ 6,110
Change in fair value of financial instruments	(1,020)	(1,020)
Balance, as of June 30, 2019	<u>\$ 5,090</u>	<u>\$ 5,090</u>

The following table summarizes additional information about our liabilities that are measured at fair value on a recurring basis for which we have utilized level 3 inputs to determine fair value for the three months ended June 30, 2019:

<u>Liabilities</u>	<u>Junior Subordinated Notes, at Fair Value</u>	<u>Total Level 3 Liabilities</u>
Balance, as of March 31, 2019	\$ 5,500	\$ 5,500
Change in fair value of financial instruments	(410)	(410)
Balance, as of June 30, 2019	<u>\$ 5,090</u>	<u>\$ 5,090</u>

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

Non-Recurring Fair Value Measurements

Our non-recurring fair value measurements relate primarily to our commercial real estate loans that are considered impaired. In evaluating our impaired loans, we estimate the fair value of the underlying collateral of the respective commercial real estate loan and compare that fair value to our total investment in the loan. When estimating the fair value of the underlying collateral of the commercial real estate loan, management uses discounted cash flow analyses and/or direct capitalization valuation analyses. The significant inputs to these valuations are capitalization rates and discount rates and are based on market information and comparable sales of similar properties. As of June 30, 2019, we measured the underlying collateral of five of our loans at a fair value of \$48,872 in our consolidated balance sheet as they were impaired.

Our other non-recurring fair value measurements relate to our commercial real estate loans that are considered held for sale and are recorded at the lower of cost or fair value in our consolidated balance sheets. In evaluating our loans held for sale, we estimate the fair value of each loan and compare that fair value to our total investment in the loan. The estimate of fair value for each loan is determined using a discounted cash flow analysis. The significant inputs to these valuations are estimated future cash flows for each loan and market discount rates. The discount rates are based on underlying property performance and recent data from comparable lending markets. As of June 30, 2019, we measured two loans held for sale at a fair value of \$4,973 in our consolidated balance sheet.

Fair Value of Financial Instruments

The following tables summarize the valuation technique and the level of the fair value hierarchy for financial instruments that are not recorded at fair value in the accompanying consolidated balance sheets but for which fair value is required to be disclosed. The fair value of cash and cash equivalents and restricted cash approximates cost due to the nature of these instruments and are not included in the tables below.

	Carrying Amount as of June 30, 2019	Estimated Fair Value as of June 30, 2019	Valuation Technique	Level in Fair Value Hierarchy
Total investment in mortgage loans, held for investment, net	\$ 361,134	\$ 333,668	Discounted cash flows	Three
Investment in mortgage loans, held for sale	4,973	4,973	Discounted cash flows	Three
7.625% Senior Notes	55,217	38,300	Trading price	Two
7.125% Senior Notes	65,264	56,834	Trading price	Two
Junior subordinated notes, at amortized cost	25,100	5,780	Discounted cash flows	Three
CDO notes payable, at amortized cost	99,875	75,063	Discounted cash flows	Three
CMBS securitizations	195,239	195,765	Discounted cash flows	Three
Loans payable on real estate	40,166	40,911	Discounted cash flows	Three

	Carrying Amount as of December 31, 2018	Estimated Fair Value as of December 31, 2018	Valuation Technique	Level in Fair Value Hierarchy
Total investment in mortgage loans, held for investment, net	\$ 480,061	\$ 444,962	Discounted cash flows	Three
Investment in mortgage loans, held for sale	4,873	4,873	Discounted cash flows	Three
7.625% Senior Notes	55,100	41,229	Trading price	Two
7.125% Senior Notes	64,997	58,010	Trading price	Two
Junior subordinated notes, at amortized cost	25,100	6,550	Discounted cash flows	Three
CDO notes payable, at amortized cost	116,102	94,513	Discounted cash flows	Three
CMBS securitizations	318,008	320,711	Discounted cash flows	Three
Loans payable on real estate	40,499	40,608	Discounted cash flows	Three

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

The following table summarizes realized and unrealized gains and losses on assets and liabilities for which we elected the fair value option of FASB ASC Topic 825, "Financial Instruments" and derivatives as reported in change in fair value of financial instruments in the accompanying consolidated statements of operations:

<u>Description</u>	<u>For the Three Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Change in fair value of junior subordinated notes	\$ (210)	\$ (77)	\$ (180)	\$ (272)
Change in fair value of derivatives	—	188	—	470
Change in fair value of financial instruments	<u>\$ (210)</u>	<u>\$ 111</u>	<u>\$ (180)</u>	<u>\$ 198</u>

The changes in the fair value for the junior subordinated notes for which the fair value option was elected for the three and six months ended June 30, 2019 and 2018 was primarily attributable to changes in base market interest rates. The changes in the fair value of derivatives for the three and six months ended June 30, 2018 was primarily attributable to changes in interest rates.

NOTE 7: VARIABLE INTEREST ENTITIES

The determination of when to consolidate a VIE is based on the power to direct the activities of the VIE that most significantly impact the VIE's economic performance together with either the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. We evaluated our investments and determined that, as of June 30, 2019 and December 31, 2018, our consolidated VIEs were: RAIT I, RAIT FL7, RAIT FL8, and the RAIT VIE Properties (Willow Grove and Cherry Hill).

We consolidate the securitizations that we sponsor for which we have retained interests in and control the significant decisions regarding the collateral in these entities, such as the approval of loan workouts. As of June 30, 2019, we consolidated the VIE properties as we own the entities that control the significant capital and operating decisions regarding the properties.

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

The following tables present the assets and liabilities of our consolidated VIEs as of each respective date. Certain amounts included in the tables below are eliminated upon consolidation with our other subsidiaries that maintain investments in the debt or equity securities issued by these entities.

	As of June 30, 2019		
	RAIT Securitized	RAIT VIE Properties	Total
Assets			
Investments in commercial mortgage loans, mezzanine loans and preferred equity interests	\$ 437,183	\$ —	\$ 437,183
Investments in real estate	—	17,665	17,665
Cash and cash equivalents	—	221	221
Restricted cash	4,162	505	4,667
Accrued interest receivable	17,585	—	17,585
Other assets	78	678	756
Total assets	\$ 459,008	\$ 19,069	\$ 478,077
Liabilities and Equity			
Indebtedness, net	\$ 479,745	\$ 19,426	\$ 499,171
Accrued interest payable	1,114	6,143	7,257
Accounts payable and accrued expenses	67	135	202
Deferred taxes, borrowers' escrows and other liabilities	—	201	201
Total liabilities	480,926	25,905	506,831
Equity:			
Shareholders' equity:			
RAIT investment and Retained earnings (deficit)	(21,918)	(6,836)	(28,754)
Total shareholders' equity	(21,918)	(6,836)	(28,754)
Total liabilities and equity	\$ 459,008	\$ 19,069	\$ 478,077
As of December 31, 2018			
	RAIT Securitized	RAIT VIE Properties	Total
Assets			
Investments in commercial mortgage loans, mezzanine loans and preferred equity interests	\$ 561,101	\$ —	\$ 561,101
Investments in real estate	—	18,020	18,020
Cash and cash equivalents	—	209	209
Restricted cash	29,658	374	30,032
Accrued interest receivable	18,849	—	18,849
Other assets	153	3,854	4,007
Total assets	\$ 609,761	\$ 22,457	\$ 632,218
Liabilities and Equity			
Indebtedness, net	\$ 618,516	\$ 19,495	\$ 638,011
Accrued interest payable	1,534	5,883	7,417
Accounts payable and accrued expenses	74	3,315	3,389
Deferred taxes, borrowers' escrows and other liabilities	2	197	199
Total liabilities	620,126	28,890	649,016
Equity:			
Shareholders' equity:			
RAIT investment and Retained earnings (deficit)	(10,365)	(6,433)	(16,798)
Total shareholders' equity	(10,365)	(6,433)	(16,798)
Total liabilities and equity	\$ 609,761	\$ 22,457	\$ 632,218

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

The assets of the VIEs can only be used to settle obligations of the VIEs and are not available to our creditors. The amounts that eliminate in consolidation include \$85,119 of total investments in mortgage loans and \$197,460 of indebtedness as of June 30, 2019 and \$93,445 of total investments in mortgage loans and \$197,235 of indebtedness as of December 31, 2018. We do not have any contractual obligation to provide the VIEs listed above with any financial support. We have not and do not intend to provide financial support to these VIEs that we were not previously contractually required to provide.

NOTE 8: SERIES D PREFERRED SHARES

On October 1, 2012, we entered into a Securities Purchase Agreement, or the purchase agreement, with ARS VI Investor I, LLC, or the Investor, an affiliate of Almanac Realty Investors, LLC, or Almanac. During the period from the effective date of the purchase agreement through March 2014, we sold to the Investor on a private placement basis in four separate sales for an aggregate purchase price of \$100,000, or the total commitment, the following securities: (i) 4,000,000 of our Series D Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$0.01 per share, or the Series D preferred shares, (ii) common share purchase warrants, or the warrants, exercisable for 9,931,000 of our common shares, or the common shares (which had subsequently adjusted to 11,035,875 shares), and (iii) common share appreciation rights, or the Investor SARs, with respect to up to 6,735,667 common shares (which had subsequently adjusted to 7,485,045 shares). We subsequently repurchased a number of Series D preferred shares in transactions described below. We purchased and cancelled the warrants and the investor SARs in October 2017 pursuant to the Investor's exercise of put rights described below. We used the proceeds received under the purchase agreement to fund our loan origination and investment activities, including CMBS and bridge lending.

All transactions involving the issuance, repurchase, redemption and/or exchange of the Series D preferred shares discussed herein also involved the corresponding preferred units of RAIT Asset Holdings IV, LLC, or RAIT IV, and with respect to the redemption on June 27, 2018 in connection with the below referenced Redemption and Exchange Agreement, resulted from the redemption of the linked preferred units of RAIT IV.

In September 2015, we amended the purchase agreement with the Investor related to the Series D preferred shares. This amendment changed two of the covenants therein. As consideration for this amendment, we paid the Investor \$450. We accounted for this amendment as a modification of the Series D preferred shares.

On December 7, 2016, we entered into a securities repurchase agreement with the Investor pursuant to which we repurchased and cancelled 464,000 Series D preferred shares at par for a purchase price of \$11,600 which resulted in a decrease from 4,000,000 Series D preferred shares issued and outstanding to 3,536,000 Series D preferred shares issued and outstanding.

On June 22, 2017, we entered into a securities repurchase agreement with the Investor pursuant to which we repurchased and cancelled 402,280 Series D preferred shares at par for a purchase price of \$10,057 which resulted in a decrease from 3,536,000 Series D preferred shares issued and outstanding to 3,133,720 Series D preferred shares issued and outstanding.

On March 19, 2018, we redeemed and cancelled 194,530 Series D preferred shares at par for a purchase price of \$4,863 which resulted in a decrease from 3,133,720 preferred units of RAIT IV and RAIT's corresponding Series D preferred shares issued and outstanding to 2,939,190 preferred units of RAIT IV and RAIT's corresponding Series D preferred shares issued and outstanding.

On June 27, 2018, we entered into a Redemption and Exchange Agreement with the Investor whereby we redeemed and cancelled the remaining 2,939,190 preferred units of RAIT IV and RAIT's corresponding Series D preferred shares for \$56,765 of cash received by RAIT IV from the sale of the FL5 and FL6 Interests, defined available cash held by RAIT IV and \$16,715 of liquidation preference of RAIT's publicly traded Series A preferred shares, Series B preferred shares and Series C preferred shares. Accordingly, the Investor received 383,147 of RAIT's Series A preferred shares, 167,828 of RAIT's Series B preferred shares, and 117,605 of RAIT's Series C preferred shares. In addition, RAIT paid the Investor an exchange fee of \$418. The Redemption and Exchange Agreement also provided for the termination of the Securities Purchase Agreement and mutual releases between RAIT and the Investor of the previously reported dispute between the two parties.

On October 11, 2017, we received a put right notice from the Investor exercising the Investor's right to require us to purchase for \$20,500 all the previous warrants and Investor SARs. On October 17, 2017, RAIT purchased all of the warrants and Investor

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

SARs. As a result, RAIT had no further obligations beyond October 17, 2017 relating to the warrants and Investor SARs and none remain outstanding, respectively, as of that date.

NOTE 9: SHAREHOLDERS' EQUITY

Preferred Shares

Dividends:

RAIT's Board of Trustees (the "Board") determined that it would suspend the dividend on RAIT's outstanding preferred shares on June 12, 2018. The Board considers dividends on a quarterly basis. As of June 30, 2019, \$25,313 of dividends on these shares were unpaid and in arrears. These dividends in arrears are included in (income) loss allocated to preferred shares on our consolidated statements of operations since they represent a claim on earnings superior to common shareholders, but have not been accrued as a liability since they have not been declared.

Common Shares

Dividends:

The Board determined that it would suspend the dividend on RAIT's outstanding common shares on November 1, 2017.

During the six months ended June 30, 2019, we paid \$29 of dividends on restricted common share awards that vested in this period. These dividends were declared during the vesting period but remained forfeitable prior to vesting and became payable upon vesting in accordance with the terms of these awards.

Shareholders' Equity Attributable to Common Shares:

As of June 30, 2019, total shareholders' equity attributable to common shares was a deficit of \$185,405.

Noncontrolling Interests

RAIT Venture VIEs:

During the year ended December 31, 2018, the 2017 RAIT Venture VIE, which elected to be taxed as a REIT and that was formed in 2017 to hold the junior subordinated notes of FL-6, sold 125 preferred shares of the 2017 RAIT Venture VIE to unaffiliated purchasers. The price was \$1,000 per share and the 2017 RAIT Venture VIE received \$76 of net proceeds.

Acquisition of noncontrolling interests related to PlazAmericas Mall:

On March 16, 2018, we acquired the noncontrolling interests related to PlazAmericas Mall, a retail real estate property, for \$343, including transaction costs. These noncontrolling interests had a carrying amount of \$3,582. As we previously held a controlling financial interest in PlazAmericas Mall, we accounted for the acquisition of the noncontrolling interests as an equity transaction.

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

NOTE 10: EARNINGS (LOSS) PER SHARE

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Income (loss)	\$ 827	\$ (57,023)	\$ (5,374)	\$ (84,728)
(Income) loss allocated to preferred shares	(5,071)	6,861	(10,134)	472
Net income (loss) allocable to common shares	\$ (4,244)	\$ (50,162)	\$ (15,508)	\$ (84,256)
Weighted-average shares outstanding—Basic (1)	1,844,563	1,839,826	1,844,302	1,838,666
Weighted-average shares outstanding—Diluted (1)	1,844,563	1,839,826	1,844,302	1,838,666
Earnings (loss) per share—Basic:				
Earnings (loss) per share—Basic	\$ (2.30)	\$ (27.26)	\$ (8.41)	\$ (45.82)
Earnings (loss) per share—Diluted:				
Earnings (loss) per share—Diluted	\$ (2.30)	\$ (27.26)	\$ (8.41)	\$ (45.82)

(1) All share and per-share amounts have been retroactively adjusted to reflect the Reverse Stock Split for all periods presented herein.

For the three and six months ended June 30, 2019, securities convertible into 4,966 and 5,488 common shares, respectively, were excluded from the earnings (loss) per share computations because their effect would have been anti-dilutive. For the three and six months ended June 30, 2018, securities convertible into 163,502 and 167,075 common shares, respectively, were excluded from the earnings (loss) per share computations because their effect would have been anti-dilutive.

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of our business operations, we have ongoing relationships and have engaged in transactions with the related entities described below. All of these relationships and transactions were approved or ratified by our audit committee as being on terms comparable to those available from an unaffiliated third party or otherwise not creating a conflict of interest.

Almanac Realty

On June 27, 2018, the purchase agreement that previously provided for Andrew M. Silberstein to serve as a trustee on our board was terminated as part of the Redemption and Exchange Agreement that was entered into with the Investor on June 27, 2018. As part of the Redemption and Exchange Agreement, Mr. Silberstein resigned as a trustee. While Mr. Silberstein was a trustee, his trustee fees were paid to the Investor. Mr. Silberstein is an equity owner of Almanac and an officer of the Investor and holds indirect equity interests in the Investor. The transactions completed pursuant to the purchase agreement are described above in Note 8: Series D Preferred Shares. Subsequent to June 27, 2018, Almanac is not considered a related party.

Ballard Spahr LLP

Justin P. Klein has served as a Trustee on our Board since June 2017 and is a partner of the law firm Ballard Spahr LLP, or Ballard Spahr. RAIT did not have any transactions with Ballard Spahr during the six months ended June 30, 2019. RAIT has paid Ballard Spahr LLP \$52 and \$84 during the three and six months ended June 30, 2018. The approximate dollar value of Mr. Klein's interest in these fees was \$1 for the six months ended June 30, 2018, based on Mr. Klein's Ballard partnership interest.

Mr. Klein is a member of the RAIT board and receives board fees. The fees are paid to Ballard Spahr.

Charles Frischer and the Libby Frischer Family Partnership

On March 30, 2018, the Libby Frischer Family Partnership, or LFFP, Charles F. Frischer, or Mr. Frischer, and RAIT signed a letter which provided that RAIT would exempt LFFP from RAIT's common share ownership limit up to an amount equal to 12.5%. Mr. Frischer is the general partner of LFFP.

On April 6, 2018, RAIT, LFFP and Mr. Frischer entered into a cooperation agreement which sets forth certain transfer restrictions and standstill provisions, among other things, for a period of time. Subsequent to entering into the cooperation agreement, on April 6, 2018, LFFP, and Mr. Frischer and RAIT signed a letter agreement which provided that RAIT would exempt LFFP from RAIT's common share and preferred share ownership limits up to an amount equal to 15.0% with respect to each class of shares.

On May 11, 2018, RAIT, LFFP and Mr. Frischer entered into a letter agreement which provided that RAIT would exempt LFFP from RAIT's common share and preferred share ownership limits up to an amount equal to 20.0% with respect to each class of shares.

Highland Capital Management, L.P.

There were no transactions with Highland Capital Management, L.P. ("Highland") or its affiliates in 2019 or 2018. It is noted that remaining obligations under the previously disclosed cooperation agreement between RAIT and Highland entered into on May 26, 2017 relating to a defined "standstill period" that ended on May 26, 2019 and that Highland and certain of its affiliates filed a Schedule 13G/A with the SEC on February 14, 2019 disclosing that their aggregate holdings of RAIT's common shares had reduced to 4.9% of RAIT's outstanding common shares.

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

NOTE 12: SUPPLEMENTAL DISCLOSURE TO STATEMENT OF CASH FLOWS

The following are supplemental disclosures to the statements of cash flows for the six months ended June 30, 2019 and 2018:

	<u>For the Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Cash paid for interest	\$ 14,311	\$ 28,483
Cash paid (refunds received) for taxes	(38)	(1)
Non-cash increase in investments in real estate from conversion of loans	7,448	—
Non-cash increase (decrease) in indebtedness from debt extinguishments	—	(1,265)

During the three months ended March 31, 2019, we consolidated the Collins Avenue VIE as described in Note 7: Variable Interest Entities. This resulted in a non-cash increase of \$7,448 to investments in real estate, held for sale, and a non-cash decrease of \$7,866 to investments in mortgage loans. During the three months ended June 30, 2019, we disposed of the Collins Avenue property. See Note 4: Investments in Real Estate for further discussion.

During the six months ended June 30, 2018, we transferred nine loans to held for sale as we had the intention and ability to sell these loans. The transfer was made at the lower of cost or fair value for each respective loan. During the six months ended June 30, 2018, we sold six loans, which had an unpaid principal balance and carrying amount of \$31,377. See Note 3: Investment in Commercial Mortgage Loans, Mezzanine Loans, and Preferred Equity Interests for further discussion.

During the six months ended June 30, 2018, we acquired the noncontrolling interests related to PlazAmericas Mall for \$343, including transaction costs. See Note 9: Shareholders' Equity for further discussion.

During the six months ended June 30, 2018, we redeemed and cancelled the remaining 2,939,190 preferred units of RAIT IV and the corresponding Series D preferred shares for \$56,765 of cash and \$16,715 of liquidation preference of RAIT's publicly traded Series A preferred shares, Series B preferred shares and Series C preferred shares. See Note 8: Series D Preferred Shares for further discussion.

The following table summarizes our cash and cash equivalents and restricted cash balances as of June 30, 2019 and June 30, 2018:

	<u>As of June 30, 2019</u>	<u>As of June 30, 2018</u>
Cash and cash equivalents	\$ 46,705	\$ 72,224
Restricted cash	29,282	113,091
Total cash and cash equivalents and restricted cash	<u>\$ 75,987</u>	<u>\$ 185,315</u>

NOTE 13: COMMITMENTS AND CONTINGENCIES*General*

We are involved from time to time in litigation on various matters, including disputes with tenants of owned properties, disputes arising out of agreements to purchase or sell properties, disputes arising out of our loan portfolio, discrimination claims, negligence claims, and similar tort claims related to owned properties or employment related disputes. Given the nature of our business activities, these lawsuits are considered routine to the conduct of our business. The result of any particular lawsuit cannot be predicted, because of the very nature of litigation, the litigation process and its adversarial nature, and the jury system. We do not expect that the liabilities, if any, that may ultimately result from such routine legal actions will have a material adverse effect on our consolidated financial position, results of operations or cash flows, except as described below.

The Chapter 11 Cases

For a description of the Chapter 11 Cases, see Note 1: The Company, which is incorporated herein by reference.

RAIT Preferred Funding II, Ltd. v. CWC Capital Asset Management LLC, et al.—Index No. 651729/2016 (Sup. Ct. N.Y.)

RAIT Financial Trust

Notes to Consolidated Financial Statements

As of June 30, 2019

(Unaudited and dollars in thousands, except share and per share amounts)

On September 20, 2017, RAIT Preferred Funding II, Ltd., or RAIT II, filed an amended complaint against the following defendants, or the Defendants, CWC Capital Asset Management, LLC, or CWC Capital, Wells Fargo Bank N.A., or Wells Fargo, and U.S. Bank N.A., or U.S. Bank, in the Supreme Court of the State of New York, County of New York, or the Court. This action concerns a loan, or the mortgage loan, to a non-party borrower, or the borrower, made in 2007. RAIT II purchased \$18,500 of the mortgage loan for which it held a promissory note, or note B. U.S. Bank is the trustee for a securitization trust that purchased the remaining \$190,000 of the mortgage loan and for which it held a promissory note, or note A. CWC Capital is the special servicer and Wells Fargo is the master servicer for the mortgage loan (including note A and note B). The parties' rights and obligations are governed by, among other things, a pooling and servicing agreement and a co-lender agreement. The mortgage loan was repaid in May of 2017, and the defendants have alleged that RAIT II was not entitled to receive any payoff of principal under note B pursuant to the subordination and other provisions of the co-lender agreement. In the amended complaint, RAIT II alleges, among other things, that the defendants breached certain of their obligations under the operative documents and RAIT II should have received, among other things, all of its \$18,500 principal under note B.

On October 11, 2017, CWC Capital and U.S. Bank moved to dismiss the amended complaint and on November 13, 2017 Wells Fargo moved to dismiss the amended complaint. RAIT II filed its opposition to the motions to dismiss on November 27, 2017. By Decision and Order dated January 29, 2018, the Court denied the defendants' motions to dismiss the contract claims, leaving intact RAIT II's breach of contract claims against all defendants. The Court dismissed RAIT II's non-contract claims (unjust enrichment, conversion, money had and received, and declaratory judgment) as duplicative of the surviving contract claims. The parties have since concluded discovery, and Defendants filed a motion for summary judgment on March 18, 2019. That motion was adjourned as a result of the Settlement Agreement and Agreement to Discontinue referenced below, and the litigation is scheduled to be discontinued with prejudice by Stipulation after TRFT receives payment under the Settlement Agreement.

On December 17, 2018, RAIT II assigned its interest in note B to TRFT in connection with TRFT's redemption of RAIT II described in the 2018 Annual Report, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Securitization Summary." On April 8, 2019, the Court granted RAIT II's motion to substitute TRFT as the plaintiff in this litigation.

Effective May 8, 2019, TRFT, RAIT II, CWC Capital and U.S. Bank entered into a Settlement Agreement and Mutual Release, or the Settlement Agreement. The Settlement Agreement provides (a) that CWC Capital and U.S. Bank shall pay, or cause to be paid by the related securitization trust, \$9,000, or the Settlement Payment, to TRFT within ten calendar days, (b) that the parties will execute and, after that Settlement Payment is received by TRFT, TRFT will file a Stipulation of Discontinuance with Prejudice, or the Stipulation, with the Court dismissing this litigation, and (c) for mutual releases between TRFT and RAIT II, on the one hand, and the Defendants, on the other hand, of claims relating to this litigation. Also, effective May 8, 2019, TRFT, RAIT II and Wells Fargo entered into an Agreement to Discontinue and Dismiss Litigation with Prejudice, or the Agreement to Discontinue. The Agreement to Discontinue also provides (a) that TRFT, RAIT II and Wells Fargo shall sign the Stipulation, (b) that, after the Settlement Payment is received by TRFT, TRFT will file the Stipulation and (c) for mutual releases between TRFT and RAIT II, on the one hand, and Wells Fargo, on the other hand, of claims relating to this litigation. The \$9,000 Settlement Payment was received in May 2019 and is included within provision (benefit) for loan losses in the accompanying consolidated statements of operations.

Loan Funding Commitments

Certain of the existing mortgage loans that we previously originated contain commitments to fund certain amounts that were not funded upon the origination of the mortgage loan. Senior participation interests in these loans are held by certain of our FL securitizations and these FL securitizations are required to purchase additional participation interests in these loans that include the funded portions of these funding commitments from us and at our direction as the commitments are funded by us and as funds become available from loan payoffs in the FL securitization. As of June 30, 2019, we had no outstanding funding commitments.

Lease Obligation

We lease office space in Philadelphia for use in our operations. We account for this lease as an operating lease and recognize lease expense on a straight-line basis over the lease term. As of June 30, 2019, the lease had a remaining term of 12.8 years with an option to extend for an additional 5 years. As discussed in Note 2: Summary of Significant Accounting Policies, (q) Recent Accounting Pronouncements, we adopted the provisions of ASC Topic 842, "Leases" related to this lease on January 1, 2019. When establishing the value of our right-of-use asset and lease liability, we calculated the present value of future lease payments over the

RAIT Financial Trust
Notes to Consolidated Financial Statements
As of June 30, 2019
(Unaudited and dollars in thousands, except share and per share amounts)

lease term. Since the discount rate implicit in the lease could not be determined, we used our incremental borrowing rate of 12.6%, which was based on information available as of the effective date.

As of June 30, 2019, the office lease liability and corresponding operating lease asset had carrying amounts of \$2,983 and \$308, respectively, and are included within other liabilities and other assets, respectively, in the accompanying consolidated balance sheet.

During the three months ended June 30, 2019, we recognized an impairment charge of \$2,076 on our operating lease asset as it was more likely than not we would not realize the benefits of this asset over its remaining term and a portion of this asset was determined to not be recoverable. During the three months ended June 30, 2019, we also recognized an impairment charge of \$705 on other fixed assets as it was more likely than not we would not realize the benefits of these assets over their remaining useful lives and a portion of these assets were determined to not be recoverable.

For the three months ended June 30, 2019, our operating lease costs and variable lease costs associated with the office lease were \$107 and \$74, respectively. For the six months ended June 30, 2019, our operating lease costs and variable lease costs associated with the office lease were \$214 and \$153, respectively. Our operating and variable lease costs are included within other general and administrative expenses in the accompanying consolidated statements of operations.

The annual minimum rent due pursuant to the office lease for each of the next five years and thereafter is estimated to be as follows as of June 30, 2019:

2019	\$	215
2020		438
2021		447
2022		456
2023		465
Thereafter		4,626
Total undiscounted payments		6,647
Less imputed interest		(3,664)
Total lease liability		<u>\$ 2,983</u>

The annual minimum rent due pursuant to the office lease for each of the next five years and thereafter is estimated to be as follows as of December 31, 2018:

2019	\$	479
2020		438
2021		447
2022		456
2023		465
Thereafter		4,626
Total	\$	<u>6,911</u>

NOTE 14: SUBSEQUENT EVENTS

We have evaluated subsequent events or transactions that have occurred after the consolidated balance sheet date of June 30, 2019, but prior to the filing of the consolidated financial statements with the SEC on this Quarterly Report on Form 10-Q. We have determined that, except as disclosed within this Note and other Notes, including, without limitation, Note 1: The Company, there are no subsequent events that require disclosure in this Quarterly Report on Form 10-Q.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**Forward-Looking Statements**

The Securities and Exchange Commission, or SEC, encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This report contains or incorporates by reference such "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Words such as "anticipates," "assumes," "estimates," "expects," "projects," "intends," "plans," "believes" and words and terms of similar substance used in connection with any discussion of future operating or financial results and performance identify forward-looking statements. Unless we have indicated otherwise, or the context otherwise requires, references in this report to "RAIT," "we," "us," and "our" or similar terms, are to RAIT Financial Trust and its subsidiaries.

We claim the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995 for these statements. These statements may be made directly in this report and they may also be incorporated by reference in this report to other documents filed with the SEC, and include, but are not limited to, statements about future financial and operating results and performance, statements about our strategies, plans, objectives, expectations and intentions with respect to future operations, products and services, and other statements that are not historical facts. These forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the anticipated results discussed in these forward-looking statements.

RAIT's forward-looking statements include, but are not limited to, statements regarding:

- the expected impact of confirmation and implementation of the Plan and consummation of a Sale on RAIT, including, without limitation, that such impact is expected to result in the sale of substantially all of RAIT's assets, and the subsequent distribution of such assets in accordance with the Plan and subsequent winding down of RAIT so that RAIT does not continue as a going concern;
- the agreements, bankruptcy filings and transactions described in Part I, Item 1, "Financial Statements —Note 1: The Company", including, without limitation, the Purchase Agreement, the RSAs, the Chapter 11 Cases, the Plan, the Disclosure Statement and the Bidding Procedures; and
- the ability of the Debtors to operate as a "debtor in possession" under the jurisdiction of the Bankruptcy Court.

Risks, uncertainties and contingencies that may affect the results expressed or implied by RAIT's forward-looking statements include, but are not limited to:

- whether RAIT or its affiliates will be able to obtain approval with respect to motions in the Chapter 11 Cases and the Bankruptcy Court's rulings in the Chapter 11 Cases and the outcome of the Chapter 11 Cases in general, including, without limitation, confirmation of the Plan and approval of utilizing cash to fund certain operations;
- whether the agreements, bankruptcy filings and transactions described in Part I, Item 1, "Financial Statements —Note 1: The Company" will be modified or otherwise changed due to actions by the Bankruptcy Court, third parties, the Debtors or otherwise;
- risks associated with third-party motions in the Chapter 11 Cases, which may interfere with RAIT and its affiliates' ability to develop and consummate the sale of the Purchased Assets;
- whether the closing conditions for the Purchase Agreement, any bid resulting from the Bidding Procedures, the RSAs, the Plan and other agreements and transactions described in Part I, Item 1, "Financial Statements —Note 1: The Company" will be satisfied or waived and the related transactions completed as provided therein;
- the Plan as proposed contemplates that, after confirmation of the Plan, RAIT will wind down its affairs and cease to be a going concern;
- the potential impact of the Bidding Procedures on the Chapter 11 Cases;
- the potential adverse effects of the Chapter 11 Cases on the Debtors' liquidity, results of operations and business prospects;
- increased legal, advisor and other costs related to the Chapter 11 Cases and other litigation and the inherent risks involved in a bankruptcy process;
- the effect of the Chapter 11 Cases on the trading price and value of RAIT securities;

- whether RAIT will be able to retain key members of its management team;
- the actions taken by any Plan Administrator appointed to implement the Plan after any confirmation;
- overall conditions in commercial real estate and the economy generally;
- changes in the expected yield of RAIT's investments;
- whether the amount of loan repayments will be at the level assumed;
- risks, disruption, costs and uncertainty caused by or related to the any legal proceedings initiated by third parties against RAIT, its affiliates, trustees, officers and/or advisors; and
- other factors described in the 2018 Annual Report, this Quarterly Report on Form 10-Q and RAIT's other filings with the SEC.

The risk factors discussed and identified in Item 1A of the 2018 Annual Report, elsewhere in this Quarterly Report on Form 10-Q and in other of our public filings with the SEC, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events.

Overview

We are an internally-managed Maryland real estate investment trust, or REIT, focused on managing a portfolio of commercial real estate (CRE) loans and properties.

We incorporate the disclosure in Part I, Item 1, “Financial Statements —Note 1: The Company” by reference herein. RAIT expects that the Sellers will sell substantially all of its assets in the Sale (which may be to the Buyer pursuant to the Purchase Agreement) and the Plan Administrator will distribute RAIT’s assets in accordance with the Plan and proceed with winding down RAIT’s business so that RAIT does not continue as a going concern. As part of this winding down, RAIT and TRFT may choose to terminate their respective REIT status.

Other developments related to our financial performance that occurred during the three and six months ended June 30, 2019 included the following:

- For the six months ended June 30, 2019, RAIT monetized certain loans and real estate assets in the aggregate amount of \$6.5 million. These monetizations include sales of real estate assets and repayments of loans. After selling costs and repayment of obligations secured by those assets of \$4.3 million, RAIT received net proceeds of \$2.2 million.
- RAIT’s cash and cash equivalents balance as of June 30, 2019 was \$46.7 million.
- RAIT’s compensation & general and administrative expenses were \$11.3 million for the six months ended June 30, 2019 as compared to \$16.5 million for the six months ended June 30, 2018. The six months ended June 30, 2019 includes additional legal and consulting expenses related to the resumed strategic and financial alternatives review. The six months ended June 30, 2018 included significant legal and consulting expenses in connection with the previous strategic alternatives process and implementation of the 2018 strategic steps.

During the three months ended June 30, 2019, we generated GAAP net income (loss) allocable to common shares of \$(4.2) million, or \$(2.30) per common share-diluted, as compared to \$(50.2) million, or \$(27.26) per common share-diluted, during the three months ended June 30, 2018.

Chapter 11 Bankruptcy Matters

We incorporate the disclosure in Part I, Item 1, “Financial Statements —Note 1: The Company” by reference herein. The Plan, the Disclosure Statement and the Bidding Procedures Order are attached to this report as Exhibit 2.1, Exhibit 2.2 and Exhibit 2.3, respectively and are incorporated by reference herein. Court filings and other information related to the Chapter 11 Cases are available at a website administered by the Debtors’ noticing and claims agent, Epiq Corporate Restructuring, LLC, at <https://dm.epiq11.com/rait>, or www.deb.uscourts.gov, the official Bankruptcy Court website. Information on such websites is not incorporated by reference herein.

The Plan, as currently proposed, provides for the ultimate wind down of RAIT’s affairs, if the Plan, as currently proposed, is confirmed by the Bankruptcy Court and thereafter implemented by the Plan Administrator. RAIT is expected to sell substantially all of its assets in the Sale (which may be to the Buyer pursuant to the Purchase Agreement) and the Plan Administrator will then distribute RAIT’s assets in accordance with the Plan and proceed with winding down RAIT’s business so that RAIT does not continue as a going concern. Subject to the conditions and qualifiers and the disclosure set forth in the Plan and the Disclosure Statement, RAIT expects the Plan as currently proposed to result in the following:

- full payment of administrative, secured and priority claims;
- full payment of Senior Notes claims;
- full payment of general unsecured claims;
- partial payments on the 2037 Note and the 2035 Note claims in accordance with their respective RSAs; and
- no payment on preferred share or common share claims and the cancellation thereof.

The Plan is based upon the proceeds that are expected to be generated under the Purchase Agreement and is consistent with the RSAs entered into with the RSA Counterparties. If the transactions contemplated by the Purchase Agreement are not consummated pursuant to its terms or other alternative transactions are not successfully implemented, the proposed plan of reorganization may be materially and adversely affected. If the Debtors receive a higher and otherwise better bid pursuant to the Bidding Procedures approved in the Bidding Procedures Order, the Debtors would expect to accept that bid instead. If a higher and better bid were accepted as an alternative to a sale under the Purchase Agreement, that would trigger obligations to pay break-up fees and reimburse expenses as provided in the Bidding Procedures Order. RAIT approached many third parties soliciting possible strategic transactions

with RAIT in the course of the 2018 Strategic Steps and the most recent process which culminated with the Purchase Agreement, and continues to solicit bids as part of the Bidding Procedures; however, RAIT cannot provide any assurances that a higher and otherwise better bid will be received.

Going Concern Considerations

Please see Part I, Item 1, “Financial Statements —Note 2: Summary of Significant Accounting Policies—Going Concern Considerations” and Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources” for a discussion of going concern considerations.

Commitments and Contingencies

Please see Part I, Item 1, “Financial Statements —Note 13: Commitments and Contingencies” for a description of litigation and certain other possible events that could have a significant impact on our future operating results. As further described therein, in May 2019, we received to a \$9.0 million settlement related to an ongoing litigation matter. This settlement will be recorded as a recovery of amounts previously charged off during the second quarter of 2019.

Trends That May Affect our Business

The following trends may affect our business:

Impact of Chapter 11 Cases. See “Chapter 11 Bankruptcy Matters” above for a description of our expectations as to the impact on RAIT of the Chapter 11 Cases.

Impact of Transactions Contemplated by Purchase Agreement and the Bidding Procedures. We expect that the transactions contemplated by the Purchase Agreement, or any alternative developed as a result of the Bidding Procedures, will result in the sale of substantially all of our assets.

In addition, investors should read Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2018 Annual Report for discussion of the following items:

- Impact of the evolution of our business strategy.
- Trends relating to capital markets.
- Trends relating to investments in loans.
- Trends relating to investments in real estate.
- Interest rate environment.
- Prepayment rates.
- Increasing credit risk in our investment portfolio.

CRE Lending

RAIT’s CRE lending platform previously focused on the origination of first lien loans. We historically also offered mezzanine loans and preferred equity interests in limited circumstances to support first lien loans. These represent a smaller portion of our CRE loan portfolio. Our mezzanine loans are subordinate in repayment priority to a senior mortgage loan or loans on a property and are typically secured by pledges of ownership interests, in whole or in part, in the entities that own the real property. We generate a return on our preferred equity investments primarily through distributions to us at a fixed rate and the payment of distributions are subject to there being sufficient net cash flow from the underlying real estate to make such payments. We used this investment structure as an alternative to a mezzanine loan where the financial needs and tax situation of the borrower, the terms of senior financing secured by the underlying real estate or other circumstances necessitate holding preferred equity. Our CRE loans are in most cases non-recourse or limited recourse loans secured by commercial real estate assets or real estate entities. This means that we look primarily to the assets securing the loan for repayment, subject to certain standard exceptions. Where possible, we sought to maintain direct lending relationships with borrowers, as opposed to investing in loans controlled by third-party lenders.

Prior to our suspension of originating new loans in February 2018, our financing strategy involved the use of multiple sources of short-term financing to originate assets including warehouse facilities, repurchase agreements and bank conduit facilities. Our ultimate goal was to finance these investments on a long-term, non-recourse, match-funded basis or to sell these assets into CMBS securitizations. Match funding enabled us to match the interest rates and maturities of our assets with the interest rates and maturities of our financing, thereby reducing interest rate risk and funding risks in financing our portfolio on a long-term basis.

During the six months ended June 30, 2019, we received CRE loan repayments of \$120.1 million.

The tables below describe certain characteristics of our held-for-investment commercial mortgage loans, mezzanine loans, and preferred equity interests as of June 30, 2019 (dollars in thousands):

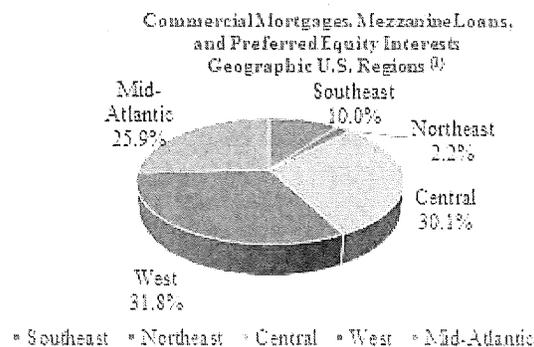
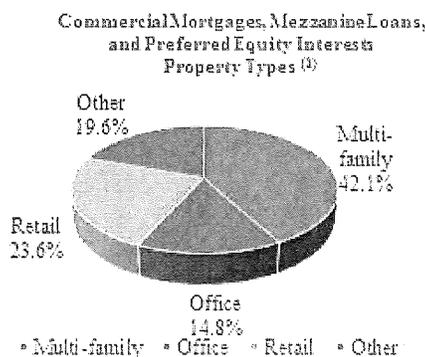
	<u>Carrying Value</u>	<u>Weighted-Average Coupon</u>	<u>Range of Maturities</u>	<u>Number of Loans</u>
Commercial Real Estate (CRE) Loans				
Commercial mortgage loans	\$ 331,979	6.8%	Jul. 2019 to Jun. 2025	25
Mezzanine loans	21,278	13.3%	Jun. 2020 to Mar. 2023	3
Preferred equity interests	28,452	5.9%	Mar. 2023 to Jun. 2029	13
Total investments in loans	<u>\$ 381,709</u>	<u>7.1%</u>		<u>41</u>

Certain of our commercial mortgage loans, mezzanine loans and preferred equity interests permanently provide for the accrual of interest at specified rates which differ from current payment terms. We refer to these loans as cash flow loans. Although a cash flow loan accrues interest at a stated rate, pursuant to forbearance or other agreements, the borrower is only required to pay interest each month at a minimum rate, which may be as low as zero percent, plus additional interest up to the stated rate to the extent of all cash flow from the property underlying the loan after the payment of property operating expenses and, if applicable, any senior debt service. Please see Part I, Item 1, “Financial Statements—Note 2: Summary of Significant Accounting Policies—Revenue Recognition” for further information on these loans. As of June 30, 2019, we held investments we characterized as cash flow loans, with a recorded investment (including accrued interest) of \$67.2 million comprised of preferred equity interests totaling \$33.9 million, bridge loans totaling \$5.3 million and mezzanine loans totaling \$28.0 million.

As of June 30, 2019, our nonaccrual loans total \$72.4 million, which is comparable to the \$93.0 million of nonaccrual loans as of December 31, 2018. As of June 30, 2019, we had a loan loss reserve of \$20.1 million, representing 27.8% of our nonaccrual loans and 5.3% of our total CRE loan portfolio. During the six months ended June 30, 2019, we recognized a benefit for loan losses of \$10,092, which was primarily driven by a settlement payment received on a loan that was previously charged off. See Part I, Item 1, “Financial Statements – Note 13: Commitments and Contingencies” for further information on this settlement.

We historically financed our consolidated CRE loans on a long-term basis through securitizations. See Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Securitization Summary” for more information about our securitizations.

The charts below describe the property types and the geographic breakdown of our commercial mortgage loans, mezzanine loans, and preferred equity interests as of June 30, 2019:



(1) Based on carrying amount.

REO Portfolio

As of June 30, 2019, our real estate portfolio had an aggregate gross cost (carrying value) of \$124.3 million (\$113.6 million), comprised of \$49.0 million (\$39.6 million) of office properties, \$56.6 million (\$55.2 million) of retail properties and \$18.7 million (\$18.7 million) of land.

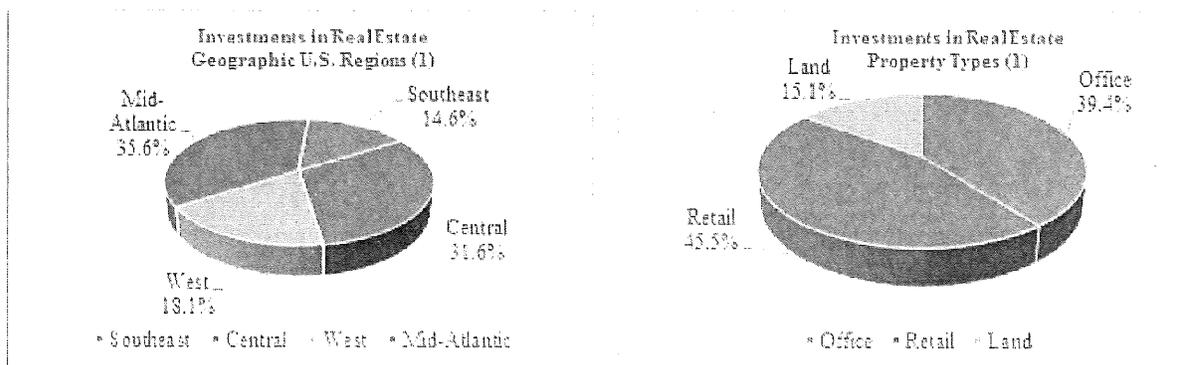
We historically financed our portfolio of investments in commercial real estate through secured commercial mortgage loans held by either third-party lenders or our commercial real estate securitizations.

The table below describes certain characteristics of our REO Portfolio as of June 30, 2019 (dollars in thousands).

	Investments in Real Estate (1)	Average Physical Occupancy	Units/ Square Feet/ Acres	Number of Properties
Office real estate properties	\$ 49,027	84.1%	349,999	3
Retail real estate properties	56,556	58.0%	588,974	4
Parcels of land	18,744	N/A	9.2	4
Total	<u>\$ 124,327</u>	—		<u>11</u>

(1) Based on properties owned as of June 30, 2019.

The charts below describe the property types and the geographic breakdown of our investments in real estate as of June 30, 2019:



(1) Based on gross cost.

Securitization Summary

Overview. We have used securitizations to match fund the interest rates and maturities of our assets with the interest rates and maturities of the related financing. A securitization is a structure in which multiple classes of debt and equity are issued by a special purpose entity to finance a portfolio of assets. Cash flow from the portfolio of assets is used to repay the securitization liabilities sequentially, in order of seniority. The most senior classes of debt typically have credit ratings of “AAA” through “BBB-” and therefore can be issued at yields that are lower than the average yield of the loans collateralizing the securitization. The debt tranches are typically rated based on portfolio quality, diversification and structural subordination. The equity securities issued by the securitization are the “first loss” piece of the capital structure, but they are entitled to all residual amounts available for payment after the obligations to the debt holders have been satisfied. Historically, the stated maturity of the debt issued by a securitization we have sponsored and consolidated has been between 15 and 19 years for our FL securitizations and approximately 40 years for RAIT I. Debt issued by these securitizations is non-recourse to RAIT and payable solely from the payments by the borrowers on the loans collateralizing these securitizations. These assets are in most cases “non-recourse” or limited recourse loans secured by commercial real estate assets or real estate entities. This means that we look primarily to the assets securing the loan for repayment, subject to certain standard exceptions.

As of June 30, 2019, we had sponsored three outstanding securitizations with varying amounts of retained or residual interests held by us which we consolidate in our financial statements as follows: RAIT I, RAIT 2017-FL7 Trust, or RAIT-FL7 and RAIT 2017-FL8 Trust, or RAIT-FL8. We refer to RAIT FL7 and RAIT FL8 as the FL securitizations. We previously exercised our rights and unwound five other securitizations we had sponsored, RAIT 2013-FL1 Trust, or RAIT FL1, in 2015, RAIT 2014-FL2 Trust, or RAIT FL2, in 2016, RAIT 2014-FL3 Trust, or RAIT FL3, and RAIT 2015-FL4 Trust, or RAIT FL4, in 2017, and RAIT Preferred Funding II, Ltd., or RAIT II, in December 2018. During the year ended December 31, 2018, we deconsolidated RAIT 2015-FL5 Trust or RAIT FL5 and RAIT 2016-FL6 Trust or RAIT FL6, as previously reported in the 2018 Annual Report. We previously exercised our rights and unwound a legacy securitization we had sponsored, RAIT Preferred Funding II, Ltd., or RAIT II, in December 2018. We originated substantially all the loans collateralizing RAIT I and the FL securitizations. We serve as the collateral manager, servicer and special servicer on RAIT I and as servicer and special servicer for each of the FL securitizations.

Securitization Performance. RAIT I contains interest coverage triggers, or IC triggers, and over collateralization triggers, or OC triggers. If the IC triggers or OC triggers are not met in a given period, then the cash flows are redirected from lower rated tranches and used to repay the principal amounts to the senior tranches of CDO notes payable. These conditions and the re-direction of cash flow continue until the triggers are met by curing the underlying cause of the IC trigger or OC trigger failure, which may include curing payment defaults, paying down the CDO notes payable, or other actions permitted under the relevant securitization indenture. Since January 2019, the Class F/G/H OC test for RAIT I has not been met. As a result, certain interest payments that would have otherwise been distributed to the Class J notes and equity, which are owned by us, are instead being redirected to pay principal on the most senior class of CDO notes payable that are outstanding. In October 2019, Class F/G/H IC test was not met. This failure resulted in no incremental impact to the interest payment waterfall. The failure of these tests does not represent an event of default under the RAIT I securitization indenture. All other applicable IC triggers and OC triggers continue to be met for RAIT I. The FL securitizations do not have IC triggers or OC triggers.

Repayment of the loans collateralizing RAIT I outside their contractual maturities is expected to be slower than 2018 levels for the foreseeable future.

If the CDO notes issued by RAIT I have not been redeemed in full prior to the distribution date occurring in November 2019, then an auction of the collateral assets of RAIT I will continue to be conducted by the trustee periodically thereafter and, if certain conditions set forth in the indenture are satisfied, such collateral assets will be sold at the auction and the CDO notes will be redeemed, in whole, but not in part, on such distribution date. Twelve auctions for RAIT I have been held but no sales occurred as not all of the conditions precedent were satisfied.

In March 2018, DBRS announced that it had placed all classes of the floating rate notes issued by RAIT FL5, RAIT FL6 and RAIT FL8 under review with negative implications.

A summary of the investments in our consolidated securitizations as of the most recent payment information is as follows:

Our Legacy Securitization

- *RAIT I*—RAIT I has \$157.1 million of total collateral at par value, of which \$36.2 million is defaulted. The current Class F/G/H OC test is failing at 100.2% with an OC trigger of 116.2%. The current Class C/D/E OC test is passing at 128.9% with an OC trigger of 123.0%. The current Class A/B OC test is passing at 519.7% with an OC trigger of 136.1%. The current Class F/G/H IC test is failing at 98.2% with an OC trigger of 120.0%. The current Class C/D/E IC test is passing at 141.0% with an OC trigger of 140.0%. The current Class A/B IC test is passing at 607.4% with an OC trigger of 160.0%. Except with respect to the OC and IC test failures set forth herein, all of the notes issued by this securitization are performing in accordance with their terms. We currently own \$38.9 million of the securities that were originally rated investment grade and \$165.0 million of the non-investment grade securities issued by this securitization. Except for any interest being re-directed to more senior classes of notes as a result of the Class F/G/H OC and IC test failures referenced above, we are currently receiving all distributions required by the terms of our retained interests in this securitization and are receiving all of our collateral management fees. We pledged \$24.0 million of the securities we own issued by RAIT I as collateral for the junior subordinated note, at fair value, we issued.

Our Floating Rate CMBS Securitizations

- *RAIT FL7*—RAIT FL7 has \$123.6 million of total collateral at par value, none of which is in default. RAIT FL7 does not have OC triggers or IC triggers. RAIT FL7, has classes of investment grade senior notes with an aggregate principal balance outstanding of approximately \$58.1 million to investors. We currently own the less than investment grade classes of junior notes, including a class with an aggregate principal balance of \$65.5 million, and the equity, or the retained interests, of RAIT FL7.
- *RAIT FL8*—RAIT FL8 has \$110.8 million of total collateral at par value, none of which is in default. RAIT FL8, has classes of investment grade senior notes with an aggregate principal balance outstanding of approximately \$66.6 million to investors. We currently own the less than investment grade classes of junior notes, including a class with an aggregate principal balance of \$44.2 million, and the equity, or the retained interests, of RAIT FL8.

The below table summarizes the current outstanding balances in our consolidated securitizations as of the most recent payment date:

(\$ in millions)	<u>RAIT I</u>	<u>FL 7</u>	<u>FL 8</u>
Total Collateral Outstanding (Par)	\$ 157.1	\$ 123.6	\$ 110.8
Total Bonds Outstanding (Par)	\$ 175.0	\$ 123.6	\$ 110.8
Bonds Held by 3rd Parties Outstanding (Par)	\$ 99.8	\$ 58.1	\$ 66.6
RAIT Investment Grade Bond Ownership (Par) (1) (2)	\$ 39.0	\$ -	\$ -
RAIT Below Investment Grade Bond Ownership (Par) (1) (3)	\$ 36.5	\$ 65.5	\$ 44.2
RAIT Equity Interest Ownership (Par)	\$ 165.0	\$ -	\$ -

(1) Investment grade and below investment grade determinations made based upon ratings of bonds upon their issuance.

(2) RAIT ownership of RAIT I investment grade bonds is as follows: \$1.2 million of Class B, \$2.2 million of Class C, \$2.5 million of Class D, \$9.0 million of Class E, \$0.5 million of Class F, \$12.5 million of Class G, and \$11.0 million of Class H.

(3) RAIT ownership of RAIT I below investment grade bonds is as follows: \$36.5 million of Class J.

Impact of the Chapter 11 Cases on our Securitizations. None of issuers of RAIT I, RAIT FL7 or RAIT FL8 are Debtors subject to the Chapter 11 Cases and the assets collateralizing each of these securitizations are expected to continue to be available to fund payments on the notes and equity issued by these securitizations in accordance with their respective terms. The Purchase Agreement currently contemplates that RAIT's retained interests in these securitizations would be directly or indirectly transferred to the Buyer and that the Buyer would acquire RAIT Partnership which serves as the collateral manager, servicer and special servicer for RAIT I and as the servicer and special servicer for RAIT FL7 and RAIT FL8. As a result, once the Transactions are completed, RAIT will not consolidate or have any interests in these securitizations.

Results of Operations

Three Months Ended June 30, 2019 Compared to the Three Months Ended June 30, 2018

The following table sets forth information regarding our consolidated results of operations for the three months ended June 30, 2019 and 2018.

	For the Three Months Ended June 30,			
	2019	2018	\$ Variance	% Variance
Revenue:				
Investment interest income	\$ 6,063	\$ 16,324	\$ (10,261)	-63%
Investment interest expense	(3,727)	(9,590)	5,863	-61%
Net interest margin	2,336	6,734	(4,398)	-65%
Property income	3,323	8,666	(5,343)	-62%
Fee and other income	99	1,153	(1,054)	-91%
Total revenue	5,758	16,553	(10,795)	-65%
Expenses:				
Interest expense	3,966	6,356	(2,390)	-38%
Real estate operating expense	1,713	5,402	(3,689)	-68%
Property management expenses	-	1,739	(1,739)	-100%
General and administrative expenses:				
Compensation expense	1,976	3,113	(1,137)	-37%
General and administrative expense	3,637	4,085	(448)	-11%
Total general and administrative expenses	5,613	7,198	(1,585)	-22%
Acquisition and integration expenses	-	-	-	N/M
Provision (benefit) for loan losses	(9,509)	14,748	(24,257)	-164%
Depreciation and amortization expense	1,295	2,887	(1,592)	-55%
Total expenses	3,078	38,330	(35,252)	-92%
Operating (Loss) Income	2,680	(21,777)	24,457	-112%
Interest and other income (expense), net	254	94	160	170%
Gains (losses) on assets	1,230	(3,211)	4,441	-138%
Gains (losses) on deconsolidation of VIEs	-	(8,177)	8,177	-100%
Gains (losses) on extinguishments of debt	(346)	(2,438)	2,092	-86%
Asset impairment	(2,781)	(21,625)	18,844	-87%
Change in fair value of financial instruments	(210)	111	(321)	-289%
Income (loss) before taxes	827	(57,023)	57,850	-101%
Income tax benefit (provision)	-	-	-	N/M
Net income (loss)	827	(57,023)	57,850	-101%
(Income) loss allocated to preferred shares	(5,071)	6,861	(11,932)	-174%
Net income (loss) allocable to common shares	<u>\$ (4,244)</u>	<u>\$ (50,162)</u>	<u>\$ 45,918</u>	-92%

Revenue

Net interest margin. Net interest margin decreased \$4.4 million, or 65%, to \$2.3 million for the three months ended June 30, 2019 from \$6.7 million for the three months ended June 30, 2018. The decrease was primarily attributable to the deconsolidation of \$266.5 million of loans due to the sale of our interests in RAIT FL5 and RAIT FL6 on June 27, 2018 and the \$341.3 million of loan repayments and sales, partially offset by repayments of related indebtedness, since June 30, 2018.

Property income. Property income decreased \$5.3 million, or 62%, to \$3.3 million for the three months ended June 30, 2019 from \$8.7 million for the three months ended June 30, 2018. The decrease is primarily attributable to the sale or divestiture of 7 properties since June 30, 2018.

Fee and other income. Fee and other income decreased \$1.1 million, or 91%, to \$0.1 million for the three months ended June 30, 2019 from \$1.2 million for the three months ended June 30, 2018. The decrease is primarily attributable to no property management fees being earned during the three months ended June 30, 2019 as we sold our retail property management subsidiary in August 2018.

Expenses

Interest expense. Interest expense decreased \$2.4 million, or 38%, to \$4.0 million for the three months ended June 30, 2019 from \$6.4 million for the three months ended June 30, 2018. The decrease is mainly attributable to \$81.6 million of recourse debt reductions since June 30, 2018.

Real estate operating expense. Real estate operating expense decreased \$3.7 million, or 68%, to \$1.7 million for the three months ended June 30, 2019 from \$5.4 million for the three months ended June 30, 2018. The decrease is primarily attributable to the sale or divestiture of 7 properties since June 30, 2018.

Property management expense. Property management expense decreased \$1.7 million, or 100%, to \$0.0 million for the three months ended June 30, 2019 from \$1.7 million for the three months ended June 30, 2018. The decrease is primarily attributable to no property management expenses being incurred during the three months ended June 30, 2019 as we sold our retail property management subsidiary in August 2018.

Compensation expense. Compensation expense decreased \$1.1 million, or 37%, to \$2.0 million for the three months ended June 30, 2019 from \$3.1 million for the three months ended June 30, 2018. The primary driver of the decrease was a decrease in the number of employees.

General and administrative expense. General and administrative expense decreased \$0.5 million, or 11%, to \$3.6 million for the three months ended June 30, 2019 from \$4.1 million for the three months ended June 30, 2018. This is primarily due to a decrease in consulting fees.

Provision (benefit) for loan losses. Provision for loan losses decreased \$24.3 million, or 164%, to a benefit of \$9.5 million for the three months ended June 30, 2019 from a provision of \$14.7 million for the three months ended June 30, 2018. During the three months ended June 30, 2019, the benefit for loan losses was primarily driven by a \$9 million settlement payment received on a loan that was previously charged off.

Depreciation and amortization expense. Depreciation and amortization expense decreased \$1.6 million, or 55%, to \$1.3 million for the three months ended June 30, 2019 from \$2.9 million for the three months ended June 30, 2018. The decrease is primarily attributable to the sale or divestiture of 7 properties since June 30, 2018.

Other income (expense)

Interest and other income (expense). Interest and other income (expense) increased \$0.2 million, or 170%, to \$0.3 million for the three months ended June 30, 2019 from \$0.1 million for the three months ended June 30, 2018. The increase was mainly attributable to interest income earned on excess cash.

Gains (losses) on assets. During the three months ended June 30, 2019, we recognized a \$1.2 million gain on assets. This includes a \$0.9 million gain on the sale of one retail property and a \$0.3 million gain on loans held for sale, which are measured at the lower of cost or fair value.

Gains (losses) on extinguishment of debt. During the three months ended June 30, 2019, we recognized a loss on extinguishment of debt of \$0.3 million due to the write-off of the unamortized deferred financing costs associated with indebtedness that was repaid during the three months ended June 30, 2019.

Asset impairment. During the three months ended June 30, 2019, we recognized asset impairment charges of \$2.8 million related to our operating lease assets and other fixed assets as it was determined we would not realize the benefits of these assets over their remaining terms and useful lives and a portion of these assets was determined to not be recoverable.

Change in fair value of financial instruments. During the three months ended June 30, 2019, the change in fair value of financial instruments decreased our net income by \$0.2 million. The fair value adjustments we recorded were as follows (dollars in thousands):

Description	For the Three Months Ended June 30, 2019	For the Three Months Ended June 30, 2018
Change in fair value of junior subordinated notes	\$ (210)	\$ (77)
Change in fair value of derivatives	—	188
Change in fair value of financial instruments	\$ (210)	\$ 111

The changes in the fair value for the junior subordinated notes for which the fair value option was elected for the three months ended June 30, 2019 and 2018 was primarily attributable to changes in interest rates.

Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2018

The following table sets forth information regarding our consolidated results of operations for the six months ended June 30, 2019 and 2018.

	For the Six Months Ended June 30,			
	2019	2018	\$ Variance	% Variance
Revenue:				
Investment interest income	\$ 12,984	\$ 35,189	\$ (22,205)	-63%
Investment interest expense	(7,890)	(20,139)	12,249	-61%
Net interest margin	5,094	15,050	(9,956)	-66%
Property income	6,630	17,482	(10,852)	-62%
Fee and other income	187	2,362	(2,175)	-92%
Total revenue	11,911	34,894	(22,983)	-66%
Expenses:				
Interest expense	7,962	13,127	(5,165)	-39%
Real estate operating expense	3,716	11,192	(7,476)	-67%
Property management expenses	-	3,670	(3,670)	-100%
General and administrative expenses:				
Compensation expense	4,205	6,038	(1,833)	-30%
General and administrative expense	7,088	10,423	(3,335)	-32%
Total general and administrative expenses	11,293	16,461	(5,168)	-31%
Acquisition and integration expenses	-	133	(133)	-100%
Provision (benefit) for loan losses	(10,092)	22,780	(32,872)	-144%
Depreciation and amortization expense	2,679	6,330	(3,651)	-58%
Total expenses	15,558	73,693	(58,135)	-79%
Operating (Loss) Income	(3,647)	(38,799)	35,152	-91%
Interest and other income (expense), net	358	443	(85)	-19%
Gains on assets	1,533	(4,148)	5,681	-137%
Gains (losses) on deconsolidation of properties and VIEs	-	(8,177)	8,177	-100%
Gains (losses) on extinguishments of debt	(631)	(3,429)	2,798	-82%
Asset impairment	(2,807)	(30,816)	28,009	-91%
Change in fair value of financial instruments	(180)	198	(378)	-191%
Income (loss) before taxes	(5,374)	(84,728)	79,354	-94%
Income tax benefit (provision)	-	-	-	N/M
Net income (loss)	(5,374)	(84,728)	79,354	-94%
(Income) loss allocated to preferred shares	(10,134)	472	(10,606)	-2247%
Net income (loss) allocable to common shares	<u>\$ (15,508)</u>	<u>\$ (84,256)</u>	<u>\$ 68,748</u>	-82%

Revenue

Net interest margin. Net interest margin decreased \$10.0 million, or 66%, to \$5.1 million for the six months ended June 30, 2019 from \$15.1 million for the six months ended June 30, 2018. The decrease was primarily attributable to the deconsolidation of \$266.5 million of loans due to the sale of our interest in RAIT FL5 and RAIT FL6 on June 27, 2018 and the \$341.3 million of loan repayments and sales, partially offset by repayments of related indebtedness, since June 30, 2018.

Property income. Property income decreased \$10.9 million, or 62%, to \$6.6 million for the six months ended June 30, 2019 from \$17.5 million for the six months ended June 30, 2018. The decrease is primarily attributable to the sale or divestiture of 7 properties since June 30, 2018.

Fee and other income. Fee and other income decreased \$2.2 million or 92%, to \$0.2 million for the six months ended June 30, 2019 from \$2.4 million for the six months ended June 30, 2018. The decrease is primarily attributable to no property management fees being earned during the six months ended June 30, 2019 as we sold our retail property management subsidiary in August 2018.

Expenses

Interest expense. Interest expense decreased \$5.2 million, or 39%, to \$8.0 million for the six months ended June 30, 2019 from \$13.1 million for the six months ended June 30, 2018. The decrease is mainly attributable to \$81.6 million of recourse debt reductions since June 30, 2018.

Real estate operating expense. Real estate operating expense decreased \$7.5 million, or 67%, to \$3.7 million for the six months ended June 30, 2019 from \$11.2 million for the six months ended June 30, 2018. The decrease is primarily attributable to the sale or divestiture of 7 properties since June 30, 2018.

Property management expense. Property management expense decreased \$3.7 million, or 100% to \$0.0 million for the six months ended June 30, 2019 from \$3.7 million for the six months ended June 30, 2018. The decrease is primarily attributable to no property management expenses being incurred during the six months ended June 30, 2019 as we sold our retail property management subsidiary in August 2018.

Compensation expense. Compensation expense decreased \$1.8 million, or 30%, to \$4.2 million for the six months ended June 30, 2019 from \$6.0 million for the six months ended June 30, 2018. The primary driver of the decrease was a decrease in the number of employees.

General and administrative expense. General and administrative expense decreased \$3.3 million, or 32%, to \$7.1 million for the six months ended June 30, 2019 from \$10.4 million for the six months ended June 30, 2018. This is primarily due to a decrease in legal and consulting fees.

Provision (benefit) for loan losses. Provision for loan losses decreased \$32.9 million, or 144%, for the six months ended June 30, 2019 from a provision of \$22.8 million for the six months ended June 30, 2018 to a benefit of \$10.1 million for the six months ended June 30, 2019. During the six months ended June 30, 2019, the benefit for loan losses was primarily driven by a \$9 million settlement payment received on a loan that was previously charged off.

Depreciation and amortization expense. Depreciation and amortization expense decreased \$3.7 million, or 58%, to \$2.7 million for the six months ended June 30, 2019 from \$6.3 million for the six months ended June 30, 2018. The decrease is primarily attributable to the sale or divestiture of 7 properties since June 30, 2018.

Other income (expense)

Interest and other income (expense). Interest and other income expense decreased \$0.1 million, or 19%, to \$0.3 million for the three months ended June 30, 2019 from \$0.4 million for the three months ended June 30, 2018.

Gains (losses) on assets. During the six months ended June 30, 2019, we recognized a \$1.5 million gain on assets. This includes a \$0.9 million gain on the sale of one retail property and a \$0.6 million gain on loans held for sale, which are measured at the lower of cost or fair value.

Gains (losses) on extinguishment of debt. During the six months ended June 30, 2019, we recognized a loss on extinguishment of debt of \$0.6 million due to the write-off of the unamortized deferred financing costs associated with indebtedness that was repaid during the three months ended June 30, 2019.

Asset impairment. During the three months ended June 30, 2019, we recognized asset impairment charges of \$2.8 million primarily related to our operating lease assets and other fixed assets as it was determined we would not realize the benefits of these assets over their remaining terms and useful lives and a portion of these assets was determined to not be recoverable.

Change in fair value of financial instruments. During the six months ended June 30, 2019, the change in fair value of financial instruments decreased our net income by \$0.2 million. The fair value adjustments we recorded were as follows (dollars in thousands):

Description	For the Six Months Ended June 30, 2019	For the Six Months Ended June 30, 2018
Change in fair value of junior subordinated notes	\$ (180)	\$ (272)
Change in fair value of derivatives	—	470
Change in fair value of financial instruments	\$ (180)	\$ 198

The changes in the fair value for the junior subordinated notes for which the fair value option was elected for the six months ended June 30, 2019 and 2018 was primarily attributable to changes in interest rates.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay dividends and other general business needs.

Our primary cash requirements are as follows:

- to pay claims in accordance with orders of the Bankruptcy Court and the terms of the Plan, once confirmed;
- to pay any post-petition liabilities of the Debtors;
- to pay our expenses and any other liabilities, including compensation to our employees and fees to our legal and financial advisors;
- to pay U.S. federal, state, and local taxes of our taxable REIT subsidiaries; and
- to distribute a minimum of 90% of our REIT taxable income and to make investments in a manner that enables us to maintain our qualification as a REIT.

We intend to meet these liquidity requirements primarily through the following:

- the use of proceeds received from the sale of substantially all our assets under the Purchase Agreement or any alternative bid accepted under the Bidding Procedures, including our cash and cash equivalents; and
- cash generated from operating activities, including net investment income from our investment portfolio.

The financial statements included in this report have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and other commitments in the normal course of business. As described in Part I, Item 1, “Financial Statements —Note 2: Summary of Significant Accounting Policies—Going Concern Considerations”, there is substantial doubt about our ability to continue to operate as a going concern.

In evaluating RAIT’s potential cash requirements over the next 12 months, management considered the impacts of the Chapter 11 Cases, including the Events of Default described in Part I, Item 1, “Financial Statements —Note 1: The Company”, and RAIT’s recurring costs of operations. As described in Part I, Item 1, “Financial Statements —Note 1: The Company”, the filing of the Chapter 11 Cases with the Bankruptcy Court triggered the Bankruptcy Events of Default and, each of the Debt Instruments provides that upon the occurrence of such an Event of Default, all obligations of RAIT and/or its applicable affiliates thereunder were accelerated and the principal and accrued interest due thereunder was automatically and immediately due and payable and any efforts to enforce such payment obligations under the Debt Instruments are automatically stayed and the respective creditors’ rights of enforcement in respect of the Debt Instruments are limited. As of the date hereof, RAIT and/or its applicable affiliates had (i) \$65.4 million principal amount of 7.125% Senior Notes outstanding, (ii) \$56.3 million principal amount of 7.625% Senior Notes outstanding, (iii) \$25.1 million principal amount of the 2037 Note outstanding, and (iv) \$18.7 million principal amount of the 2035 Note outstanding. Furthermore, RAIT’s failure to pay the principal amount of 7.125% Senior Notes by their maturity date on August 30, 2019 constituted an Event of Default under the Supplemental Indenture.

RAIT’s current sources of liquidity, including its current cash and cash equivalents balance, are not sufficient to satisfy RAIT’s obligations arising over the next twelve months. RAIT expects to sell substantially all of its assets pursuant to the Purchase Agreement under Section 363 of the Bankruptcy Code and the Bidding Procedures Order for a purchase price of \$174.4 million, adjusted as contemplated by the Purchase Agreement, including the assumption of certain liabilities. RAIT’s proposed Plan provides for the ultimate wind down of RAIT’s affairs once the transactions contemplated by the Purchase Agreement and the Bidding Procedures are completed and the Plan is confirmed by the Bankruptcy Court.

Due to the inherent risks and significant uncertainties associated with the completion of the transactions under the Purchase Agreement, the Plan, the Chapter 11 Cases, and RAIT's recurring costs of operations over the next twelve months, there is substantial doubt about RAIT's ability to continue as a going concern within one year after the date that these financial statements are issued.

Cash Flows

As of June 30, 2019, and 2018, we maintained cash and cash equivalents of approximately \$46.7 million and \$72.2 million, respectively, and restricted cash of approximately \$29.3 million and \$113.1 million, respectively. Our cash and cash equivalents and restricted cash were generated from the following activities (dollars in thousands):

	<u>For the Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Cash flow from operating activities	\$ (8,040)	\$ 27,721
Cash flow from investing activities	119,897	254,289
Cash flow from financing activities	(141,390)	(307,989)
Net change in cash, cash equivalents and restricted cash	(29,533)	(25,979)
Cash, cash equivalents and restricted cash at beginning of year	105,520	211,294
Cash, cash equivalents and restricted cash at end of year	<u>\$ 75,987</u>	<u>\$ 185,315</u>

Cash flow from operating activities for the six months ended June 30, 2019, as compared to the same period in 2018, decreased \$35.8 million primarily due to proceeds received from the sale of loans during the six months ended June 30, 2018 while no such proceeds were received during the six months ended June 30, 2019, and lower earnings during the six months ended June 30, 2019 as a result of lower loan volumes and the timing of payments for various accounts payable, accrued expenses and other liabilities.

The cash inflow for investing activities for the six months ended June 30, 2019 was substantially due to loan repayments of \$122.6 million. The cash inflow for investing activities for the six months ended June 30, 2018 was substantially due to loan repayments of \$170.0 million, loan sales of \$108.5 million, and sale of floating rate securitization interests of \$31.9 million outpacing new investments in loans of \$50.8 million.

The cash outflow from our financing activities during the six months ended June 30, 2019 was primarily due to repayments of indebtedness of \$141.4 million. The cash outflow from our financing activities during the six months ended June 30, 2018 was primarily due to repayments of indebtedness of \$234.4 million and the repurchase and cancellation of the remaining preferred units of RAIT IV and RAIT's corresponding Series D preferred shares of \$62.0 million.

As a REIT, we evaluate our dividend coverage based on our cash flow from operating activities, excluding acquisition and integration expenses, the origination and sale of loans originated for sale, and changes in assets and liabilities. During the six months ended June 30, 2019, we paid distributions of \$0.03 million upon the vesting of restricted common share awards granted to our employees, representing the aggregate amount of dividends paid on such shares while these awards were unvested, and generated cash flows from operating activities, before acquisition expenses, origination and sale of loans, and changes in assets and liabilities of \$(9.0) million. The excess distributions were funded through cash flow from previously available cash.

Capitalization

A discussion of our capitalization is incorporated by reference to Note 5: Indebtedness and Note 9: Shareholders' Equity of Notes to Consolidated Financial Statements for information regarding our capitalization.

Due to our expectation that RAIT will wind down its business as described above after the confirmation and implementation of the Plan, the current trading levels of our publicly traded securities and other factors, we do not expect to generate liquidity from future offerings of our securities. In addition, we do not currently meet the eligibility requirements to use our shelf registration statement on Form S-3 to offer securities on our own behalf for cash.

Off-Balance Sheet Arrangements and Commitments

There have been no material changes in off-balance sheet arrangements or commitments during the three and six months ended June 30, 2019 from the disclosures included in our 2018 Annual Report.

Critical Accounting Estimates and Policies

Our 2018 Annual Report contains a discussion of our critical accounting policies. On January 1, 2019 we adopted a new accounting pronouncement and revised our accounting policies accordingly. See Note 2: Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements. Management discusses our critical accounting policies and management's judgments and estimates with the audit committee of our board.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and our Chief Financial Officer, or CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Also, projections of any evaluation of effectiveness of future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision of our CEO and CFO and with the participation of our disclosure committee, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective at the reasonable assurance level. Based upon a previously identified material weakness in our internal control over financial reporting as of December 31, 2018 related to an ineffective continuous risk assessment process and monitoring activities to reflect changes in our business operations, our CEO and CFO concluded that our disclosure controls and procedures were not effective at June 30, 2019.

Management is in the process of remediating the material weakness. Management is continuing its risk assessment and monitoring activities and testing of its enhanced controls to ensure timely identification of changes in business operations such that necessary changes in financial reporting processes and related internal controls continue to be implemented.

Notwithstanding the material weakness discussed above, RAIT's management, including the CEO and CFO, has concluded that our consolidated financial statements included in this Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods presented, in conformity with U.S. generally accepted accounting principles.

Changes in Internal Control Over Financial Reporting

Except as otherwise stated above, there were no changes in our internal control over financial reporting or in other factors during the quarter ended June 30, 2019, that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

General

We are involved from time to time in litigation on various matters, including disputes with tenants of owned properties, disputes arising out of agreements to purchase or sell properties and disputes arising out of our loan portfolio, discrimination claims, negligence claims, and similar tort claims related to owned properties or employment related disputes. Given the nature of our business activities, these lawsuits are considered routine to the conduct of our business. The result of any particular lawsuit cannot be predicted, because of the very nature of litigation, the litigation process and its adversarial nature, and the jury system. We do not expect that the liabilities, if any, that may ultimately result from such routine legal actions will have a material adverse effect on our consolidated financial position, results of operations or cash flows, except as described below.

The Chapter 11 Cases

For a description of the Chapter 11 Cases, see Part I, Item 1, “Financial Statements —Note 1: The Company”, which is incorporated herein by reference.

RAIT Preferred Funding II, Ltd. v. CWC Capital Asset Management LLC, et al.—Index No. 651729/2016 (Sup. Ct. N.Y.)

On September 20, 2017, RAIT Preferred Funding II, Ltd., or RAIT II, filed an amended complaint against the following defendants, or the Defendants, CWC Capital Asset Management, LLC, or CWC Capital, Wells Fargo Bank N.A., or Wells Fargo, and U.S. Bank N.A., or U.S. Bank, in the Supreme Court of the State of New York, County of New York, or the Court. This action concerns a loan, or the mortgage loan, to a non-party borrower, or the borrower, made in 2007. RAIT II purchased \$18.5 million of the mortgage loan for which it held a promissory note, or note B. U.S. Bank is the trustee for a securitization trust that purchased the remaining \$190.0 million of the mortgage loan and for which it held a promissory note, or note A. CWC Capital is the special servicer and Wells Fargo is the master servicer for the mortgage loan (including note A and note B). The parties’ rights and obligations are governed by, among other things, a pooling and servicing agreement and a co-lender agreement. The mortgage loan was repaid in May of 2017, and the defendants have alleged that RAIT II was not entitled to receive any payoff of principal under note B pursuant to the subordination and other provisions of the co-lender agreement. In the amended complaint, RAIT II alleges, among other things, that the defendants breached certain of their obligations under the operative documents and RAIT II should have received, among other things, all of its \$18.5 million principal under note B.

On October 11, 2017, CWC Capital and U.S. Bank moved to dismiss the amended complaint and on November 13, 2017 Wells Fargo moved to dismiss the amended complaint. RAIT II filed its opposition to the motions to dismiss on November 27, 2017. By Decision and Order dated January 29, 2018, the Court denied the defendants’ motions to dismiss the contract claims, leaving intact RAIT II’s breach of contract claims against all defendants. The Court dismissed RAIT II’s non-contract claims (unjust enrichment, conversion, money had and received, and declaratory judgment) as duplicative of the surviving contract claims. The parties have since concluded discovery, and Defendants filed a motion for summary judgment on March 18, 2019. That motion was adjourned as a result of the Settlement Agreement and Agreement to Discontinue referenced below, and the litigation is scheduled to be discontinued with prejudice by Stipulation after TRFT receives payment under the Settlement Agreement.

On December 17, 2018, RAIT II assigned its interest in note B to TRFT in connection with TRFT’s redemption of RAIT II described in the 2018 Annual Report, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Securitization Summary.” On April 8, 2019, the Court granted RAIT II’s motion to substitute TRFT as the plaintiff in this litigation.

Effective May 8, 2019, TRFT, RAIT II, CWC Capital and U.S. Bank entered into a Settlement Agreement and Mutual Release, or the Settlement Agreement. The Settlement Agreement provides (a) that CWC Capital and U.S. Bank shall pay, or cause to be paid by the related securitization trust, \$9.0 million, or the Settlement Payment, to TRFT within ten calendar days, (b) that the parties will execute and, after that Settlement Payment is received by TRFT, TRFT will file a Stipulation of Discontinuance with Prejudice, or the Stipulation, with the Court dismissing this litigation, and (c) for mutual releases between TRFT and RAIT II, on the one hand, and the Defendants, on the other hand, of claims relating to this litigation. Also, effective May 8, 2019, TRFT, RAIT II and Wells Fargo entered into an Agreement to Discontinue and Dismiss Litigation with Prejudice, or the Agreement to Discontinue. The Agreement to Discontinue also provides (a) that TRFT, RAIT II and Wells Fargo shall sign the Stipulation, (b) that, after the Settlement Payment is received by TRFT, TRFT will file the Stipulation and (c) for mutual releases between TRFT and RAIT II, on the one hand, and Wells Fargo, on the other hand, of claims relating to this litigation. TRFT received the payment contemplated by the Settlement Agreement in May 2019.

Item 1A. Risk Factors

There have not been any material changes from the risk factors previously disclosed in Item 1A—"Risk Factors" in our 2018 Annual Report except as set forth below or as stated under Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Forward-Looking Statements" above.

The Debtors are subject to the risks and uncertainties associated with Chapter 11 cases.

For the duration of the Chapter 11 Cases, the Debtors' ability to operate their business as debtors in possession are subject to the risk and uncertainties associated with bankruptcy. These risks include the following:

- The Debtors' ability to develop, negotiate, confirm and consummate the Plan, or alternative restructuring;
- The Debtors' ability to obtain Bankruptcy Court approval with respect to motions filed in the Chapter 11 Cases from time to time;
- The Debtors' ability to complete the transactions contemplated by the Purchase Agreement and the Bidding Procedures Order;
- The Debtors' ability to maintain relationships with third parties;
- The Debtors' ability to execute and fund their operations;
- The Debtors' ability to retain management and other employees;
- The ability of third parties to seek and obtain Bankruptcy Court approval to terminate contracts and other agreements with the Debtors; and
- The actions and decisions of the Debtors' creditors and other third parties who have interests in the Chapter 11 Cases that may be inconsistent with the Debtors' plans.

These risks and uncertainties could affect the Debtors' business and operations in various ways. For example, negative events associated with the Chapter 11 Cases could adversely affect the Debtors' relationships with third parties, which in turn could adversely affect the Debtors' operations and financial condition. Furthermore, the Debtors need the prior approval of the Bankruptcy Court for transactions outside the ordinary course of business, which may limit the Debtors' ability to respond timely to certain events or take advantage of certain opportunities. Because of the risks and uncertainties associated with the Chapter 11 Cases, the Debtors cannot accurately predict or quantify the ultimate impact of the events that will occur during the Chapter 11 Cases that may be inconsistent with the Debtors' plans.

Operating under the jurisdiction of the Bankruptcy Court for a long period of time would likely increase related expenses and thereby reduce amounts payable to the Debtors' stakeholders under the Plan.

The Debtors have incurred and expect to continue to incur substantial additional expenses related to the Chapter 11 Cases, including the expenses of their own financial and legal advisors and those of the unsecured creditors committee appointed in the Chapter 11 Cases. A long period of operations under Bankruptcy Court protection would likely increase the amount paid by the Debtors for these expenses and thereby reduce amounts ultimately payable to the Debtors' stakeholders under the Plan.

Operating under the jurisdiction of the Bankruptcy Court for a long period of time may harm the Debtors' business.

The Debtors' future results are dependent upon the successful confirmation and implementation of a plan of reorganization. A long period of operations under Bankruptcy Court protection could have a material adverse effect on the Debtors' business, financial condition, results of operations and liquidity. So long as the Chapter 11 Cases continue, the Debtors' senior management will be required to spend a significant amount of time and effort dealing with the reorganization instead of focusing exclusively on the Debtors' business operations. A prolonged period of operating under Bankruptcy Court protection also may make it more difficult to retain management and other key personnel necessary to the Debtors' continued operation in the ordinary course. Furthermore, the Debtors cannot predict the ultimate amount of all settlement terms for the liabilities that will be subject to a plan of reorganization.

The Debtors' long-term liquidity requirements and the adequacy of their capital resources are difficult to predict at this time.

The Debtors face uncertainty regarding the adequacy of their liquidity and capital resources and have extremely limited, if any, access to additional financing. In addition to the cash requirements necessary to fund ongoing operations, the Debtors have incurred significant professional fees and other costs in connection with their evaluation of strategic alternatives and preparation for the Chapter 11 Cases and expect that the Debtors will continue to incur significant professional fees and costs throughout the Chapter 11 Cases. The Debtors cannot assure you that cash on hand and cash flow from operations will be sufficient to continue to fund their operations and allow the Debtors to satisfy their obligations related to the Chapter 11 Cases.

The Debtors may experience increased levels of employee attrition as a result of the Chapter 11 Cases.

As a result of the Chapter 11 Cases, the Debtors may experience increased levels of employee attrition, and employees likely will face considerable distraction and uncertainty. A loss of key personnel or material erosion of employee morale could adversely affect the Debtors' operations. The loss of services of members of the Debtors' senior management team could impair their ability to continue to operate in the ordinary course, which would be likely to have a material adverse effect on the Debtors' business, financial condition and results of operations.

The pursuit of the Chapter 11 Cases has consumed and will continue to consume a substantial portion of the time and attention of the Debtors' management, which may have an adverse effect on the Debtors' business and results of operations, and the Debtors may face increased levels of employee attrition.

While the Chapter 11 Cases continue, the Debtors' management will be required to spend a significant amount of time and effort focusing on the cases. This diversion of attention may materially adversely affect the conduct of the Debtors' business, and, as a result, the Debtors' financial condition and results of operations, particularly if the Chapter 11 Cases are protracted.

In certain instances, a Chapter 11 case may be converted to a case under Chapter 7 of the Bankruptcy Code.

There can be no assurance as to whether the Debtors will successfully reorganize and wind down under the Chapter 11 Cases or, if the Debtors do successfully reorganize and wind down, as to when that would be contemplated.

If the Bankruptcy Court finds that it would be in the interest of creditors and/or the Debtors, the Bankruptcy Court may convert the Chapter 11 Cases to cases under Chapter 7 of the Bankruptcy Code. In such event, a Chapter 7 trustee would be appointed or elected to liquidate the Debtors' assets for distribution in accordance with the priorities established by the Bankruptcy Code.

Upon the closing of the transactions contemplated by the Purchase Agreement and the Bidding Procedures, the Debtors will have sold substantially all of their operating assets.

Upon the closing of the transactions contemplated by the Purchase Agreement and the Bidding Procedures, the Debtors will have sold substantially all of their operating assets. Accordingly, the Debtors' only sources of liquidity will be cash on hand.

The Plan currently contemplates no payments on account of the outstanding common shares and preferred shares of RAIT Financial Trust and Taberna Realty Finance Trust and the cancellation of all such shares. As a result, holders of such common and preferred shares are likely to suffer a total loss of their investment.

As contemplated by the bankruptcy risks described in the 2018 Annual Report, the Plan as currently contemplated sets forth the level of expected recovery for the claims of each of the Debtors' stakeholders. The Plan provides that no payment will be made on account of the outstanding common shares and outstanding preferred shares of RAIT Financial Trust and Taberna Realty Finance Trust and that these shares will be cancelled upon confirmation of the Plan. We cannot provide any assurance that a higher and otherwise better bid will result from the Bidding Procedures and that, even if such a bid did result, whether it would be sufficient to result in any payment on account of such outstanding common shares and/or such outstanding preferred shares.

If the Sale pursuant to the Bidding Procedures does not occur (including the Transactions contemplated by the Purchase Agreement), RAIT expects that the proceeds from any liquidation of RAIT would result in significantly lower distributions to RAIT's stakeholders.

RAIT estimated the likely proceeds and the timing of their receipt if RAIT engaged in an orderly liquidation of its assets and winding down of its affairs if the Transactions contemplated by the Purchase Agreement and the Bidding Procedures did not occur. Based on that analysis, RAIT expects that the proceeds from any such liquidation of RAIT would result in significantly lower distributions to RAIT's stakeholders and such distributions would be made over a much longer period of time. As a result, in the event the Sale pursuant to the Bidding Procedures did not occur (including the Transactions contemplated by the Purchase Agreement) for any reason, the likelihood of losses on any securities issued by RAIT would increase.

The Implementation of the Plan is subject to factors set forth in the Plan.

Article V "Certain Factors to be Considered Regarding the Plan" of the Plan, included as Exhibit 2.1 to this Quarterly Report on Form 10-Q, is incorporated herein by reference.

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

We withheld the following common shares to satisfy tax withholding obligations during the quarter ended June 30, 2019 arising from the vesting of restricted share awards made pursuant to the RAIT Financial Trust 2017 Incentive Award Plan. These common shares may be deemed to be “issuer purchases” of common shares that are required to be disclosed pursuant to the item.

Period	Total Number of Shares Purchased	Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
04/01/2019 to 04/30/2019	-	-	-	-
05/01/2019 to 05/31/2019	26	0.92	26	-
06/01/2019 to 06/30/2019	-	-	-	-
Total	26	\$ 0.92	26	-

- (1) The price reported is the weighted average price paid per share using our closing stock price on the OTCQB on the vesting date of the relevant award.

Item 3. Defaults Upon Senior Securities

(a) As described in Part I, Item 1, “Financial Statements—“Note 5—Indebtedness”, on August 20, 2019, RAIT received a notice of default relating to the 7.125% Senior Notes and the 7.625% Senior Notes from the indenture trustee. The notice stated that RAIT has defaulted under Section 4.02 of each of the supplemental indentures that govern those Senior Notes because RAIT failed to timely file the quarterly report for the fiscal quarter ended March 31, 2019 that RAIT is required to file with the Securities and Exchange Commission. The notice demanded RAIT remedy such default. Under the supplemental indentures, the default will not become an “Event of Default” unless RAIT failed to remedy the default within 60 days after the date on which notice was received. If such an “Event of Default” occurred, then in lieu of acceleration of the repayment obligation, RAIT may at its option elect to pay additional interest on the respective Senior Note at an annual rate equal to 0.50% of the principal amount of the respective Senior Note for up to one year after the occurrence of such “Event of Default”. Notwithstanding the foregoing, subject to certain specific exceptions under the Bankruptcy Code, the Chapter 11 Cases automatically stayed most judicial or administrative actions against the Debtors as well as efforts by creditors to collect on or otherwise exercise rights or remedies with respect to pre-petition claims.

As described in Part I, Item 1, “Financial Statements —Note 1: The Company”, the filing of the Chapter 11 Cases with the Bankruptcy Court triggered the Bankruptcy Events of Default and all obligations of RAIT and/or its applicable affiliates thereunder were accelerated and the principal and accrued interest due thereunder was automatically and immediately due and payable and any efforts to enforce such payment obligations under the Debt Instruments are automatically stayed and the respective creditors’ rights of enforcement in respect of the Debt Instruments are limited. As of the date hereof, RAIT and/or its applicable affiliates had (i) \$65.4 million principal amount of 7.125% Senior Notes outstanding (and \$1.2 million of accrued interest payable thereon through, but excluding, the Bankruptcy Cases petition filing date in accordance with the Bankruptcy Code), (ii) \$56.3 million principal amount of 7.625% Senior Notes outstanding (and \$0.6 million of accrued interest payable thereon through, but excluding, the Bankruptcy Cases petition filing date in accordance with the Bankruptcy Code), (iii) \$25.1 million principal amount of the 2037 Note outstanding (and \$0.1 million of accrued interest payable thereon through, but excluding, the Bankruptcy Cases petition filing date in accordance with the Bankruptcy Code), and (iv) \$18.7 million principal amount of the 2035 Note outstanding (and \$0.2 million of accrued interest payable thereon through, but excluding, the Bankruptcy Cases petition filing date in accordance with the Bankruptcy Code). Furthermore, as described in Part I, Item 1, “Financial Statements—Note 1: The Company”, RAIT’s failure to pay the principal amount of 7.125% Notes by their maturity date on August 30, 2019 constituted an “Event of Default” under the Supplemental Indenture.

(b) In June 2018, the Board determined to suspend the quarterly dividend on RAIT’s 7.75% Series A Cumulative Redeemable Preferred Shares, RAIT’s 8.375% Series B Cumulative Redeemable Preferred Shares, and RAIT’s 8.875% Series C Cumulative Redeemable Preferred Shares. Suspension of the dividends did not constitute an event of default under any of our indebtedness. However, as a result of such suspension, we are in arrears in the payment of dividends with respect to our preferred shares, which gives the holders of those shares the right to seek to have two representatives elected to the Board. The table below details the arrearage of our preferred stock dividends, as of June 30, 2019.

(\$ in millions)	Series A	Series B	Series C
Dividends in arrears	\$ 14	\$ 6	\$ 5

Item 6. Exhibits

The exhibits filed as part of this quarterly report on Form 10-Q are identified below.

EXHIBIT INDEX

Exhibit Number	Description of Documents
2.1	<u>Debtors' Joint Chapter 11 Plan (the "Chapter 11 Plan") filed October 14, 2019 in the cases consolidated as In re: RAIT Funding, LLC, a Delaware limited liability company, et. al. in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended March 31, 2019 (File No. 1-14760).</u>
2.2	<u>Disclosure Statement for the Chapter 11 Plan (the "Disclosure Statement") filed October 14, 2019 in the Bankruptcy Court. Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended March 31, 2019 (File No. 1-14760).</u>
2.3	<u>Order of the Bankruptcy Court filed October 2, 2019 (i) establishing the bidding procedures, including approval of a break-up fee and expense reimbursement and (ii) granting related relief. Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended March 31, 2019 (File No. 1-14760).</u>
3.1.1	<u>Amended and Restated Declaration of Trust of RAIT Financial Trust ("RAIT"). Incorporated by reference to Exhibit 3.1(b) to RAIT's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission ("SEC") on September 8, 1997 (Registration No. 333-35077).</u>
3.1.2	<u>Articles of Amendment to Amended and Restated Declaration of Trust of RAIT. Incorporated by reference to Exhibit 3.3.1 to RAIT's Registration Statement on Form S-11/A as filed with the SEC on June 8, 1998 (Registration No. 333-53067).</u>
3.1.3	<u>Articles of Amendment to Amended and Restated Declaration of Trust of RAIT. Incorporated by reference to Exhibit 4(iii) to RAIT's Registration Statement on Form S-2 as filed with the SEC on February 13, 2001 (Registration No. 333-55518).</u>
3.1.4	<u>Certificate of Correction to the Amended and Restated Declaration of Trust of RAIT. Incorporated by reference to RAIT's Form 10-Q for the Quarterly Period ended March 31, 2002 (File No. 1-14760).</u>
3.1.5	<u>Articles of Amendment to Amended and Restated Declaration of Trust of RAIT. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 15, 2006 (File No. 1-14760).</u>
3.1.6	<u>Articles of Amendment to Amended and Restated Declaration of Trust of RAIT. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on July 1, 2011 (File No. 1-14760).</u>
3.1.7	<u>Articles Supplementary (the "Series A Articles Supplementary") relating to the 7.75% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series A Preferred Shares") of RAIT. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on March 18, 2004 (File No. 1-14760).</u>
3.1.8	<u>Certificate of Correction to the Series A Articles Supplementary. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on March 18, 2004 (File No. 1-14760).</u>
3.1.9	<u>Articles Supplementary relating to the 8.375% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest, (the "Series B Preferred Shares") of RAIT. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on October 1, 2004 (File No. 1-14760).</u>
3.1.10	<u>Articles Supplementary relating to the 8.875% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest, (the "Series C Preferred Shares") of RAIT. Incorporated by reference to RAIT's Form 8-A as filed with the SEC on June 29, 2007 (File No. 1-14760).</u>
3.1.11	<u>Articles Supplementary relating to Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on May 25, 2012 (File No. 1-14760).</u>
3.1.12	<u>Certificate of Correction relating to Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares. Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended June 30, 2012 (File No. 1-14760).</u>
3.1.13	<u>Articles Supplementary (the "Series D Articles Supplementary") relating to the Series D Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series D Preferred Shares") of RAIT. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on October 4, 2012 (File No. 1-14760).</u>
3.1.14	<u>Articles Supplementary relating to the Series E Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series E Preferred Shares") of RAIT. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 4, 2012 (File No. 1-14760).</u>
3.1.15	<u>Amendment dated November 30, 2012 to the Series D Articles Supplementary. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 4, 2012 (File No. 1-14760).</u>
3.1.16	<u>Articles Supplementary relating to the Series A Preferred Shares. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on June 13, 2014 (File No. 1-14760).</u>
3.1.17	<u>Articles Supplementary dated June 27, 2018. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on June 28, 2018 (File No. 1-14760).</u>
3.1.18	<u>Articles of Amendment to Amended and Restated Declaration of Trust of RAIT dated August 6, 2018. Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended June 30, 2018. (File No. 1-14760).</u>
3.2.1	<u>Amended and Restated Bylaws of RAIT, as adopted on November 16, 2016. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on November 17, 2016 (File No. 1-14760).</u>
3.2.2	<u>First Amendment to the Amended and Restated Bylaws of RAIT. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on June 28, 2017 (File No. 1-14760).</u>
3.2.3	<u>Second Amendment to the Amended and Restated Bylaws of RAIT. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on August 8, 2017 (File No. 1-14760).</u>
4.1.1	<u>Form of Certificate for Common Shares of Beneficial Interest. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on July 1, 2011 (File No. 1-14760).</u>

Exhibit Number	Description of Documents
4.1.2	<u>Form of Certificate for the Series A Preferred Shares. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on March 22, 2004 (File No. 1-14760).</u>
4.1.3	<u>Form of Certificate for the Series B Preferred Shares. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on October 1, 2004 (File No. 1-14760).</u>
4.1.4	<u>Form of Certificate for the Series C Preferred Shares. Incorporated by reference to RAIT's Form 8-A as filed with the SEC on June 29, 2007 (File No. 1-14760).</u>
4.1.5	<u>Form of Certificate for the Series D Preferred Shares. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on October 23, 2012 (File No. 1-14760).</u>
4.1.6	<u>Form of Certificate for the Series E Preferred Shares. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on October 23, 2012 (File No. 1-14760).</u>
4.1.7	<u>Form of Certificate for Common Shares of Beneficial Interest. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on August 13, 2018 (File No. 1-14760).</u>
4.2.1	<u>Base Indenture dated as of December 10, 2013 between RAIT, as issuer, and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 13, 2013 (File No. 1-14760).</u>
4.2.2	<u>Supplemental Indenture dated as of December 10, 2013 between RAIT, as issuer, and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 13, 2013 (File No. 1-14760).</u>
4.2.3	<u>Form of RAIT 4.00% Convertible Senior Note due 2033 (included in Exhibit 4.2.2). Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 13, 2013 (File No. 1-14760).</u>
4.3.1	<u>Base Indenture dated as of March 21, 2011 between RAIT, as issuer, and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on March 22, 2011 (File No. 1-14760).</u>
4.3.2	<u>Supplemental Indenture dated as of March 21, 2011 between RAIT, as issuer, and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on March 22, 2011 (File No. 1-14760).</u>
4.4	<u>Indenture dated as of October 5, 2011 between RAIT and Wilmington Trust, National Association, as trustee. Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended September 30, 2011 (File No. 1-14760).</u>
4.5.1	<u>Registration Rights Agreement dated as of October 1, 2012 by and among RAIT and ARS VI Investor I, LP, formerly known as ARS VI Investor I, LLC ("ARS VI"). Incorporated by reference to RAIT's Form 8-K as filed with the SEC on October 4, 2012 (File No. 1-14760).</u>
4.5.2	<u>Amendment No. 1 to Registration Rights Agreement dated as of April 25, 2014 by and among RAIT and ARS VI. Incorporated by reference to RAIT's Registration Statement on Form S-3 as filed with the SEC on April 28, 2014 (Registration No. 333-195547).</u>
4.5.3	<u>Common Share Purchase Warrant No. 1 dated October 17, 2012 issued by RAIT to ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on October 23, 2012 (File No. 1-14760).</u>
4.5.4	<u>Common Share Appreciation Right No. 1 dated October 17, 2012 issued by RAIT to ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on October 23, 2012 (File No. 1-14760).</u>
4.5.5	<u>Common Share Purchase Warrant No. 2 dated November 15, 2012 issued by RAIT to ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on November 21, 2012 (File No. 1-14760).</u>
4.5.6	<u>Common Share Appreciation Right No. 2 dated November 15, 2012 issued by RAIT to ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on November 21, 2012 (File No. 1-14760).</u>
4.5.7	<u>Common Share Purchase Warrant No. 3 dated December 18, 2012 issued by RAIT to ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 18, 2012 (File No. 1-14760).</u>
4.5.8	<u>Common Share Appreciation Right No. 3 dated December 18, 2012 issued by RAIT to ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 18, 2012 (File No. 1-14760).</u>
4.5.9	<u>Common Share Purchase Warrant No. 4 dated March 27, 2014 issued by RAIT to ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on March 27, 2014 (File No. 1-14760).</u>
4.5.10	<u>Common Share Appreciation Right No. 4 dated March 27, 2014 issued by RAIT to ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on March 27, 2014 (File No. 1-14760).</u>
4.5.11	<u>Put Right Notice dated October 10, 2017 from ARS VI to RAIT. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on October 17, 2017 (File No. 1-14760).</u>
4.5.12	<u>Extension Agreement dated as of March 12, 2018 by and among ARS VI, RAIT, RAIT Partnership, L.P. ("RAIT Partnership"), Taberna Realty Finance Trust, ("TRFT") and RAIT Asset Holdings IV, LLC ("RAIT IV"). Incorporated by reference to RAIT's Form 10-K for the fiscal year ended December 31, 2017 (File No. 1-14760).</u>
4.5.13	<u>Letter Agreement dated as of June 8, 2018 by and among ARS VI, RAIT, RAIT Partnership, TRFT, and RAIT IV. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on June 8, 2018 (File No. 1-14760).</u>
4.5.14	<u>Consent and Acknowledgment dated as of June 12, 2018 by and among ARS VI, RAIT, RAIT Partnership, TRFT and RAIT IV. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on June 13, 2018 (File No. 1-14760).</u>

Exhibit Number	Description of Documents
4.5.15	<u>Redemption and Exchange Agreement dated as of June 27, 2018 among RAIT, RAIT IV and ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on June 28, 2018 (File No. 1-14760).</u>
4.5.16	<u>Termination Agreement dated as of June 27, 2018 among RAIT, RAIT Partnership, TRFT, RAIT IV and ARS VI. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on June 28, 2018 (File No. 1-14760).</u>
4.6.1	<u>Base Indenture dated as of December 10, 2013 between RAIT, as issuer, and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 13, 2013 (File No. 1-14760).</u>
4.6.2	<u>Supplemental Indenture dated as of December 10, 2013 between RAIT, as issuer, and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 13, 2013 (File No. 1-14760).</u>
4.6.3	<u>Form of RAIT 4.00% Convertible Senior Note due 2033 (included in Exhibit 4.6.2). Incorporated by reference to RAIT's Form 8-K as filed with the SEC on December 13, 2013 (File No. 1-14760).</u>
4.6.4	<u>Second Supplemental Indenture, dated as of April 14, 2014, between RAIT, as issuer, and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to RAIT's Form 8-A as filed with the SEC on April 14, 2014. (File No. 1-14760).</u>
4.6.5	<u>Form of 7.625% Senior Notes due 2024 (included as Exhibit A to Exhibit 4.6.4 hereto).</u>
4.6.6	<u>Third Supplemental Indenture, dated as of August 14, 2014, between RAIT, as Issuer, and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to RAIT's Form 8-A as filed with the SEC on August 14, 2014.</u>
4.6.7	<u>Form of 7.125% Senior Notes due 2019 (included as Exhibit A to Exhibit 4.6.6 hereto).</u>
4.7	<u>Indenture, dated as of June 23, 2017 among RAIT 2017-FL7 Trust, as issuer, RAIT Partnership, as advancing agent, and Wells Fargo Bank, National Association, as trustee, paying agent, calculation agent, transfer agent, custodian, backup advancing agent and note registrar. Incorporated by reference to RAIT's Form 10-K for the fiscal year ended December 31, 2018 (File No. 1-14760).</u>
4.8	<u>Indenture, dated as of November 29, 2017 among RAIT 2017-FL8 Trust, as issuer, RAIT Partnership, as advancing agent, and Wells Fargo Bank, National Association, as trustee, paying agent, calculation agent, transfer agent, custodian, backup advancing agent and note registrar. Incorporated by reference to RAIT's Form 10-K for the fiscal year ended December 31, 2018 (File No. 1-14760).</u>
	<u>Certain Instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.</u>
10.1.1	<u>Equity and Asset Purchase Agreement (the "Purchase Agreement") dated August 30, 2019 among RAIT, RAIT General, Inc., RAIT Limited, Inc., Taberna Realty Finance Trust ("TRFT"), as sellers (together, the "Sellers"), with CF RFP Holdings LLC, as buyer ("Buyer"). Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended March 31, 2019 (File No. 1-14760).</u>
10.1.2	<u>Amendment No. 1 to the Purchase Agreement dated October 4, 2019 among the Sellers and the Buyer. Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended March 31, 2019 (File No. 1-14760).</u>
10.2.1	<u>Restructuring and Plan Support Agreement dated August 29, 2019 among RAIT, TRFT, as borrower, and TP Management LLC, in its capacity as delegate collateral manager, relating to that certain Junior Subordinated Note due 2035 issued by TRFT. Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended March 31, 2019 (File No. 1-14760).</u>
10.2.2	<u>Restructuring and Plan Support Agreement dated August 31, 2019 among RAIT, as guarantor, RAIT Funding, LLC ("RAIT Funding"), as borrower, and Kodiak CDO L, Ltd., as holder of certain preferred securities, relating to that certain Junior Subordinated Note due 2037 issued by RAIT Funding. Incorporated by reference to RAIT's Form 10-Q for the quarterly period ended March 31, 2019 (File No. 1-14760).</u>
31.1	<u>Rule 13a-14(a) Certification by the Chief Executive Officer of RAIT. Filed herewith.</u>
31.2	<u>Rule 13a-14(a) Certification by the Chief Financial Officer of RAIT. Filed herewith.</u>
32.1	<u>Section 1350 Certification by the Chief Executive Officer of RAIT. Filed herewith.</u>
32.2	<u>Section 1350 Certification by the Chief Financial Officer of RAIT. Filed herewith.</u>
101	Pursuant to Rule 405 of Regulation S-T, the following financial information from RAIT's Quarterly Report on Form 10-Q for the period ended June 30, 2019 is formatted in XBRL interactive data files: (i) Consolidated Statements of Operations for the three and six months ended June 30, 2019 and 2018; (ii) Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018; (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2019 and 2018; (iv) Consolidated Statement of Changes in Equity for the three and six months ended June 30, 2019 and 2018; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2019 and 2018; and (vi) Notes to Unaudited Consolidated Financial Statements, filed herewith.

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.

RAIT FINANCIAL TRUST
(Registrant)

Date: November 7, 2019

By: /s/ John J. Reyle
John J. Reyle, Chief Executive Officer, President and General Counsel
(On behalf of the registrant and as its Principal Executive Officer)

Date: November 7, 2019

By: /s/ Alfred J. Dilmore
Alfred J. Dilmore, Chief Financial Officer, Treasurer and Chief Accounting Officer
(On behalf of the registrant and as its Principal Financial Officer and Principal Accounting Officer)

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

RAIT FUNDING, LLC,
a Delaware limited liability company, *et al.*¹

Debtors.

Chapter 11
Case No. 19-11915 (BLS)

(Jointly Administered)

Hearing Date: December 5, 2019 at 10:00 a.m.
Objection Deadline: December 2, 2019 at noon.

**NOTICE OF MOTION OF THE AD HOC COMMITTEE OF PREFERRED EQUITY
SECURITY HOLDERS OF RAIT FINANCIAL TRUST TO TERMINATE THE
DEBTORS' EXCLUSIVE PERIOD TO PROPOSE AND SOLICIT ACCEPTANCES OF
A PLAN OF REORGANIZATION**

PLEASE TAKE NOTICE that on November 21, 2019, Ad Hoc Committee of Holders of Preferred Equity (the “**Ad Hoc Committee**”) issued by RAIT Financial Trust, filed the *Motion of the Ad Hoc Committee of Preferred Equity Security Holders of Rait Financial Trust To Terminate the Debtors' Exclusive Period to Propose and Solicit Acceptance of a Plan of Reorganization* (the “**Motion**”) with the Court.

PLEASE TAKE FURTHER NOTICE that a hearing on the Motion is scheduled for December 5, 2019 at 10:00 a.m. (Eastern Time) before The Honorable Brendan Linehan Shannon, United States Bankruptcy Court for the District of Delaware, 824 Market Street, 6th Floor, Courtroom No. 1, Wilmington, Delaware 19801.

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number (if applicable), are as follows: RAIT Funding, LLC, a Delaware limited liability company (9983); RAIT Financial Trust, a Maryland real estate investment trust (9819); RAIT General, Inc., a Maryland corporation (9987); RAIT Limited, Inc., a Maryland corporation (9773); Taberna Realty Finance Trust, a Maryland real estate investment trust (3577); RAIT JV TRS, LLC, a Delaware limited liability company (3190); and RAIT JV TRS Sub, LLC, a Delaware limited liability company (4870).

PLEASE TAKE FURTHER NOTICE that any responses or objections to the Motion must be filed in writing with the Bankruptcy Court, 824 Market Street, 6th Floor, Wilmington, Delaware 19801, and served upon and received by undersigned counsel **on or before December 2, 2019, at noon (Eastern Time).**

PLEASE TAKE FURTHER NOTICE THAT IF NO OBJECTIONS TO THE MOTION ARE TIMELY FILED, SERVED AND RECEIVED IN ACCORDANCE WITH THIS NOTICE, THE COURT MAY GRANT THE RELIEF REQUESTED IN THE MOTION WITHOUT FURTHER NOTICE OR HEARING.

DATED: November 21, 2019

Respectfully submitted,

/s/ Joseph H. Huston, Jr.
Joseph H. Huston, Jr. (No. 4035)
Stevens & Lee, P.C.
919 North Market Street, Suite 1300
Wilmington, DE 19801
Phone: (302) 425-3310
Fax: (610) 371-7972
Email: jhh@stevenslee.com

-and-

Nicholas F. Kajon*
Constantine Pourakis*
Andreas D. Milliaressis*
Stevens & Lee, P.C.
485 Madison Avenue, 20th Floor
New York, NY 10022
Telephone: (212) 319-8500
Fax: (212) 319-8505
Email: nfk/cp/adm@stevenslee.com
*Admission *pro hac vice* pending

*Counsel to Ad Hoc Committee of Preferred Equity
Security Holders of RAIT Financial Trust*

CERTIFICATE OF SERVICE

I certify that on November 21, 2019, I served a copy of this Motion and proposed order via electronic mail to counsel for the Debtors, the U.S. Trustee, and Counsel for the Official Committee of Unsecured Creditors. A copy of the Motion was also served electronically through the Court's CM/ECF system upon all other parties having filed a request for notice.

Dated: November 21, 2019

/s/ Joseph H. Huston, Jr.
Joseph H. Huston, Jr. (No. 4035)