ISTAR FINANCIAL INC
Form 10-Q
November 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to
Commission File No. 1-15371

iSTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Maryland	**95-6881527**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1114 Avenue of the Americas, 39th Floor New York, NY	**10036**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: **(212) 930-9400**

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports); and (ii) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 2, 2011, there were 81,917,894 shares of common stock, $0.001 par value per share, of iStar Financial Inc. ("Common Stock") outstanding.

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PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Financial Statements

iStar Financial Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

(unaudited)

	As of September 30, 2011	As of December 31, 2010
ASSETS		
Loans and other lending investments, net	$ 3,283,725	$ 4,587,352
Net lease assets, net	1,726,922	1,784,509
Real estate held for investment, net	954,646	833,060
Other real estate owned	669,331	746,081
Other investments	621,167	532,358
Assets held for sale	33,759	
Cash and cash equivalents	217,015	504,865
Restricted cash	39,316	13,784
Accrued interest and operating lease income receivable, net	15,924	24,408
Deferred operating lease income receivable	69,417	62,569
Deferred expenses and other assets, net	122,630	85,528
Total assets	$ 7,753,852	$ 9,174,514
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 154,095	$ 134,422
Debt obligations, net	5,995,050	7,345,433
Total liabilities	$ 6,149,145	$ 7,479,855
Commitments and contingencies		
Equity:		
iStar Financial Inc. shareholders' equity:		
Preferred Stock Series D, E, F, G and I, liquidation preference $25.00 per share (see Note 12)	22	22
High Performance Units	9,800	9,800
Common Stock, $0.001 par value, 200,000 shares authorized, 138,616 issued and 80,509 outstanding at September 30, 2011 and 138,189 issued and 92,336 outstanding at December 31, 2010	139	138
Additional paid-in capital	3,825,793	3,809,071
Retained earnings (deficit)	(2,041,975)	(2,014,013)
Accumulated other comprehensive income (see Note 15)	1,508	1,609
Treasury stock, at cost, $0.001 par value, 58,108 shares at September 30, 2011 and 45,853 shares at December 31, 2010	(237,341)	(158,492)

Total iStar Financial Inc. shareholders' equity	$	1,557,946	$	1,648,135
Noncontrolling interests		46,761		46,524
Total equity	$	1,604,707	$	1,694,659
Total liabilities and equity	$	7,753,852	$	9,174,514

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

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iStar Financial Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Revenue:				
Interest income	$ 45,851	$ 84,210	$ 186,805	$ 287,295
Operating lease income	41,369	40,471	123,090	124,760
Other income	10,140	8,616	26,413	22,869
Total revenue	$ 97,360	$ 133,297	$ 336,308	$ 434,924
Costs and expenses:				
Interest expense	$ 91,777	$ 77,286	$ 258,183	$ 246,815
Operating costs net lease assets	5,048	5,226	14,303	11,279
Operating costs REHI and OREO	19,792	19,111	55,582	45,166
Depreciation and amortization	14,814	15,246	46,354	46,722
General and administrative	26,978	24,239	77,077	76,569
Provision for loan losses	9,232	78,414	30,462	277,242
Impairment of assets	9,912	3,832	14,165	17,041
Other expense	3,974	4,219	7,156	13,321
Total costs and expenses	$ 181,527	$ 227,573	$ 503,282	$ 734,155
Income (loss) before earnings from equity method investments and other items	$ (84,167)	$ (94,276)	$ (166,974)	$ (299,231)
Gain (loss) on early extinguishment of debt, net	(3,207)	9,525	102,348	118,305
Earnings from equity method investments	10,817	6,523	54,881	31,703
Income (loss) from continuing operations before income taxes	$ (76,557)	$ (78,228)	$ (9,745)	$ (149,223)
Income tax (expense) benefit	(1,354)	(722)	(9,731)	(2,557)
Income (loss) from continuing operations(1)	$ (77,911)	$ (78,950)	$ (19,476)	$ (151,780)
Income (loss) from discontinued operations	1,052	(104)	498	20,473
Gain from discontinued operations	22,198	4,422	22,198	270,382
Net income (loss)	$ (54,661)	$ (74,632)	$ 3,220	$ 139,075
Net (income) loss attributable to noncontrolling interests	1,002	(858)	558	(857)
Net income (loss) attributable to iStar Financial Inc.	$ (53,659)	$ (75,490)	$ 3,778	$ 138,218
Preferred dividends	(10,580)	(10,580)	(31,740)	(31,740)
Net (income) loss allocable to HPU holders and Participating Security holders(2)(3)	2,008	2,539	845	(3,145)

Net income (loss) allocable to common shareholders	$ (62,231)	$ (83,531)	$ (27,117)	$ 103,333
Per common share data(1):				
Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic and diluted	$ (0.96)	$ (0.94)	$ (0.55)	$ (1.91)
Net income (loss) attributable to iStar Financial Inc.:				
Basic and diluted	$ (0.71)	$ (0.89)	$ (0.30)	$ 1.10
Weighted average number of common shares basic and diluted	87,951	93,370	91,020	93,556
Per HPU share data(1)(2):				
Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic and diluted	$ (182.34)	$ (177.74)	$ (102.06)	$ (361.26)
Net income (loss) attributable to iStar Financial Inc.:				
Basic and diluted	$ (133.87)	$ (169.27)	$ (56.33)	$ 209.67
Weighted average number of HPU shares basic and diluted	15	15	15	15

Explanatory Notes:

(1) Income (loss) from continuing operations attributable to iStar Financial Inc. for the three months ended September 30, 2011 and 2010 was $(76,909) and $(79,808), respectively, and for the nine months ended September 30, 2011 and 2010 was $(18,918) and $(152,637), respectively. See Note 14 for detail on the calculation of earnings per share.

(2) HPU holders are current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit Program.

(3) Participating Security holders are Company employees and directors who hold unvested restricted stock units and common stock equivalents granted under the Company's Long Term Incentive Plans that are eligible to receive dividends (see Note 13).

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

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iStar Financial Inc.

Consolidated Statement of Changes in Equity

For the Nine Months Ended September 30, 2011

(In thousands)

(unaudited)

	iStar Financial Inc. Shareholders' Equity								
	Preferred Stock(1)	HPU's	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Treasury Stock at cost	Noncontrolling Interests	Total Equity
Balance at December 31, 2010	$ 22	$ 9,800	$ 138	$ 3,809,071	$ (2,014,013)	$ 1,609	$ (158,492)	$ 46,524	$ 1,694,659
Dividends declared preferred					(31,740)				(31,740)
Issuance of stock/restricted stock unit amortization, net			1	16,722					16,723
Net income for the period(2)					3,778			(542)	3,236
Change in accumulated other comprehensive income						(101)			(101)
Repurchase of stock							(78,849)		(78,849)
Contributions from noncontrolling interests								1,900	1,900
Distributions to noncontrolling interests								(1,121)	(1,121)
Balance at September 30, 2011	$ 22	$ 9,800	$ 139	$ 3,825,793	$ (2,041,975)	$ 1,508	$ (237,341)	$ 46,761	$ 1,604,707

Explanatory Notes:

(1) See Note 12 for details on the Company's Cumulative Redeemable Preferred Stock.

(2) For the nine months ended September 30, 2011, net income shown above excludes $16 of net loss attributable to redeemable noncontrolling interests.

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

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iStar Financial Inc.

Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Cash flows from operating activities:		
Net income	$ 3,220	$ 139,075
Adjustments to reconcile net income to cash flows from operating activities:		
Provision for loan losses	30,462	277,242
Non-cash expense for stock-based compensation	15,622	13,597
Impairment of assets	14,140	18,903
Depreciation and amortization	47,142	55,036
Amortization of discounts/(premiums) and deferred financing costs on debt	23,489	(15,899)
Amortization of (discounts)/premiums and deferred interest on lending investments	(52,027)	(81,636)
Discounts, loan fees and deferred interest received	3,303	10,539
Earnings from equity method investments	(54,881)	(31,703)
Distributions from operations of equity method investments	45,846	26,245
Deferred operating lease income	(6,750)	(8,010)
Gain from discontinued operations	(22,198)	(270,382)
Gain on early extinguishment of debt, net	(98,624)	(119,457)
Other non-cash adjustments	(2,497)	653
Changes in assets and liabilities:		
Changes in accrued interest and operating lease income receivable, net	5,747	15,521
Changes in deferred expenses and other assets, net	1,720	(6,021)
Changes in accounts payable, accrued expenses and other liabilities	33,851	(14,850)
Cash flows from operating activities	$ (12,435)	$ 8,853
Cash flows from investing activities:		
New investment originations	$	$ (100,000)
Fundings under existing loan commitments	(58,141)	(303,336)
Repayments of and principal collections on loans	1,068,797	1,209,098
Net proceeds from sales of loans	88,751	413,983
Net proceeds from sales of net lease assets	672	1,362,983
Net proceeds from sales of other real estate owned	139,279	374,881
Net proceeds from repayments and sales of securities		213,239
Contributions to unconsolidated entities	(31,462)	(15,793)
Distributions from unconsolidated entities	16,434	7,778
Capital expenditures on net lease assets	(11,138)	(10,108)
Capital expenditures on REHI and OREO	(34,915)	(18,528)
Changes in restricted cash held in connection with investing activities	(25,165)	(260)
Other investing activities, net	708	(3,003)
Cash flows from investing activities	$ 1,153,820	$ 3,130,934
Cash flows from financing activities:		
Borrowings under secured credit facilities	$ 2,913,250	$ 499
Repayments under secured credit facilities	(1,385,602)	
Repayments under unsecured credit facilities	(506,600)	
Borrowings under secured term loans	124,575	
Repayments under secured term loans	(1,682,009)	(1,131,186)
Repayments under unsecured notes	(375,127)	(264,388)
Repurchases and redemptions of secured and unsecured notes	(371,827)	(811,773)
Payments for deferred financing costs	(35,545)	
Preferred dividends paid	(31,740)	(31,740)

Purchase of treasury stock	(78,849)	(7,476)
Changes in restricted cash held in connection with debt obligations	200	11,189
Other financing activities, net	39	(9,903)
Cash flows from financing activities	$ (1,429,235)	$ (2,244,778)
Changes in cash and cash equivalents	$ (287,850)	$ 895,009
Cash and cash equivalents at beginning of period	504,865	224,632
Cash and cash equivalents at end of period	$ 217,015	$ 1,119,641

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

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iStar Financial Inc.

Notes to Consolidated Financial Statements

(unaudited)

Note 1 Business and Organization

Business iStar Financial Inc., or the "Company," is a fully-integrated finance and investment company focused on the commercial real estate industry. The Company provides custom-tailored investment capital to high-end private and corporate owners of real estate and invests directly across a range of real estate sectors. The Company is taxed as a real estate investment trust, or "REIT." The Company's primary business segments are lending, net leasing and real estate investment. See Note 11 for discussion of the impact of recent economic conditions on the Company and business risks and uncertainties.

Organization The Company began its business in 1993 through private investment funds and became publicly traded in 1998. Since that time, the Company has grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions, including the acquisition of TriNet Corporate Realty Trust, Inc. in 1999 and the acquisition of the commercial real estate lending business and loan portfolio of Fremont Investment and Loan, a division of Fremont General Corporation, in 2007.

Note 2 Basis of Presentation and Principles of Consolidation

Basis of Presentation The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with the instructions to Form 10-Q and Article 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. These unaudited Consolidated Financial Statements and related Notes should be read in conjunction with the Consolidated Financial Statements and related Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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 and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments necessary for a fair statement of the results for the interim periods presented. Such operating results may not be indicative of the expected results for any other interim periods or the entire year.

Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related Notes to conform to the 2011 presentation.

Principles of Consolidation The Consolidated Financial Statements include the financial statements of the Company, its wholly owned subsidiaries, controlled partnerships and variable interest entities ("VIEs") for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Consolidated VIEs The Company consolidates OHA Strategic Credit Fund Parallel I, L.P. ("OHA SCF"), which was created to invest in distressed and undervalued loans, bonds, equities and other investments. As of September 30, 2011 and December 31, 2010, OHA SCF had total assets of $53.6 million and $45.7 million, respectively, no debt and $0.1 million of noncontrolling interests. The investments held

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 2 Basis of Presentation and Principles of Consolidation (Continued)

by this entity are presented in "Other investments" on the Company's Consolidated Balance Sheets. As of September 30, 2011, the Company had a total unfunded commitment of $21.9 million to this entity.

The Company also consolidates Madison Deutsche Andau Holdings, LP ("Madison DA"), which was created to invest in mortgage loans collateralized by real estate in Europe. As of September 30, 2011 and December 31, 2010, Madison DA had total assets of $56.9 million and $58.0 million, respectively, no debt and noncontrolling interests of $8.3 million and $8.6 million, respectively. The investments held by this entity are presented in "Loans and other lending investments, net" on the Company's Consolidated Balance Sheets.

Unconsolidated VIEs The Company determined that as of September 30, 2011, 24 of its other investments were in VIEs where it is not the primary beneficiary and accordingly the VIEs have not been consolidated in the Company's Consolidated Financial Statements. As of September 30, 2011, the Company's maximum exposure to loss from these investments does not exceed the sum of the $235.9 million carrying value of the investments and $8.1 million of related unfunded commitments.

Note 3 Summary of Significant Accounting Policies

As of September 30, 2011, the Company's significant accounting policies, which are detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, have not changed materially.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, "Presentation of Comprehensive Income," which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The new requirements are effective for interim and annual reporting periods beginning after December 15, 2011 and will be applied retrospectively. The Company will adopt this ASU for the reporting period ending March 31, 2012, as required.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU is a result of joint efforts by the FASB and IASB to develop a single, converged framework on how to measure fair value and what disclosures to provide about fair value measurements. This ASU is largely consistent with existing fair value measurement principles of U.S. GAAP, however, it expands existing disclosure requirements for fair value measurements. The ASU is effective for interim and annual reporting periods beginning after December 15, 2011 and should be applied prospectively. The Company will adopt this ASU for the reporting period ending March 31, 2012, as required.

In April 2011, the FASB issued ASU 2011-02, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides additional guidance to creditors for determining whether a loan modification is a troubled debt restructuring ("TDR"). The guidance provides additional considerations in determining whether a creditor has granted a concession and adds factors for creditors to consider in determining whether a debtor is experiencing financial difficulties. The new ASU is effective for the first interim or annual period beginning on or after June 15, 2011 with retrospective

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 3 Summary of Significant Accounting Policies (Continued)

application for loan modifications that have occurred from January 1, 2011. Loan modifications that qualify as TDRs are considered impaired and will be measured and recorded prospectively in the period of adoption. The Company adopted the standard in the period ended September 30, 2011, as required. As a result of this adoption, the Company reassessed all restructurings that occurred on or after January 1, 2011 for identification as troubled debt restructurings. As of September 30, 2011, the Company had a recorded investment of $50.9 million in loans for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now specifically reviewed for impairment. Based on a current evaluation of potential losses, no specific reserves were required for these loans. See Note 4 for further details on the impact of the adoption of this guidance.

In January 2011, FASB issued ASU 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20," which temporarily deferred the effective date in ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" in respect of disclosures related to troubled debt restructuring until FASB finalized ASU 2010-20 (see above). ASU 2010-20 requires companies to provide disaggregated levels of disclosure by portfolio segment and class to enable users of the financial statements to understand the nature of loan modifications and troubled debt restructurings. The Company adopted the TDR disclosure provisions of ASU 2010-20 in the period ended September 30, 2011, as required. See Note 4 for additional disclosures required by the adoption of these provisions.

Note 4 Loans and Other Lending Investments, net

The following is a summary of the Company's loans and other lending investments by class ($ in thousands)(1):

	As of	
Type of Investment	**September 30, 2011**	**December 31, 2010**
Senior mortgages	$ 3,277,891	$ 4,390,770
Subordinate mortgages	214,405	305,245
Corporate/Partnership loans	485,708	689,535
Total gross carrying value of loans(2)	$ 3,978,004	$ 5,385,550
Reserves for loan losses	(710,117)	(814,625)
Total carrying value of loans	$ 3,267,887	$ 4,570,925
Other lending investments securities	15,838	16,427
Total loans and other lending investments, net	$ 3,283,725	$ 4,587,352

Explanatory Notes:

(1) Loans and other lending investments are presented net of unearned income, unamortized discounts and premiums and net unamortized deferred fees and costs. In total, these amounts represented a net discount of $94.0 million and $62.7 million as of September 30, 2011 and December 31, 2010, respectively.

(2) The Company's recorded investment in loans as of September 30, 2011 and December 31, 2010 was $3.99 billion and $5.41 billion, respectively, which consists of total gross carrying value of loans plus accrued interest of $12.8 million and $21.3 million, for the same two periods, respectively.

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 4 Loans and Other Lending Investments, net (Continued)

During the nine months ended September 30, 2011, the Company funded $58.1 million under existing loan commitments and received principal repayments of $1.07 billion. During the same period, the Company sold loans with a total carrying value of $132.1 million, for which it recognized charge-offs of $23.4 million.

During the nine months ended September 30, 2011, the Company received title to properties in full or partial satisfaction of non-performing mortgage loans with a gross carrying value of $240.8 million, for which the properties had served as collateral, and recorded charge-offs totaling $48.3 million related to these loans. These properties were recorded as real estate held for investment ("REHI") or other real estate owned ("OREO") on the Company's Consolidated Balance Sheets (see Note 5). In addition, during the same period, the Company received equity in an entity that took title to a property in satisfaction of a non-performing mortgage for which the property had served as collateral. The Company held a participation in the mortgage with a gross carrying value of $74.6 million and charged-off $29.2 million upon receiving the equity interest (see Note 7).

Reserve for Loan Losses Changes in the Company's reserve for loan losses were as follows ($ in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Reserve for loan losses at beginning of period	$ 701,228	$ 1,181,288	$ 814,625	$ 1,417,949
Provision for loan losses	9,232	78,414	30,462	277,242
Charge-offs	(343)	(235,041)	(134,970)	(670,530)
Reserve for loan losses at end of period	$ 710,117	$ 1,024,661	$ 710,117	$ 1,024,661

The Company's recorded investment (comprised of a loan's carrying value plus accrued interest) in loans and the associated reserve for loan losses were as follows ($ in thousands):

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Total
As of September 30, 2011:				
Loans	$ 1,900,885	$ 2,014,760	$ 75,130	$ 3,990,775
Less: Reserve for loan losses	(631,211)	(76,700)	(2,206)	(710,117)
Total	$ 1,269,674	$ 1,938,060	$ 72,924	$ 3,280,658
As of December 31, 2010:				
Loans	$ 2,296,599	$ 3,034,310	$ 75,907	$ 5,406,816
Less: Reserve for loan losses	(692,610)	(120,200)	(1,815)	(814,625)
Total	$ 1,603,989	$ 2,914,110	$ 74,092	$ 4,592,191

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 4 Loans and Other Lending Investments, net (Continued)

Credit Characteristics As part of the Company's process for monitoring the credit quality of its loans, it performs a quarterly loan portfolio assessment and assigns risk ratings to each of its performing loans. The Company's recorded investment in performing loans, presented by class and by credit quality, as indicated by risk rating, was as follows ($ in thousands)(1):

	As of			
	September 30, 2011		December 31, 2010	
	Performing Loans	Weighted Average Risk Ratings	Performing Loans	Weighted Average Risk Ratings
Senior mortgages	$ 1,683,232	3.29	$ 2,394,270	3.48
Subordinate mortgages	192,082	3.22	307,509	3.20
Corporate/Partnership loans	478,134	3.62	685,848	3.76
Total	$ 2,353,448	3.35	$ 3,387,627	3.51

Explanatory Note:

(1) Ratings range from "1" to "5" with "1" representing the lowest risk of loss and "5" representing the highest risk of loss.

The Company's recorded investment in loans as of September 30, 2011, aged by payment status and presented by class, were as follows ($ in thousands):

	Current	Less Than and Equal to 90 Days	Greater Than 90 Days(1)	Total Past Due	Total
Senior mortgages	$ 1,842,261	$ 68,147	$ 1,375,201	$ 1,443,348	$ 3,285,609
Subordinate mortgages	215,740				215,740
Corporate/Partnership loans	478,132		11,294	11,294	489,426
Total	$ 2,536,133	$ 68,147	$ 1,386,495	$ 1,454,642	$ 3,990,775

Explanatory Note:

(1) All loans with payments more than 90 days past due are classified as non-performing and are on non-accrual status.

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 4 Loans and Other Lending Investments, net (Continued)

Impaired Loans The Company's recorded investment in impaired loans, presented by class, were as follows ($ in thousands)(1):

	As of September 30, 2011			As of December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Senior mortgages(2)	$ 216,852	$ 217,945	$	$ 404,861	$ 404,126	$
Corporate/Partnership loans	10,110	10,160		10,110	10,160	
Subtotal	$ 226,962	$ 228,105	$	$ 414,971	$ 414,286	$
With an allowance recorded:						
Senior mortgages(2)	$ 1,602,712	$ 1,592,418	$ (599,472)	$ 1,834,008	$ 1,825,150	$ (683,948)
Subordinate mortgages	23,657	23,735	(23,657)			
Corporate/Partnership loans	64,853	65,140	(10,288)	64,465	64,919	(10,477)
Subtotal	$ 1,691,222	$ 1,681,293	$ (633,417)	$ 1,898,473	$ 1,890,069	$ (694,425)
Total:						
Senior mortgages	$ 1,819,564	$ 1,810,363	$ (599,472)	$ 2,238,869	$ 2,229,276	$ (683,948)
Subordinate mortgages	23,657	23,735	(23,657)			
Corporate/Partnership loans	74,963	75,300	(10,288)	74,575	75,079	(10,477)
Total	$ 1,918,184	$ 1,909,398	$ (633,417)	$ 2,313,444	$ 2,304,355	$ (694,425)

Explanatory Notes:

(1) All of the Company's non-accrual loans are considered impaired and included in the table above. In addition, as of September 30, 2011 and December 31, 2010, certain loans modified through troubled debt restructurings with a recorded investment of $280.9 million and $294.3 million, respectively, are also included as impaired loans in accordance with GAAP although they are performing and on accrual status.

(2) Amount includes impaired loans acquired with deteriorated credit quality.

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 4 Loans and Other Lending Investments, net (Continued)

The Company's average recorded investment in impaired loans and interest income recognized, presented by class, were as follows ($ in thousands):

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2011		2010		2011		2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Senior mortgages	$ 230,888	$ 1,788	$ 645,653	$ 1,569	$ 331,478	$ 31,374	$ 722,722	$ 19,856
Subordinate mortgages							1,755	74
Corporate/Partnership loans	10,110	240	21,044		10,110	560	31,879	1,310
Subtotal	$ 240,998	$ 2,028	$ 666,697	$ 1,569	$ 341,588	$ 31,934	$ 756,356	$ 21,240
With an allowance recorded:								
Senior mortgages	$ 1,583,105	$ 1,873	$ 2,195,637	$ 925	$ 1,693,366	$ 5,994	$ 2,556,167	$ 4,694
Subordinate mortgages	24,783		93,912	46	18,726		96,406	107
Corporate/Partnership loans	67,446	81	85,940		66,961	250	65,282	
Subtotal	$ 1,675,334	$ 1,954	$ 2,375,489	$ 971	$ 1,779,053	$ 6,244	$ 2,717,855	$ 4,801
Total:								
Senior mortgages	$ 1,813,993	$ 3,661	$ 2,841,290	$ 2,494	$ 2,024,844	$ 37,368	$ 3,278,889	$ 24,550
Subordinate mortgages	24,783		93,912	46	18,726		98,161	181
Corporate/Partnership loans	77,556	321	106,984		77,071	810	97,161	1,310
Total	$ 1,916,332	$ 3,982	$ 3,042,186	$ 2,540	$ 2,120,641	$ 38,178	$ 3,474,211	$ 26,041

During the nine months ended September 30, 2011, the Company recorded interest income of $26.3 million related to the resolution of certain non-performing loans. Interest income was not previously recorded while the loans were on non-accrual status.

Troubled Debt Restructurings The Company's troubled debt restructurings, presented by class, had the following impact to its recorded investment in loans ($ in thousands):

	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2011

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Senior mortgages	3	$ 65,107	$ 65,107	7	$ 191,158	$ 190,893

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 4 Loans and Other Lending Investments, net (Continued)

Troubled debt restructurings that subsequently defaulted during the period were as follows ($ in thousands):

	For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
	Number of Loans	Outstanding Recorded Investment	Number of Loans	Outstanding Recorded Investment
Senior mortgages	1	$ 12,257	2	$ 40,262

During the three months ended September 30, 2011, the Company restructured three loans that were considered troubled debt restructurings. The Company extended the maturity of two of these loans with a combined recorded investment of $49.3 million, while leaving the interest rate unchanged. The loans have a new weighted average maturity of 0.4 years with conditional extension options in certain cases dependent on pay down hurdles. The Company extended a discounted payoff option on the third loan that is currently classified as non-performing.

During the nine months ended September 30, 2011, the Company restructured seven loans that were considered troubled debt restructurings. In addition to the three loans modified during the current quarter that are described above, the Company restructured four additional loans in the first half of the year. The Company reduced the rate on three of these loans with a combined recorded investment of $105.7 million, from a combined weighted average rate of 8.3% to 4.7% and extended the loans with a new weighted average maturity of 1.4 years, with conditional extension options in certain cases dependent on pay down hurdles. The Company extended the term of the remaining loan by six months with the interest rate unchanged. In addition, as of September 30, 2011, the Company had $6.1 million of unfunded commitments on modified loans considered troubled debt restructurings.

For the six loans that were extended, the Company believes the borrowers can perform under the new terms and has classified these loans as performing. Generally when granting financial concessions, the Company will seek to protect its position by requiring incremental pay downs, additional collateral or guarantees and in some cases lookback features or equity kickers to offset concessions granted should conditions improve.

The Company's determination of credit losses is impacted by troubled debt restructurings whereby loans that have gone through troubled debt restructurings are considered impaired and assessed for specific reserves and are not included in the Company's assessment of general reserves. Loans previously restructured under troubled debt restructurings that subsequently default are reassessed to incorporate the Company's current assumptions on expected cash flows and additional provision expense is recorded to the extent necessary.

Encumbered Loans As of September 30, 2011 and December 31, 2010, loans and other lending investments with a carrying value of $2.12 billion and $2.83 billion, respectively, were pledged as collateral under the Company's secured indebtedness.

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 5 Real Estate Held for Investment, net and Other Real Estate Owned

During the nine months ended September 30, 2011, the Company received title to properties with an aggregate estimated fair value at the time of foreclosure of $192.5 million, in full or partial satisfaction of non-performing mortgage loans for which those properties had served as collateral. Of these, properties with a value of $124.1 million were classified as REHI and $68.4 million were classified as OREO, based on management's current intention to either hold the properties over a longer period or to market them for sale in the near term.

Real Estate Held for Investment, net REHI consisted of the following ($ in thousands):

	As of September 30, 2011	As of December 31, 2010
Land held for investment and development	$ 635,467	$ 606,083
Operating property		
Land	82,266	69,807
Buildings and improvements	250,264	165,025
Less: accumulated depreciation and amortization	(13,351)	(7,855)
Real estate held for investment, net	$ 954,646	$ 833,060

The Company recorded REHI operating income in "Other income" and REHI operating expenses in "Operating costs REHI and OREO," on its Consolidated Statements of Operations, as follows ($ in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
REHI operating income	$ 8,207	$ 5,597	$ 22,356	$ 14,111
REHI operating expenses	$ 12,130	$ 8,944	$ 31,422	$ 21,113

Other Real Estate Owned During the nine months ended September 30, 2011, the Company sold OREO assets with a carrying value of $142.8 million. For the three and nine months ended September 30, 2011, the Company recorded net impairment charges to OREO properties totaling $9.3 million and $12.6 million, respectively, and recorded net expenses related to holding costs for OREO properties of $7.7 million and $24.2 million, respectively.

For the three and nine months ended September 30, 2010, the Company recorded net (recoveries)/impairment charges to OREO properties totaling $(0.4) million and $16.8 million, respectively, and recorded net expenses related to holding costs for OREO properties of $10.2 million and $24.1 million, respectively.

Encumbered REHI and OREO As of September 30, 2011 and December 31, 2010, REHI assets with a carrying value of $142.5 million and $28.4 million, respectively, and OREO assets with a carrying value of $163.8 million and $232.1 million, respectively, were pledged as collateral for