AMERICAN MORTGAGE ACCEPTANCE CO
Form 424B5
April 04, 2003
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-87440

PROSPECTUS SUPPLEMENT **(To Prospectus Dated October 8, 2002)**

1,700,000 Shares

American Mortgage Acceptance Company

Common Shares of Beneficial Interest

American Mortgage Acceptance Company is offering 1,700,000 shares of common shares of beneficial interest.

Our common shares are listed on the American Stock Exchange under the symbol AMC . The last reported sale price of our common shares as reported on the American Stock Exchange on April 3, 2003 was $15.33 per share.

Investing in our common shares involves risks that are described in the Risk Factors section beginning on page S-12 of this prospectus supplement.

PRICE $15.00 PER SHARE

	Per Share	Total
Public offering price	$ 15.000	$ 25,500,000
Underwriter discounts	$ 0.825	$ 1,402,500
Proceeds, before expenses, to American Mortgage Acceptance Company	$ 14.175	$ 24,097,500

The underwriters may also purchase up to an additional 255,000 common shares from American Mortgage Acceptance Company at the public offering price, less the underwriting discounts, within 30 days from the date of this prospectus supplement to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The common shares will be ready for delivery in New York, New York on or about April 8, 2003.

RBC CAPITAL MARKETS **JMP SECURITIES**

April 3, 2003

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You should rely only on the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information in this prospectus supplement is current as of the date of this prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since that date.

DOCUMENTS INCORPORATED BY REFERENCE

In addition to the documents incorporated by reference or deemed incorporated by reference in the accompanying prospectus, our Annual Report on Form 10-K for the year ended December 31, 2002, which has been filed with the Securities and Exchange Commission pursuant to the

Securities Exchange Act of 1934, is hereby incorporated into this prospectus supplement and specifically made a part of this prospectus supplement.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information in this prospectus supplement. The summary is not complete and does not contain all of the information you should consider before investing in our common shares. We urge you to carefully read this entire prospectus supplement and the accompanying prospectus, along with the information that is incorporated by reference. You should carefully consider the information discussed under Risk Factors before you decide to purchase our common shares. All references to we, us or the Company mean American Mortgage Acceptance Company and our wholly-owned subsidiaries. Unless otherwise indicated, the information contained in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option to purchase an additional 255,000 common shares within 30 days of the date of this prospectus supplement.

Our Business

We are a real estate investment trust (REIT) specializing in multifamily finance that seeks asset diversification, capital appreciation and income for distributions to our shareholders. We originate and acquire bridge loans, mezzanine loans and government-insured first mortgage loans or mortgage-backed securities secured by multifamily housing properties throughout the United States. We may also invest in other real estate assets, including commercial mortgage-backed securities (CMBS). We generally seek to maintain 40% of our assets in government-insured or guaranteed investments.

At December 31, 2002, our diversified and actively managed portfolio consisted of Government National Mortgage Association (Ginnie Mae) certificates with a fair value of $114.0 million, bridge loans with a carrying value of $26.0 million, mezzanine loans with a carrying value of $12.4 million, first mortgage loans with a carrying value of $9.9 million, and our indirect investment in CMBS through our $20.2 million investment in ARCap Investors, L.L.C. (ARCap).

The following chart depicts our portfolio of investments as of December 31, 2002:

* The Stony Brook Village II first mortgage loan, in the amount of $8.3 million, was repaid on January 31, 2003.

** The carrying values of the bridge loans and the mezzanine loans are net of unamortized origination costs and fees and loan discounts.

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We finance the acquisition of our assets primarily through borrowing at short-term rates using a demand repurchase facility with Nomura Securities International, Inc. (the Nomura Facility) and our $40 million line of credit with Fleet National Bank (the Fleet Line of Credit). Under our declaration of trust, we may incur permanent indebtedness of up to 50% of our total market value calculated at the time the debt is incurred. Permanent indebtedness and working capital indebtedness may not exceed 100% of our total market value. Our declaration of trust provides that we may not change our policy regarding indebtedness without the consent of a majority in interest of our shareholders.

We have engaged Related AMI Associates, Inc., which we refer to as our Advisor, to manage our day-to-day affairs. Our Advisor has subcontracted its management obligations to its affiliate, Related Capital Company (Related Capital), the nation s largest non-agency financier of affordable multifamily housing. The management team responsible for our day-to-day affairs has an average of ten years of experience with Related Capital and an average of 18 years experience in the real estate industry. On December 18, 2002, Charter Municipal Mortgage Acceptance Company (CharterMac), a public company also managed by an affiliate of Related Capital, announced that it entered into an agreement to acquire 100% of the ownership interests of Related Capital and substantially all of the businesses operated by Related Capital. See Our Advisor beginning on page S-6 of this prospectus supplement.

Our Industry

We focus our origination and acquisition efforts on providing financing for multifamily housing development, acquisition and rehabilitation. Commercial mortgage lenders originated multifamily housing loans totaling $41.0 billion in 2002, almost half of which were insured or guaranteed by an agency of the United States government. We believe that the total amount of multifamily mezzanine loan originations was approximately $6.4 billion in 2002.

Over the past 20 years the multifamily sector has delivered one of the highest average total investment returns of all real estate property types according to the National Council of Real Estate Investment Fiduciaries. We believe there will continue to be a strong demand for multifamily housing due to factors such as population growth and household formations. The National Association of Home Builders, in its most recent report on this subject released in February 2001, has estimated that this demand will support production of more than 3.4 million new multifamily units from 2001 to 2010.

Within the multifamily sector, we focus a portion of our originations on bridge loans that are secured by interests in affordable multifamily housing. We believe there is a significant demand for affordable multifamily housing. According to the most recent report of the United States Department of Housing and Urban Development on this subject dated January 2001, 4.9 million households are in need of quality affordable housing. We believe that affordable multifamily housing provides an excellent form of collateral, which is further described under Our Investment Strategy Bridge Loans beginning on page S-4 of this prospectus supplement.

Our Investment Strategy

Our goal is to increase the return on our asset base by investing in higher yielding assets while balancing our risk by maintaining a portion of our investments in government agency-guaranteed or insured assets and maintaining a conservative capital structure.

We invest in the following types of assets:

Government-Insured and Guaranteed Investments. We generally seek to maintain a minimum of 40% of our assets in government-insured or guaranteed investments. We do this primarily through the acquisition or origination of mortgage loans on multifamily properties, the principal of which is insured by FHA, and the acquisition of Ginnie Mae mortgage-backed securities and pass-through certificates. Government agency-insured lending offers us safety, liquidity and moderate yields, while also providing us with a strong asset base for collateralized borrowing on favorable terms. We may also acquire mortgage-backed securities insured by Fannie Mae or the Federal Home Loan Mortgage Corporation (Freddie Mac). Both Fannie Mae and Freddie Mac are federally-chartered public corporations which, pursuant to their charters, are required to invest in both single-family and multifamily housing. They are frequently referred to as Government Sponsored Entities, although they are not owned by, and their securities are not guaranteed by, federal or state government agencies.

Bridge Loans. We currently originate and invest in two types of bridge loans:

- Bridge loans funded in connection with the development of multifamily properties which benefit from the Low-Income Housing Tax Credit (LIHTC) program under Section 42 of the Internal Revenue Code (LIHTC Bridge Loans); and

- Bridge loans funded in connection with providing multifamily developers with short-term capital to acquire and/or rehabilitate existing multifamily properties with the goal of refinancing or selling the properties (Acquisition/Rehabilitation Bridge Loans).

LIHTC Bridge Loans. We believe that since 1989, on average, nearly one-quarter of each year s new multifamily property construction contains an affordable component that produces LIHTCs (from 1989 through 2001, the number of affordable units producing LIHTCs ranged from 60,000 to 126,000 annually). Due to the equity payment schedule typically associated with LIHTC investment programs, there can be periods in a construction cycle when a developer needs short-term capital. To capitalize on this demand, we offer bridge loans to developers with typical terms of approximately 12 to 18 months and which are collateralized by the equity interests of the property owner.

This portion of our bridge lending focuses on LIHTC properties because we believe that default risks ordinarily associated with bridge lending are substantially reduced by the presence of LIHTCs, the value of which typically averages two to four times the principal amount of the bridge loan. The beneficial owners of these LIHTC properties are typically Fortune 500 companies that have invested in order to receive the tax benefits of the LIHTC, which are received ratably over an 11-year period. In the event that these properties cannot support their debt service, the beneficial owners have an incentive to maintain the debt service so that they can avoid foreclosure of their equity interests and the loss of the tax benefits associated with the LIHTCs. According to a May 2002 Ernst & Young study, Understanding the Dynamics; A Comprehensive Look at Affordable Housing Tax Credit Properties, the foreclosure rate on LIHTC properties from 1987 to 2001 has been 0.14%.

Acquisition/Rehabilitation Bridge Loans. In October 2002, we introduced a new Acquisition/Rehabilitation Bridge Loan program targeting two-to-three year bridge loan investments on existing multifamily housing complexes nationwide. The bridge loans provide multifamily developers with short-term capital to acquire and/or rehabilitate existing properties with the goal of either refinancing with long-term debt provided by Fannie Mae or Freddie Mac or selling the property. Typically, the long-term debt is arranged by our affiliate, PW Funding Inc. PW Funding, a Fannie Mae Delegated Underwriting and

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Servicing lender and a Freddie Mac Program Plus® Seller/Servicer, was acquired in December 2001 by a subsidiary of CharterMac. Under this loan program, one of our wholly-owned subsidiaries provides individual loans ranging from $2 million to $20 million over a term of up to 24 months (generally with a one-year extension option). The interest rate on each loan is based on the 30-day London Inter-Bank Offer Rate (LIBOR), providing the borrower with low-cost interim financing. We lend an amount equal to between 80% and 90% of the value of the particular property, funding approximately 80% of such amount through the Fleet Line of Credit and providing the balance of the loan from our own funds. With respect to any loan we make utilizing the Fleet Line of Credit, the underlying property is pledged as collateral under the Fleet Line of Credit. In addition to the assignment of collateral in such instances, we have guaranteed repayment of the Fleet Line of Credit. There may be instances when we will not finance certain Acquisition/ Rehabilitation Bridge Loans through the Fleet Line of Credit.

We have found from our multifamily developer clients that there are very few options in the market for this type of short-term capital. Responding to our developers needs, we have structured a highly useful product that provides us with favorable returns and enables us to underwrite to a reliable exit strategy utilizing PW Funding. In addition, this product line minimizes our interest rate risk for these loans because the loans and the Fleet Line of Credit that we use to fund the loans float off of the same index.

Mezzanine Loans. Mezzanine loans are subordinate to senior mortgages and may include a participating component, such as a right to a portion of the cash flow and refinancing and sale proceeds from the underlying properties.

We seek to capitalize on attractive yields available through the funding of mezzanine debt in combination with our origination of government-insured multifamily first mortgages. We believe that we are one of the few lenders in the country who offers mezzanine loans in conjunction with agency-insured first mortgage loans.

Our mezzanine loans typically finance newly constructed or rehabilitated market-rate multifamily properties and generally have terms of 40 years with an option to call the loan on 12 months notice at any time after the tenth anniversary of the mezzanine loan closing. These loans are typically in a subordinated mortgage position, are secured by equity interests in the borrower and have limited recourse to the guarantor for the three years from the date of the permanent loan. We seek properties in growing real estate markets with well capitalized developers or guarantors. We leverage the expertise of our Advisor and its affiliates in the initial underwriting of the property, as well as in the ongoing monitoring of the property through construction, lease-up and stabilization.

Commercial Mortgage-Backed Securities. We may invest in subordinated CMBS, which offer the advantage of significantly higher yields than government-insured and guaranteed investments. The market values of subordinated interests in CMBS and other subordinated securities tend to be more sensitive to changes in economic conditions than senior, rated classes. As a result of these and other factors, subordinated interests generally are not actively traded and may not provide holders with liquidity of investment.

We currently invest indirectly in CMBS through our convertible preferred equity investment in ARCap. ARCap is a recognized industry leader specializing in investing in non-investment grade and unrated subordinated CMBS. The CMBS which comprise ARCap s portfolio are collateralized by a diverse range of underlying properties, including multifamily, retail, office and hotel.

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Supplemental Products. We offer supplemental products that enhance our other programs while offering us attractive risk-adjusted returns.

Standby and Permanent Loan Commitments. In January 2002, we began issuing standby bridge and permanent loan commitments for transactions involved with the construction or rehabilitation of multifamily apartment complexes in various locations throughout the United States in return for a commitment fee. These commitments, which are generally offered to clients of affiliates of our Advisor, are obligations to fund construction or permanent loans at a future date at an agreed upon interest rate if the borrower cannot structure and close an alternative financing arrangement. The standby loan commitments expire, on average, 12 to 18 months from issuance. As of December 31, 2002, our outstanding commitments under this program were approximately $5.1 million.

Stabilization Guarantees with Wachovia Bank, N.A. We have entered into agreements with Wachovia Bank, N.A. (Wachovia) to provide guarantees, for the benefit of Wachovia, for the period following construction completion until property stabilization on loans for the new construction of multifamily properties under the LIHTC program in exchange for a guarantee fee. We guarantee that properties which have completed construction will stabilize and the underlying construction loans will convert to permanent Fannie Mae or Freddie Mac loans by a specified date. These permanent loans are typically originated by PW Funding for the Fannie Mae or Freddie Mac forward commitment loan program. We provide these guarantees for loans that secure properties that are outside of the geographic areas in which Wachovia makes commercial real estate construction loans. As of December 31, 2002, our outstanding commitments under this guarantee program were approximately $19.2 million.

Our Capital Structure

We seek to maintain a conservative capital structure, which we believe distinguishes us from other, more highly leveraged mortgage REITs. In this regard, our declaration of trust limits our use of debt financing. Our permanent indebtedness may not exceed 50% of our total market value calculated at the time the debt is incurred. Furthermore, our permanent indebtedness, when combined with our working capital indebtedness, may not exceed 100% of our total market value calculated at the time the debt is incurred. As of December 31, 2002, our indebtedness, a substantial portion of which was working capital indebtedness, was approximately $96.7 million, and our ratio of indebtedness to total market value was approximately 51.9%. Our ratio of permanent indebtedness to total market value, as of December 31, 2002, was approximately 4.7%.

Our Advisor

General. Related Capital, a privately held general partnership, is one of the nation s leading financial services providers for the multifamily housing industry, with a strong core focus on affordable housing. Related Capital, through investment programs it sponsors, has an indirect ownership interest in the second largest portfolio of multifamily units in the country. Formed in 1972 through a predecessor entity, Related Capital has amassed a superior track record with investors and multifamily developers, having provided debt and equity financing for over 1,300 properties located throughout the United States. Related Capital provides asset management and loan servicing to a portfolio of real estate and loans (including our loans) valued at cost at over $18.7 billion. Since 1972, Related Capital has increased assets and loans under its management at a compounded annual growth rate of 23%. Related Capital and its affiliates have sponsored more than 260 public and private real estate investment programs in the form of REITs, business trusts, limited liability companies and limited partnerships, which have raised in excess of $6.0 billion in equity from over 107,000 institutional and retail investors.

We believe that we benefit from our relationship with Related Capital because, as a small-capitalization company, it is unlikely that we could afford the scope and quality of resources Related Capital and its affiliates are able to provide. We are able to utilize Related Capital s real estate and investment expertise to advise us and provide us with experienced risk management, underwriting, asset management, loan servicing, finance, accounting, tax and administrative personnel and other services necessary to operate our business. We benefit from the marketing efforts of Related Capital s origination groups, which offer our bridge loan program in connection with LIHTC equity investments to developers nationally. We have access to Related Capital s proprietary client base, which includes some of the nation s most active and respected developers of affordable multifamily housing.

An affiliate of Related Capital manages CharterMac, an American Stock Exchange listed company. CharterMac predominately invests in tax-exempt revenue bonds that secure affordable multifamily housing properties. A subsidiary of CharterMac acquired 80% of the capital stock of PW Funding Inc., a national mortgage banking firm specializing in agency lending to multifamily housing properties. PW Funding is a Fannie Mae Delegated Underwriting and Servicing lender and a Freddie Mac Program Plus® Seller/Servicer. We believe that we benefit from our affiliation with PW Funding, as they provide us with a pipeline of product for our bridge lending, our mezzanine lending and our government-insured products.

CharterMac Acquisition of Related Capital. On December 18, 2002, CharterMac announced that it entered into an agreement to acquire 100% of the ownership interests of Related Capital and substantially all of the businesses operated by Related Capital. We believe that the proposed acquisition of Related Capital by CharterMac should not affect our day-to-day operations. We will continue to be advised by our Advisor following the proposed acquisition (subject to annual renewal of the advisory agreement between us and our Advisor (the Advisory Agreement)); however, CharterMac will own 100% of our Advisor. In addition, our Advisor will continue to subcontract to Related Capital the obligation to provide the services which our Advisor is required to provide under the Advisory Agreement. The proposed acquisition contemplates that the same management team that is currently managing us will continue to manage us if the acquisition of Related Capital by CharterMac is completed.

General Information

We have elected to be treated as a REIT for federal income tax purposes. This treatment permits us to deduct dividend distributions to our shareholders for federal income tax purposes, thus effectively eliminating the double taxation that generally results when a corporation earns income and distributes that income to its shareholders by way of dividends. In order to maintain our status as a REIT, we must comply with a number of requirements under federal income tax law that are discussed under Certain Federal Income Tax Considerations.

Our principal executive offices are located at 625 Madison Avenue, New York, New York 10022. Our telephone number is (212) 421-5333.

Recent Developments

Dividend Declaration. On March 13, 2003, our Board of Trustees declared a dividend of $0.40 per share for the first quarter ended March 31, 2003, payable to shareholders of record on March 31, 2003. The dividend will be paid on May 15, 2003.

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Plaza at San Jacinto. On March 7, 2003, we exercised our rights under the subordinated promissory note and other documents to take possession of the real estate collateral of the Plaza at San Jacinto, a 132-unit multifamily property located in LaPorte, Texas. We had provided a $1.25 million mezzanine loan to the owner of the Plaza at San Jacinto on May 24, 2001. We paid approximately $6.7 million and now own the first mortgage loan on the property. As such, we are now a mortgagee in possession. This is a preliminary step towards foreclosure, which is expected to take place in the near future and allows us to secure and protect the real estate and cash collateral, securing both the first mortgage loan and the mezzanine loan. Based on a recent independent appraisal, we believe that the value of the collateral exceeds the amounts paid for the first mortgage loan and the mezzanine loan. However, there can be no assurance that we will be able to sell this property for an amount greater than or equal to its appraised value.

Interest Rate Swap. On March 24, 2003, we entered into a five-year LIBOR interest rate swap with a notional amount of $30 million, which represents approximately 34% of our outstanding floating rate debt on the Nomura Facility at December 31, 2002. The annual fixed interest rate payable by us on this swap is 3.48%.

New Loans. See Our Investments Portfolio Recent Developments beginning on page S-31 of this prospectus supplement for a discussion of other recent developments in our portfolio.

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THE OFFERING

Common shares of beneficial interest offered	1,700,000 shares(1)
Common shares of beneficial interest outstanding after this offering	8,080,630 shares(2)(3)
Use of proceeds	We estimate that our net proceeds from this offering, without exercise of the overallotment option, will be approximately $24 million. We intend to use the net proceeds to fund future investment activity. See Use of Proceeds beginning on page S-9 of this prospectus supplement.
Risk Factors	See Risk Factors beginning on page S-12 of this prospectus supplement, and other information included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference for a discussion of factors you should carefully consider before deciding to invest in the common shares.
American Stock Exchange symbol	AMC

(1) 1,955,000 shares if the underwriters exercise their over-allotment option in full.

(2) Includes 17,000 common shares that we will issue to our Advisor upon completion of this offering (we will issue an additional 2,550 common shares (for a total of 19,550 common shares) to our Advisor if the underwriters exercise their over-allotment in full) pursuant to the Advisory Agreement, which entitles our Advisor to receive as compensation a number of common shares equal to 1% of the total number of common shares issued by us in this offering. Does not include 383,863 common shares reserved for issuance under our Incentive Share Option Plan.

(3) 8,338,180 common shares (including 19,550 common shares to be issued as described in footnote 2 above) if the underwriters exercise their over-allotment option in full.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of our common shares to acquire and originate government-insured and uninsured investments consistent with our investment strategy and subject to our investment policy limitations as stated in our declaration of trust.

The net proceeds from the sale of 1,700,000 common shares will be approximately $24 million after deducting the underwriting discount and the estimated expenses of the offering.

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SELECTED FINANCIAL DATA

The selected financial data as of December 31, 2002, 2001 and 2000 and for the years then ended are derived from our audited financial statements for those years. You should read this selected financial data along with Management s Discussion and Analysis of Financial Condition and Results of Operations, our audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002, which is incorporated by reference in this prospectus supplement or the accompanying prospectus.

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands, except per share amounts)		
Operating Data:			
Mortgage loan income	$ 2,050	$ 2,773	$ 1,565
Ginnie Mae income	5,769	2,294	473
CMBS income			3,190
Equity in earnings of ARCap	2,400	2,400	401
Other income	2,639	631	2,682
Net (loss) gain on investments	614	(251)	(227)
Interest expense	(1,228)	(1,406)	(3,372)
Other expenses	(2,584)	(1,254)	(1,394)
Net income	$ 9,660	$ 5,187	$ 3,318
Net income per share (basic and diluted)	$ 1.61	$ 1.35	$ .86
Weighted average shares outstanding (basic and diluted)	6,017,740	3,838,630	3,838,630
Balance Sheet Data:			
Total assets	$ 195,063	$ 101,982	$ 70,438
Repurchase and warehouse facilities payable	$ 96,668	$ 43,610	$ 12,656
Total shareholders equity	$ 94,338	$ 55,279	$ 55,076
Other Data:			
Return on Equity	12.9%	9.4%	5.9%
Return on Assets	6.5%	6.0%	3.6%
Debt Service Coverage Ratio	8.9x	4.7x	2.0x

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CAPITALIZATION

Our actual capitalization at December 31, 2002, and our capitalization as adjusted to give effect to the issuance of 1,700,000 common shares in this offering at a price of $15.00 per share is set forth below.

	as of December 31, 2002	
	Actual	As Adjusted*
	(Dollars in thousands)	
Shares of beneficial interest; par value $0.10 per share; 25,000,000 shares authorized; 6,738,826 issued and 6,363,630 outstanding (as adjusted 8,455,826 issued and 8,080,630 outstanding)	$ 674	$ 846
Treasury shares of beneficial interest; 375,196 shares	(38)	(38)
Additional paid-in-capital	99,470	123,198
Distributions in excess of net income	(14,471)	(14,471)
Accumulated other comprehensive income	8,703	8,703
Total	$ 94,338	$ 118,238

* After deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. Includes 17,000 common shares that we will issue to our Advisor (19,550 if the underwriters exercise their over-allotment option in full) upon completion of this offering pursuant to the Advisory Agreement. Assumes no exercise of the underwriters over-allotment option to purchase up to an additional 255,000 common shares.

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RISK FACTORS

An investment in our common shares involves a number of risks. Before making an investment decision, you should carefully consider all of the risks described in this prospectus supplement. If any of the risks discussed in this prospectus supplement actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the trading price of our common shares could decline and you may lose all or part of your investment.

Mortgage investments that are not United States government insured and non-investment grade mortgage assets involve risk of loss

General. We intend to continue to originate and acquire uninsured and non-investment grade mortgage loans and mortgage assets as part of our investment strategy. Such loans and assets may include mezzanine loans, bridge loans and CMBS. While holding such interests, we will be subject to risks of borrower defaults, bankruptcies, fraud and losses and special hazard losses that are not covered by standard hazard insurance. Also, the costs of financing the mortgage loans could exceed the return on the mortgage loans. In the event of any default under mortgage loans held by us, we will bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the mortgage loan. To the extent we suffer such losses with respect to our investments in mortgage loans, the value of our company and the price of our common shares may be adversely affected.

Limited recourse loans may limit our recovery to the value of the mortgaged property. Our loans are generally non-recourse, except for our mezzanine loans, which typically have limited recourse provisions for the first three years from the date of the permanent loan. In addition, limited recourse against the borrower may be further limited by applicable provisions of the laws of the jurisdictions in which the mortgaged properties are located or by the selection of remedies and the impact of those laws on that selection. With respect to our non-recourse mortgage loans, in the event of a borrower default, the specific mortgaged property and other assets, if any, pledged to secure the relevant mortgage loan, may be less than the amount owed under the mortgage loan. As to those mortgage loans that provide for recourse against the borrower and its assets generally, there can be no assurance that such recourse will provide a recovery in respect of a defaulted mortgage loan greater than the liquidation value of the mortgaged property securing that mortgage loan.

Competition in acquiring desirable investments may limit the availability of desirable investments which could, in turn, negatively affect our ability to maintain our dividend distribution

We compete for loan investments with numerous public and private real estate investment vehicles, such as mortgage banks, pension funds, REITs, institutional investors and individuals. Mortgages, subordinated interests in CMBS and other investments are often obtained through a competitive bidding process. In addition, competitors may seek to establish relationships with the financial institutions and other firms from which we intend to purchase such assets. Many of our competitors are larger than us, may have access to greater capital and other resources, may have management personnel with more experience than our officers or our Advisor and may have other advantages over us and our Advisor in conducting certain business and providing certain services. Competition may result in higher prices for mortgage assets, lower yields and a narrower spread of yields over our borrowing costs. In addition, competition for desirable investments could delay the investment of proceeds from this offering in desirable assets, which may, in turn, reduce earnings per share and may negatively affect our ability to maintain our dividend distribution. There can be no assurance that we will achieve investment results that will allow any specified level of cash distribution.