



Annual report
2019

FS Credit Real Estate Income Trust

Fellow Shareholder,

During this unprecedented public health crisis, we hope that you and your families are staying safe and healthy. Just as we all have had to adjust our daily lives and routines, the financial markets are adjusting to the reality of higher bouts of volatility and increased uncertainty. While it is too early to fully understand the impact of the COVID-19 pandemic, we remain in constant dialogue with our borrowers and financing partners and have positioned our portfolio to preserve shareholder capital.

First, FS Credit REIT's portfolio is well diversified across property types, which is a key advantage during periods of uncertainty. As of March 31, 2020, the top property type, office, made up just 25% of the portfolio, followed by multifamily and industrial at 20% each. FS Credit REIT has limited exposure in each of the hospitality and retail sectors, which have been most heavily impacted by the COVID-19 crisis.

Second, in terms of income, all of FS Credit REIT's senior secured, floating rate loans have LIBOR floors, which have protected our ability to generate income as interest rates have fallen.

Finally, FS Credit REIT continues to use leverage prudently to enhance returns. Recently, some highly levered funds investing in commercial real estate debt and securities have come under pressure. These funds generally have high levels of exposure to liquid securities held on a levered basis with short-term financing. FS Credit REIT has very limited exposure to liquid, mark-to-market securities (less than 3% of total assets as of March 31, 2020), all of which are investment grade and held on a direct, unlevered basis. In addition, the majority of FS Credit REIT's directly originated loans are held in a structured financing vehicle that is match term and not subject to mark-to-market limitations. As a result, FS Credit REIT's capital structure has remained stable in this environment — we have experienced no margin calls from our lenders.

These collective efforts have led to relatively stable returns for our shareholders, with a modest decline in NAV from February 2020 to March 2020 (approximately -0.80% across all share classes) while the S&P 500 declined more than 12%. Year to date through March 31, we have generated a positive shareholder return of 1.56% on our Class I shares.

As fellow shareholders, we believe it is important to remain defensively positioned in the near term while also staying flexible should the environment present attractive opportunities. Significant uncertainty persists around the duration and scale of the impact of the pandemic on the U.S. economy and on the commercial real estate market. Because of our focus on maximizing liquidity, our senior loans secured by commercial real estate, and our long-term capital structure, we believe we are well positioned to navigate this disruption. Additionally, we believe there will be attractive opportunities for well-capitalized lenders like FS Credit REIT as markets begin to stabilize.

Thank you for your investment with us. We appreciate your continued support and hope you stay safe and healthy.

Sincerely,

The FS Credit Real Estate Income Trust Team

¹ FS Real Estate Advisor, LLC is responsible for the calculation of the Company's NAV. NAV is not a measure used under U.S. generally accepted accounting principles (GAAP) and the valuations of and certain adjustments made to FS Credit REIT's assets and liabilities used in the determination of NAV will differ from GAAP. NAV should not be considered to be equivalent to shareholders' equity or any other GAAP measure. Additional information relating to the calculation of NAV is available in FS Credit REIT's public filings with the Securities and Exchange Commission.

² Shareholder returns are the total returns an investor received for the highlighted period taking into account all distributions paid during such period. The calculation is net of any ongoing shareholder servicing fees and assumes that the investor purchased shares at NAV or the transaction price (which generally equals the prior month's NAV), as applicable, at the beginning of the applicable period and reinvested all cash distributions pursuant to FS Credit REIT's distribution reinvestment plan ("DRP"). Valuation as of the end of each period is the transaction price pursuant to FS Credit REIT's share repurchase program on such date.

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 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: 333-216037

FS Credit Real Estate Income Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

81-4446064
(I.R.S. Employer Identification No.)

201 Rouse Boulevard
Philadelphia, Pennsylvania
(Address of principal executive offices)

19112
(Zip Code)

(215) 495-1150

(Registrant's telephone number, including area code)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Exchange Act). Yes No

No established market exists for the registrant's shares of common stock.

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

As of March 23, 2020, there were 891,835 outstanding shares of Class F common stock, 141,116 outstanding shares of Class Y common stock, 1,187,094 outstanding shares of Class T common stock, 3,859,565 outstanding shares of Class S common stock, 481,620 outstanding shares of Class D common stock, 1,720,495 outstanding shares of Class M common stock and 1,744,103 outstanding shares of Class I common stock.

FS CREDIT REAL ESTATE INCOME TRUST, INC.

**FORM 10-K FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2019**

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PART I

Many of the amounts and percentages presented in Part I have been rounded for convenience of presentation and all dollar amounts, excluding share and per share amounts, are presented in thousands unless otherwise noted.

Item 1. Business.

Summary

FS Credit Real Estate Income Trust, Inc., or the Company, which may also be referred to as “we,” “us” or “our,” was incorporated under the general corporation laws of the State of Maryland on November 7, 2016 and formally commenced investment operations on September 13, 2017. We are currently conducting an initial public offering of up to \$2,750,000 of our Class T, Class S, Class D, Class M and Class I shares of common stock pursuant to a registration statement on Form S-11 filed with the Securities and Exchange Commission, or SEC, consisting of up to \$2,500,000 in shares in our primary offering and up to \$250,000 in shares pursuant to our distribution reinvestment plan. We are also conducting a private offering of shares of our Class F common stock and previously conducted a private offering of our Class Y common stock. We are managed by FS Real Estate Advisor, LLC, or FS Real Estate Advisor, a subsidiary of our sponsor, Franklin Square Holdings, L.P., which does business as FS Investments, or FS Investments, a national sponsor of alternative investment funds designed for the individual investor. FS Real Estate Advisor has engaged Rialto Capital Management, LLC, or Rialto, to act as its sub-adviser.

We have elected to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2017. We intend to be an investment vehicle of indefinite duration focused on real estate debt investments and other real estate-related assets. The shares of common stock are generally intended to be sold and repurchased by us on a continuous basis. We intend to conduct our operations so that we are not required to register under the Investment Company Act of 1940, as amended, or the 1940 Act.

Our primary investment objectives are to: provide current income in the form of regular, stable cash distributions to achieve an attractive dividend yield; preserve and protect invested capital; realize appreciation in net asset value, or NAV, from proactive management and asset management; and provide an investment alternative for stockholders seeking to allocate a portion of their long-term investment portfolios to commercial real estate debt with lower volatility than public real estate companies.

Our investment strategy is to originate, acquire and manage a portfolio of senior loans secured by commercial real estate primarily in the United States. We are focused on senior floating-rate mortgage loans, but we may also invest in other real estate-related assets, including: (i) other commercial real estate mortgage loans, including fixed-rate loans, subordinated loans, B-Notes, mezzanine loans and participations in commercial mortgage loans; and (ii) commercial real estate securities, including commercial mortgage-backed securities, or CMBS, unsecured debt of listed and non-listed REITs, collateralized debt obligations and equity or equity-linked securities. To a lesser extent we may invest in warehouse loans secured by commercial or residential mortgages, credit loans to commercial real estate companies, residential mortgage-backed securities, or RMBS, and portfolios of single family home mortgages.

About FS Real Estate Advisor

FS Real Estate Advisor is a subsidiary of FS Investments, a national sponsor of alternative investment funds designed for the individual investor. FS Investments was founded in 2007 and has established itself as a leader in the world of alternative investments. FS Real Estate Advisor is led by substantially the same personnel that form the investment and operations teams of the registered investment advisers that manage FS Investments' other affiliated registered investment companies and BDCs.

Our president and chief executive officer, Michael C. Forman, has led FS Real Estate Advisor since its inception. In 2007, he co-founded FS Investments with the goal of delivering alternative investment funds, advised by what FS Investments believes to be best-in-class institutional asset managers, to individual investors nationwide. In addition to leading FS Real Estate Advisor, Mr. Forman currently serves as chairman and/or chief executive officer of all the FS Investments' funds and their affiliated investment advisers.

FS Real Estate Advisor's senior management team has significant experience in private debt, private equity and real estate investing, and has developed an expertise investing in income-generating real estate investments, while focusing on risk management. The team also has extensive knowledge of the managerial, operational and regulatory requirements of publicly registered alternative asset entities. We believe that the active and ongoing participation by FS Investments and its affiliates in the real estate credit markets, and the depth of experience and disciplined investment approach of FS Real Estate Advisor's management team, will allow FS Real Estate Advisor to successfully execute our investment strategy.

Subject to our board of directors' oversight, we rely on FS Real Estate Advisor to manage our day-to-day activities and to implement our investment strategy. FS Real Estate Advisor performs its duties and responsibilities under an advisory agreement with us as a fiduciary of ours and our stockholders. The term of the advisory agreement is for one year, subject to renewals by our board of directors for an unlimited number of successive one year periods.

Our board of directors has approved broad investment guidelines that delegate to FS Real Estate Advisor the authority to execute originations, acquisitions and dispositions of assets on our behalf, in each case so long as such investments are consistent with the investment guidelines and our charter. These investment decisions are made by FS Real Estate Advisor and require the unanimous approval of its investment committee. The members of FS Real Estate Advisor's investment committee are Michael Kelly, Robert Lawrence, Robert Haas and David Weiser. Pursuant to a sub-advisory agreement between FS Real Estate Advisor and Rialto, Rialto acts as the sub-adviser, and makes investment recommendations for our benefit to FS Real Estate Advisor. Our board of directors, including a majority of our independent directors, oversees and monitors the performance of FS Real Estate Advisor.

About FS Investments

FS Investments is a leading asset manager dedicated to helping individuals, financial professionals and institutions design better portfolios. The firm provides access to alternative sources of income and growth and focuses on setting the industry standards for investor protection, education and transparency.

FS Investments is headquartered in Philadelphia, Pennsylvania with offices in Orlando, Florida, New York, New York and Washington, D.C. The firm had approximately \$24 billion in assets under management as of December 31, 2019.

About Rialto

FS Real Estate Advisor has engaged Rialto to act as the sub-adviser. Rialto assists FS Real Estate Advisor in identifying investment opportunities and makes investment recommendations for approval by FS Real Estate Advisor according to guidelines set by FS Real Estate Advisor. Rialto also oversees the management of our investment portfolio.

Founded in 2007, Rialto, together with its affiliates, is an integrated investment and asset management and operating business with approximately 230 professionals operating from 13 offices across the United States and Europe as of December 31, 2019. The professional team includes specialists in acquisitions, underwriting, real estate asset management, property management, leasing and development services, loan asset management and workouts, loan origination, finance, reporting, legal and special servicing. Previously 100% owned by Lennar Corporation (NYSE: LEN and LEN.B). On November 30, 2018, Rialto was acquired by funds managed by Stone Point Capital, LLC, a financial services-focused private equity firm based in Greenwich, Connecticut, in partnership with Rialto's management team.

From 2009 through December 31, 2019, Rialto has participated in approximately \$12.5 billion of equity investments. Out of this total amount of investments, approximately \$10.4 billion related to debt investments. More specifically, during this time period, Rialto, on behalf of its clients or directly on its balance sheet, invested in real estate loans at various levels of the capital structure (such as senior, senior subordinate or mezzanine) with a total original principal balance of over \$8.2 billion and in pools of commercial mortgage loans (commercial mortgage backed securities, or CMBS) with an aggregate unpaid principal balance of over \$15.7 billion.

Investment Strategy and Portfolio

Our investment strategy is to originate, acquire and manage a portfolio of senior loans secured by commercial real estate primarily in the United States. We are focused on senior floating-rate mortgage loans, including those that are secured by a first priority mortgage on transitional commercial real estate properties. Transitional mortgage loans typically finance the acquisition of commercial properties involving renovation or reposition before more permanent financing is obtained. These loans typically have terms of three years or less, with extension options of one to two years tied to achievement of certain milestones by the borrower, and bear interest at floating rates. Transitional mortgage loans often yield more than comparable loans secured by more stabilized real estate properties or commercial real estate assets traded in the securitized markets.

In addition to senior, floating-rate mortgage loans, we may also invest in other real estate-related assets, including: (i) other commercial real estate mortgage loans, including fixed-rate loans, subordinated loans, B-Notes, mezzanine loans and participations in commercial mortgage loans; and (ii) commercial real estate securities, including CMBSs, RMBSs, unsecured debt of listed and non-listed REITs, collateralized debt obligations and equity or equity-linked securities. To a lesser extent we may invest in warehouse loans secured by commercial or residential mortgages, credit loans to commercial real estate companies and portfolios of single family home mortgages.

Our focus on debt investments will emphasize the payment of current returns to investors and the preservation of invested capital, as well as capital appreciation. We intend to directly structure, underwrite and originate certain of our debt investments in connection with acquisitions, refinancings, and recapitalizations, as this will provide us with the best opportunity to control our borrower and partner relationships and optimize the terms of our investments.

Because most real estate markets are cyclical in nature, we believe that a broadly diversified investment strategy will allow us to more effectively deploy capital into assets where the underlying investment fundamentals are relatively strong and away from those sectors where such fundamentals are relatively weak. We will seek to create and maintain a portfolio of investments that generates a low volatility income stream of attractive and consistent cash distributions by investing across geographic regions in the United States and across property types, including office, lodging, residential, retail, industrial, and health care sectors.

We expect to capitalize on Rialto's experience, national footprint and origination platform to deploy significant amounts of capital in investments with attractive risk-return profiles. Rialto is able to use its integrated platform and deep underwriting team to provide in-house evaluations of a wide variety of loans and markets. We believe Rialto's ability to pivot throughout real estate cycles, taking advantage of opportunities with the potential to generate attractive risk-adjusted returns across the capital structure, will be a competitive advantage for us in executing upon our investment objectives.

We will target investments that are secured by institutional quality real estate and that offer attractive risk-adjusted returns based on the underwriting criteria established and employed by our adviser. We will focus on in-place and future cash flows, debt yields, debt service coverage ratios, loan-to-values, property quality and market and sub-market dynamics. All investment decisions will be made with a view to maintaining our qualification as a REIT, our exemption from registration under the 1940 Act.

As market conditions evolve over time, we expect to adjust our investment strategy to adapt to such changes as appropriate. We believe there are significant opportunities among our target assets that currently

present attractive risk-return profiles. However, to capitalize on the investment opportunities that may be present at various other points of an economic cycle, we may expand or change our investment strategy and target assets. We believe that the diversification of the portfolio of assets that we intend to acquire, our ability to aggressively manage our target assets and the flexibility of our strategy will position us to generate attractive long-term returns for our stockholders in a variety of market conditions. Our ability to execute our investment strategy is enhanced through our access to our sponsor's and our adviser's direct origination capabilities, as opposed to a strategy that relies solely on buying assets in the open market from third-party originators.

The following table details overall statistics for our loans receivable portfolio as of December 31, 2019 and 2018:

| | <u>December 31,</u> | |
|--|---------------------|-------------|
| | <u>2019</u> | <u>2018</u> |
| Number of loans | 24 | 17 |
| Principal balance | \$405,985 | \$238,979 |
| Net book value | \$406,645 | \$239,207 |
| Unfunded loan commitments ⁽¹⁾ | \$ 44,226 | \$ 38,324 |
| Weighted-average cash coupon ⁽²⁾ | L+4.22% | L+4.76% |
| Weighted-average all-in yield ⁽²⁾ | L+4.39% | L+4.96% |
| Weighted-average maximum maturity (years) ⁽³⁾ | 3.6 | 3.6 |

- (1) We may be required to provide funding when requested by the borrowers in accordance with the terms of the underlying agreements.
- (2) Our floating rate loans were indexed to the London Interbank Offered Rate, or LIBOR. In addition to cash coupon, all-in yield includes accretion of discount (amortization of premium) and accrual of exit fees.
- (3) Maximum maturity assumes all extension options are exercised by the borrower, however loans may be repaid prior to such date.

The following tables detail the property type and geographic location of the properties securing the loans in our portfolio as of December 31, 2019 and 2018:

| <u>Property Type</u> | <u>December 31, 2019</u> | | <u>December 31, 2018</u> | |
|----------------------|--------------------------|-------------------|--------------------------|-------------------|
| | <u>Net Book Value</u> | <u>Percentage</u> | <u>Net Book Value</u> | <u>Percentage</u> |
| Office | \$121,151 | 30% | \$ 91,898 | 38% |
| Multifamily | 81,111 | 20% | 80,750 | 34% |
| Mixed Use | 76,833 | 19% | — | — |
| Hospitality | 56,221 | 14% | 24,302 | 10% |
| Retail | 41,310 | 10% | 29,757 | 13% |
| Industrial | 30,019 | 7% | 12,500 | 5% |
| Total | <u>\$406,645</u> | <u>100%</u> | <u>\$239,207</u> | <u>100%</u> |

| <u>Geographic Location⁽¹⁾</u> | <u>December 31, 2019</u> | | <u>December 31, 2018</u> | |
|--|--------------------------|-------------------|--------------------------|-------------------|
| | <u>Net Book Value</u> | <u>Percentage</u> | <u>Net Book Value</u> | <u>Percentage</u> |
| South | \$163,486 | 40% | \$130,066 | 54% |
| Northeast | 152,874 | 38% | 67,293 | 28% |
| West | 80,319 | 20% | 41,848 | 18% |
| Midwest | 9,966 | 2% | — | — |
| Total | <u>\$406,645</u> | <u>100%</u> | <u>\$239,207</u> | <u>100%</u> |

- (1) As defined by the United States Department of Commerce, Bureau of the Census.

For additional information regarding our loan portfolio as of December 31, 2019, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Portfolio Overview”.

Status of Our Offerings

We have registered with the SEC an offering of up to \$2,750,000 in shares of common stock consisting of up to \$2,500,000 in shares of common stock in our primary offering and up to \$250,000 in shares of common stock pursuant to our distribution reinvestment plan. We are offering to sell any combination of five classes of our common stock, Class T, Class S, Class D, Class M and Class I common stock, with a dollar value up to the maximum offering amount.

As of December 31, 2019, we have issued 981,836 shares of Class T common stock, 1,351,587 shares of Class S common stock, 322,602 shares of Class D common stock, 1,357,818 shares of Class M common stock and 1,230,360 shares of Class I common stock in our public offering and pursuant to our distribution reinvestment plan, resulting in gross proceeds to us of approximately \$117,855.

The termination date of our public offering will be September 11, 2020, unless extended in accordance with the SEC’s rules. We will disclose any such extension in a prospectus supplement. We reserve the right to terminate our public offering at any time and to extend our offering term to the extent permissible under applicable law.

We are also conducting a private offering of shares of our Class F common stock to certain accredited investors and previously conducted a private offering of shares of our Class Y common stock to certain accredited investors. As of December 31, 2019, we have issued 2,558,854 of our Class F common stock and 193,013 shares of our Class Y common stock pursuant to our private offerings and pursuant to our distribution reinvestment plan, resulting in gross proceeds to us of approximately \$68,261.

Financing Strategy

In addition to raising capital through our offerings, we intend to use prudent levels of leverage to provide additional funds to support our investment activities. We may incur debt through bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. We may also issue additional debt or equity securities to fund our growth.

Our leverage may not exceed 300% of our total net assets (as defined in our charter in accordance with the North American Securities Administrators Association’s Statement of Policy Regarding Real Estate Investment Trusts, as revised and adopted on May 7, 2007, or the NASAA REIT Guidelines) as of the date of any borrowing unless a majority of our independent directors vote to approve any borrowing in excess of this amount. Subject to this limitation, the amount of leverage we may employ for particular assets will depend upon our adviser’s assessment of the credit, liquidity, price volatility and other risks of those assets and the financing counterparties, and availability of particular types of financing at that time. Our decision to use leverage to finance our assets will be at the discretion of our adviser and will not be subject to the approval of our stockholders. Once we have fully invested the proceeds of our offerings, our target leverage ratio will be approximately 60-70% of the greater of cost or fair market value of our investments, although it may exceed this level. We will endeavor to match the terms and indices of our assets and liabilities, including in certain instances through the use of derivatives. We will also seek to minimize the risks associated with recourse borrowing. In addition, we may rely on short-term financing such as repurchase transactions under master repurchase agreements.

Below is a summary of our outstanding financing arrangements as of December 31, 2019:

| As of December 31, 2019 | | | | | |
|----------------------------|--------------------------------|--------------------------------|--------------------|------------------|----------------------------------|
| Arrangement ⁽¹⁾ | Type of Arrangement | Rate | Amount Outstanding | Amount Available | Maturity Date |
| 2019-FL1 Notes | Collateralized Loan Obligation | L+1.20% - 2.50% | \$327,665 | \$ — | December 18, 2036 ⁽²⁾ |
| WF-1 Facility | Repurchase | L+2.15% - 2.50% ⁽³⁾ | — | 150,000 | August 30, 2020 |
| GS-1 Facility | Repurchase | L+1.75% - 2.75% ⁽⁴⁾ | — | 175,000 | January 26, 2020 |
| CNB Facility | Revolving Credit Facility | L+2.25% | — | 10,000 | August 23, 2021 |
| Total | | | <u>\$327,665</u> | <u>\$335,000</u> | |

- (1) The carrying amount outstanding under the facilities approximates their fair value.
- (2) The 2019-FL1 Notes mature on the December 2036 payment date, as defined in the Indenture governing the 2019-FL1 Notes and calculated based on the current U.S. federal holidays.
- (3) FS CREIT Finance WF-1 LLC, or WF-1, and Wells Fargo Bank, National Association, or Wells Fargo, may mutually agree on rates outside this range on an asset by asset basis.
- (4) FS CREIT Finance GS-1 LLC, or GS-1, and Goldman Sachs Bank USA, or Goldman Sachs, may mutually agree on rates outside this range on an asset by asset basis.

Taxation of the Company

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2017. We generally must distribute annually at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order to qualify to be taxed as a REIT, in which case U.S. federal income tax would not apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income, including undistributed net capital gain. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal income tax laws.

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Code, which relate to organizational structure, diversity of stock ownership, and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state, and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four full taxable years.

Furthermore, we have one or more taxable REIT subsidiaries, or TRSs, which pay federal, state, and local income tax on their net taxable income. See “Item 1A. Risk Factors—Risks Related to Taxation” for additional tax status information.

Taxation of REIT Dividends

Under the legislation commonly referred to as the Tax Cuts and Jobs Act, “qualified REIT dividends” (REIT dividends other than dividends designated as “qualified dividend income” or capital gain dividends) received by non-corporate U.S. taxpayers are eligible for up to a 20% deduction, subject to certain limitations, in taxable years beginning after December 31, 2017 and before January 1, 2026. This deduction is only applicable to investors that receive dividends from us and does not affect our taxation. Investors should consult their own tax advisors regarding the impact of this deduction on their effective tax rate with respect to REIT dividends.

Competition

We are engaged in a competitive business. In our lending and investment activities, we compete with a variety of institutional investors, including other REITs, commercial and investment banks, specialty finance

companies, public and private funds, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Several other REITs have recently raised significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for lending and investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us, such as funding from the U.S. government, if we are not eligible to participate in programs established by the U.S. government. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from registration under the 1940 Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of loans and investments, offer more attractive pricing or other terms and establish more relationships than us. Furthermore, competition for originations of and investments in our target assets may lead to decreasing yields, which may further limit our ability to generate desired returns.

Employees

We do not currently have any employees. Each of our executive officers is a principal, officer or employee of FS Real Estate Advisor, which manages and oversees our investment operations. In the future, FS Real Estate Advisor may retain additional investment personnel based upon its needs.

Financial Information About Industry Segments

We internally evaluate all of our assets as one industry segment, and, accordingly, we do not report segment information.

Website

We maintain a website at www.fsinvestments.com. We are providing the address to our website solely for the information of investors. From time to time, we may use our website as a distribution channel for material company information. The information on our website is not a part of, nor is it incorporated by reference into this report. Through our website, we make available, free of charge, our annual proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish them to, the SEC. The SEC maintains a website that contains these reports at www.sec.gov. We will provide without charge a copy of this Annual Report on Form 10-K, including financial statements and schedules, upon written request delivered to our principal executive office at the address listed on the cover page of this Annual Report on Form 10-K.

Item 1A. Risk Factors.

In addition to the other information contained in this Annual Report on Form 10-K, the following information should be carefully considered. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, the NAV of our common stock could decline.

Risks Related to an Investment in Us

We are a relatively new company and have a limited operating history.

We were formed on November 7, 2016 and formally commenced investment operations on September 13, 2017. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not be able to achieve our investment objectives and that the value of our common stock could decline substantially.

Because our continuous public offering is a “blind pool” offering, an investor may not have the opportunity to evaluate our future investments prior to purchasing our shares.

We have not identified all of the investments we will make with the proceeds from our continuous public offering. As a result, an investor will not be able to evaluate the economic merits, transaction terms or other financial or operational data concerning future investments prior to making a decision to purchase our shares. An investor must rely on FS Real Estate Advisor and Rialto to implement our investment policies, to evaluate all of our investment opportunities and to structure the terms of our investments rather than evaluating our investments in advance of purchasing shares of our common stock. Additionally, we will not provide investors with information to evaluate our proposed investments prior to our acquisition of those investments. Because investors are not able to evaluate our future investments in advance of purchasing our shares, an investor must rely on FS Real Estate Advisor and Rialto to implement our investment strategy, and as a result our public offering may entail more risk than other types of offerings. This additional risk may hinder an investor’s ability to achieve their own personal investment objectives related to portfolio diversification, risk-adjusted investment returns and other objectives.

There is no public trading market for shares of our common stock; therefore, an investor’s ability to dispose of their shares will likely be limited to repurchase by us. If an investor does sell their shares to us, they may receive less than the price they paid.

There is no current public trading market for shares of our common stock, and we do not expect that such a market will ever develop. Therefore, repurchase of shares by us will likely be the only way for investors to dispose of their shares. We intend to repurchase shares on a monthly basis at a price equal to the transaction price of the class of shares being repurchased on the date of repurchase (which will generally be equal to our prior month’s NAV per share) and not based on the price at which investors initially purchased their shares. As a result, investors may receive less than the price they paid for their shares when they sell them to us pursuant to our share repurchase plan.

An investor’s ability to have their shares repurchased through our share repurchase plan is limited. We may choose to repurchase fewer shares than have been requested to be repurchased, in our discretion at any time, and the amount of shares we may repurchase is subject to caps. Further, our board of directors may modify, suspend or terminate our share repurchase plan at any time.

We may choose to repurchase fewer shares than have been requested in any particular month to be repurchased under our share repurchase plan, or none at all, in our discretion at any time. We may repurchase fewer shares than have been requested to be repurchased due to lack of readily available funds because of adverse market conditions beyond our control, the need to maintain liquidity for our operations or because we have determined that investing in real property or other illiquid investments is a better use of our capital than repurchasing our shares. In addition, the total amount of shares that we will repurchase is limited, in any calendar month, to shares whose aggregate value (based on the repurchase price per share on the date of the repurchase) is no more than 2% of our aggregate NAV of all classes of shares then participating in our share repurchase plan as of the last calendar day of the previous calendar month and, in any calendar quarter, to shares whose aggregate value is no more than 5% of our aggregate NAV of all classes of shares then participating in our share repurchase plan as of the last calendar day of the previous calendar quarter. Further, our board of directors may modify, suspend or terminate our share repurchase plan if it deems such action to be in our best interest and the best interest of our stockholders. If the full amount of all shares of our common stock requested to be repurchased in any given month are not repurchased, funds will be allocated pro rata based on the total number of shares of common stock being repurchased without regard to class and subject to the volume limitation. All unsatisfied repurchase requests must be resubmitted after the start of the next month or quarter, or upon the recommencement of the share repurchase plan, as applicable.

Additionally, the vast majority of our assets will consist of assets that cannot generally be liquidated quickly. Therefore, we may not always have a sufficient amount of cash to immediately satisfy repurchase

requests. Should repurchase requests, in our judgment, place an undue burden on our liquidity, adversely affect our operations or risk having an adverse impact on the company as a whole, or should we otherwise determine that investing our liquid assets in real estate-related assets or other illiquid investments rather than repurchasing our shares is in the best interests of the company as a whole, then we may choose to repurchase fewer shares than have been requested to be repurchased, or none at all. Because we are not required to authorize the recommencement of the share repurchase plan within any specified period of time, we may effectively terminate the plan by suspending it indefinitely. As a result, an investor's ability to have their shares repurchased by us may be limited and at times you may not be able to liquidate your investment.

We may be unable to pay or maintain cash distributions or increase distributions over time.

There are many factors that can affect the availability and timing of cash distributions to stockholders. Distributions will be based principally on cash available from our operations. The amount of cash available for distributions is affected by many factors, such as our ability to acquire or originate commercial real estate debt and other targeted investments as offering proceeds become available, income from such investments and our operating expense levels, as well as many other variables. Actual cash available for distributions may vary substantially from estimates. With a limited operating history, we cannot assure an investor that we will be able to pay distributions or that distributions will increase over time. We cannot give any assurance that returns from the investments that we acquire will increase, that the securities we buy will increase in value or provide constant or increased distributions over time, or that future acquisitions of real estate debt, mortgage, transitional or subordinated loans or any investments in securities will increase our cash available for distributions to stockholders. Our actual results may differ significantly from the assumptions used by our board of directors in establishing the distribution rate to stockholders. We may not have sufficient cash from operations to make a distribution required to qualify or maintain our qualification as a REIT, which may materially adversely affect an investor's investment.

Until the proceeds from our offerings are fully invested, we may pay distributions from sources other than our cash flow from operations, which may cause us to have less funds available for investment in assets and an investor's overall return may be reduced.

Our organizational documents permit us to pay distributions to stockholders from any sources of funds legally available to us, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets and dividends and other distributions from our investments. We have not established limits on the amount of funds we may use from available sources to make distributions. If we fund distributions from borrowings, the net proceeds from our offerings or other sources, we will have fewer funds available for investment in assets and an investor's overall return may be reduced. We expect to have little, if any, cash flow from operations available for distribution until we make significant investments.

If we are unable to find suitable investments, we may not be able to achieve our investment objectives or pay distributions.

We will be competing to originate and acquire real estate debt investments with other REITs, real estate limited partnerships, pension funds and their advisors, bank and insurance company investment accounts and other entities. Many of our competitors have greater financial resources, and a greater ability to borrow funds to acquire securities and other assets, than we do. We cannot be sure that our adviser will be successful in obtaining suitable investments on financially attractive terms or that, if our adviser makes investments on our behalf, our objectives will be achieved. The more money we raise in our offerings, the greater will be our challenge to invest all of the net offering proceeds on attractive terms. If we, through our adviser and the sub-adviser, are unable to find suitable investments promptly, we will hold the proceeds from our offerings in short-term, low risk, highly-liquid, interest-bearing investments. We expect we will earn yields substantially lower than the interest income that we anticipate receiving from investments in the future that meet our investment criteria. As a result, any distributions we make while our portfolio is not fully invested in assets meeting our investment criteria may be

substantially lower than the distributions that we expect to pay when our portfolio is fully invested in assets meeting our investment criteria. In the event we are unable to locate suitable investments in a timely manner, we may be unable or limited in our ability to make distributions and we may not be able to achieve our investment objectives.

The lack of experience of our adviser in operating under the constraints imposed on us as a REIT may hinder the achievement of our investment objectives.

The Code imposes numerous constraints on the operations of REITs that do not apply to other investment vehicles managed by FS Investments and its affiliates. Our initial and continuing qualification as a REIT will depend upon our ability to meet requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets and other tests imposed by the Code. Any failure to do so could cause us to fail to satisfy the requirements associated with REIT status. None of us, our adviser or the sub-adviser has any experience operating under these constraints, which may hinder our ability to take advantage of attractive investment opportunities and to achieve our investment objectives. As a result, we cannot assure investors that our adviser will be able to operate our business under these constraints. If we fail to qualify as a REIT for any taxable year after electing REIT status, there will be significant adverse consequences.

We depend upon key personnel of our adviser, the sub-adviser and their respective affiliates.

We are an externally managed REIT and therefore we do not have any internal management capacity or employees. Our officers are also employees of our adviser. We will depend to a significant degree on the diligence, skill and network of business contacts of certain of our executive officers and other key personnel of our adviser and the sub-adviser to achieve our investment objectives, all of whom would be difficult to replace. We expect that our adviser, with the assistance of the sub-adviser, will evaluate, negotiate, structure, close and monitor our investments in accordance with the terms of the advisory agreement.

We will depend upon the senior professionals of our adviser and the sub-adviser to maintain relationships with potential sources of investments, and we intend to rely to a significant extent upon these relationships to provide us with potential investment opportunities. We cannot assure investors that these individuals will continue to be employed by our adviser or the sub-adviser or that they will continue to be available to us to provide investment advice. If these individuals, including the members of our adviser's investment committee, do not maintain their existing relationships with our adviser, maintain existing relationships or develop new relationships with other sources of investment opportunities, we may not be able to grow or manage our investment portfolio. We believe that our future success depends, in large part, on FS Real Estate Advisor's and Rialto's ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition to employ and retain such personnel is intense, and we cannot assure investors that FS Real Estate Advisor or Rialto will be successful in doing so. In addition, individuals with whom the senior professionals of our adviser or the sub-adviser have relationships are not obligated to provide us with investment opportunities. Therefore, we can offer no assurance that such relationships will generate investment opportunities for us.

If our adviser or the sub-adviser is unable to manage our investments effectively, we may be unable to achieve our investment objectives.

Our ability to achieve our investment objectives will depend on our ability to manage our business and to grow our business. This will depend, in turn, on our adviser's and the sub-adviser's ability to identify, invest in and monitor assets that meet our investment criteria. The achievement of our investment objectives on a cost-effective basis will depend upon our adviser's execution of our investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. Our adviser will have substantial responsibilities under the advisory agreement, certain of which it has engaged the sub-adviser to perform. The personnel of our adviser and the sub-adviser are engaged in other business activities, which could distract them, divert their time and attention such that they could no longer dedicate a significant portion of their time to our businesses or otherwise slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We will incur significant costs as a result of being a public company.

As a public company, we will incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Securities Exchange Act of 1934, or the Exchange Act, and additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, and other rules implemented by the SEC.

Failure by us, our adviser, sub-adviser, joint venture partners, consultants and other service providers to implement effective information and cyber security policies, procedures and capabilities could disrupt our business and harm our results of operations.

We have been, and likely will continue to be, subject to computer hacking, acts of vandalism or theft, malware, computer viruses or other malicious codes, phishing, employee error or malfeasance, catastrophes, unforeseen events or other cyber-attacks. To date, we have seen no material impact on our business or operations from these attacks or events. Any future externally caused information security incident, such as a hacker attack, virus or worm, or an internally caused issue, such as failure to control access to sensitive systems, could materially interrupt business operations or cause disclosure or modification of sensitive or confidential information and could result in material financial loss, loss of competitive position, regulatory actions, breach of contracts, reputational harm or legal liability. We and our adviser, sub-adviser, joint venture partners, consultants, and other service providers are dependent on the effectiveness of our respective information and cyber security policies, procedures and capabilities to protect our computer and telecommunications systems and the data that resides on or is transmitted through them. The ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes and overall security environment. There is no guarantee that these measures will be adequate to safeguard against all data security breaches, system compromises or misuses of data. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs.

Our rights and the rights of our stockholders to recover claims against our independent directors are limited, which could reduce stockholders and our recovery against them if they negligently cause us to incur losses.

Maryland law provides that a director has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter provides that, to the extent permitted by Maryland law, no independent director shall be liable to us or our stockholders for monetary damages and that we will generally indemnify them for losses unless they are grossly negligent or engage in willful misconduct or, in the case of our directors who are also our executive officers or affiliates of our adviser, for simple negligence or misconduct. As a result, stockholders and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce stockholders and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our other directors, executive officers, employees and agents) in some cases, which would decrease the cash otherwise available for distributions to stockholders.

Uncertainty with respect to the financial stability of the United States and several countries in the European Union could have a significant adverse effect on our business, financial condition and results of operations.

Our business and operations are currently dependent on the commercial real estate industry generally, which in turn is dependent upon broad economic conditions in the United States, Europe, China and elsewhere. Recently, concerns over global economic conditions, energy and commodity prices, geopolitical issues, deflation, Federal Reserve short term rate decisions, foreign exchange rates, the availability and cost of credit, the sovereign debt crisis, the Chinese economy, the United States mortgage market and a potentially weakening real

estate market in the United States have contributed to increased economic uncertainty and diminished expectations for the global economy. These factors, combined with volatile prices of oil and the potential for declining business and consumer confidence, may precipitate an economic slowdown, as well as cause extreme volatility in security prices. Global economic and political headwinds, along with global market instability and the risk of maturing debt that may have difficulties being refinanced, may continue to cause periodic volatility in the commercial real estate market for some time. Adverse conditions in the commercial real estate industry could harm our business and financial condition by, among other factors, the tightening of the credit markets, decline in the value of our assets and continuing credit and liquidity concerns and otherwise negatively impacting our operations.

Risks Related to Our Corporate Structure

No investor may own more than 9.8% of our stock unless exempted by our board of directors, which may discourage a takeover that could otherwise result in a premium price to our stockholders.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, prospectively or retroactively, no person may own more than 9.8% in value of the aggregate of our outstanding shares of stock or more than 9.8% (in value or in number of shares, whichever is more restrictive) of shares of our common stock, after applying certain rules of attribution. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders or discourage a third party from acquiring us in a manner that could result in a premium price to our stockholders.

Our board of directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of repurchase of any such stock. Thus, our board of directors could authorize the issuance of preferred stock with terms and conditions that could have priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our common stock.

Stockholders will have limited control over changes in our policies and operations, which increases the uncertainty and risks they face as stockholders.

Our board of directors determines our major policies, including our policies regarding financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under the Maryland General Corporation Law and our charter, stockholders have a right to vote only on limited matters. Our board's broad discretion in setting policies and stockholders' inability to exert control over those policies increases the risks and uncertainty stockholders face.

We may change our investment and operational policies without stockholder consent.

Except for changes to the investment restrictions contained in our charter, which require stockholder consent to amend, we may change our investment and operational policies, including our policies with respect to investments, operations, indebtedness, capitalization and distributions, at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier or more highly leveraged than, the types of investments described in this Annual Report on Form 10-K. Our board of directors also approved broad investment guidelines with which we must comply, but these guidelines provide our adviser with broad discretion and can be changed by our board of directors. A change in our investment

strategy may, among other things, increase our exposure to real estate market fluctuations, default risk and interest rate risk, all of which could materially affect our results of operations and financial condition.

Our ability to conduct our continuous offering successfully depends, in part, on the ability of the dealer manager to successfully establish, operate and maintain a network of broker-dealers.

The success of our continuous public offering, and correspondingly our ability to implement our business strategy, is dependent upon the ability of the dealer manager to establish and maintain a network of licensed securities broker-dealers and other agents to sell our shares. If the dealer manager fails to perform, we may not be able to raise adequate proceeds through our continuous public offering to implement our investment strategy. If we are unsuccessful in implementing our investment strategy, stockholders could lose all or a part of their investment.

Stockholders' interest in us will be diluted if we issue additional shares, which could reduce the overall value of their investment.

Stockholders in our offering do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue 1,050,000,000 shares of common stock. Pursuant to our charter, a majority of our entire board of directors may amend our charter from time to time to increase the aggregate number of authorized shares of stock or the number of authorized shares of any class or series of stock without stockholder approval. After an investor purchases shares, our board of directors may elect to sell additional shares in the future, issue equity interests in private offerings or issue share-based awards to our independent directors. To the extent we issue additional equity interests after an investor purchases our shares, an investor's percentage ownership interest in us will be diluted. In addition, depending upon the terms and pricing of any additional offerings and the value of our investments, an investor may also experience dilution in the book value and fair value of his or her shares.

If we are unable to raise substantial funds in our continuous best efforts public offering, we will be limited in the number and type of investments we may make, and the value of stockholders' investment in us may be reduced in the event our assets under-perform.

Our continuous public offering is being made on a best efforts basis, whereby the dealer manager and broker-dealers participating in the offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to sell any of the shares. Even though we have raised over \$165 million in gross proceeds in our offerings through December 31, 2019, such amount will not, by itself be sufficient for us to purchase a diversified portfolio of investments. To the extent that less than the maximum number of shares is subscribed for in our public offering, the opportunity for diversification of our investments may be decreased, and the returns achieved on those investments may be reduced as a result of allocating all of our expenses over a smaller capital base.

There is a risk that stockholders may not receive distributions or that our distributions may not grow over time.

Subject to our board of directors' discretion and applicable legal restrictions, we intend to authorize and declare and pay ordinary cash distributions on a monthly basis. We cannot assure stockholders that we will achieve investment results that will allow us to make a specified level of cash distributions or year-over-year increases in cash distributions. Moreover, if fewer stockholders opt to participate in our distribution reinvestment plan and instead choose to receive cash distributions, we may be forced to liquidate some of our investments and raise cash in order to make distribution payments. All distributions will be paid at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status, compliance with applicable regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure stockholders that we will pay distributions in the future. Distributions on the classes of our common stock may vary based upon on the expenses allocated to each class.

Payment of fees to our adviser will reduce the cash available for investment and distribution and increases the risk that stockholders will not be able to recover the amount of their investment in our shares.

Our adviser and sub-adviser will perform services for us in connection with the selection, acquisition, origination, management and administration of our investments. We will pay our adviser substantial fees for these services, a portion of which our adviser will pay to the sub-adviser, which will reduce the amount of cash available for investment or distribution to stockholders. These fees increase the risk that the amount available for distribution to common stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares in our public offering. These substantial fees and other payments also increase the risk that stockholders will not be able to resell their shares at a profit, even if our shares are listed on a national securities exchange.

Stockholders' investment return may be reduced if we are required to register as an investment company under the 1940 Act.

We are not registered, and do not intend to register ourselves or any of our subsidiaries, as an investment company under the 1940 Act. If we become obligated to register ourselves or any of our subsidiaries as an investment company, the registered entity would have to comply with a variety of substantive requirements under the 1940 Act imposing, among other things:

- limitations on capital structure;
- restrictions on specified investments;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

If we were to become obligated to register ourselves or any of our subsidiaries as an investment company, the requirements imposed on registered investment companies would make it unlikely that we would be able to operate our business as currently contemplated and as described herein.

We intend to conduct our operations, directly and through wholly or majority-owned subsidiaries, so that we and each of our subsidiaries is not required, as such requirements have been interpreted by the SEC staff, to be registered as an investment company under the 1940 Act. Under Section 3(a)(1)(A) of the 1940 Act, a company is deemed to be an "investment company" if it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the 1940 Act, a company is deemed to be an "investment company" if it is engaged, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. "Investment securities" exclude (A) U.S. government securities, (B) securities issued by employees' securities companies and (C) securities issued by majority-owned subsidiaries which (i) are not investment companies and (ii) are not relying on the exception from the definition of investment company under Section 3(c)(1) or 3(c)(7) of the 1940 Act.

With respect to Section 3(a)(1)(A), we do not intend to engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, we will be primarily engaged in the non-investment company businesses of these subsidiaries. With respect to Section 3(a)(1)(C), we expect that most of the entities through which we own assets will be wholly or majority-owned subsidiaries that are not themselves investment companies and are not relying on the exceptions from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) of the 1940 Act and, thus, we do not expect that more than 40% of our assets will be "investment securities".

If, however, the value of the assets of our subsidiaries that must rely on Section 3(c)(1) or Section 3(c)(7) is greater than 40% of the value of our total assets, then we will seek to rely on Section 3(c)(6) of the 1940 Act, which excepts from the definition of investment company any company primarily engaged, directly or through majority-owned subsidiaries, in one or more of the businesses described in paragraphs (3), (4) and (5) of Section 3(c), or in one or more such businesses (from which not less than 25% of such company's gross income during its last fiscal year was derived) together with an additional business or businesses other than investing, reinvesting, owning, holding or trading in securities. We will be "primarily engaged," through wholly owned and majority-owned subsidiaries, in the business of purchasing or otherwise acquiring mortgages and other interests in real estate, as described in Section 3(c)(5)(C).

Through our subsidiaries, we plan to originate, acquire, invest in and manage instruments that could be deemed to be securities for purposes of the 1940 Act, including, but not limited to, participations in mortgage, subordinated, mezzanine, transitional and other loans, CMBS and agency and non-agency RMBS. Accordingly, it is possible that more than 40% of the assets of our subsidiaries will be investments that will be deemed to be investment securities for 1940 Act purposes. However, as noted above, in reliance on Section 3(c)(5)(C) of the 1940 Act, we do not intend to register any of our subsidiaries as an investment company under the 1940 Act. Section 3(c)(5)(C) is available for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exception generally requires that at least 55% of each such subsidiary's portfolio must be comprised of qualifying assets and at least 80% of each of their portfolios must be comprised of qualifying assets and real estate-related assets under the 1940 Act (and no more than 20% comprised of non-qualifying or non-real estate-related assets). Qualifying assets for this purpose include mortgage loans and other assets, such as whole-pool agency RMBS, certain mezzanine loans and B Notes and other interests in real estate as interpreted by the SEC staff in various no-action letters. As a result of the foregoing restrictions, we will be limited in our ability to make certain investments.

We expect that substantially all of the assets of our subsidiaries will comply with the requirements of Section 3(c)(5)(C), as such requirements have been interpreted by the SEC staff. We intend to invest in transitional loans, construction loans, and mortgage loan participations that meet the parameters of Section 3(c)(5)(C) based on no-action letters issued by the SEC staff and other SEC interpretive guidance. Although we intend to monitor our portfolio periodically and prior to each investment acquisition and disposition, there can be no assurance that we will be able to maintain this exemption from registration. Existing SEC no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued more than 10 years ago. No assurance can be given that the SEC will concur with our classification of the assets of our subsidiaries. Future revisions to the 1940 Act or further guidance from the SEC staff may cause us to lose our ability to rely on Section 3(c)(5)(C) and/or Section 3(c)(6) or force us to re-evaluate our portfolio and our investment strategy. Such changes may prevent us from operating our business successfully.

To ensure that we are not required, as such requirements have been interpreted by the SEC staff, to register as an investment company, we may be unable to dispose of assets that we would otherwise want to sell and may need to sell assets that we would otherwise wish to retain. In addition, we may be required to acquire additional income- or loss-generating assets that we might not otherwise acquire or forego opportunities to acquire interests that we would otherwise want to acquire. Although we intend to monitor our portfolio periodically and prior to each acquisition and disposition, we may not be able to maintain an exception from the definition of an investment company. If we are required to register as an investment company but fail to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of and liquidate us. Moreover, if we are required to register as an investment company, the requirements imposed on registered investment companies under the 1940 Act would make it unlikely that we would be able to operate our business as currently contemplated and as described in this Annual Report on Form 10-K.

Purchases and repurchases of shares of our common stock are not made based on the current NAV per share of our common stock.

Generally, our offering price per share and the price at which we make repurchases of our shares will equal the NAV per share of the applicable class as of the last calendar day of the prior month, plus, in the case of our offering price, applicable upfront selling commissions and dealer manager fees. The NAV per share as of the date on which an investor submits their subscription or repurchase request may be significantly different than the offering price an investor pays or the repurchase price received. In addition, we may offer and repurchase shares at a price that we believe reflects the NAV per share of such stock more appropriately than the prior month's NAV per share, including by updating a previously disclosed offering price, in cases where we believe there has been a material change (positive or negative) to our NAV per share since the end of the prior month. In such cases, the offering price and repurchase price will not equal our NAV per share as of any time.

Valuations and appraisals of our real estate-related debt and other targeted investments may reflect estimates of fair value and may not necessarily correspond to realizable value, which could adversely affect the value of stockholders' investment.

For the purposes of calculating our NAV, our investments will initially be valued at amortized cost upon their acquisition which we expect to represent fair value at that time. Thereafter, the valuations of our real estate-related debt and other investments, as necessary, will be conducted in accordance with our valuation guidelines and, depending on the asset type, will continue to be valued at amortized cost or will take into consideration valuations by the sub-adviser and by independent third party valuation services. Within the parameters of our valuation guidelines, the valuation methodologies used to value our investments will involve subjective judgments concerning factors such as comparable sales, rental and operating expense data, capitalization or discount rate, and projections of future rent and expenses. Although our valuation guidelines are designed to accurately and fairly determine the value of our assets, determinations, appraisals and valuations will be only estimates, and ultimate realization depends on conditions beyond our adviser's control. Further, valuations do not necessarily represent the price at which we would be able to sell an asset, because such prices would be negotiated. We will not, however, retroactively adjust the valuation of such assets, the price of our common stock or the price we paid to repurchase shares of our common stock. Because the repurchase price per share for each class of common stock will be equal to the transaction price on the applicable repurchase date (which will generally be equal to our prior month's NAV per share), stockholders may receive less than realizable value for your investment.

No rule, regulation, or industry practice requires that we calculate our NAV in a certain way, and our board of directors, including a majority of our independent directors, may adopt changes to our valuation guidelines.

There are no existing rules or regulatory bodies that specifically govern the manner in which we calculate our NAV and there is no established practice among public REITs, whether listed or not, for calculating NAV in order to establish a purchase and repurchase price for shares of common stock. As a result, it is important that stockholders pay particular attention to the specific methodologies and assumptions we use to calculate our NAV, as other public REITs may use different methodologies or assumptions to determine their NAV. In addition, our board of directors, including a majority of our independent directors, will review the appropriateness of our valuation guidelines at least annually and may, at any time, adopt changes to our valuation guidelines.

Our NAV per share may suddenly change if the values of stockholders' investments materially change, if the actual operating results for a particular month differ from what we originally budgeted for that month or if there are fluctuations in interest rates.

Some of our more illiquid investments will not be appraised more frequently than once per quarter. As such, when these new appraisals are reflected in our NAV calculation, there may be a sudden change in our NAV per share for each class of our common stock. In addition, actual operating results for a given month may differ from what we originally budgeted for that month, which may cause a sudden increase or decrease in the NAV per

share amounts. We will accrue estimated income and expenses on a daily basis based on our budgets. As soon as practicable after the end of each month, we will adjust the income and expenses we estimated for that month to reflect the income and expenses actually earned and incurred. In addition, because we are focused on senior floating-rate mortgage loans, interest rate fluctuations may also cause a sudden increase or decrease in our NAV per share. We will not retroactively adjust the NAV per share of each class.

The NAV per share that we publish may not necessarily reflect changes in our NAV that are not immediately quantifiable.

From time to time, we may experience events with respect to our investments that may have a material impact on our NAV. For example, it may be difficult to reflect fully and accurately rapidly changing market conditions or material events that may impact the value of our investments or to obtain quickly complete information regarding such events. The NAV per share of each class of our common stock as published on any given day may not reflect such extraordinary events to the extent that their financial impact is not immediately quantifiable. As a result, the NAV per share of each class published after the announcement of a material event may differ significantly from our actual NAV per share for such class until such time as the financial impact is quantified and our NAV is appropriately adjusted in accordance with our valuation guidelines. The resulting potential disparity in our NAV may inure to the benefit of stockholders whose shares are repurchased or new stockholders, depending on whether our published NAV per share for such class is overstated or understated.

We will not be required to comply with certain reporting requirements, including those relating to auditor's attestation reports on the effectiveness of our system of internal control over financial reporting, accounting standards and disclosure about our executive compensation, that apply to other public companies.

The Tax Cuts and Jobs Act contains provisions that, among other things, relax certain reporting requirements for emerging growth companies, including certain requirements relating to accounting standards and compensation disclosure. We are classified as an emerging growth company. For as long as we are an emerging growth company, which may be up to five full fiscal years, unlike other public companies, we will not be required to (1) provide an auditor's attestation report on the effectiveness of our system of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act, (2) comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies under Section 102(b)(1) of the Tax Cuts and Jobs Act, (3) comply with any new requirements adopted by the Public Company Accounting Oversight Board ("PCAOB") requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer, (4) comply with any new audit rules adopted by the PCAOB after April 5, 2012 unless the SEC determines otherwise, (5) provide certain disclosure regarding executive compensation required of larger public companies or (6) hold stockholder advisory votes on executive compensation.

Once we are no longer an emerging growth company, so long as our shares of common stock are not listed for trading on a securities exchange, we will be deemed to be a "non-accelerated filer" under the Exchange Act, and as a non-accelerated filer, we will be exempt from compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. In addition, so long as we are externally managed by our adviser and we do not directly compensate our executive officers, or reimburse our adviser or its affiliates for salaries, bonuses, benefits and severance payments for persons who also serve as one of our executive officers, we do not have any executive compensation, making the exemptions listed in (5) and (6) above generally inapplicable.

We cannot predict if investors will find our common stock less attractive because we choose to rely on any of the exemptions discussed above.

As noted above, under the Tax Cuts and Jobs Act, emerging growth companies can delay adopting new or revised accounting standards that have different effective dates for public and private companies until such time as those standards apply to private companies. We have elected to opt out of this transition period, and will therefore comply with new or revised accounting standards on the applicable dates on which the adoption of these standards is required for non-emerging growth companies. This election is irrevocable.

Risks Related to Conflicts of Interest

There are significant potential conflicts of interest that could affect our investment returns.

As a result of our arrangements with FS Investments, our adviser, our adviser's investment committee and the sub-adviser, there may be times when FS Investments, our adviser, the sub-adviser or such persons have interests that differ from those of our stockholders, giving rise to a conflict of interest. The members of our adviser's investment committee serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment funds managed by our adviser or its affiliates. Similarly, our adviser, the sub-adviser or their respective affiliates may have other clients with similar, different or competing investment objectives. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may prevent them from presenting attractive investment opportunities to us or otherwise may not be in the best interests of us or our stockholders. For example, the members of our adviser's investment committee have, and will continue to have, management responsibilities for other investment funds, accounts or other investment vehicles managed or sponsored by our adviser and its affiliates. Our investment objectives may overlap with the investment objectives of such investment funds, accounts or other investment vehicles. As a result, those individuals may face conflicts in the allocation of investment opportunities among us and other investment funds or accounts advised by or affiliated with our adviser. Similarly, the sub-adviser manages or is the advisor to investment funds and other investment vehicles that invest in real estate-related assets and there are certain contractual limitations on the investment opportunities that Rialto may present to us. Our adviser and the sub-adviser will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with their allocation policies. However, we can offer no assurance that such opportunities will be allocated to us fairly or equitably in the short-term or over time.

Our adviser and the sub-adviser will face a conflict of interest because the fees they and the dealer manager receive are based in part on our NAV, which our adviser is responsible for determining and which may reflect valuations performed by our adviser and the sub-adviser.

Our adviser, the sub-adviser and the dealer manager receive various fees based on our NAV, which is calculated by our adviser and which may reflect valuations performed by our adviser and the sub-adviser. The calculation of our NAV includes certain subjective judgments with respect to estimating, for example, the value of our portfolio and our accrued expenses, net income and liabilities. Therefore, our NAV may not correspond to realizable value upon a sale of those assets. Our adviser, the sub-adviser and their respective affiliates may benefit by us retaining ownership of our assets at times when our stockholders may be better served by the sale or disposition of our assets in order to avoid a reduction in our NAV. If our NAV is calculated in a way that is not reflective of our actual NAV, then the purchase price of shares of our common stock or the price paid for the repurchase of an investor's shares of common stock may not accurately reflect the value of our portfolio, and their shares may be worth less than the purchase price or more than the repurchase price.

Our adviser, sub-adviser, sponsor and dealer manager and their respective officers and employees and certain of our executive officers and other key personnel face competing demands relating to their time, and this may cause our operating results to suffer.

Our adviser, sub-adviser, sponsor and dealer manager and their respective officers and employees who serve as our executive officers or otherwise as our key personnel and their respective affiliates who serve as key personnel, general partners, sponsors, managers, owners and advisers of other investment programs, including investment funds sponsored by FS Investments or by Rialto, some of which have investment objectives and legal and financial obligations similar to ours and may have other business interests as well. In addition, based on our sponsor's experience, a significantly greater time commitment is required of senior management during the development stage when a REIT is being organized, funds are initially being raised and funds are initially being invested, and less time is required as additional funds are raised and the offering matures. Because these persons have competing demands on their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. If this occurs, the returns on our investments may suffer.

We may engage in transactions with an affiliate of the sub-adviser; as a result, in any such transaction we may not have the benefit of arm's length negotiations of the type normally conducted between unrelated parties.

We may purchase CMBS or other investment vehicles that include mortgage loans originated by an affiliate of the sub-adviser or engage in other transactions with an affiliate of the sub-adviser. While all decisions to purchase CMBS or engage in other transactions in these circumstances will be made by our adviser, who is un-affiliated with the sub-adviser, such transactions would benefit affiliates of the sub-adviser. In any such transaction we may not have the benefit of arm's-length negotiations of the type normally conducted between unrelated parties given our adviser's dependency on the sub-adviser to implement our investment strategy and manage our investment portfolio.

The interests and incentives of the sub-adviser may not always be aligned with our interests.

Subject to certain investment limitations, we may make an investment in an asset or property in which another client or an affiliate of the sub-adviser holds an investment in a different class of debt or equity securities or obligations. For example, we may acquire an interest in a senior mortgage loan on a particular property with respect to which a client or an affiliate of the sub-adviser holds or acquires mezzanine debt, a companion loan or other additional debt or an equity interest or other type of interest. These transactions may cause such client or affiliate of the sub-adviser which holds or acquires the mezzanine debt, companion loan or other additional debt or interest, as applicable, to have economic interests and incentives that do not align with, and that may be directly contrary to, ours. As a result, such transactions could pose potential conflicts of interest should an event arise that requires Rialto to take an action that will impact us and its other client or affiliate in different ways. While the sub-adviser has policies in place that are designed to manage the potential conflicts of interest between the sub-adviser's obligations to us and its fiduciary duties to other clients, not all conflicts of interest can be expected to be resolved in our favor.

Our adviser and the sub-adviser face conflicts of interest relating to the fee structure under our advisory agreement, which could result in actions that are not necessarily in the long-term best interests of our stockholders.

We will pay our adviser a base management fee regardless of the performance of our portfolio. Our adviser will share the fees it receives from us with the sub-adviser. Our adviser's entitlement to the base management fee, which is not based upon performance metrics or goals, might reduce our adviser's or the sub-adviser's incentive to devote their time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. We are required to pay the base management fee in a particular period despite experiencing a net loss or a decline in the value of our portfolio during that period.

The performance fee we may pay to our adviser is based on our "Core Earnings". The sub-adviser is entitled to receive a portion of the performance fee. The performance fee may create an incentive for our adviser or the sub-adviser to use substantial debt or leverage for our portfolio or make riskier or more speculative investments on our behalf than they would otherwise make in the absence of such fee.

Because the base management fee is based on our NAV, our adviser and sub-adviser may also be motivated to accelerate investments in order to increase NAV or, similarly, delay or curtail share repurchases to maintain a higher NAV, which would, in each case, increase amounts payable to our adviser.

The advisory agreement with FS Real Estate Advisor was not negotiated on an arm's length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party.

The advisory agreement was negotiated between related parties. Consequently, its terms, including fees payable to our adviser, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. In addition, we may choose not to enforce, or to enforce less vigorously, our rights and remedies under the advisory agreement because of our desire to maintain our ongoing relationship with our adviser and its affiliates. Any such decision, however, may breach our fiduciary obligations to our stockholders.

Pursuant to the advisory agreement, we have agreed to indemnify our adviser and the sub-adviser for certain liabilities, which may lead our adviser or the sub-adviser to act in a riskier manner on our behalf than it would when acting for its own account.

Under the advisory agreement, our adviser and the sub-adviser will not assume any responsibility to us other than to render the services called for under the agreement, and neither of them will be responsible for any action of our board of directors in following or declining to follow our adviser's advice or recommendations. Under the terms of the advisory agreement, our adviser, its officers, members, personnel, and any person controlling or controlled by our adviser, and under the sub-advisory agreement, the sub-adviser, its officers, members, personnel, and any person controlling or controlled by the sub-adviser, will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the advisory agreement, except those resulting from acts constituting gross negligence, fraud, willful misconduct, bad faith or reckless disregard of our adviser's duties under the advisory agreement. In addition, we have agreed to indemnify our adviser and the sub-adviser and each of their respective officers, directors, members, managers and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the advisory agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the advisory agreement. These protections may lead our adviser or the sub-adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account.

Because the dealer manager is one of our affiliates, stockholders will not have the benefit of an independent due diligence review of us, which is customarily performed in firm commitment underwritten offerings.

The dealer manager is one of our affiliates. As a result, its due diligence review and investigation of us cannot be considered to be an independent review. In addition, we do not, and do not expect to, have research analysts reviewing our performance or our securities on an ongoing basis. If the stockholder's broker-dealer does not conduct such a review, they will not have the benefit of an independent review of the terms of our offerings. Therefore, stockholders do not have the benefit of an independent review and investigation of our offerings of the type normally performed by an unaffiliated, independent underwriter in a firm commitment underwritten public securities offering, which may increase the risks and uncertainty stockholders face.

Risks Related to Our Assets

We may not be able to identify assets that meet our investment criteria.

We cannot assure stockholders that we will be able to identify assets that meet our investment criteria, that we will be successful in consummating any investment opportunities we identify or that one or more investments we may make will yield attractive risk-adjusted returns. Our inability to do any of the foregoing likely would materially and adversely affect our results of operations and cash flows and our ability to make distributions to our stockholders.

The lack of liquidity in our investments may adversely affect our business.

The lack of liquidity of the investments we intend to make in real estate loans and investments, other than certain of our investments in CMBS and RMBS, may make it difficult for us to sell such investments if the need or desire arises. Many of the securities we purchase are not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or their disposition except in transactions that are exempt from the registration requirements of, or otherwise in accordance with, those laws. In addition, certain investments such as B Notes, subordinated loans and transitional and other loans are also particularly illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty of recovery in the event of a borrower's default. As a result, many of our current investments are, and our future investments will be, illiquid and if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions

on our ability to liquidate an investment in a business entity to the extent that we or our adviser has or could be attributed with material, non-public information regarding such business entity. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

Our investments may be concentrated and are subject to risk of default.

While we will seek to diversify our portfolio of investments, we are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors, which we adopted without stockholders' consent. Therefore, our investments in our target assets may at times be secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our investments within a short time period, which may reduce our net income and the value of our common stock and accordingly reduce our ability to make distributions to our stockholders.

Loans on properties in transition will involve a greater risk of loss than conventional mortgage loans.

Our portfolio includes transitional loans to borrowers who are typically seeking relatively short-term funds to be used in an acquisition or rehabilitation of a property or during the period before the property is fully occupied. The typical borrower in a transitional loan often has identified an undervalued asset that has been under-managed or is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and we bear the risk that we may not recover some or all of our investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a transitional loan. Transitional loans therefore are subject to the risk of a borrower's inability to obtain permanent financing to repay the transitional loan. In the event of any default under transitional loans that may be held by us, we 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 and unpaid interest of the transitional loan. To the extent we suffer such losses with respect to these transitional loans, it would adversely affect our results of operations and financial condition.

Construction loans involve an increased risk of loss.

We may invest in construction loans. If we fail to fund our entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including: a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; a borrower claim against us for failure to perform under the loan documents; increased costs to the borrower that the borrower is unable to pay; a bankruptcy filing by the borrower; and abandonment by the borrower of the collateral for the loan.

Construction loans are funded in tranches, usually based on completion by the borrower of certain construction milestones. We will need to maintain a certain amount of funds available for future disbursements that could otherwise be used to acquire assets, invest in future business opportunities or make distributions to stockholders or we may be forced to sell assets at depressed prices or borrow funds to fund our loan commitment. This could have an adverse effect on our results of operations and ability to make distributions to our stockholders.

We will operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these assets.

We will operate in a highly competitive market for investment opportunities. Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices. In acquiring our target assets, we will

compete with a variety of institutional investors, including other REITs, commercial and investment banks, specialty finance companies, public and private funds, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Several other REITs have recently raised significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us, such as funding from the U.S. government, if we are not eligible to participate in programs established by the U.S. government. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exception from the definition of an investment company under the 1940 Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, competition for originations of and investments in our target assets may lead to decreasing yields, which may further limit our ability to generate desired returns. We cannot assure stockholders that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

The commercial mortgage loans we intend to originate and acquire and the mortgage loans underlying investments in CMBS are subject to the ability of the commercial property owner to generate net income from operating the property as well as the risks of delinquency and foreclosure.

Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things,

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location, condition and design;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional or local economic conditions or specific industry segments, including the credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates and other operating expenses;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;

- in the case of transitional mortgage loans, limited cash flows at the beginning;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest and civil disturbances.

In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations and limit amounts available for distribution to our stockholders. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

The continuing spread of a new strain of coronavirus, which causes the viral disease known as COVID-19, may adversely affect our investments and operations.

Since its discovery in December 2019, a new strain of coronavirus, which causes the viral disease known as COVID-19, has spread from China to many other countries, including the United States. The World Health Organization has declared the coronavirus outbreak a pandemic, the Health and Human Services Secretary has declared a public health emergency in the United States in response to the outbreak and the President of the United States has declared the coronavirus outbreak a national emergency. Considerable uncertainty still surrounds the coronavirus and its potential effects, and the extent of and effectiveness of any responses taken on a national and local level. The impact of the coronavirus on the U.S. and world economies is uncertain and is expected to result in a world-wide economic downturn that will lead to corporate bankruptcies in the most affected industries and has already led to a substantial increase in unemployment.

As a result of our investments being secured entirely by properties located in the United States, the coronavirus will impact our investments and operating results to the extent that its continued spread within the United States reduces occupancy, increases the cost of operation or results in limited hours or necessitates the closure of such properties. In addition, quarantines, states of emergencies and other measures taken to curb the spread of the coronavirus may negatively impact the ability of such properties to continue to obtain necessary goods and services or provide adequate staffing, which may also adversely affect our investments and operating results. In particular, with respect to our investments secured by hospitality properties, a variety of factors related to the coronavirus have, and are expected to continue to, cause a decline in business and leisure travel, including but not limited to (i) restrictions on travel imposed by governmental entities and employers, (ii) the postponement or cancellation of industry conventions and conferences, music and arts festivals, sporting events and other large public gatherings, (iii) the closure of amusement parks, museums and other tourist attractions, (iv) the closure of colleges and universities, and (v) negative public perceptions of travel and public gatherings in light of the perceived risks associated with the coronavirus. In addition, with respect to our investments secured by retail properties, individual stores and shopping malls have been, and may continue to be, closed for an extended period of time or only open certain hours of the day.

To the extent the coronavirus results in a world-wide economic downturn, there will likely be widespread corporate bankruptcies and an increase in unemployment, which could negatively impact our investments and operations, as well as our ability to make distributions to stockholders. The extent to which the coronavirus impacts our investments and operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions taken to contain the coronavirus or treat its impact, among others.

Investments we may make in CMBS may be subject to losses.

Investments we may make in CMBS may be subject to losses. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a subordinated loan or B Note, if any, then by the “first loss” subordinated security holder (generally, the “B-Piece” buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, subordinated loans or B Notes, and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related mortgage-backed security, there would be an increased risk of loss. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

We may not control the special servicing of the mortgage loans included in the CMBS in which we invest, and, in such cases, the special servicer may take actions that could adversely affect our interests.

With respect to each series of CMBS in which we invest, overall control over the special servicing of the related underlying mortgage loans may be held by a directing certificate-holder, which is appointed by the holders of the most subordinate class of CMBS in such series. We may acquire classes of existing series of CMBS where we will not have the right to appoint the directing certificate-holder. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificate-holder, take actions that could adversely affect our interests.

With respect to certain mortgage loans included in our CMBS investments, the properties that secure the mortgage loans backing the securitized pool may also secure one or more related mortgage loans that are not in the CMBS, which may conflict with our interests.

Certain mortgage loans included in our CMBS investments may be part of a loan combination or split loan structure that includes one or more additional mortgaged loans (senior, subordinate or pari passu and not included in the CMBS investments) that are secured by the same mortgage instrument(s) encumbering the same mortgaged property or properties, as applicable, as is the subject mortgage loan. Pursuant to one or more co-lender or similar agreements, a holder, or a group of holders, of a mortgage loan in a subject loan combination may be granted various rights and powers that affect the mortgage loan in that loan combination, including: (i) cure rights; (ii) a purchase option; (iii) the right to advise, direct or consult with the applicable servicer regarding various servicing matters affecting that loan combination; or (iv) the right to replace the directing certificate-holder (without cause).

If our adviser or the sub-adviser overestimates the yields or incorrectly prices the risks of our investments, we may experience losses.

Our adviser and the sub-adviser value our potential investments based on yields and risks, taking into account estimated future losses on the mortgage loans and the underlying collateral included in the securitization’s pools, and the estimated impact of these losses on expected future cash flows and returns. Our adviser’s and the sub-adviser’s loss estimates may not prove accurate, as actual results may vary from estimates. In the event that our adviser or the sub-adviser underestimates the asset level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

Real estate valuation is inherently subjective and uncertain.

The valuation of real estate, and therefore the valuation of any underlying security relating to loans made by us, is inherently subjective due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. In addition,

where we invest in construction loans, initial valuations will assume completion of the project. As a result, the valuations of the real estate assets against which we will make loans are subject to a degree of uncertainty and are made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the commercial or residential real estate markets.

Investments we may make in corporate bank debt and debt securities of commercial real estate operating or finance companies are subject to the specific risks relating to the particular company and to the general risks of investing in real estate-related loans and securities, which may result in significant losses.

We may invest in corporate bank debt and debt securities of commercial real estate operating or finance companies. These investments involve special risks relating to the particular company, including its financial condition, liquidity, results of operations, business and prospects. In particular, the debt securities are often non-collateralized and may also be subordinated to its other obligations. We also invest in debt securities of companies that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses to us. We have not adopted any limit on such investments.

These investments also subject us to the risks inherent with real estate-related investments, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of, and net income from, real property;
- risks generally incident to interests in real property; and
- risks specific to the type and use of a particular property.

These risks may adversely affect the value of our investments in commercial real estate operating and finance companies and the ability of the issuers thereof to make principal and interest payments in a timely manner, or at all, and could result in significant losses.

Investments in non-conforming and non-investment grade rated loans or securities involve increased risk of loss.

Our investments may not conform to conventional loan standards applied by traditional lenders and may be either not rated or rated as non-investment grade by one or more rating agencies. The non-investment grade ratings for these assets typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the properties' underlying cash flow or other factors. As a result, these investments have a higher risk of default and loss than investment grade rated assets. Any loss we incur may be significant and may reduce distributions to our stockholders and adversely affect the market value of our common stock. There are no limits on the percentage of unrated or non-investment grade rated assets we may hold in our investment portfolio.

The B Notes that we may acquire may be subject to additional risks related to the privately negotiated structure and terms of the transaction, which may result in losses to us.

We may invest in B Notes. B Notes are mortgage loans typically (i) secured by a first mortgage on a single large commercial property or group of related properties and (ii) contractually subordinated to an A Note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B Note holders after payment to the A Note holders. However, because each transaction is privately negotiated, B Notes can vary in their structural characteristics and risks. For example, the rights of holders of B Notes to control the process following a borrower default may vary from transaction to transaction. Further, B Notes typically are secured by a single property and so reflect the risks associated with significant concentration. Significant losses related to B Notes would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Subordinated loan assets in which we may invest involve greater risks of loss than senior loans secured by income-producing properties.

We may invest in subordinated loans, which take the form of loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our subordinated loan. If a borrower defaults on our subordinated loan or debt senior to our loan, or in the event of a borrower bankruptcy, our subordinated loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our initial expenditure. In addition, subordinated loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to subordinated loans would result in operating losses for us and may limit our ability to make distributions to our stockholders.

The RMBS and CMBS in which we may invest are subject to the risks of the mortgage securities market as a whole and risks of the securitization process.

The value of RMBS and CMBS may change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the mortgage securities market as a whole. RMBS and CMBS are also subject to several risks created through the securitization process. Subordinate RMBS and CMBS are paid interest only to the extent that there are funds available to make payments. To the extent the collateral pool includes delinquent loans, there is a risk that the interest payment on subordinate RMBS and CMBS will not be fully paid. Subordinate RMBS and CMBS are also subject to greater credit risk than those RMBS and CMBS that are more highly rated.

We may purchase securities backed by subprime or alternative documentation residential mortgage loans, which are subject to increased risks.

We may invest in non-agency RMBS backed by collateral pools of mortgage loans that have been originated using underwriting standards that are less restrictive than those used in underwriting "prime mortgage loans." These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories, mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans and alternative documentation, or Alt A, mortgage loans, the performance of non-agency RMBS backed by subprime mortgage loans and Alt A mortgage loans that we may acquire could be correspondingly adversely affected, which could adversely impact our results of operations, financial condition and business.

The mortgage loans in which we invest and the mortgage loans underlying the mortgage securities in which we invest are subject to delinquency, foreclosure and loss, which could result in losses to us.

Commercial real estate loans are secured by multifamily or commercial properties and are subject to risks of delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced,

the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expenses or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, natural disasters, terrorism, social unrest and civil disturbances. We intend to invest in commercial mortgage loans directly and through CMBS.

Residential mortgage loans are secured by single-family residential property and are subject to risks of delinquency, foreclosure and loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, natural disasters, terrorism, social unrest and civil disturbances, may impair borrowers' abilities to repay their loans. Though we do not intend to invest directly in residential mortgage loans, we may invest in pools of residential mortgage loans or RMBSs.

Delays in liquidating defaulted commercial real estate debt investments could reduce our investment returns.

The occurrence of a default on a commercial real estate debt investment could result in our taking title to collateral. However, we may not be able to take title to and sell the collateral securing the loan quickly. Taking title to collateral can be an expensive and lengthy process that could have a negative effect on the return on our investment. Borrowers often resist when lenders, such as us, seek to take title to collateral by asserting numerous claims, counterclaims and defenses, including but not limited to lender liability claims, in an effort to prolong the foreclosure action. In some states, taking title to collateral can take several years or more to resolve. At any time during a foreclosure proceeding, for instance, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure action and further delaying the foreclosure process. The resulting time delay could reduce the value of our investment in the defaulted loans. Furthermore, an action to take title to collateral securing a loan is regulated by state statutes and regulations and is subject to the delays and expenses associated with lawsuits if the borrower raises defenses, counterclaims or files for bankruptcy. In the event of default by a borrower, these restrictions, among other things, may impede our ability to take title to and sell the collateral securing the loan or to obtain proceeds sufficient to repay all amounts due to us on the loan. In addition, we may be forced to operate any collateral for which we take title for a substantial period of time, which could be a distraction for our management team and may require us to pay significant costs associated with such collateral. We may not recover any of our investment even if we take title to collateral.

Hedging against interest rate exposure may adversely affect our earnings, limit our gains or result in losses, which could adversely affect cash available for distribution to our stockholders.

We may enter into interest rate swap agreements or pursue other interest rate hedging strategies. Our hedging activity will vary in scope based on the level of interest rates, the type of portfolio investments held, and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability or asset;
- our hedging opportunities may be limited by the treatment of income from hedging transactions under the rules determining REIT qualification;

- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;
- the party owing money in the hedging transaction may default on its obligation to pay; and
- we may purchase a hedge that turns out not to be necessary, *i.e.*, a hedge that is out of the money.

Any hedging activity we engage in may adversely affect our earnings, which could adversely affect cash available for distribution to our stockholders. Therefore, while we may enter into such transactions to seek to reduce interest rate risks, unanticipated changes in interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss.

Interest rate fluctuations could reduce our ability to generate income on our investments and may cause losses.

Changes in interest rates will affect our net interest income, which is the difference between the interest income we earn on our interest-earning investments and the interest expense we incur in financing these investments. Changes in the level of interest rates also may affect our ability to originate and acquire assets, the value of our assets and our ability to realize gains from the disposition of assets. Changes in interest rates may also affect borrower default rates. In a period of rising interest rates, our interest expense could increase, while the interest we earn on our fixed-rate debt investments would not change, adversely affecting our profitability. Our operating results depend in large part on differences between the income from our assets, net of credit losses, and our financing costs. We anticipate that for any period during which our assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates may significantly influence our net income. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us.

Changes in the method for determining LIBOR or a replacement of LIBOR may affect interest expense related to borrowings under our credit facilities and our investments.

Regulators and law-enforcement agencies from a number of governments, including entities in the United States, Japan, Canada and the United Kingdom, have been conducting civil and criminal investigations into whether the banks that contributed to the British Bankers' Association, or the BBA, in connection with the calculation of daily LIBOR may have underreported or otherwise manipulated or attempted to manipulate LIBOR. Several financial institutions have reached settlements with the U.S. Commodity Futures Trading Commission, the U.S. Department of Justice Fraud Section and the U.K. Financial Services Authority in connection with investigations by such authorities into submissions made by such financial institutions to the bodies that set LIBOR and other interbank offered rates. In such settlements, such financial institutions admitted to submitting rates to the BBA that were lower than the actual rates at which such financial institutions could borrow funds from other banks. Additional investigations remain ongoing with respect to other major banks and no assurance can be made that there will not be further admissions or findings of rate setting manipulation or that improper manipulation of LIBOR or other similar inter-bank lending rates will not occur in the future.

Based on a review conducted by the Financial Conduct Authority of the U.K., or the FCA, and a consultation conducted by the European Commission, proposals have been made for governance and institutional reform, regulation, technical changes and contingency planning. In particular: (a) new legislation has been enacted in the United Kingdom pursuant to which LIBOR submissions and administration are now "regulated activities" and manipulation of LIBOR has been brought within the scope of the market abuse regime; (b) legislation has been proposed which if implemented would, among other things, alter the manner in which

LIBOR is determined, compel more banks to provide LIBOR submissions, and require these submissions to be based on actual transaction data; and (c) LIBOR rates for certain currencies and maturities are no longer published daily. In addition, pursuant to authorization from the FCA, ICE Benchmark Administration Limited (formerly NYSE Euronext Rate Administration Limited), or the IBA, took over the administration of LIBOR from the BBA on February 1, 2014. Any new administrator of LIBOR may make methodological changes to the way in which LIBOR is calculated or may alter, discontinue or suspend calculation or dissemination of LIBOR.

In a speech on July 27, 2017, Andrew Bailey, the Chief Executive of the FCA, announced the FCA's intention to cease sustaining LIBOR after 2021. The FCA has statutory powers to require panel banks to contribute to LIBOR where necessary. The FCA has decided not to ask, or to require, that panel banks continue to submit contributions to LIBOR beyond the end of 2021. The FCA has indicated that it expects that the current panel banks will voluntarily sustain LIBOR until the end of 2021. The FCA's intention is that after 2021, it will no longer be necessary for the FCA to ask, or to require, banks to submit contributions to LIBOR. The FCA does not intend to sustain LIBOR through using its influence or legal powers beyond that date. It is possible that the IBA and the panel banks could continue to produce LIBOR on the current basis after 2021, if they are willing and able to do so, but we cannot make assurances that LIBOR will survive in its current form, or at all. The Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S.-dollar LIBOR with the Secured Overnight Financing Rate, or SOFR, a new index calculated by short-term repurchase agreements, backed by Treasury securities. Although there have been a few issuances utilizing SOFR or the Sterling Over Night Index Average, an alternative reference rate that is based on transactions, it is unknown whether these alternative reference rates will attain market acceptance as replacements for LIBOR.

We cannot predict the effect of the FCA's decision not to sustain LIBOR, or, if changes are ultimately made to LIBOR, the effect of those changes. Any such changes, reforms or replacements relating to LIBOR could increase our financing costs or decrease the income we earn on our investments, which could impact our results of operations, cash flows and the market value of our investments.

Some of our portfolio investments may be recorded at estimated fair value and, as a result, there may be uncertainty as to the value of these investments.

In accordance with our valuation guidelines, some of our portfolio investments for which no secondary market exists will be valued at least quarterly at fair value, or more frequently as necessary, which includes consideration of unobservable inputs. Because such valuations are subjective, the fair value of certain of such assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Liability relating to environmental matters may impact the value of properties that we may acquire upon foreclosure of the properties underlying our investments or otherwise.

To the extent we foreclose on properties with respect to which we have extended mortgage loans or otherwise acquire properties, we may be subject to environmental liabilities arising from such foreclosed properties. Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

The presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property underlying one of our debt investments becomes liable for removal costs, the ability of the owner to make payments to us may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us and our ability to make distributions to our stockholders.

If we foreclose on any properties underlying our investments, the presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material environmental liabilities attached to such properties could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

Risks Related to Debt Financing

If we borrow money, the potential for gain or loss on amounts invested in us will be magnified and may increase the risk of investing in us.

We use borrowings, also known as leverage, to finance the acquisition of a portion of our investments with credit facilities and other borrowings, which may include repurchase agreements and CLOs. The use of leverage increases the volatility of investments by magnifying the potential for gain or loss on invested equity capital. If we use leverage to partially finance our investments, through borrowing from banks and other lenders, stockholders will experience increased risks of investing in our common stock. If the value of our assets increases, leverage would cause the net asset value attributable to each of the classes of our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leverage would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock distribution payments. Leverage is generally considered a speculative investment technique. Our ability to execute our strategy using leverage depends on various conditions in the financing markets that are beyond our control, including liquidity and credit spreads. In addition, the decision to utilize leverage will increase our assets and, as a result, will increase the amount of advisory fees payable to FS Real Estate Advisor.

We have broad authority to utilize leverage and high levels of leverage could hinder our ability to make distributions and decrease the value of stockholders' investment.

Our charter does not limit us from utilizing financing until our borrowings exceed 300% of our total "net assets" (as defined in our charter and in accordance with the NASAA REIT Guidelines), which is generally expected to be approximately 75% of the aggregate cost of our investments. Further, we can incur financings in excess of this limitation with the approval of our independent directors. High leverage levels would cause us to incur higher interest charges and higher debt service payments and the agreements governing our borrowings may also include restrictive covenants. These factors could limit the amount of cash we have available to distribute to stockholders and could result in a decline in the value of their investment.

Changes in interest rates may affect our cost of capital and net investment income.

Since we intend to use debt to finance a portion of our investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates when we have debt outstanding, our cost of funds will increase, which could reduce our net investment income. We expect that our long-term fixed-rate investments will be financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions, and we will initially have to purchase or develop such expertise.

A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the performance fee hurdle rate which is used for purposes of calculating the performance fees payable to FS Real Estate Advisor and may result in a substantial increase of the amount of such performance fees.

We may not be able to access financing sources on attractive terms which could adversely affect our ability to execute our business plan.

We require significant outside capital to fund and grow our business. Our business may be adversely affected by disruptions in the debt and equity capital markets and institutional lending market, including the lack of access to capital or prohibitively high costs of obtaining or replacing capital. A primary source of liquidity for companies in the real estate industry has been the debt and equity capital markets. Access to the capital markets and other sources of liquidity was severely disrupted during the relatively recent global credit crisis and, despite some recent improvements, the markets could suffer another severe downturn and another liquidity crisis could emerge. Based on the current conditions, we do not know whether any sources of capital, other than the WF-1 Facility and the GS-1 Facility, will be available to us in the future on terms that are acceptable to us. If we cannot obtain sufficient debt and equity capital on acceptable terms, our business and our ability to operate could be severely impacted.

We may not successfully align the maturities of our liabilities with the maturities on our assets, which could harm our operating results and financial condition.

Our general financing strategy is focused on the use of “match-funded” structures. This means that we seek to align the maturities of our liabilities with the maturities on our assets in order to manage the risks of being forced to refinance our liabilities prior to the maturities of our assets. In addition, we plan to match interest rates on our assets with like-kind borrowings, so fixed-rate investments are financed with fixed-rate borrowings and floating-rate assets are financed with floating-rate borrowings, directly or indirectly through the use of interest rate swaps, caps and other financial instruments or through a combination of these strategies. We may fail to appropriately employ match-funded structures on favorable terms, or at all. We may also determine not to pursue a fully match-funded strategy with respect to a portion of our financings for a variety of reasons. If we fail to appropriately employ match-funded strategies or determine not to pursue such a strategy, our exposure to interest rate volatility and exposure to matching liabilities prior to the maturity of the corresponding asset may increase substantially which could harm our operating results, liquidity and financial condition.

We have utilized and may in the future utilize non-recourse securitizations to finance our investments, which may expose us to risks that could result in losses.

We have utilized and may in the future utilize non-recourse securitizations of certain of our investments to generate cash for funding new investments and for other purposes. Such financing generally involves creating a special purpose vehicle, contributing a pool of our investments to the entity, and selling interests in the entity on a non-recourse basis to purchasers (whom we would expect to be willing to accept a lower interest rate to invest in investment-grade loan pools). We would expect to retain all or a portion of the equity and potentially other tranches in the securitized pool of portfolio investments. Prior to any such financings, we may use other financing facilities to finance the acquisition of investments until a sufficient quantity of investments had been accumulated, at which time we would refinance these facilities through a securitization, such as a CLO. The inability to consummate securitizations to finance our investments could require us to seek other forms of less attractive financing, which could adversely affect our performance and our ability to grow our business.

Moreover, conditions in the capital markets, including volatility and disruption in the capital and credit markets, may not permit a securitization at any particular time or may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets. We may also suffer losses if the value of the mortgage loans we acquire declines prior to securitization. In addition, we may suffer a loss due to the incurrence of transaction costs related to executing these transactions. To the extent that we incur a loss executing or participating in future securitizations for the reasons described above or for other reasons, it could

materially and adversely impact our business and financial condition. The inability to securitize our portfolio may hurt our performance and our ability to grow our business.

Risks Related to Taxation

Our failure to qualify as a REIT in any taxable year would subject us to U.S. federal income tax and applicable state and local taxes, which would reduce the amount of cash available for distribution to our stockholders.

We believe that we have been organized and have operated in a manner that have enabled us to qualify to be taxed as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2017 and will permit us to continue to qualify. We have not requested and do not intend to request a ruling from the Internal Revenue Service, or the IRS, that we qualify to be taxed as a REIT. The U.S. federal income tax laws governing REITs are complex. Judicial and administrative interpretations of the U.S. federal income tax laws governing REIT qualification are limited. To qualify as a REIT, we must meet, on an ongoing basis, various tests regarding the nature of our assets and our income, the ownership of our outstanding shares, and the amount of our distributions. New legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. Thus, while we intend to operate so that we will continue to qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. These considerations also might restrict the types of assets that we can acquire in the future.

If we fail to qualify as a REIT in any taxable year, and we do not qualify for certain statutory relief provisions, we would be required to pay U.S. federal income tax and applicable state and local income tax on our taxable income at regular corporate income tax rates, and distributions to our stockholders would not be deductible by us in determining our taxable income. In such a case, we might need to borrow money or sell assets in order to pay our taxes. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT, we no longer would be required to distribute substantially all of our net taxable income to our stockholders. In addition, unless we were eligible for certain statutory relief provisions, we could not re-elect to be taxed as a REIT until the fifth calendar year following the year in which we failed to qualify.

Legislative, regulatory or administrative changes could adversely affect us, our stockholders or our borrowers.

Legislative, regulatory or administrative changes could be enacted or promulgated at any time, either prospectively or with retroactive effect, and may adversely affect us, our stockholders or our borrowers.

On December 22, 2017, tax legislation commonly referred to as the Tax Cuts and Jobs Act was signed into law, generally applying in taxable years beginning after December 31, 2017. Most of the changes applicable to individuals are temporary and apply only to taxable years beginning after December 31, 2017 and before January 1, 2026. The IRS has issued significant guidance under the Tax Cuts and Jobs Act, but guidance on additional issues, finalization of proposed guidance and possible technical corrections legislation may adversely affect us or our stockholders. In addition, further changes to the tax laws, unrelated to the Tax Cuts and Jobs Act, are possible. In particular, the federal income taxation of REITs may be modified, possibly with retroactive effect, by legislative, administrative or judicial action at any time.

You are urged to consult with your tax advisor with respect to the impact of the Tax Cuts and Jobs Act and any other regulatory or administrative developments and proposals and their potential effect on investment in our common stock.

Certain financing activities may subject us to U.S. federal income tax and could have negative tax consequences for our stockholders.

We may enter into financing transactions that could result in us or a portion of our assets being treated as a “taxable mortgage pool” for U.S. federal income tax purposes. If we were to enter into such a transaction, we

would be taxed at the highest U.S. federal corporate income tax rate on a portion of the income, referred to as “excess inclusion income,” that is allocable to stockholders that are “disqualified organizations,” which are generally certain cooperatives, governmental entities and tax-exempt organizations that are exempt from tax on unrelated business taxable income. To the extent that common stock owned by “disqualified organizations” is held in record name by a broker-dealer or other nominee, the broker-dealer or other nominee would be liable for the U.S. federal corporate level tax on the portion of our excess inclusion income allocable to the common stock held by the broker-dealer or other nominee on behalf of the “disqualified organizations.” A regulated investment company, or RIC, or other pass through entity owning our common stock in record name will be subject to tax at the highest U.S. federal corporate tax rate on any excess inclusion income allocated to their owners that are disqualified organizations.

In addition, if we realize excess inclusion income, our stockholders will be subject to special tax rules with respect to their allocable shares of our excess inclusion income. For example, excess inclusion income cannot be offset by net operating losses of our stockholders. If a stockholder is a tax-exempt entity and not a disqualified organization, excess inclusion income is fully taxable as unrelated business taxable income. If a stockholder is a non-U.S. person, excess inclusion income would be subject to a 30% withholding tax without any reduction or exemption pursuant to any otherwise applicable income tax treaty. If the stockholder is a REIT, RIC, common trust fund or other pass through entity, our allocable share of our excess inclusion income could be considered excess inclusion income of such entity.

On December 5, 2019, we issued collateral loan obligations (“CLO”) through a REIT subsidiary of ours that we hold through an intervening partnership. The CLO arrangement is a taxable mortgage pool, but the subsidiary REIT structure is intended to prevent any excess inclusion income from being allocated to us or our shareholders, although the IRS might take a different view.

Complying with REIT requirements may force us to liquidate or restructure otherwise attractive investments.

To qualify as a REIT, we generally must ensure that at the end of each calendar quarter at least 75% of the value of our total assets consists of cash, cash items, government securities and qualified real estate assets, including certain mortgage loans and mortgage-backed securities, or MBS, as well as stock of another REIT. The remainder of our investment in securities (other than qualified assets under the 75% asset test or securities of a taxable REIT subsidiary of ours) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. The 10% value asset test does not apply to “straight debt” securities. Debt will be treated as “straight debt” for these purposes if the debt is a written unconditional promise to pay on demand or on a specified date a certain sum of money, the debt is not convertible, directly or indirectly, into stock, and the interest rate and the interest payment dates of the debt are not contingent on the profits, the borrower’s discretion, or similar factors. If our subsidiary REIT failed to qualify as a REIT we would not satisfy the 10% value asset test. In addition, in general, no more than 5% of the value of our assets (other than securities that are qualified assets under the 75% asset test or securities of a taxable REIT subsidiary of ours) can consist of the securities of any one issuer, no more than 20% of the value of our total securities can be represented by stock and securities of one or more taxable REIT subsidiaries, or TRSs, and no more than 25% of the value of our total assets can be represented by “nonqualified publicly offered REIT debt instruments.” If we fail to comply with these requirements at the end of any quarter, we must correct the failure within 30 days after the end of such calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

Distributions or gain on sale may be treated as unrelated business taxable income to U.S. tax-exempt investors in certain circumstances.

If (1) all or a portion of our assets are subject to the rules relating to taxable mortgage pools, (2) we are a “pension held REIT,” (3) a U.S. tax-exempt stockholder has incurred debt to purchase or hold our common stock,

or (4) any residual real estate mortgage investment conduits, or REMIC, interests we buy or taxable mortgage pool in which we hold the “equity interests” and that is treated as our qualified REIT subsidiary generate “excess inclusion income,” then a portion of the distributions to a U.S. tax-exempt stockholder and, in the case of condition (3), gains realized on the sale of common stock by such tax-exempt stockholder may be subject to U.S. federal income tax as unrelated business taxable income under the Code.

Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders.

To qualify as a REIT, we must distribute to our stockholders each year dividends equal to at least 90% of our REIT taxable income (which is computed without regard to the dividends-paid deduction, excludes net capital gain and does not necessarily equal net income as calculated in accordance with U.S. generally accepted accounting principles, or GAAP). To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed income (including net capital gain). In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than a minimum amount specified under U.S. federal income tax laws. We intend to make distributions to our stockholders in a manner that will satisfy the REIT 90% distribution requirement and avoid corporate income tax and the 4% nondeductible excise tax.

Our taxable income may substantially exceed our net income as determined based on GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may be required to accrue income on mortgage loans, MBS and other types of debt securities or interests in debt securities before we receive any payments of interest or principal on such assets. We may also acquire distressed debt investments that are subsequently modified by agreement with the borrower either directly or indirectly. As a result of amendments to a debt investment, we may be required to recognize taxable income to the extent that the principal amount of the modified debt exceeds our cost of purchasing it prior to the amendments. We may be required under the terms of the indebtedness that we incur, whether to private lenders or pursuant to government programs, to use cash received from interest payments to make principal payments on that indebtedness, with the effect that we will recognize income but will not have a corresponding amount of cash available for distribution to our stockholders. Under the Tax Cuts and Jobs Act, we generally will be required to take certain amounts into income no later than the time they are reflected on certain financial statements. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and find it difficult or impossible to meet the REIT distribution requirement in certain circumstances.

In such circumstances, we may be required to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be applied to make investments or repay debt or (iv) make a taxable distribution of our shares as part of a distribution in which stockholders may elect to receive shares or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirement. Thus, compliance with the REIT distribution requirement may hinder our ability to grow, which could adversely affect the value of our common stock. We may be required to use cash reserves, incur debt, or liquidate non-cash assets at rates or at times that we regard as unfavorable to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire interests in debt instruments in the secondary market for less than their face amount. The discount at which such interests in debt instruments are acquired may reflect doubts about the ultimate collectability of the underlying loans rather than current market interest rates. The amount of such discount will nevertheless generally be treated as “market discount” for U.S. federal income tax purposes. We expect to accrue market discount on the basis of a constant yield to maturity of the relevant debt instrument, based generally on the assumption that all future payments on the debt instrument will be made. Accrued market discount is reported as income when, and to the extent that, any payment of principal of the debt instrument is made. Payments on

residential mortgage loans are ordinarily made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions in a subsequent taxable year.

Similarly, some of the securities that we acquire may have been issued with original issue discount. We will be required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such securities will be made. If such securities turn out not to be fully collectible, an offsetting loss deduction will become available only in the later year that uncollectability is provable.

Finally, in the event that any debt instruments or other securities acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to subordinate mortgage-backed securities at their stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

Due to each of these potential timing differences between income recognition or expense deduction and the related cash receipts or disbursements, there is a significant risk that we may have substantial taxable income in excess of cash available for distribution. In that event, we may need to borrow funds or take other action to satisfy the REIT distribution requirement.

Our ownership of and relationship with any TRS which we may form or acquire will be subject to limitations, and a failure to comply with the limits could jeopardize our REIT qualification and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. Overall, no more than 20% of the value of a REIT's assets may consist of stock and securities of one or more TRSs. In addition, the TRS rules impose a 100% excise tax on IRS adjustments to certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Any domestic TRS that we may form or acquire would pay U.S. federal, state and local income tax on its taxable income, and its after-tax net income would be available for distribution to us but would not be required to be distributed to us by such domestic TRS. We will monitor the value of our interests in TRSs to ensure compliance with the rule that no more than 20% of the value of our assets may consist of TRS stock and securities (which is applied at the end of each calendar quarter). In addition, we will scrutinize all of our transactions with TRSs to ensure that they are entered into on arm's length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS limitations or to avoid application of the 100% excise tax discussed above.

Liquidation of our assets may jeopardize our REIT qualification.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our portfolio assets to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets in transactions that are considered to be prohibited transactions.

Characterization of any repurchase agreements we enter into to finance our portfolio assets as sales for tax purposes rather than as secured lending transactions would adversely affect our ability to qualify as a REIT.

We may enter into repurchase agreements with a variety of counterparties to achieve our desired amount of leverage for the assets in which we intend to invest. When we enter into a repurchase agreement, we generally sell assets to our counterparty to the agreement and receive cash from the counterparty. The counterparty is obligated to resell the assets back to us at the end of the term of the transaction. We believe that for U.S. federal income tax purposes we will be treated as the owner of the assets that are the subject of repurchase agreements and that the repurchase agreements will be treated as secured lending transactions notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could successfully assert that we did not own these assets during the term of the repurchase agreements, in which case we could fail to qualify as a REIT.

The failure of a mezzanine loan to qualify as a real estate asset would adversely affect our ability to qualify as a REIT.

We may acquire mezzanine loans, which are loans secured by equity interests in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained in the Revenue Procedure, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% gross income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We may acquire mezzanine loans that may not meet all of the requirements for reliance on this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge such loan's treatment as a real estate asset for purposes of the REIT asset and income tests, and if such a challenge were sustained, we could fail to qualify as a REIT.

Investments in certain financial assets will not qualify as "real estate assets" or generate "qualifying income" for purposes of the REIT 75% asset and gross income qualification requirements and, as a result, our ability to make such investments will be limited.

To qualify as a REIT for U.S. federal income tax purposes, we must comply with certain asset and gross income qualification requirements. Because of these REIT qualification requirements, our ability to acquire certain financial assets such as asset-backed securities, or ABS, will be limited, or we may be required to make such investments through a TRS. In the event that we were to make such an investment through a domestic TRS, any income or gain from such ABS would generally be subject to U.S. federal, state and local corporate income tax, which may reduce the cash flow generated by us and our subsidiaries in the aggregate, and our ability to make distributions to our stockholders. Our ability to make such investments through a TRS is limited, however, because of the REIT qualification requirement that no more than 20% of the value of our total assets can be comprised of stock and securities held by us in TRSs, and that 75% of our gross income must come from certain specified real estate sources.

Complying with REIT requirements may cause us to forego otherwise attractive investment opportunities or financing or hedging strategies.

Any income from a hedging transaction we enter into (1) in the normal course of our business primarily to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets, which is clearly identified as specified in the Treasury Regulations before the close of the day on which it was acquired, originated, or entered into, including gain from the sale or disposition of such a transaction, (2) primarily to manage risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% gross income tests, or (3) to hedge existing hedging transactions after all or part of the hedged indebtedness or property has been disposed of, which is clearly identified as such before the close of the day on which it was acquired, originated, or entered into, will not constitute gross income for purposes of the

75% or 95% gross income tests. Our annual gross income from non-qualifying hedges, together with any other income not generated from qualifying real estate assets, cannot exceed 25% of our gross income (excluding for this purpose, gross income from qualified hedges). In addition, our aggregate gross income from non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5% of our annual gross income (excluding for this purpose, gross income from qualified hedges). As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. We may even be required to altogether forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our investment performance.

Even if we qualify as a REIT, we may face tax liabilities that reduce our cash flow.

Even if we qualify as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, franchise, property and transfer taxes. In addition, any domestic TRSs we own will be subject to U.S. federal, state and local corporate taxes. In order to meet the REIT qualification requirements, or to avoid the imposition of a 100% tax that applies to certain gains derived by a REIT from sales of inventory or property held primarily for sale to customers in the ordinary course of business, we may hold some of our assets through taxable subsidiary corporations, including domestic TRSs. Any taxes paid by such subsidiary corporations would decrease the cash available for distribution to our stockholders.

The ownership limits that apply to REITs, as prescribed by the Code and by our charter, may inhibit market activity in shares of our common stock and restrict our business combination opportunities.

In order for us to qualify as a REIT, not more than 50% in value of our outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year after the first year for which we elect to be taxed as a REIT. Additionally, at least 100 persons must beneficially own our stock during at least 335 days of a taxable year (other than the first taxable year for which we elect to be taxed as a REIT). Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Our charter also provides that, unless exempted by our board of directors prospectively or retroactively, no person may own more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock or 9.8% in value of the outstanding shares of stock of all classes and series. Our board may, in its sole discretion, subject to such conditions as it may determine and the receipt of certain representations and undertakings, prospectively or retroactively, waive the ownership limits or establish a different limit on ownership, or excepted holder limit, for a particular stockholder if the stockholder's ownership in excess of the ownership limits would not result in our being "closely held" under Section 856(h) of the Code or otherwise failing to qualify as a REIT. These ownership limits could delay or prevent a transaction or a change in control of our Company that might involve a premium price for our shares of common stock or otherwise be in the best interest of our stockholders.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans that would be treated as sales for U.S. federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax unless a safe harbor exception applies. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held as inventory or primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to sell or securitize loans in a manner that was treated as a sale of the loans as inventory for U.S. federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans, other than through a TRS, and we may be required to limit the structures we use for our securitization transactions, even though such sales or structures might otherwise be beneficial for us.

Stockholders may have current tax liability on distributions they elect to reinvest in our common stock.

If stockholders participate in our distribution reinvestment plan, they will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of our common stock to the extent the amount reinvested was not a tax-free return of capital. Therefore, unless such stockholder is a tax-exempt entity, it may be forced to use funds from other sources to pay its tax liability on the reinvested dividends.

Ordinary dividends paid by REITs generally do not qualify for the reduced tax rates applicable to “qualified dividend income.”

Dividends paid by C corporations to domestic stockholders that are individuals, trusts and estates are generally taxed at a maximum federal income tax rate of 20% as qualified dividend income. Dividends payable by REITs, however, are generally not eligible for the reduced rates applicable to qualified dividend income, except to the extent designated as capital gain dividends or qualified dividend income. The more favorable rates currently applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in stock of non-REIT corporations that pay dividends, even taking into account the deduction of up to 20% of qualified REIT dividends received by non-corporate U.S. stockholders in taxable years beginning before January 1, 2026.

We may choose to pay dividends in our own stock, in which case our stockholders may be required to pay income taxes in excess of the cash dividends received.

Under IRS Revenue Procedure 2017-45, as a publicly offered REIT we may give stockholders a choice, subject to various limits and requirements, of receiving a dividend in cash or in common stock of the REIT. As long as at least 20% of the total dividend is available in cash and certain other requirements are satisfied, the IRS will treat the stock distribution as a dividend (to the extent applicable rules treat such distribution as being made out of the REIT’s earnings and profits). Taxable stockholders receiving such dividends will be required to include the full amount of the dividend income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the NAV per share of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock.

Our qualification as a REIT and exemption from U.S. federal income tax with respect to certain income may be dependent on the accuracy of legal opinions or advice rendered or given or statements by the issuers of assets that we acquire, and the inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

When purchasing securities, we may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes and to what extent those securities constitute real estate assets for purposes of the REIT asset tests and produce income which qualifies under the 75% REIT gross income test. In addition, when purchasing the equity tranche of a securitization, we may rely on opinions or advice of counsel regarding the qualification of the securitization for exemption from U.S. corporate income tax and the qualification of interests in such securitization as debt for U.S. federal income tax purposes. The inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

Our ability to invest in and dispose of “to be announced” securities could be limited by our REIT qualification, and we could fail to qualify as a REIT as a result of these investments.

We may purchase RMBS issued by government-sponsored entities, or Agency RMBS, through “to-be-announced” forward contracts, or TBAs, or dollar roll transactions. In certain instances, rather than take

delivery of the Agency RMBS subject to a TBA, we may dispose of the TBA through a dollar roll transaction in which we agree to purchase similar securities in the future at a predetermined price or otherwise, which may result in the recognition of income or gains. We will account for any dollar roll transactions as purchases and sales. The law is unclear regarding whether TBAs will be qualifying assets for the 75% asset test and whether income and gains from dispositions of TBAs will be qualifying income for the 75% gross income test.

Unless we are advised by counsel that TBAs should be treated as qualifying assets for purposes of the 75% asset test, we will limit our investment in TBAs and any other non-qualifying assets to no more than 25% of our total assets at the end of any calendar quarter. Furthermore, until we are advised by counsel that income and gains from the disposition of TBAs should be treated as qualifying income for purposes of the 75% gross income test, we will limit our gains from dispositions of TBAs and any other non-qualifying income to no more than 25% of our total gross income for each calendar year. Accordingly, our ability to purchase Agency RMBS through TBAs and to dispose of TBAs, through dollar roll transactions or otherwise, could be limited.

Moreover, even if we are advised by counsel that TBAs should be treated as qualifying assets or that income and gains from dispositions of TBAs should be treated as qualifying income, it is possible that the IRS could successfully take the position that such assets are not qualifying assets and such income is not qualifying income. In that event, we could be subject to a penalty tax or we could fail to qualify as a REIT if (i) the value of our TBAs, together with our non-qualifying assets for the 75% asset test, exceeded 25% of our gross assets at the end of any calendar quarter, or (ii) our income and gains from the disposition of TBAs, together with our non-qualifying income for the 75% gross income test, exceeded 25% of our gross income for any taxable year.

Our investments in construction loans may require us to make estimates about the fair value of land improvements that may be challenged by the IRS.

We may invest in construction loans, the interest from which will be qualifying income for purposes of the REIT gross income tests, provided that the loan value of the real property securing the construction loan is equal to or greater than the highest outstanding principal amount of the construction loan during any taxable year. For purposes of construction loans, the loan value of the real property is the fair value of the land plus the reasonably estimated cost of the improvements or developments (other than personal property) that secure the loan and that are to be constructed from the proceeds of the loan. There can be no assurance that the IRS would not challenge our estimate of the loan value of the real property.

There may be tax consequences to any modifications to our borrowings, any hedging transactions and other contracts to replace references to LIBOR.

The publication of LIBOR rates may be discontinued by 2022. We are parties to loan agreements with LIBOR-based interest rates and may enter into derivatives and hold or acquire assets with LIBOR-based terms. We may have to renegotiate such LIBOR-based instruments to replace references to LIBOR. Under current law, certain modifications of terms of LIBOR-based instruments may have tax consequences, including deemed taxable exchanges of the pre-modification instrument for the modified instrument. Proposed Treasury Regulations have been issued that would treat certain modifications that would be taxable events under current law as non-taxable events. The proposed Treasury Regulations also would permit REMICs to make certain modifications without losing REMIC qualification. The proposed Treasury Regulations do not discuss REIT-specific issues of modifications to LIBOR-based instruments. It is not clear when the proposed Treasury Regulations will be finalized or what, if any, changes will be made to the proposed Treasury Regulations in final Treasury Regulations. We will attempt to migrate to a post-LIBOR environment without jeopardizing our REIT qualification or suffering other adverse tax consequences but can give no assurances that we will succeed.

We may choose to pay dividends in a combination of cash and our own common stock, in which case stockholders may be required to pay income taxes in excess of the cash dividends they receive.

We may choose to pay dividends in a combination of cash and our own common stock. Under IRS Revenue Procedure 2017-45, as a publicly offered REIT, we may give stockholders a choice, subject to various

limits and requirements, of receiving a dividend in cash or in our common stock. As long as at least 20% of the total dividend is available in cash and certain other requirements are satisfied, the IRS will treat the stock distribution as a dividend (to the extent applicable rules treat such distribution as being made out of our earnings and profits). As a result, U.S. stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends they receive. In the case of non-U.S. stockholders, we generally will be required to withhold tax with respect to the entire dividend, which withholding tax may exceed the amount of cash such non-U.S. stockholder would otherwise receive.

Risks Related to Retirement Plans

If the fiduciary of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended, or ERISA, fails to meet the fiduciary and other standards under ERISA, the Code or common law as a result of an investment in our stock, the fiduciary could be subject to liability, including civil penalties.

There are special considerations that apply to investing in our shares on behalf of “benefit plan investors,” as defined in ERISA § 3(42), including a trust, pension, profit sharing or 401(k) plans, health or welfare plans, trusts, individual retirement accounts, or IRAs, or Keogh plans. If stockholders are investing the assets of any of the entities identified in the prior sentence in shares of our Class T, Class S, Class D, Class M or Class I common stock, stockholders should satisfy themselves that:

- the investment is consistent with their fiduciary obligations under applicable law, including common law, ERISA and the Code;
- the investment is made in accordance with the documents and instruments governing the trust, plan or IRA, including a plan’s investment policy;
- the investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the Code;
- the investment will not impair the liquidity of the trust, plan or IRA;
- the investment will not produce “unrelated business taxable income” for the plan or IRA;
- our stockholders will be able to value the assets of the plan annually in accordance with ERISA requirements and applicable provisions of the plan or IRA; and
- the investment will not constitute a non-exempt prohibited transaction under Title I of ERISA or Section 4975 of the Code.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA, the Code, or other applicable statutory or similar law may result in the imposition of liability, including civil penalties, and can subject the fiduciary to equitable remedies. In addition, if an investment in our shares constitutes a non-exempt prohibited transaction under Title I of ERISA or Section 4975 of the Code, the fiduciary that authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount involved.

If our assets at any time are deemed to constitute “plan assets” under ERISA, that may lead to the rescission of certain transactions, tax or fiduciary liability and our being held in violation of certain ERISA and Code requirements.

Stockholders subject to ERISA should consult their own advisors as to the effect of ERISA on an investment in our Class T, Class S, Class D, Class M or Class I shares. If our assets are deemed to constitute “plan assets” of stockholders that are ERISA Plans (as defined below) (i) certain transactions that we might enter into in the ordinary course of our business might have to be rescinded and may give rise to certain excise taxes

and fiduciary liability under Title I of ERISA and/or Section 4975 of the Code; (ii) our management, as well as various providers of fiduciary or other services to us (including our adviser), and any other parties with authority or control with respect to us or our assets, may be considered fiduciaries or otherwise parties in interest or disqualified persons for purposes of the fiduciary responsibility and prohibited transaction provisions of Title I of ERISA and Section 4975 of the Code; and (iii) the fiduciaries of stockholders that are ERISA Plans would not be protected from “co-fiduciary liability” resulting from our decisions and could be in violation of certain ERISA requirements.

Accordingly, prospective investors that are (i) “employee benefit plans” (within the meaning of Section 3(3) of ERISA), which are subject to Title I of ERISA; (ii) “plans” defined in Section 4975 of the Code, which are subject to Section 4975 of the Code (including “Keogh” plans and “individual retirement accounts”); or (iii) entities whose underlying assets are deemed to include plan assets within the meaning of Section 3(42) of ERISA and the regulations thereunder (e.g., an entity of which 25% or more of the total value of any class of equity interests is held by “benefit plan investors”) (each such plan, account and entity described in clauses (i), (ii) and (iii) we refer to as “ERISA Plans”) should consult with their own legal, tax, financial and other advisors prior to investing to review these implications in light of such investor’s particular circumstances. The sale of our common stock to any ERISA Plan is in no respect a representation by us or any other person associated with the offering of our shares of common stock that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are located at 201 Rouse Boulevard, Philadelphia, Pennsylvania 19112. We believe that these office facilities are suitable and adequate for our business as it is presently conducted.

Item 3. Legal Proceedings.

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us. From time to time, we may be party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of any legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material adverse effect upon our financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II—OTHER INFORMATION

Many of the amounts and percentages presented in Part II have been rounded for convenience of presentation, and all dollar amounts, excluding share and per share amounts, are presented in thousands unless otherwise noted.

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

There is currently no market for our common stock, and we do not expect that a market for our shares will develop in the foreseeable future. Under Maryland law, our stockholders generally will not be personally liable for our debts or obligations. As of March 23, 2020, we had 105 record holders of our Class F common stock, 14 record holders of Class Y common stock, 462 record holders of Class T common stock, 552 record holders of Class S common stock, 285 record holders of Class D common stock, 598 record holders of Class M common stock, and 213 record holders of Class I common stock.

Share Repurchases

We have adopted a share repurchase plan, whereby on a monthly basis, stockholders may request that we repurchase all or any portion of their shares. Prior to September 2019, Class F shares and Class Y shares were not eligible to participate in our share repurchase program. We may repurchase fewer shares than have been requested in any particular month to be repurchased under our share repurchase plan, or none at all, in our discretion at any time. The repurchase of shares is limited to no more than 2% of our aggregate NAV per month of all classes of shares then participating in our share repurchase plan and no more than 5% of our aggregate NAV per calendar quarter of all classes of shares then participating in our share repurchase plan, which means that in any 12-month period, we limit repurchases to approximately 20% of the total NAV of all classes of shares then participating in the share repurchase plan.

During the year ended December 31, 2019, we repurchased shares of our common stock in the following amounts, which represented all of the shares repurchase requests received for the same period.

| Period | Total Number of Shares Repurchased | Repurchases as a Percentage of Shares Outstanding | Average Price Paid per Share | Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares Pending Repurchase Pursuant to Publicly Announced Plans or Programs ⁽¹⁾ |
|----------------------------------|------------------------------------|---|------------------------------|--|---|
| January 1 - January 31, 2019 | — | — | — | — | — |
| February 1 - February 28, 2019 | 4,968 | 0.13% | \$25.22 | 4,968 | — |
| March 1 - March 31, 2019 | — | — | — | — | — |
| April 1 - April 30, 2019 | — | — | — | — | — |
| May 1 - May 31, 2019 | — | — | — | — | — |
| June 1 - June 30, 2019 | — | — | — | — | — |
| July 1 - July 31, 2019 | 3,152 | 0.06% | \$25.01 | 3,152 | — |
| August 1 - August 31, 2019 | 842 | 0.02% | \$25.24 | 842 | — |
| September 1 - September 30, 2019 | 53,865 | 0.96% | \$24.75 | 53,865 | — |
| October 1 - October 31, 2019 | 5,555 | 0.10% | \$25.26 | 5,555 | — |
| November 1 - November 30, 2019 | — | — | — | — | — |
| December 1 - December 31, 2019 | 2,467 | 0.04% | \$25.27 | 2,467 | — |
| Total ⁽²⁾ | <u>70,849</u> | | | <u>70,849</u> | |

- (1) Repurchases are limited under the share repurchase plan as described above. Under the share repurchase plan, we would have been able to repurchase up to an aggregate of \$3,038 of shares based on our November 30, 2019 NAV in the fourth quarter of 2019 (if such repurchase requests were made). Pursuant to the share repurchase plan, this amount resets at the beginning of each quarter.
- (2) During the year ended December 31, 2019, we repurchased 1,083,472 of Class F shares at an average price of \$24.92 outside of the share repurchase plan. See Note 6 to our consolidated financial statements included herein for additional information.

Distributions

We generally intend to distribute substantially all of our taxable income, which does not necessarily equal net income as calculated in accordance with GAAP, to our stockholders each year to comply with the REIT provisions of the Code. All distributions will be made at the discretion of our board of directors and will depend upon our taxable income, financial condition, maintenance of REIT status, applicable law, and other factors as our board of directors deems relevant.

The following table reflects the cash distributions per share that we have paid on our common stock during the years ended December 31, 2019, 2018 and 2017:

| | Year Ended December 31, | | |
|--|-------------------------|----------------|--------------|
| | 2019 | 2018 | 2017 |
| Distributions: | | | |
| Paid or payable in cash | \$ 5,156 | \$1,488 | \$ 79 |
| Reinvested in shares | 3,196 | 2,459 | 328 |
| Total distributions | <u>\$ 8,352</u> | <u>\$3,947</u> | <u>\$407</u> |
| Source of distributions: | | | |
| Cash flows from operating activities | \$ 5,156 | \$1,488 | \$ 79 |
| Reinvested via the distribution reinvestment plan | 3,196 | 2,459 | 328 |
| Offering proceeds | — | — | — |
| Total sources of distributions | <u>\$ 8,352</u> | <u>\$3,947</u> | <u>\$407</u> |
| Net cash provided by operating activities ⁽¹⁾ | <u>\$11,071</u> | <u>\$5,198</u> | <u>\$579</u> |

- (1) Cash flows from operating activities are supported by expense support payments from our advisor pursuant to our expense limitation agreement. See Note 6 to our consolidated financial statements included herein for additional information regarding our expense limitation agreement.

Use of Proceeds

On September 11, 2017, our registration statement on Form S-11 (File No. 333-216037), covering our initial public offering of up to \$2,750,000 in shares of common stock, was declared effective under the Securities Act, and we commenced our initial public offering. We are offering on a continuous basis up to \$2,500,000 in any combination of Class T, Class S, Class D, Class M and Class I shares of common stock in our primary offering and up to \$250,000 in any combination of Class F, Class Y, Class T, Class S, Class D, Class M and Class I shares of common stock pursuant to our distribution reinvestment plan. FS Investment Solutions, LLC, an affiliate of FS Real Estate Advisor, serves as the dealer manager of our initial public offering.

Our cumulative equity raise through December 31, 2019 resulted in the following (\$ in thousands except for per share data):

| | Class F Shares | Class Y Shares | Class T Shares | Class S Shares | Class D Shares | Class M Shares | Class I Shares | Total |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------|
| Primary shares sold | 2,558,854 | 193,013 | 982,874 | 1,351,987 | 322,602 | 1,377,839 | 1,231,605 | 8,018,774 |
| Gross proceeds from primary offering | \$ 58,615 | \$ 4,758 | \$ 25,089 | \$ 34,419 | \$ 8,028 | \$ 34,461 | \$ 30,086 | \$ 195,456 |
| Reinvestments of distributions | 4,814 | 74 | 405 | 28 | 87 | 263 | 312 | 5,983 |
| Total gross proceeds | 63,429 | 4,832 | 25,494 | 34,447 | 8,115 | 34,724 | 30,398 | 201,439 |
| Selling commissions | — | — | (793) | (145) | — | — | — | (938) |
| Stockholder servicing fees | — | — | (123) | (33) | (12) | (76) | — | (244) |
| Net offering proceeds | \$ 63,429 | \$ 4,832 | \$ 24,578 | \$ 34,269 | \$ 8,103 | \$ 34,648 | \$ 30,398 | \$ 200,257 |

From the effective date of our initial public offering through December 31, 2019, the net offering proceeds to us, after deducting the total expenses incurred as described above, were \$200,257. We primarily used the net offering proceeds to originate, acquire and manage a portfolio of real estate-related investments in accordance with our investment objectives. See Note 1 to our consolidated financial statements included herein for additional information regarding our investment objectives.

Sales of Unregistered Securities

During the years ended December 31, 2019, 2018 and 2017, we issued 3,461, 3,440 and 0, respectively, of unregistered restricted shares of Class I common stock to our independent directors as compensation for their services. The restricted shares of Class I common stock will vest on the one year anniversary of the grant date, provided that the independent director remains on the board of directors on such vesting date, or upon the earlier occurrence of his or her termination service due to his or her death or disability or a change in our control.

Item 6. Selected Financial Data.

The following selected consolidated financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

| | Year Ended December 31, | | |
|---|-------------------------|------------------|-----------------|
| | 2019 | 2018 | 2017 |
| Statement of operations data: | | | |
| Interest income | \$ 22,378 | \$ 10,540 | \$ 788 |
| Interest expense | (10,441) | (5,604) | (470) |
| Net interest income | 11,937 | 4,936 | 318 |
| Net other expenses | 2,823 | 945 | 98 |
| Net income | <u>\$ 9,114</u> | <u>\$ 3,991</u> | <u>\$ 220</u> |
| Per share information: | | | |
| Net income per share of common stock-basic and diluted ⁽¹⁾ | \$ 1.83 | \$ 1.84 | \$ 0.80 |
| Distributions declared per share: ⁽²⁾ | | | |
| Class F | \$ 1.88 | \$ 1.81 | \$ 0.45 |
| Class Y | \$ 1.88 | \$ 1.81 | \$ 0.45 |
| Class T | \$ 1.35 | \$ 1.09 | — |
| Class S | \$ 1.35 | \$ 0.95 | — |
| Class D | \$ 1.49 | \$ 1.17 | — |
| Class M | \$ 1.49 | \$ 1.01 | — |
| Class I | \$ 1.57 | \$ 1.66 | — |
| Balance sheet data: | | | |
| Total assets | <u>\$498,780</u> | <u>\$245,232</u> | <u>\$53,053</u> |
| Repurchase agreements payable | <u>—</u> | <u>\$158,248</u> | <u>\$22,798</u> |
| Collateralized loan obligation | <u>\$322,182</u> | <u>—</u> | <u>—</u> |
| Total stockholders’ equity | <u>\$165,787</u> | <u>\$ 83,436</u> | <u>\$29,339</u> |

(1) The per share data was derived by using the weighted average shares outstanding during the applicable period.

(2) The per share data for distributions reflects the actual amount of distributions paid per share during the applicable period.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (in thousands, except share and per share amounts).

The information contained in this section should be read in conjunction with our consolidated financial statements and related notes thereto appearing elsewhere in this Annual Report on Form 10-K. In this report, “we,” “us” and “our” refer to FS Credit Real Estate Income Trust, Inc.

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), regarding, among other things, our business, including, in particular, statements about our plans, strategies and objectives. You can generally identify forward-looking statements by our use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “anticipate,” “estimate,” “believe,” “continue” or other similar words. These statements include our plans and objectives for future operations, including plans and objectives relating to future growth and availability of funds, and are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to these statements

involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to accurately predict and many of which are beyond our control. Although we believe the assumptions underlying the forward-looking statements, and the forward-looking statements themselves, are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that these forward-looking statements will prove to be accurate and our actual results, performance and achievements may be materially different from that expressed or implied by these forward-looking statements. In light of the significant uncertainties inherent in these forward-looking statements, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives and plans, which we consider to be reasonable, will be achieved. We undertake no duty to update or revise forward-looking statements, except as required by law.

Introduction

We were incorporated under the general corporation laws of the State of Maryland on November 7, 2016 and formally commenced investment operations on September 13, 2017. We are currently conducting an initial public offering of up to \$2,750,000 of our Class T, Class S, Class D, Class M and Class I shares of common stock pursuant to a registration statement on Form S-11 filed with the SEC consisting of up to \$2,500,000 in shares in our primary offering and up to \$250,000 in shares pursuant to our distribution reinvestment plan. We are also conducting a private offering of shares of our Class F common stock and previously conducted a private offering of shares of our Class Y common stock. We are managed by FS Real Estate Advisor pursuant to an advisory agreement between us and FS Real Estate Advisor. FS Real Estate Advisor is a subsidiary of our sponsor, FS Investments, a national sponsor of alternative investment funds designed for the individual investor. FS Real Estate Advisor has engaged Rialto to act as its sub-adviser.

We have elected to be taxed as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2017. We intend to be an investment vehicle of indefinite duration focused on real estate debt investments and other real estate-related assets. The shares of common stock are generally intended to be sold and repurchased by us on a continuous basis. We intend to conduct our operations so that we are not required to register under the 1940 Act.

Our primary investment objectives are to: provide current income in the form of regular, stable cash distributions to achieve an attractive dividend yield; preserve and protect invested capital; realize appreciation in net asset value, or NAV, from proactive management and asset management; and provide an investment alternative for stockholders seeking to allocate a portion of their long-term investment portfolios to commercial real estate debt with lower volatility than public real estate companies.

Our investment strategy is to originate, acquire and manage a portfolio of senior loans secured by commercial real estate primarily in the United States. We are focused on senior floating-rate mortgage loans, but we may also invest in other real estate-related assets, including: (i) other commercial real estate mortgage loans, including fixed-rate loans, subordinated loans, B-Notes, mezzanine loans and participations in commercial mortgage loans; and (ii) commercial real estate securities, including commercial mortgage-backed securities, or CMBS, unsecured debt of listed and non-listed REITs, collateralized debt obligations and equity or equity-linked securities. To a lesser extent we may invest in warehouse loans secured by commercial or residential mortgages, credit loans to commercial real estate companies, residential mortgage-backed securities, or RMBS, and portfolios of single family home mortgages.

Portfolio Overview

The following table details activity in our loans receivable portfolio for the years ended December 31, 2019 and 2018:

| | For the Year Ended December 31, | |
|------------------------------------|--|------------------|
| | 2019 | 2018 |
| Loan fundings ⁽¹⁾ | \$199,128 | \$191,437 |
| Loan repayments | (32,249) | (2,455) |
| Total net fundings | <u>\$166,879</u> | <u>\$188,982</u> |

(1) Includes new loan originations and additional fundings made under existing loans.

The following table details overall statistics for our loans receivable portfolio as of December 31, 2019 and 2018:

| | December 31, | |
|--|---------------------|-------------|
| | 2019 | 2018 |
| Number of loans | 24 | 17 |
| Principal balance | \$405,985 | \$238,979 |
| Net book value | \$406,645 | \$239,207 |
| Unfunded loan commitments ⁽¹⁾ | \$ 44,226 | \$ 38,324 |
| Weighted-average cash coupon ⁽²⁾ | L+4.22% | L+4.76% |
| Weighted-average all-in yield ⁽²⁾ | L+4.39% | L+4.96% |
| Weighted-average maximum maturity (years) ⁽³⁾ | 3.6 | 3.6 |

(1) We may be required to provide funding when requested by the borrower in accordance with the terms of the underlying agreements.

(2) Our floating rate loans were indexed to LIBOR. In addition to cash coupon, all-in yield includes accretion of discount (amortization of premium) and accrual of exit fees.

(3) Maximum maturity assumes all extension options are exercised by the borrower, however loans may be repaid prior to such date.

The following table provides details of our loan receivable portfolio, on a loan-by-loan basis, as of December 31, 2019:

| Loan Type | Origination Date ⁽¹⁾ | Total Loan | Principal Balance | Net Book Value | Cash Coupon ⁽²⁾ | All-in Yield ⁽²⁾ | Maximum Maturity ⁽³⁾ | Location | Property Type | LTV ⁽¹⁾ |
|-------------------------------|---------------------------------|------------------|-------------------|------------------|----------------------------|-----------------------------|---------------------------------|-------------------|---------------|--------------------|
| 1 Senior Loan | 4/9/2019 | \$ 38,000 | \$ 38,000 | \$ 37,992 | L+3.75% | L+3.76% | 4/9/2024 | New York, NY | Mixed Use | 75% |
| 2 Senior Loan | 9/14/2017 | 34,310 | 29,250 | 29,360 | L+4.25% | L+4.49% | 10/9/2022 | Memphis, TN | Office | 73% |
| 3 Senior Loan | 4/20/2018 | 30,000 | 30,000 | 29,997 | L+3.75% | L+3.75% | 5/9/2021 | New York, NY | Office | 54% |
| 4 Senior Loan | 6/28/2019 | 28,500 | 28,500 | 28,516 | L+5.35% | L+5.52% | 7/9/2024 | Davis, CA | Hospitality | 72% |
| 5 Senior Loan | 8/2/2019 | 24,250 | 24,250 | 24,270 | L+5.00% | L+5.35% | 8/15/2024 | Philadelphia, PA | Mixed Use | 68% |
| 6 Senior Loan | 2/19/2019 | 23,820 | 14,300 | 14,329 | L+3.95% | L+4.12% | 3/9/2024 | Bordentown, NJ | Industrial | 61% |
| 7 Senior Loan | 7/18/2018 | 22,650 | 15,530 | 15,575 | L+5.25% | L+5.43% | 8/9/2023 | Gaithersburg, MD | Hospitality | 80% |
| 8 Senior Loan | 7/24/2019 | 21,500 | 18,500 | 18,505 | L+4.00% | L+4.16% | 12/9/2024 | Katy, TX | Office | 76% |
| 9 Senior Loan | 4/5/2018 | 21,000 | 18,962 | 19,051 | L+4.25% | L+4.50% | 4/9/2023 | Austin, TX | Office | 57% |
| 10 Senior Loan | 12/19/2019 | 20,500 | 20,500 | 20,480 | L+3.00% | L+3.05% | 12/19/2023 | Jersey City, NJ | Multifamily | 47% |
| 11 Senior Loan | 5/2/2018 | 19,800 | 19,800 | 19,851 | L+4.65% | L+4.82% | 5/1/2023 | East Orange, NJ | Multifamily | 77% |
| 12 Senior Loan | 12/6/2017 | 18,660 | 14,212 | 14,272 | L+4.85% | L+5.02% | 12/9/2022 | Landover, MD | Office | 67% |
| 13 Senior Loan | 10/22/2019 | 17,500 | 14,565 | 14,571 | L+4.50% | L+4.75% | 11/9/2024 | Oakland, CA | Mixed Use | 70% |
| 14 Senior Loan | 6/29/2018 | 15,997 | 9,691 | 9,723 | L+4.25% | L+4.44% | 7/9/2023 | Jacksonville, FL | Multifamily | 68% |
| 15 Senior Loan | 7/26/2018 | 15,661 | 15,661 | 15,690 | L+3.50% | L+3.68% | 8/9/2023 | Fayetteville, NC | Industrial | 72% |
| 16 Senior Loan | 2/22/2018 | 13,400 | 12,633 | 12,671 | L+4.00% | L+4.17% | 3/9/2023 | Las Vegas, NV | Multifamily | 75% |
| 17 Senior Loan | 11/9/2018 | 12,400 | 12,400 | 12,431 | L+3.80% | L+4.07% | 11/9/2022 | Seattle, WA | Multifamily | 76% |
| 18 Senior Loan | 8/9/2019 | 12,350 | 9,968 | 9,966 | L+3.75% | L+3.95% | 8/9/2024 | Indianapolis, IN | Office | 71% |
| 19 Senior Loan | 11/15/2019 | 12,150 | 11,500 | 11,496 | L+4.00% | L+4.18% | 11/9/2024 | Holly Springs, GA | Retail | 70% |
| 20 Senior Loan | 3/7/2018 | 12,050 | 12,050 | 12,130 | L+4.50% | L+4.88% | 3/7/2022 | Las Vegas, NV | Hospitality | 71% |
| 21 Senior Loan | 6/11/2018 | 12,000 | 12,000 | 12,026 | L+4.00% | L+4.18% | 6/9/2023 | Miami, FL | Retail | 65% |
| 22 Senior Loan | 6/11/2018 | 11,000 | 11,000 | 11,023 | L+4.50% | L+4.68% | 6/9/2023 | Miami, FL | Retail | 78% |
| 23 Senior Loan | 6/11/2018 | 6,750 | 6,750 | 6,765 | L+4.25% | L+4.43% | 6/9/2023 | Miami, FL | Retail | 61% |
| 24 Senior Loan | 8/23/2019 | 5,963 | 5,963 | 5,955 | L+3.75% | L+3.81% | 4/9/2024 | New York, NY | Multifamily | 67% |
| Total/Weighted Average | | <u>\$450,211</u> | <u>\$405,985</u> | <u>\$406,645</u> | L+4.22% | L+4.39% | | | | |

(1) Date loan was originated or acquired by us, and the loan-to-value, or LTV, as of such date. Dates are not updated for subsequent loan modifications or upsizes.

(2) Our floating rate loans were indexed to LIBOR, or "L". In addition to cash coupon, all-in yield includes accretion of discount (amortization of premium) and accrual of exit fees.

(3) Maximum maturity assumes all extension options are exercised by the borrower, however loans may be repaid prior to such date.

Subsequent Activity

During the period from January 1, 2020 through March 23, 2020, we closed on seven senior floating-rate mortgage loans and two mezzanine loans of which \$170,853 and \$33,102, respectively, was funded at closing.

Results of Operations

The following table sets forth information regarding our consolidated results of operations for the years ended December 31, 2019, 2018 and 2017:

| | Year Ended December 31, | | |
|-------------------------------------|----------------------------|-----------------|---------------|
| | 2019 | 2018 | 2017 |
| Net interest income | | | |
| Interest income | \$ 22,378 | \$10,540 | \$ 788 |
| Less: Interest expense | (10,441) | (5,604) | (470) |
| Net interest income | <u>11,937</u> | <u>4,936</u> | <u>318</u> |
| Other expenses | | | |
| Management and performance fees | 904 | 114 | — |
| General and administrative expenses | 3,867 | 3,102 | 639 |
| Less: Expense limitation | (1,948) | (2,271) | (541) |
| Net other expenses | <u>2,823</u> | <u>945</u> | <u>98</u> |
| Net income | <u>\$ 9,114</u> | <u>\$ 3,991</u> | <u>\$ 220</u> |

Net Interest Income

Net interest income is generated on our interest-earning assets less related interest-bearing liabilities. The increase in interest income was attributable to debt investments acquired or originated in our portfolio and non-recurring prepayment fee income. The increase in interest expense was attributable to an increase in borrowings in order to support our investment activities.

Expenses

General and administrative expenses include auditing and professional fees, independent director fees, transfer agent fees, loan servicing expenses and other costs associated with operating our business.

Expense Limitation

We have entered into an expense limitation agreement with FS Real Estate Advisor and Rialto pursuant to which FS Real Estate Advisor and Rialto have agreed to waive reimbursement of or pay, on a quarterly basis, our annualized ordinary operating expenses for such quarter to the extent such expenses exceed 1.5% per annum of our average net assets attributable to each of our classes of common stock. Ordinary operating expenses for each class of common stock consist of all ordinary expenses attributable to such class, including administration fees, transfer agent fees, fees paid to our board of directors, loan servicing expenses, administrative services expenses, and related costs associated with legal, regulatory compliance and investor relations, but excluding the following: (a) advisory fees, (b) interest expense and other financing costs, (c) taxes, (d) distribution or shareholder servicing fees and (e) unusual, unexpected and/or nonrecurring expenses. We will repay FS Real Estate Advisor or Rialto on a quarterly basis any ordinary operating expenses previously waived or paid, but only if the reimbursement would not cause the then-current expense limitation, if any, to be exceeded. In addition, the reimbursement of expenses will be made only if payable not more than three years from the end of the fiscal quarter in which the expenses were paid or waived.

During the period from September 13, 2017 (Commencement of Operations) to December 31, 2019, we accrued \$4,760 for reimbursement of expenses that FS Real Estate Advisor and Rialto have agreed to pay, including \$1,948 in reimbursements for the year ended December 31, 2019. During the period from September 13, 2017 (Commencement of Operations) to December 31, 2019, we received \$4,260 in cash reimbursements from FS Real Estate Advisor. As of December 31, 2019, we had \$500 of reimbursements due from FS Real Estate Advisor and Rialto.

FS Real Estate Advisor and Rialto each have agreed to waive the recoupment of any amounts that may be subject to conditional reimbursement during the quarterly period ending March 31, 2020. To the extent that the conditions to recoupment are satisfied in a future quarter (prior to the expiration of the three-year period for reimbursement set forth in the Expense Limitation Agreement), such expenses may be subject to conditional recoupment in accordance with the terms of the Expense Limitation Agreement.

Non-GAAP Financial Measures

Funds from Operations and Modified Funds from Operations

We use Funds from Operations (“FFO”), a widely accepted non-GAAP financial metric, to evaluate our performance. FFO provides a supplemental measure to compare our performance and operations to other REITs. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts (“NAREIT”) has promulgated a standard known as FFO, which it believes more accurately reflects the operating performance of a REIT. As defined by NAREIT, FFO means net income computed in accordance with GAAP, excluding gains (or losses) from sales of operating property, plus depreciation and amortization and after adjustments for unconsolidated entities. In addition, NAREIT has further clarified the FFO definition to add-back impairment write-downs of depreciable real estate or of investments in unconsolidated entities that are driven by measurable decreases in the fair value of depreciable real estate and to exclude the earnings impacts of cumulative effects of accounting changes. We have adopted the NAREIT definition for computing FFO.

Our business plan is to operate as a mortgage REIT with our portfolio consisting of senior floating-rate mortgage loans, including those that are secured by a first priority mortgage on transitional commercial real estate properties. We will typically have no FFO adjustments to our net income or loss computed in accordance with GAAP. Although we have the ability to acquire real property, we have not acquired any at this time and as such do not have any FFO adjustments to our net income or loss computed in accordance with GAAP.

Due to the unique features of publicly registered, non-listed REITs, the Institute for Portfolio Alternatives (“IPA”), an industry trade group, published a standardized non-GAAP financial measure known as Modified Funds from Operations (“MFFO”), which the IPA has promulgated as a supplemental measure for publicly registered non-listed REITs and which may be another appropriate supplemental measure to reflect the operating performance of a non-listed REIT.

The IPA defines MFFO as FFO adjusted for acquisition fees and expenses, amounts relating to straight line rents and amortization of premiums on debt investments, non-recurring impairments of real estate-related investments, mark-to-market adjustments included in net income, non-recurring gains or losses included in net income from the extinguishment or sale of debt, hedges, foreign exchange, derivatives or securities holdings where trading of such holdings is not a fundamental attribute of the business plan, unrealized gains or losses resulting from consolidation from, or deconsolidation to, equity accounting, and after adjustments for consolidated and unconsolidated partnerships and joint ventures.

Because MFFO may be a recognized measure of operating performance within the non-listed REIT industry, MFFO and the adjustments used to calculate it may be useful in order to evaluate our performance against other non-listed REITs. Like FFO, MFFO is not equivalent to our net income or loss as determined under GAAP, as detailed in the table below, and MFFO may not be a useful measure of the impact of long-term operating performance on value if we continue to acquire a significant amount of investments.

Our presentation of FFO and MFFO may not be comparable to other similarly titled measures presented by other REITs. We believe that the use of FFO and MFFO provides a more complete understanding of our operating performance to stockholders and to management, and when compared year over year, reflects the impact on our operations from trends in operating costs, general and administrative expenses, and interest costs. Neither FFO nor MFFO is intended to be an alternative to “net income” or to “cash flows from operating activities” as determined by GAAP as a measure of our capacity to pay distributions. Management uses FFO and MFFO to compare our operating performance to that of other REITs and to assess our operating performance.

Neither the SEC, any other regulatory body nor NAREIT has passed judgment on the acceptability of the adjustments that we use to calculate FFO or MFFO. In the future, the SEC, another regulatory body or NAREIT may decide to standardize the allowable adjustments across the non-listed REIT industry and we would have to adjust our calculation and characterization of FFO or MFFO.

We did not have any FFO or MFFO adjustments to net income for the years ended December 31, 2019, 2018 and 2017.

| | <u>Year Ended December 31,</u> | | |
|--------------------------------------|--------------------------------|----------------|--------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Net income (GAAP) | \$9,114 | \$3,991 | \$220 |
| Funds from operations | <u>\$9,114</u> | <u>\$3,991</u> | <u>\$220</u> |
| Modified funds from operations | <u>\$9,114</u> | <u>\$3,991</u> | <u>\$220</u> |

NAV per Share

FS Real Estate Advisor calculates our NAV per share in accordance with the valuation guidelines approved by our board of directors for the purposes of establishing a price for shares sold in our public offering as well as establishing a repurchase price for shares repurchased pursuant to our share repurchase plan.

The following table provides a breakdown of the major components of our total NAV as of December 31, 2019:

| <u>Components of NAV</u> | <u>December 31, 2019</u> |
|---|--------------------------|
| Cash and cash equivalents | \$ 40,214 |
| Restricted cash | 37,941 |
| Loans receivable | 406,645 |
| Mortgage-backed securities | 6,651 |
| Other assets | 7,329 |
| Collateralized loan obligation | (322,182) |
| Accrued servicing fees ⁽¹⁾ | (51) |
| Other liabilities | <u>(4,526)</u> |
| Net asset value | <u>\$ 172,021</u> |

(1) See Reconciliation of Stockholders' Equity to NAV below for an explanation of the differences between the stockholder servicing fees accrued for purposes of NAV and the amount accrued under GAAP.

The following table provides a breakdown of our total NAV and NAV per share by share class as of December 31, 2019:

| <u>NAV per Share</u> | <u>Class F</u> | <u>Class Y</u> | <u>Class T</u> | <u>Class S</u> | <u>Class D</u> | <u>Class M</u> | <u>Class I</u> | <u>Total</u> |
|---|-------------------|------------------|------------------|-------------------|------------------|-------------------|-------------------|--------------|
| Net asset value | \$ 36,812 | \$ 3,487 | \$ 24,701 | \$ 34,259 | \$ 8,121 | \$ 34,284 | \$ 30,357 | \$ 172,021 |
| Number of outstanding shares | <u>1,475,155</u> | <u>141,116</u> | <u>981,836</u> | <u>1,351,587</u> | <u>322,602</u> | <u>1,357,818</u> | <u>1,230,360</u> | 6,860,474 |
| NAV per share as of December 31, 2019 | <u>\$ 24.9546</u> | <u>\$24.7114</u> | <u>\$25.1580</u> | <u>\$ 25.3471</u> | <u>\$25.1758</u> | <u>\$ 25.2492</u> | <u>\$ 24.6737</u> | |

The following table sets forth a reconciliation of our stockholders' equity to our NAV as of December 31, 2019:

| Reconciliation of Stockholders' Equity to NAV | December 31, 2019 |
|---|------------------------------|
| Total stockholders' equity under GAAP | \$165,787 |
| Adjustments: | |
| Accrued stockholder servicing fees ⁽¹⁾ | 6,234 |
| Net asset value | <u>\$172,021</u> |

(1) Stockholder servicing fees only apply to Class T, Class S, Class D and Class M shares. Under GAAP, we accrue future stockholder servicing fees in an amount equal to our best estimate of fees payable to FS Investment Solutions at the time such shares are sold. For purposes of NAV, we recognize the stockholder servicing fee as a reduction of NAV on a monthly basis. As a result, the estimated liability for the future stockholder servicing fees, which are accrued at the time each share is sold, will have no effect on the NAV of any class.

Limits on the Calculation of Our Per Share NAV

Although our primary goal in establishing our valuation guidelines is to produce a valuation that represents a fair and accurate estimate of the value of our investments, the methodologies used are based on judgments, assumptions and opinions about future events that may or may not prove to be correct, and if different judgments, assumptions or opinions were used, a different estimate would likely result. Furthermore, our published per share NAV may not fully reflect certain extraordinary events because we may not be able to immediately quantify the financial impact of such events on our portfolio. FS Real Estate Advisor monitors our portfolio between valuations to determine whether there have been any extraordinary events that may have materially changed the estimated market value of the portfolio. If required by applicable securities law, we will promptly disclose the occurrence of such event in a prospectus supplement and FS Real Estate Advisor will analyze the impact of such extraordinary event on our portfolio and determine, in coordination with third-party valuation services, the appropriate adjustment to be made to our NAV. We will not, however, retroactively adjust NAV. To the extent that the extraordinary events may result in a material change in value of a specific investment, FS Real Estate Advisor will order a new valuation of the investment, which will be prepared by a third-party valuation service. It is not known whether any resulting disparity will benefit stockholders whose shares are or are not being repurchased or purchasers of our common stock.

We include no discounts to our NAV for the illiquid nature of our shares, including the limitations on the ability to sell shares under our share repurchase plan and our ability to suspend or terminate our share repurchase plan at any time. Our NAV generally does not consider exit costs that would likely be incurred if our assets and liabilities were liquidated or sold. While we may use market pricing concepts to value individual components of our NAV, our per share NAV is not derived from the market pricing information of open-end real estate funds listed on stock exchanges.

We do not represent, warranty or guarantee that:

- a stockholder would be able to realize the NAV per share for the class of shares a stockholder owns if the stockholder attempts to sell its shares;
- a stockholder would ultimately realize distributions per share equal to per share NAV upon a liquidation of our assets and settlement of our liabilities or upon any other liquidity event;
- shares of our common stock would trade at per share NAV on a national securities exchange;
- a third party in an arm's-length transaction would offer to purchase all or substantially all of our shares of common stock at NAV;

- NAV would equate to a market price for an open-end real estate fund; and
- NAV would represent the fair value of our assets less liabilities under GAAP.

Review of our Policies

Our board of directors, including our independent directors, has reviewed our policies described in this Annual Report on Form 10-K and our registration statement and determined that they are in the best interests of our stockholders because: (i) they increase the likelihood that we will be able to originate, acquire and manage a diversified portfolio of senior loans secured by commercial real estate, thereby reducing risk in our portfolio; (ii) there are sufficient loan underwriting opportunities with the attributes that we seek; (iii) our executive officers, director, affiliates of our adviser and sub-adviser have expertise with the type of real estate investments we seek; and (iv) our borrowings will enable us to originate and acquire loan assets and earn revenue more quickly, thereby increasing our likelihood of generating income for our stockholders and preserving stockholder capital.

Liquidity and Capital Resources

As of December 31, 2019, we had \$40,214 in cash and cash equivalents, which we and our wholly owned subsidiaries held in custodial accounts. In addition, as of December 31, 2019, we had \$335,000 in borrowings available under our financing arrangements, subject to certain limitations. As of December 31, 2019, we had unfunded loan commitments of \$44,226. We maintain sufficient cash on hand, available borrowings and undrawn capital commitments to fund such unfunded commitments should the need arise.

We will obtain the funds required to purchase or originate investments and conduct our operations from the net proceeds of our public offering, the private placement of our Class F shares and any future offerings we may conduct, from secured and unsecured borrowings from banks and other lenders, and from any undistributed funds from operations. Our principal demands for funds will be for asset acquisitions/originations, the payment of operating expenses and distributions, the payment of interest on any outstanding indebtedness and repurchases of our common stock pursuant to our share repurchase plan. Generally, cash needs for items other than asset acquisitions/originations will be met from operations, and cash needs for asset acquisitions/originations will be funded by public offerings of our shares and debt financings. However, there may be a delay between the sale of our shares and our purchase/originations of assets, which could result in a delay in the benefits to our stockholders of returns generated from our investment operations. Our leverage may not exceed 300% of our total net assets (as defined in our charter).

If we are unable to raise substantial funds in our initial public offering, we will make fewer investments resulting in less diversification in terms of the type, number and size of investments we make and the value of an investment in us will fluctuate with the performance of the specific assets we acquire. Further, we will have certain fixed operating expenses, including certain expenses as a publicly offered REIT, regardless of whether we are able to raise substantial funds in our initial public offering. Our inability to raise substantial funds would increase our fixed operating expenses as a percentage of gross income, reducing our net income and limiting our ability to make distributions.

Potential future sources of capital include proceeds from secured or unsecured financings from banks or other lenders or proceeds from the sale of assets or collection of loans receivable.

In addition to making investments in accordance with our investment objectives, we expect to use our capital resources to make certain payments to FS Real Estate Advisor and FS Investment Solutions, the dealer manager for our public offering. During the offering stage of our public offering, these payments will include payments to FS Real Estate Advisor and its affiliates for reimbursement of certain organization and offering expenses. We will reimburse FS Real Estate Advisor for the organization and offering costs it or Rialto incurs on our behalf only to the extent that the reimbursement would not cause the selling commissions, dealer manager fees, accountable due diligence expenses, stockholder servicing fees and the other organization and offering

expenses borne by us to exceed 15.0% of the gross offering proceeds from the primary offering as the amount of proceeds increases. FS Real Estate Advisor has agreed to advance all of our organization and offering expenses on our behalf until we have raised \$250,000 of gross proceeds in our public offering. From and after the date we have raised \$250,000 in gross proceeds in our public offering, we will reimburse FS Real Estate Advisor and Rialto for any organization and offering expenses that FS Real Estate Advisor or Rialto has incurred and advanced, on our behalf, up to a cap of 0.75% of the gross offering proceeds of our public offering in excess of \$250,000.

During our acquisition and development stage, subject to the limitations in the advisory agreement and sub-advisory agreement, we expect to make payments to FS Real Estate Advisor in connection with the management of our assets and costs incurred by FS Real Estate Advisor and Rialto in providing services to us. The advisory agreement has a one-year term but may be renewed for an unlimited number of successive one-year periods upon the mutual consent of FS Real Estate Advisor and our board of directors. For a discussion of the compensation to be paid to FS Real Estate Advisor and FS Investment Solutions, see Note 6 to our consolidated financial statements included herein.

Other Developments

In December 2019, a novel strain of coronavirus emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it has now spread to several other countries and infections have been reported globally. The World Health Organization has declared the coronavirus outbreak a pandemic, the Health and Human Services Secretary has declared a public health emergency in the United States in response to the outbreak and the President of the United States has declared the coronavirus outbreak a national emergency. Due to the fact our investments are secured entirely by properties located in the United States, the coronavirus will impact our investments and operating results to the extent that its continued spread within the United States reduces occupancy, increases the cost of operation, negatively impacts the ability to obtain necessary goods and services or provide adequate staffing, limits hours or necessitates the closure of such properties or results in an economic downturn and corporate bankruptcies. The extent to which the coronavirus impacts our investments and operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions taken to contain the coronavirus or treat its impact, among others. To the extent our investments and operating results are impacted, this may impact our liquidity and need for capital resources within the next twelve months.

Critical Accounting Policies

Our financial statements are prepared in conformity with GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Critical accounting policies are those that require the application of management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. In preparing the financial statements, management also will utilize available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses. As we execute our expected operating plans, we will describe additional critical accounting policies in the notes to our financial statements in addition to those discussed below.

Loans Receivable and Provision for Loan Losses: We originate and purchase commercial real estate debt and related instruments generally to be held as long-term investments at amortized cost. We are required to periodically evaluate each of these loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due to us pursuant to the contractual terms of the loan. If

a loan is determined to be impaired, we write down the loan through a charge to the provision for loan losses. Impairment of these loans, which are collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by FS Real Estate Advisor and Rialto. Actual losses, if any, could ultimately differ from these estimates. FS Real Estate Advisor and Rialto perform a quarterly review of our portfolio of loans.

In connection with this review, FS Real Estate Advisor and Rialto assess the risk factors of each loan and assign a risk rating based on a variety of factors, including, without limitation, LTV, debt yield, property type, geographic and local market dynamics, physical condition, cash flow volatility, leasing and tenant profile, loan structure and exit plan, and project sponsorship. Based on a 5-point scale, our loans are rated “1” through “5”, from less risk to greater risk, which ratings are defined as follows:

| Loan Risk Rating | Summary Description |
|-------------------------|---|
| 1 | Very Low Risk |
| 2 | Low Risk |
| 3 | Medium Risk |
| 4 | High Risk/Potential for Loss: A loan that has a risk of realizing a principal loss |
| 5 | Impaired/Loss Likely: A loan that has a very high risk of realizing a principal loss or has otherwise incurred a principal loss |

Revenue Recognition: Security transactions are accounted for on the trade date. We record interest income on an accrual basis to the extent that we expect to collect such amounts. We record dividend income on the ex-dividend date. We do not accrue as a receivable interest or dividends on loans and securities if there is reason to doubt the collectability of such income. Any loan origination fees, original issue discount, market discount and exit fees are capitalized and such amounts are amortized as interest income over the respective term of the investment. Upon the prepayment of a loan or security, any unamortized loan origination fees to which we are entitled are recorded as fee income. We will record prepayment premiums on loans and securities as fee income when we receive such amounts.

See Note 2 to our consolidated financial statements included herein for additional information regarding our significant accounting policies.

Contractual Obligations

We have entered into an advisory agreement with FS Real Estate Advisor to provide us with advisory and administrative services. Pursuant to the advisory agreement, FS Real Estate Advisor receives payments for performing advisory services for us consisting of (a) an annual base management fee of 1.25% of our NAV for our Class T, Class S, Class D, Class M and Class I shares and (b) a performance fee equal to 10.0% of our Core Earnings, subject to a hurdle rate, expressed as a rate of return on average adjusted capital, equal to 1.625% per quarter, or an annualized hurdle rate of 6.5%. For purposes of calculating the performance fee, “Core Earnings” means: the net income (loss) attributable to stockholders of Class T, Class S, Class D, Class M, Class I and Class Y shares computed in accordance with GAAP, including realized gains (losses) not otherwise included in GAAP (provided that net income (loss) attributable to Class Y stockholders shall be subject to certain reductions) net income (loss) and excluding (i) non-cash equity compensation expense, (ii) the performance fee, (iii) depreciation and amortization, (iv) any unrealized gains or losses or other similar non-cash items that are included in net income for the applicable reporting period, regardless of whether such items are included in other comprehensive income or loss, or in net income, and (v) one-time events pursuant to changes in GAAP and certain material non-cash income or expense items, in each case after discussions between FS Real Estate

Advisor and our independent directors and approved by a majority of our independent directors. The base management fee and the performance fee are class-specific expenses. No base management fee will be paid on our Class F or Class Y shares and no performance fee will be paid on our Class F shares.

Pursuant to the advisory agreement, FS Real Estate Advisor oversees our day-to-day operations, including providing us with general ledger accounting, fund accounting, legal services, investor relations and other administrative services. We have agreed to reimburse FS Real Estate Advisor and Rialto for administrative expenses incurred on our behalf, subject to limitations set forth in our charter and the advisory agreement. See Note 6 to our consolidated financial statements included herein for additional information.

A summary of our significant contractual payment obligations related to the repayment of our outstanding indebtedness at December 31, 2019 is as follows:

| | Payments Due By Period | | | | |
|------------------------------------|------------------------|------------------|-----------|-----------|-------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| FS Rialto 2019-FL1 | \$327,665 | — | — | — | \$327,665 |
| WF-1 Facility ⁽¹⁾ | — | — | — | — | — |
| GS-1 Facility ⁽²⁾ | — | — | — | — | — |
| CNB Facility ⁽³⁾ | — | — | — | — | — |

- (1) At December 31, 2019, \$150,000 remained unused under the WF-1 Facility. As more fully disclosed in Note 5 to our consolidated financial statements, these obligations are subject to existing extension options for one or more additional one-year periods.
- (2) At December 31, 2019, \$175,000 remained unused under the GS-1 Facility. As more fully disclosed in Note 5 to our consolidated financial statements, these obligations are subject to existing extension options for one or more additional one-year periods.
- (3) At December 31, 2019, \$10,000 remained unused under the CNB Facility.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements, including any risk management of commodity pricing or other hedging practices.

Related Party Transactions

Compensation of FS Real Estate Advisor and the Dealer Manager

Pursuant to the advisory agreement, FS Real Estate Advisor is entitled to an annual base management fee equal to 1.25% of the NAV for our Class T, Class S, Class D, Class M and Class I shares and a performance fee based on our performance. We also reimburse FS Real Estate Advisor and Rialto for their actual cost incurred on providing administrative services to us, including the allocable portion of compensation and related expenses of certain personnel providing such administrative services. Pursuant to the advisory agreement, we will reimburse FS Real Estate Advisor and its affiliates for expenses incurred relating to our organization and continuous public offering, including the allocable portion of compensation and related expenses of certain personnel of FS Investments related thereto. FS Real Estate Advisor has agreed to advance all of our organization and offering expenses until we have raised \$250,000 of gross proceeds from our public offering. From and after the date we have raised \$250,000 in gross proceeds in our public offering, we will reimburse FS Real Estate Advisor and Rialto for any organization and offering expenses that FS Real Estate Advisor or Rialto has incurred and advanced, on our behalf, up to a cap of 0.75% of the gross offering proceeds of our public offering in excess of \$250,000.

The dealer manager for our continuous public offering is FS Investment Solutions, which is an affiliate of FS Real Estate Advisor. Under the dealer manager agreement, FS Investment Solutions is entitled to receive

upfront selling commissions and dealer manager fees in connection with the sale of shares of common stock in our continuous public offering. FS Investment Solutions anticipates that all of the selling commissions and dealer manager fees will be reallocated to participating broker-dealers, unless a particular broker-dealer declines to accept some portion of the dealer manager fee they are otherwise eligible to receive. FS Investment Solutions is also entitled to receive stockholder servicing fees, which accrue daily and are paid on a monthly basis. FS Investment Solutions will reallocate such stockholder servicing fees to participating broker-dealers, servicing broker-dealers and financial institutions (including bank trust departments) and will waive (pay back to us) stockholder servicing fees to the extent a broker-dealer or financial institution is not eligible or otherwise declines to receive all or a portion of such fees.

See Note 6 to our consolidated financial statements included herein for additional information regarding our related party transactions and relationships, including a description of the fees and amounts due to FS Real Estate Advisor, compensation of FS Investment Solutions, capital contributions by FS Investments and Rialto, our expense limitation agreement with FS Investments and our purchase of a mortgage loan from an affiliate of Rialto.

FS Investment Solutions also serves or served as the placement agent for our private offerings of Class F and Class Y shares pursuant to placement agreements. FS Investment Solutions does not receive any compensation pursuant to these agreements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are subject to financial market risks, including changes in interest rates. As of December 31, 2019, 100% of the outstanding principal of our debt investments were floating rate investments. A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to any variable rate investments we may hold and to declines in the value of any fixed rate investments we may hold. To the extent that a substantial portion of our investments may be in variable rate investments, an increase in interest rates could make it easier for us to meet or exceed our performance fee hurdle rate and may result in a substantial increase to the amount of performance fees payable to FS Real Estate Advisor.

Pursuant to the terms of the FS Rialto 2019-FL1, WF-1 Facility, the GS-1 Facility and the CNB Facility, borrowings are at a floating rate based on LIBOR. To the extent that any present or future credit facilities or other financing arrangements that we or any of our subsidiaries enter into are based on a floating interest rate, we will be subject to risks relating to changes in market interest rates. In periods of rising interest rates, when we have debt outstanding, our cost of funds would increase, which could reduce our net investment income, especially to the extent we hold fixed rate investments.

We may seek to limit the impact of rising interest rates on earnings and cash flows through the use of derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets.

The following table shows the effect over a twelve-month period of changes in interest rates on our interest income, interest expense, and net interest income, assuming no changes in the composition of our investment portfolio, including the accrual status of our investments, and our financing arrangements in effect as of December 31, 2019:

| Basis Point Changes in Interest Rates | Increase (Decrease) in Interest Income | Increase (Decrease) in Interest Expense | Increase (Decrease) in Net Interest Income | Percentage Change in Net Interest Income |
|---------------------------------------|---|--|--|--|
| Down 50 basis points | \$ (522) | \$(1,478) | \$ 956 | 5.4% |
| Down 25 basis points | \$ (376) | \$ (739) | \$ 363 | 2.0% |
| No change | — | — | — | — |
| Up 25 basis points | \$ 582 | \$ 739 | \$(157) | (0.9)% |
| Up 50 basis points | \$1,395 | \$ 1,478 | \$ (83) | (0.5)% |

Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
FS Credit Real Estate Income Trust, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of FS Credit Real Estate Income Trust, Inc. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2016.
Philadelphia, Pennsylvania
March 27, 2020

FS Credit Real Estate Income Trust, Inc.

Consolidated Balance Sheets
(in thousands, except share amounts)

| | December 31, | |
|---|------------------|------------------|
| | 2019 | 2018 |
| Assets | | |
| Cash and cash equivalents | \$ 40,214 | \$ 608 |
| Restricted cash | 37,941 | 2,000 |
| Loans receivable | 406,645 | 239,207 |
| Mortgage-backed securities, at fair value | 6,651 | 1,987 |
| Reimbursement due from sponsor | 500 | 708 |
| Interest receivable | 1,070 | 704 |
| Deferred financing costs | 500 | — |
| Other assets | 5,259 | 18 |
| Total assets⁽¹⁾ | \$498,780 | \$245,232 |
| Liabilities | | |
| Collateralized loan obligation (net of deferred financing costs of \$5,483 and \$0, respectively) | \$322,182 | \$ — |
| Repurchase agreements payable (net of deferred financing costs of \$0 and \$878, respectively) | — | 158,248 |
| Due to related party | 6,290 | 912 |
| Interest payable | 773 | 304 |
| Payable for shares repurchased | 62 | 100 |
| Other liabilities | 3,686 | 2,232 |
| Total liabilities⁽¹⁾ | 332,993 | 161,796 |
| Commitments and contingencies (See Note 9) | | |
| Stockholders' equity | | |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized, none issued and outstanding | — | — |
| Class F common stock, \$0.01 par value, 125,000,000 shares authorized, 1,475,155 and 2,471,864 issued and outstanding, respectively | 15 | 25 |
| Class Y common stock, \$0.01 par value, 125,000,000 shares authorized, 141,116 and 193,013 issued and outstanding, respectively | 1 | 2 |
| Class T common stock, \$0.01 par value, 125,000,000 shares authorized, 981,836 and 124,581 issued and outstanding, respectively | 10 | 1 |
| Class S common stock, \$0.01 par value, 125,000,000 shares authorized, 1,351,587 and 3,773 issued and outstanding, respectively | 14 | — |
| Class D common stock, \$0.01 par value, 125,000,000 shares authorized, 322,602 and 60,934 issued and outstanding, respectively | 3 | 1 |
| Class M common stock, \$0.01 par value, 125,000,000 shares authorized, 1,357,818 and 417,992 issued and outstanding, respectively | 14 | 4 |
| Class I common stock, \$0.01 par value, 300,000,000 shares authorized, 1,230,360 and 128,526 issued and outstanding, respectively | 12 | 1 |
| Additional paid-in capital | 165,082 | 83,555 |
| Accumulated other comprehensive income (loss) | 17 | (10) |
| Retained earnings (accumulated deficit) | 619 | (143) |
| Total stockholders' equity | 165,787 | 83,436 |
| Total liabilities and stockholders' equity | \$498,780 | \$245,232 |

(1) The December 31, 2019 consolidated balance sheet include assets of a consolidated variable interest entity, or VIE, that can only be used to settle obligations of the VIE, and liabilities of the consolidated VIE for which creditors do not have recourse to FS Credit Real Estate Income Trust, Inc. As of December 31, 2019, assets of the VIE totaled \$427,455 and liabilities of the VIE totaled \$322,946. See Note 9 to the consolidated financial statements for further details.

See notes to consolidated financial statements.

FS Credit Real Estate Income Trust, Inc.

Consolidated Statements of Operations
(in thousands, except share and per share amounts)

| | Year Ended December 31, | | |
|---|----------------------------|------------------|----------------|
| | 2019 | 2018 | 2017 |
| Net interest income | | | |
| Interest income | \$ 22,378 | \$ 10,540 | \$ 788 |
| Less: Interest expense | (10,441) | (5,604) | (470) |
| Net interest income | <u>11,937</u> | <u>4,936</u> | <u>318</u> |
| Other expenses | | | |
| Management and performance fees | 904 | 114 | — |
| General and administrative expenses | 3,867 | 3,102 | 639 |
| Less: Expense limitation | (1,948) | (2,271) | (541) |
| Net other expenses | <u>2,823</u> | <u>945</u> | <u>98</u> |
| Net income | <u>\$ 9,114</u> | <u>\$ 3,991</u> | <u>\$ 220</u> |
| Per share information—basic and diluted | | | |
| Net income per share of common stock (earnings per share) | <u>\$ 1.83</u> | <u>\$ 1.84</u> | <u>\$ 0.80</u> |
| Weighted average common stock outstanding | <u>4,970,324</u> | <u>2,165,753</u> | <u>274,482</u> |

See notes to consolidated financial statements.

FS Credit Real Estate Income Trust, Inc.
Consolidated Statements of Comprehensive Income
(in thousands)

| | Year Ended December 31, | | |
|--|----------------------------|----------------|--------------|
| | 2019 | 2018 | 2017 |
| Net income | \$9,114 | \$3,991 | \$220 |
| Other comprehensive income | | | |
| Net change in unrealized gain (loss) on mortgage-backed securities | 27 | (10) | — |
| Total other comprehensive income (loss) | 27 | (10) | — |
| Comprehensive income | <u>\$9,141</u> | <u>\$3,981</u> | <u>\$220</u> |

See notes to consolidated financial statements.

FS Credit Real Estate Income Trust, Inc.
Consolidated Statements of Changes in Equity
(in thousands)

| | Par Value | | | | | | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings (Accumulated Deficit) | Total Stockholders' Equity |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------------|--|--|----------------------------------|
| | Common Stock Class F | Common Stock Class Y | Common Stock Class T | Common Stock Class S | Common Stock Class D | Common Stock Class M | Common Stock Class I | | | | |
| Balance as of December 31, | | | | | | | | | | | |
| 2016 | \$— | \$— | \$— | \$— | \$— | \$— | \$— | \$ 200 | \$— | \$ — | \$ 200 |
| Common stock issued | 10 | 2 | — | — | — | — | — | 28,986 | — | — | 28,998 |
| Distributions declared | — | — | — | — | — | — | — | — | — | (407) | (407) |
| Proceeds from distribution reinvestment plan | — | — | — | — | — | — | — | 328 | — | — | 328 |
| Stockholder servicing fees | — | — | — | — | — | — | — | — | — | — | — |
| Net income | — | — | — | — | — | — | — | — | — | 220 | 220 |
| Balance as of December 31, | | | | | | | | | | | |
| 2017 | 10 | 2 | — | — | — | — | — | 29,514 | — | (187) | 29,339 |
| Common stock issued | 14 | — | 1 | — | 1 | 4 | 1 | 52,606 | — | — | 52,627 |
| Distributions declared | — | — | — | — | — | — | — | — | — | (3,947) | (3,947) |
| Proceeds from distribution reinvestment plan | 1 | — | — | — | — | — | — | 2,458 | — | — | 2,459 |
| Redemptions of common stock | — | — | — | — | — | — | — | (100) | — | — | (100) |
| Stockholder servicing fees | — | — | — | — | — | — | — | (923) | — | — | (923) |
| Net income | — | — | — | — | — | — | — | — | — | 3,991 | 3,991 |
| Other comprehensive loss | — | — | — | — | — | — | — | — | (10) | — | (10) |
| Balance as of December 31, | | | | | | | | | | | |
| 2018 | 25 | 2 | 1 | — | 1 | 4 | 1 | 83,555 | (10) | (143) | 83,436 |
| Common stock issued | — | — | 9 | 14 | 2 | 10 | 11 | 112,647 | — | — | 112,693 |
| Distributions declared | — | — | — | — | — | — | — | — | — | (8,352) | (8,352) |
| Proceeds from distribution reinvestment plan | 1 | — | — | — | — | — | — | 3,195 | — | — | 3,196 |
| Redemptions of common stock | (11) | (1) | — | — | — | — | — | (28,754) | — | — | (28,766) |
| Stockholder servicing fees | — | — | — | — | — | — | — | (5,561) | — | — | (5,561) |
| Net income | — | — | — | — | — | — | — | — | — | 9,114 | 9,114 |
| Other comprehensive income | — | — | — | — | — | — | — | — | 27 | — | 27 |
| Balance as of December 31, | | | | | | | | | | | |
| 2019 | <u>\$ 15</u> | <u>\$ 1</u> | <u>\$ 10</u> | <u>\$ 14</u> | <u>\$ 3</u> | <u>\$ 14</u> | <u>\$ 12</u> | <u>\$165,082</u> | <u>\$ 17</u> | <u>\$ 619</u> | <u>\$165,787</u> |

See notes to consolidated financial statements.

FS Credit Real Estate Income Trust, Inc.
Consolidated Statements of Cash Flows
(in thousands)

| | Year Ended December 31, | | |
|--|----------------------------|------------------|-----------------|
| | 2019 | 2018 | 2017 |
| Cash flows from operating activities | | | |
| Net income | \$ 9,114 | \$ 3,991 | \$ 220 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | | |
| Amortization of deferred fees on loans | (689) | (296) | (81) |
| Amortization of deferred financing costs | 1,319 | 888 | 206 |
| Changes in assets and liabilities | | | |
| Reimbursement due from sponsor | 208 | (167) | (541) |
| Interest receivable | (366) | (563) | (141) |
| Other assets | (26) | (18) | — |
| Due to related party | 5,378 | 571 | 341 |
| Interest payable | 469 | 265 | 39 |
| Other liabilities | (4,336) | 527 | 536 |
| Net cash provided by (used in) operating activities | <u>11,071</u> | <u>5,198</u> | <u>579</u> |
| Cash flows used in investing activities | | | |
| Origination and fundings of loans receivable | (199,128) | (191,437) | (49,848) |
| Principal collections from loans receivable | 27,037 | 2,455 | — |
| Exit and extension fees received on loans receivable | 130 | — | — |
| Purchases of mortgage-backed securities | (5,274) | (2,000) | — |
| Principal repayments of mortgage-backed securities | 637 | 3 | — |
| Net cash used in investing activities | <u>(176,598)</u> | <u>(190,979)</u> | <u>(49,848)</u> |
| Cash flows from financing activities | | | |
| Issuance of common stock | 112,693 | 52,627 | 28,998 |
| Redemptions of common stock | (28,804) | — | — |
| Stockholder distributions paid | (4,744) | (1,231) | (79) |
| Stockholder servicing fees | (186) | (11) | — |
| Borrowings under repurchase agreements | 152,627 | 168,426 | 23,250 |
| Repayments under repurchase agreements | (311,753) | (32,550) | — |
| Borrowings under credit facility | 18,700 | — | — |
| Repayments under credit facility | (18,700) | — | — |
| Proceeds from issuance of collateralized loan obligation | 327,665 | — | — |
| Payment of deferred financing costs | (6,424) | (1,314) | (658) |
| Net cash provided by (used in) financing activities | <u>241,074</u> | <u>185,947</u> | <u>51,511</u> |
| Total increase (decrease) in cash, cash equivalents and restricted cash | 75,547 | 166 | 2,242 |
| Cash, cash equivalents and restricted cash at beginning of year | 2,608 | 2,442 | 200 |
| Cash, cash equivalents and restricted cash at end of year | <u>\$ 78,155</u> | <u>\$ 2,608</u> | <u>\$ 2,442</u> |
| Supplemental disclosure of cash flow information and non-cash financial activities | | | |
| Payments of interest | <u>\$ 8,653</u> | <u>\$ 4,451</u> | <u>\$ 225</u> |
| Accrued stockholder servicing fee | <u>\$ 5,375</u> | <u>\$ 912</u> | <u>—</u> |
| Distributions payable | <u>\$ 669</u> | <u>\$ 257</u> | <u>—</u> |
| Reinvestment of stockholder distributions | <u>\$ 3,196</u> | <u>\$ 2,459</u> | <u>\$ 328</u> |
| Payable for shares repurchased | <u>\$ 62</u> | <u>\$ 100</u> | <u>—</u> |
| Loan principal payments held by servicer | <u>\$ 5,212</u> | <u>—</u> | <u>—</u> |

See notes to consolidated financial statements.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (in thousands, except share and per share amounts)

Note 1. Principal Business and Organization

FS Credit Real Estate Income Trust, Inc., or the Company, was incorporated under the general corporation laws of the State of Maryland on November 7, 2016 and formally commenced investment operations on September 13, 2017. The Company is currently conducting an initial public offering of up to \$2,750,000 of its Class T, Class S, Class D, Class M and Class I shares of common stock pursuant to a registration statement on Form S-11 filed with the Securities and Exchange Commission, or SEC, consisting of up to \$2,500,000 in shares in its primary offering and up to \$250,000 in shares pursuant to its distribution reinvestment plan. The Company is also conducting a private offering of shares of its Class F common stock and previously conducted a private offering of its Class Y common stock. The Company is managed by FS Real Estate Advisor, LLC, or FS Real Estate Advisor, a subsidiary of the Company's sponsor, Franklin Square Holdings, L.P., which does business as FS Investments, or FS Investments, a national sponsor of alternative investment funds designed for the individual investor. FS Real Estate Advisor has engaged Rialto Capital Management, LLC, or Rialto, to act as its sub-adviser.

The Company has elected to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes commencing with its taxable year ended December 31, 2017. The Company intends to be an investment vehicle of indefinite duration focused on real estate debt investments and other real estate-related assets. The shares of common stock are generally intended to be sold and repurchased by the Company on a continuous basis. The Company intends to conduct its operations so that it is not required to register under the Investment Company Act of 1940, as amended, or the 1940 Act.

The Company's primary investment objectives are to: provide current income in the form of regular, stable cash distributions to achieve an attractive dividend yield; preserve and protect invested capital; realize appreciation in net asset value, or NAV, from proactive investment management and asset management; and provide an investment alternative for stockholders seeking to allocate a portion of their long-term investment portfolios to commercial real estate debt with lower volatility than public real estate companies.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The consolidated financial statements include both the Company's accounts and the accounts of its wholly owned subsidiaries and a variable interest entity, or VIE, of which the Company is the primary beneficiary, as of December 31, 2019. All significant intercompany transactions have been eliminated in consolidation. The Company has evaluated the impact of subsequent events through the date the consolidated financial statements were issued.

Use of Estimates: The preparation of the consolidated financial statements in accordance 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, as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation: Financial Accounting Standards Board, or FASB, Accounting Standards Codification Topic 810—Consolidation, or ASC 810, provides guidance on the identification of a VIE (a variable interest entity for which control is achieved through means other than voting rights) and the determination of which business enterprise, if any, should consolidate the VIE. An entity is considered a VIE if any of the following applies: (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity's activities

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 2. Summary of Significant Accounting Policies (continued)

without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The Company consolidates VIEs in which it is considered to be the primary beneficiary. The primary beneficiary is defined as the entity having both of the following characteristics: (1) the power to direct the activities that, when taken together, most significantly impact the VIE's performance; and (2) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE.

Cash, Cash Equivalents and Restricted Cash: The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company invests its cash in overnight institutional money market funds. As of December 31, 2019 and 2018, the Company's investment in overnight institutional money market funds was \$75,560 and \$599, respectively. The Company's uninvested cash is maintained with high credit quality financial institutions, which are members of the Federal Deposit Insurance Corporation. Restricted cash primarily represents cash held in an account to fund additional collateral interests within the collateralized loan obligation.

The following table provides a reconciliation of cash, cash equivalents and restricted cash in the Company's consolidated balance sheets to the total amount shown in the Company's consolidated statements of cash flows:

| | <u>December 31,</u> | |
|--|---------------------|----------------|
| | <u>2019</u> | <u>2018</u> |
| Cash and cash equivalents | \$40,214 | \$ 608 |
| Restricted cash | <u>37,941</u> | <u>2,000</u> |
| Total cash, cash equivalents and restricted cash | <u>\$78,155</u> | <u>\$2,608</u> |

Loans Receivable and Provision for Loan Losses: The Company originates and purchases commercial real estate debt and related instruments generally to be held as long-term investments at amortized cost. The Company is required to periodically evaluate each of these loans for possible impairment. Impairment is indicated when it is deemed probable that the Company will not be able to collect all amounts due to it pursuant to the contractual terms of the loan. If a loan is determined to be impaired, the Company writes down the loan through a charge to the provision for loan losses. Impairment of these loans, which are collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by FS Real Estate Advisor and Rialto. Actual losses, if any, could ultimately differ from these estimates. FS Real Estate Advisor and Rialto perform a quarterly review of the Company's portfolio of loans.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued) (in thousands, except share and per share amounts)

Note 2. Summary of Significant Accounting Policies (continued)

In connection with this review, FS Real Estate Advisor and Rialto assess the risk factors of each loan and assign a risk rating based on a variety of factors, including, without limitation, loan-to-value ratio, or LTV, debt yield, property type, geographic and local market dynamics, physical condition, cash flow volatility, leasing and tenant profile, loan structure and exit plan, and project sponsorship. Based on a 5-point scale, the Company's loans are rated "1" through "5", from less risk to greater risk, which ratings are defined as follows:

| <u>Loan Risk Rating</u> | <u>Summary Description</u> |
|-------------------------|---|
| 1 | Very Low Risk |
| 2 | Low Risk |
| 3 | Medium Risk |
| 4 | High Risk/Potential for Loss: A loan that has a risk of realizing a principal loss |
| 5 | Impaired/Loss Likely: A loan that has a very high risk of realizing a principal loss or has otherwise incurred a principal loss |

Mortgage-backed Securities: The Company classifies its mortgage-backed securities as available for sale. The investments are reported at fair value on the consolidated balance sheets with changes in fair value recorded in other comprehensive income.

Fair Value of Financial Instruments: Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, or ASC Topic 820, defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements under GAAP. Specifically, this guidance defines fair value based on exit price, or the price that would be received upon the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date.

ASC Topic 820 also establishes a fair value hierarchy that prioritizes and ranks the level of market price observability used in measuring financial instruments. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument, and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination, as follows:

- Level 1:* Generally includes only unadjusted quoted prices that are available in active markets for identical financial instruments as of the reporting date.
- Level 2:* Pricing inputs include quoted prices in active markets for similar instruments, quoted prices in less active or inactive markets for identical or similar instruments where multiple price quotes can be obtained, and other observable inputs, such as interest rates, yield curves, credit risks, and default rates.
- Level 3:* Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. These inputs require significant judgment or estimation by management or third parties when determining fair value and generally represent anything that does not meet the criteria of Levels 1 and 2.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued) (in thousands, except share and per share amounts)

Note 2. Summary of Significant Accounting Policies (continued)

The estimated value of each asset reported at fair value using Level 3 inputs is determined by an internal committee composed of members of senior management of FS Real Estate Advisor.

Certain of the Company's other assets are reported at fair value either (i) on a recurring basis, as of each quarter-end, or (ii) on a nonrecurring basis, as a result of impairment or other events. The Company generally values its assets recorded at fair value by either (i) discounting expected cash flows based on assumptions regarding the collection of principal and interest and estimated market rates, or (ii) obtaining assessments from third-party dealers. For collateral-dependent loans that are identified as impaired, the Company measures impairment by comparing FS Real Estate Advisor's estimation of fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations may require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by FS Real Estate Advisor.

The Company is also required by GAAP to disclose fair value information about financial instruments that are not otherwise reported at fair value in the Company's consolidated balance sheets, to the extent it is practicable to estimate a fair value for those instruments. These disclosure requirements exclude certain financial instruments and all non-financial instruments.

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

- Cash and cash equivalents: The carrying amount of cash on deposit and in money market funds approximates fair value.
- Restricted cash: The carrying amount of restricted cash approximates fair value.
- Loans receivable, net: The fair values for these loans were estimated by FS Real Estate Advisor based on discounted cash flow methodology taking into consideration factors, including capitalization rates, discount rates, leasing, occupancy rates, availability and cost of financing, exit plan, sponsorship, actions of other lenders, and indications of market value from other market participants.
- Mortgage-backed securities: The fair values for these investments were based on indicative deal quotes.
- Collateralized loan obligation, repurchase obligations and credit facility: The fair values for these instruments were estimated based on the rate at which similar credit facilities would have currently been priced.

Deferred Financing Costs: Deferred financing costs include issuance and other costs related to the Company's debt obligations. The deferred financing costs related to the Company's collateralized loan obligation and repurchase agreements are recorded as a reduction in the net book value of the related liability on the Company's consolidated balance sheets. Deferred financing costs related to the Company's revolving credit facility and facilities that are undrawn as of the reporting date are recorded as an asset on the Company's consolidated balance sheets. These costs are amortized as interest expense using the straight-line method over the term of the related obligation, which approximates the effective interest method.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued) (in thousands, except share and per share amounts)

Note 2. Summary of Significant Accounting Policies (continued)

Revenue Recognition: Security transactions are accounted for on the trade date. The Company records interest income on an accrual basis to the extent that the Company expects to collect such amounts. The Company records dividend income on the ex-dividend date. The Company does not accrue as a receivable interest or dividends on loans and securities if there is reason to doubt the collectability of such income. Any loan origination fees to which the Company is entitled, loan exit fees, original issue discount and market discount are capitalized and such amounts are amortized as interest income over the respective term of the investment. Upon the prepayment of a loan or security, any unamortized loan origination fees to which the Company is entitled are recorded as fee income. The Company records prepayment premiums on loans and securities as fee income when it receives such amounts.

Organization Costs: Organization costs include, among other things, the cost of incorporating, including the cost of legal services and other fees pertaining to the Company's organization. These costs will be expensed as incurred. During the period from November 7, 2016 (Inception) to September 13, 2017 (Commencement of Operations), the Company incurred organization costs of \$243, which were paid on its behalf by FS Investments (see Note 6).

Offering Costs: Offering costs primarily include, among other things, marketing expenses and printing, legal and due diligence fees and other costs pertaining to the Company's continuous public offering of shares of its common stock, including the preparation of the registration statement and salaries and direct expenses of FS Real Estate Advisor's personnel, employees of its respective affiliates and others while engaged in such activities. The Company will charge offering costs against additional paid-in capital on the consolidated balance sheets as it raises proceeds in its continuous public offering in excess of \$250,000. During the period from November 7, 2016 (Inception) to December 31, 2019, the Company incurred offering costs of \$9,931, which were paid on its behalf by FS Investments (see Note 6).

Income Taxes: The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, commencing with its taxable year ended December 31, 2017. In order to maintain its status as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income to its stockholders. As a REIT, the Company generally will not be subject to federal income tax on income that it distributes to stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the Internal Revenue Service grants the Company relief under certain statutory provisions.

Uncertainty in Income Taxes: The Company evaluates each of its tax positions to determine if they meet the minimum recognition threshold in connection with accounting for uncertainties in income tax positions taken or expected to be taken for the purposes of measuring and recognizing tax benefits or liabilities in the consolidated financial statements. Recognition of a tax benefit or liability with respect to an uncertain tax position is required only when the position is "more likely than not" to be sustained assuming examination by taxing authorities. The Company recognizes interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in the consolidated statements of operations. During the years ended December 31, 2019, 2018 and 2017, the Company did not incur any interest or penalties.

Stockholder Servicing Fees: The Company follows the guidance in Accounting Standards Codification Topic 405, *Liabilities*, when accounting for stockholder servicing fees. The Company will pay stockholder

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 2. Summary of Significant Accounting Policies (continued)

servicing fees over time on its shares of Class T, Class S, Class D and Class M common stock as described in Note 6. The Company records stockholder servicing fees as a reduction to additional paid-in capital and records the related liability in an amount equal to its best estimate of the fees payable in relation to the shares of Class T, Class S, Class D and Class M common stock on the date such shares are issued. The liability will be reduced over time, as the fees are paid to the dealer manager, or adjusted if the fees are no longer payable.

Recent Accounting Pronouncements: In June 2016, the Financial Accounting Standards Board, or FASB, issued ASU 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, or ASU 2016-13. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace the “incurred loss” model under existing guidance with an “expected loss” model for instruments measured at amortized cost and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as they do today under the other than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. For public entities, the new standard is effective during the interim and annual periods beginning after December 15, 2019, with early adoption permitted. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instrument (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) Effective Dates*, which deferred the effective date of ASU 2016-13 for smaller reporting companies until fiscal years beginning after December 15, 2022. The Company, as a smaller reporting company, continues to evaluate the impact of this update on its consolidated financial statements.

Note 3. Loans Receivable

The following table details overall statistics for the Company’s loans receivable portfolio as of December 31, 2019 and 2018:

| | December 31, | |
|--|--------------|-----------|
| | 2019 | 2018 |
| Number of loans | 24 | 17 |
| Principal balance | \$405,985 | \$238,979 |
| Net book value | \$406,645 | \$239,207 |
| Unfunded loan commitments ⁽¹⁾ | \$ 44,226 | \$ 38,324 |
| Weighted-average cash coupon ⁽²⁾ | L+4.22% | L+4.76% |
| Weighted-average all-in yield ⁽²⁾ | L+4.39% | L+4.96% |
| Weighted-average maximum maturity (years) ⁽³⁾ | 3.6 | 3.6 |

- (1) The Company may be required to provide funding when requested by the borrower in accordance with the terms of the underlying agreements.
- (2) The Company’s floating rate loans are indexed to the London Interbank Offered Rate, or LIBOR. In addition to cash coupon, all-in yield includes accretion of discount (amortization of premium) and accrual of exit fees.
- (3) Maximum maturity assumes all extension options are exercised by the borrower, however loans may be repaid prior to such date.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 3. Loans Receivable (continued)

For the years ended December 31, 2019 and 2018, the activity in the Company's loan portfolio was as follows:

| | For the Year Ended December 31, | |
|--|------------------------------------|------------------|
| | 2019 | 2018 |
| Balance at beginning of period | \$239,207 | \$ 49,929 |
| Loan fundings | 199,128 | 191,437 |
| Loan repayments | (32,249) | (2,455) |
| Amortization of deferred fees on loans | 689 | 296 |
| Receipt of fees on loans | (130) | — |
| Balance at end of period | <u>\$406,645</u> | <u>\$239,207</u> |

The following tables detail the property type and geographic location of the properties securing the loans in the Company's portfolio as of December 31, 2019 and 2018:

| Property Type | December 31, 2019 | | December 31, 2018 | |
|---------------|-------------------|-------------|-------------------|-------------|
| | Net Book Value | Percentage | Net Book Value | Percentage |
| Office | \$121,151 | 30% | \$ 91,898 | 38% |
| Multifamily | 81,111 | 20% | 80,750 | 34% |
| Mixed Use | 76,833 | 19% | — | — |
| Hospitality | 56,221 | 14% | 24,302 | 10% |
| Retail | 41,310 | 10% | 29,757 | 13% |
| Industrial | 30,019 | 7% | 12,500 | 5% |
| Total | <u>\$406,645</u> | <u>100%</u> | <u>\$239,207</u> | <u>100%</u> |

| Geographic Location ⁽¹⁾ | December 31, 2019 | | December 31, 2018 | |
|------------------------------------|-------------------|-------------|-------------------|-------------|
| | Net Book Value | Percentage | Net Book Value | Percentage |
| South | \$163,486 | 40% | \$130,066 | 54% |
| Northeast | 152,874 | 38% | 67,293 | 28% |
| West | 80,319 | 20% | 41,848 | 18% |
| Midwest | 9,966 | 2% | — | — |
| Total | <u>\$406,645</u> | <u>100%</u> | <u>\$239,207</u> | <u>100%</u> |

(1) As defined by the United States Department of Commerce, Bureau of the Census.

As of December 31, 2019 and 2018, all of the Company's loans had a risk rating of 3. The Company did not have any impaired loans, non-accrual loans, or loans in maturity default as of December 31, 2019 or December 31, 2018.

Subsequent Activity

During the period from January 1, 2020 through March 23, 2020, the Company closed on seven senior floating-rate mortgage loans and two mezzanine loans of which \$170,853 and \$33,102, respectively, was funded at closing.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 4. Mortgage-Backed Securities

The Company classified its commercial mortgage-backed securities, or CMBS, as available-for-sale as of December 31, 2019 and 2018. The investment is reported at fair value on the consolidated balance sheets with changes in fair value recorded in other comprehensive income.

The table below summarizes various attributes of or investment in available-for-sale CMBS as of December 31, 2019 and 2018, respectively.

| | Outstanding Face Amount | Amortized Cost Basis | Gross Unrealized | | Fair Value | Weighted Average | |
|--------------------------|-------------------------------|-------------------------|------------------|--------|---------------|-----------------------|----------------------------------|
| | | | Gains | Losses | | Coupon ⁽¹⁾ | Remaining Duration (years) |
| December 31, 2019 | | | | | | | |
| CMBS | \$6,634 | \$6,634 | \$ 17 | — | \$6,651 | 3.20% | 1.7 |
| December 31, 2018 | | | | | | | |
| CMBS | \$2,000 | \$1,997 | — | \$(10) | \$1,987 | 3.60% | 1.8 |

(1) Calculated using the one-month LIBOR rate of 1.80% and 2.50% as of December 31, 2019 and December 31, 2018, respectively.

Note 5. Financing Arrangements

The following tables present summary information with respect to the Company's outstanding financing arrangements as of December 31, 2019 and 2018:

| Arrangement ⁽¹⁾ | As of December 31, 2019 | | | | |
|----------------------------|-----------------------------------|--------------------------------|-----------------------|---------------------|----------------------------------|
| | Type of Arrangement | Rate | Amount Outstanding | Amount Available | Maturity Date |
| 2019-FL1 Notes | Collateralized Loan Obligation | L+1.20% - 2.50% | \$327,665 | \$ — | December 18, 2036 ⁽²⁾ |
| WF-1 Facility | Repurchase | L+2.15% - 2.50% ⁽³⁾ | — | 150,000 | August 30, 2020 |
| GS-1 Facility | Repurchase | L+1.75% - 2.75% ⁽⁴⁾ | — | 175,000 | January 26, 2020 |
| CNB Facility | Revolving Credit Facility | L+2.25% | — | 10,000 | August 23, 2021 |
| Total | | | <u>\$327,665</u> | <u>\$335,000</u> | |

(1) The carrying amount outstanding under the facilities approximates their fair value.

(2) The 2019-FL1 Notes mature on the December 2036 payment date, as defined in the Indenture governing the 2019-FL1 Notes and calculated based on the current U.S. federal holidays.

(3) FS CREIT Finance WF-1 LLC, or WF-1, and Wells Fargo Bank, National Association, or Wells Fargo, may mutually agree on rates outside this range on an asset by asset basis.

(4) FS CREIT Finance GS-1 LLC, or GS-1, and Goldman Sachs Bank USA, or Goldman Sachs, may mutually agree on rates outside this range on an asset by asset basis.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 5. Financing Arrangements (continued)

| Arrangement ⁽¹⁾ | As of December 31, 2018 | | | | |
|------------------------------|-------------------------|--------------------------------|--------------------|------------------|------------------------------|
| | Type of Arrangement | Rate | Amount Outstanding | Amount Available | Maturity Date ⁽²⁾ |
| WF-1 Facility ⁽³⁾ | Repurchase | L+2.15% - 2.75% ⁽⁴⁾ | \$ 31,305 | \$43,695 | May 16, 2022 |
| GS-1 Facility ⁽⁵⁾ | Repurchase | L+1.75% - 2.75% ⁽⁶⁾ | 127,821 | 2,179 | October 9, 2022 |
| Total | | | <u>\$159,126</u> | <u>\$45,874</u> | |

- (1) The carrying amount outstanding under the facilities approximates their fair value.
- (2) The maturity date is based on the weighted average of the maximum maturity of the corresponding loans, assuming all extension options are exercised by the borrowers under the corresponding loans, without regard to the term of the facilities. Each transaction under the facilities has its own specific terms.
- (3) The carrying amount and fair value of assets transferred as collateral underlying the facility is \$43,759 and \$43,745, respectively.
- (4) WF-1 and Wells Fargo may mutually agree on rates outside this range on an asset by asset basis.
- (5) The carrying amount and fair value of assets transferred as collateral underlying the facility is \$177,960 and \$178,026, respectively.
- (6) GS-1 and Goldman Sachs may mutually agree on rates outside this range on an asset by asset basis.

The Company's average borrowings and weighted average interest rate, including the effect of non-usage fees, for the year ended December 31, 2019 were \$206,149 and 4.36%, respectively. The Company's average borrowings and weighted average interest rate, including the effect of non-usage fees, for the year ended December 31, 2018 were \$106,424 and 4.37%, respectively.

2019-FL1 Notes

On December 5, 2019, the Company issued \$327,665 of collateralized loan obligation notes, or the CLO Transaction, through FS Rialto Sub-REIT LLC, or the Sub-REIT, a subsidiary real estate investment trust of the Company, and two wholly-owned financing subsidiaries of the Sub-REIT, FS Rialto 2019-FL1 Issuer, Ltd., an exempted company with limited liability under the laws of the Cayman Islands, as issuer, or the Issuer, and FS Rialto 2019-FL1 Co-Issuer, LLC, a Delaware limited liability company, as co-issuer, or the Co-Issuer and, together with the Issuer, the CLO Issuers.

The CLO Issuers issued five classes of notes, or the Offered Notes, (i) \$224,837 Class A Senior Secured Floating Rate Notes Due 2036, which bear interest at LIBOR plus 1.20% per annum plus, on and after the October 2025 payment date, an additional 0.25% per annum, (ii) \$47,418 Class A-S Second Priority Secured Floating Rate Notes Due 2036, which bear interest at LIBOR plus 1.45% per annum plus, on and after the October 2025 payment date, 0.25% per annum, (iii) \$27,173 Class B Third Priority Secured Floating Rate Notes Due 2036, which bear interest at LIBOR plus 1.90% per annum plus, on and after the October 2025 payment date, 0.50% per annum, (iv) \$28,237 Class C Fourth Priority Secured Floating Rate Notes Due 2036, which bear interest at LIBOR plus 2.50% per annum plus, on and after the October 2025 payment date, 0.50% per annum, and (v) \$32,501 Class D Fifth Priority Secured Floating Rate Notes Due 2036, or the Class D Notes, which bear interest at LIBOR plus 2.80% per annum plus, on and after the October 2025 payment date, 0.50% per annum. In addition, the Issuer further issued two classes of notes, or together with the Offered Notes, the 2019-FL1 Notes, (i) \$9,590 Class E Sixth Priority Floating Rate Notes Due 2036, or the Class E Notes, which bear interest at LIBOR plus 4.50% per annum plus, on and after the January 2022 payment date, 0.50% per annum, and (ii) \$11,188 Class F Seventh Priority Floating Rate Notes Due 2036, or the Class F Notes, which bear interest at

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued) (in thousands, except share and per share amounts)

Note 5. Financing Arrangements (continued)

LIBOR plus 6.00% per annum plus, on and after the January 2022 payment date, 0.50% per annum. In addition, concurrently with the issuance of the 2019-FL1 Notes, the Issuer issued 45,288 Preferred Shares, par value \$0.001 per share, and with an aggregate liquidation preference equal to \$1,000 per share, or the Preferred Shares. The 2019-FL1 Notes will mature at par on the December 2036 payment date (December 18, 2036 when calculated using the current U.S. federal holidays), unless redeemed or repaid prior thereto. The Company serves as the collateral manager for the Issuer.

The CLO Issuers issued or co-issued the 2019-FL1 Notes, as applicable, pursuant to the terms of an Indenture, dated as of December 5, 2019, or the Indenture, by and among the CLO Issuers, the Company, as advancing agent, Wilmington Trust, National Association, as trustee, and Wells Fargo, as note administrator and custodian.

FS Rialto 2019-FL1 Holder, LLC, which is an indirect wholly-owned subsidiary of the Company and a direct wholly-owned subsidiary of the Sub-REIT, acquired 100% of the Class D Notes, the Class E Notes, the Class F Notes and the Preferred Shares upon issuance.

The Offered Notes are limited recourse obligations of the Issuer and non-recourse obligations of the Co-Issuer payable solely from collateral interests acquired by the Issuer and pledged under the Indenture. To the extent the collateral is insufficient to make payments in respect of the Offered Notes, none of the Issuer, the Co-Issuer, any of their respective affiliates nor any other person will have any obligation to pay any further amounts in respect of the Offered Notes. The Class E Notes and the Class F Notes are not secured.

As of December 31, 2019, the 2019-FL1 Notes were collateralized by a pool of interests in 23 commercial real estate loans having a total principal balance of \$385,485.

The Company incurred \$5,568 of issuance costs which are amortized over the remaining life of the loans that collateralized the 2019-FL1 Notes. As of December 31, 2019, \$5,483 had yet to be amortized to interest expense.

WF-1 Facility

On August 30, 2017, the Company's indirect wholly owned, special-purpose financing subsidiary, WF-1, entered into a Master Repurchase and Securities Contract, or, as amended, the WF-1 Repurchase Agreement, and together with the related transaction documents, the WF-1 Facility, with Wells Fargo, to finance the acquisition and origination of commercial real estate whole loans or senior controlling participation interests in such loans. The maximum amount of financing available under the WF-1 Facility as of December 31, 2019 is \$150,000, which may be increased to \$200,000 with the consent of Wells Fargo. Each transaction under the WF-1 Facility has its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate.

WF-1 remains exposed to the credit risk of each asset sold to Wells Fargo under the WF-1 Facility, because WF-1 must repurchase each asset on a date mutually agreed by the parties at the time of its sale to Wells Fargo, and in any event no later than such asset's maturity date. The Company has accounted for these transactions as secured borrowings.

On August 29, 2019, WF-1 entered into an amendment to the WF-1 Facility to extend each of the funding period termination date and facility maturity date by one year to August 30, 2020. At the request of WF-1, Wells

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 5. Financing Arrangements (continued)

Fargo may grant further extensions of the facility termination date (without extensions of the funding period) for three one-year periods. In addition, at the request of WF-1, Wells Fargo may grant a further one-year extension of the funding period.

The Company incurred \$1,345 of deferred financing costs related to the WF-1 Facility, which is being amortized to interest expense over the life of the facility. As of December 31, 2019, \$245 had yet to be amortized to interest expense. The WF-1 Facility includes a non-utilization fee.

In connection with the WF-1 Repurchase Agreement, the Company also entered into a guarantee agreement, or the WF-1 Guarantee, pursuant to which the Company guarantees WF-1's obligations under the WF-1 Repurchase Agreement subject to the limitations specified therein.

The WF-1 Repurchase Agreement and WF-1 Guarantee, as amended, contain representations, warranties, covenants, events of default and indemnities that are customary for agreements of their type. In addition, WF-1 is required to maintain a certain minimum liquidity amount in a collateral account with Wells Fargo and the Company is required (i) to maintain its adjusted tangible net worth at an amount equal to or greater than the greater of (A) the sum of \$37,500 plus 75% of all equity capital raised by it from and after the closing date and (B) 75% of the then-current maximum facility size; (ii) to maintain, commencing on September 30, 2018, an earnings before interest, taxes, depreciation and amortization, or EBITDA, to interest expense ratio not less than 1.50 to 1.00; (iii) to maintain a total indebtedness to tangible net worth ratio of less than 3.00 to 1.00; and (iv) to maintain liquidity of not less than 7.5% of the amount outstanding under the WF-1 Facility. As of December 31, 2019, the Company was in compliance with these covenants.

GS-1 Facility

On January 26, 2018, the Company's indirect wholly-owned, special-purpose financing subsidiary, GS-1, entered into an Uncommitted Master Repurchase and Securities Contract Agreement, or as amended, the GS-1 Repurchase Agreement, and together with the related transaction documents, the GS-1 Facility, as seller, with Goldman Sachs, as buyer, to finance the acquisition and origination of whole, performing senior commercial or multifamily floating rate mortgage loans secured by first liens on office, retail, industrial, hospitality, multifamily or other commercial properties. The maximum amount of financing available under the GS-1 Facility as of December 31, 2019 is \$175,000, which may be increased to \$250,000 with the consent of Goldman Sachs if the Company meets certain equity capital thresholds. Each transaction under the GS-1 Facility has its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate.

GS-1 remains exposed to the credit risk of each asset sold to Goldman Sachs under the GS-1 Facility, because GS-1 must repurchase each asset on a date mutually agreed by the parties at the time of its sale to Goldman Sachs, and in any event no later than such asset's maturity date. The Company has accounted for these transactions as secured borrowings.

The initial availability period of the GS-1 Facility (during which financing under the GS-1 Facility was available for acquisition and origination of new assets) was two years. On February 18, 2020, the GS-1 Repurchase Agreement was amended to extend the availability period to January 26, 2021. GS-1 may extend the availability period for an additional one-year term extensions, so long as certain conditions are met. After the end of the availability period, GS-1 may exercise an option to commence a one-year amortization period, so long as certain conditions are met. During the amortization period, certain changes to the terms of the GS-1 Facility would apply, including an increase to the rate charged on each asset financed under the GS-1 Facility.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued) (in thousands, except share and per share amounts)

Note 5. Financing Arrangements (continued)

In connection with the GS-1 Repurchase Agreement, the Company entered into a Guarantee Agreement, the GS-1 Guarantee, pursuant to which the Company guarantees 50% of GS-1's obligations under the GS-1 Repurchase Agreement, subject to limitations specified therein. The GS-1 Guarantee may become full recourse to the Company upon the occurrence of certain events, including willful bad acts by the Company or GS-1.

The GS-1 Repurchase Agreement and GS-1 Guarantee contain representations, warranties, covenants, events of default and indemnities that are customary for agreements of their type. In addition, the Company is required (i) to maintain its adjusted tangible net worth at an amount equal to or greater than \$37,500 plus 75% of all equity capital raised by the Company from and after the closing date; (ii) to maintain an EBITDA to interest expense ratio not less than 1.50 to 1.00; (iii) to maintain a total indebtedness to tangible net worth ratio of less than 3.00 to 1.00; and (iv) to maintain liquidity at not less than 7.5% of the amount outstanding under the GS-1 Facility. As of December 31, 2019, the Company was in compliance with these covenants.

The Company incurred \$1,279 of deferred financing costs related to the GS-1 Facility, which is being amortized to interest expense over the life of the facility. As of December 31, 2019, \$72 had yet to be amortized to interest expense.

CNB Facility

On August 22, 2019, the Company and FS CREIT Finance Holdings LLC, a direct wholly owned subsidiary of the Company, each as a borrower, entered into a Loan and Security Agreement, or the CNB Loan Agreement, and together with the related transaction documents, the CNB Facility, with City National Bank, or CNB, as administrative agent and lender. The initial maximum committed facility amount under the CNB Facility is \$10,000. This amount, with the consent of CNB, may be increased to \$25,000. Borrowings under the CNB Facility are subject to compliance with a borrowing base calculated based on the Company's stockholder subscriptions and certain cash and assets held directly by the Company. On March 23, 2020, the CNB Facility was amended to, among other things, (i) increase the maximum amount of financing available from \$10,000 to \$15,000, and (ii) increase the minimum net asset value the Company is required to maintain from \$85,000 to \$100,000.

Borrowings under the CNB Facility accrue interest at a rate equal to LIBOR plus a spread of 2.25% per annum, and borrowed amounts must be repaid no later than 180 days after the funding date of such borrowing. In addition, the borrowers pay a non-utilization fee quarterly in arrears in an amount equal to 0.375% per annum on the daily unused portion of the maximum facility amount. The term of the CNB Facility is two years. At the request of the Company, CNB may grant extensions of the facility termination date, so long as certain conditions are met.

The Company incurred \$204 of deferred financing costs related to the CNB Facility, which is being amortized to interest expense over the life of the facility. As of December 31, 2019, \$183 had yet to be amortized to interest expense.

Note 6. Related Party Transactions

Compensation of FS Real Estate Advisor and the Dealer Manager

Pursuant to the second amended and restated advisory agreement dated as of August 17, 2018, or the advisory agreement, FS Real Estate Advisor is entitled to a base management fee equal to 1.25% of the NAV for

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued) (in thousands, except share and per share amounts)

Note 6. Related Party Transactions (continued)

the Company's Class T, Class S, Class D, Class M and Class I shares, payable quarterly in arrears. The payment of all or any portion of the base management fee accrued with respect to any quarter may be deferred by FS Real Estate Advisor, without interest, and may be taken in any such other quarter as FS Real Estate Advisor may determine. In calculating the Company's base management fee, the Company will use its NAV before giving effect to accruals for such fee, stockholder servicing fees or distributions payable on its shares. The base management fee is a class-specific expense. No base management fee is paid on the Company's Class F or Class Y shares.

FS Real Estate Advisor is also entitled to the performance fee calculated and payable quarterly in arrears in an amount equal to 10.0% of the Company's Core Earnings (as defined below) for the immediately preceding quarter, subject to a hurdle rate, expressed as a rate of return on average adjusted capital, equal to 1.625% per quarter, or an annualized hurdle rate of 6.5%. As a result, FS Real Estate Advisor does not earn a performance fee for any quarter until the Company's Core Earnings for such quarter exceed the hurdle rate of 1.625%. For purposes of the performance fee, "adjusted capital" means cumulative net proceeds generated from sales of the Company's common stock other than Class F common stock (including proceeds from the Company's distribution reinvestment plan) reduced for distributions from non-liquidating dispositions of the Company's investments paid to stockholders and amounts paid for share repurchases pursuant to the Company's share repurchase plan. Once the Company's Core Earnings in any quarter exceed the hurdle rate, FS Real Estate Advisor will be entitled to a "catch-up" fee equal to the amount of Core Earnings in excess of the hurdle rate, until the Company's Core Earnings for such quarter equal 1.806%, or 7.222% annually, of adjusted capital. Thereafter, FS Real Estate Advisor is entitled to receive 10.0% of the Company's Core Earnings.

For purposes of calculating the performance fee, "Core Earnings" means: the net income (loss) attributable to stockholders of Class Y, Class T, Class S, Class D, Class M and Class I shares, computed in accordance with GAAP (provided that net income (loss) attributable to Class Y stockholders shall be reduced by an amount equal to the base management fee that would have been paid if Class Y shares were subject to such fee), including realized gains (losses) not otherwise included in GAAP net income (loss) and excluding (i) non-cash equity compensation expense, (ii) the performance fee, (iii) depreciation and amortization, (iv) any unrealized gains or losses or other similar non-cash items that are included in net income for the applicable reporting period, regardless of whether such items are included in other comprehensive income or loss, or in net income, and (v) one-time events pursuant to changes in GAAP and certain material non-cash income or expense items, in each case after discussions between FS Real Estate Advisor and the Company's independent directors and approved by a majority of the Company's independent directors. The performance fee is a class-specific expense. No performance fee is paid on the Company's Class F shares.

Pursuant to the amended and restated sub-advisory agreement dated as of August 30, 2017, as amended, or the sub-advisory agreement, Rialto will receive 50% of all base management fees and performance fees payable to FS Real Estate Advisor.

The Company reimburses FS Real Estate Advisor and Rialto for their actual costs incurred in providing administrative services to the Company. FS Real Estate Advisor and Rialto are required to allocate the cost of such services to the Company based on objective factors such as total assets, revenues and/or time allocations. At least annually, the Company's board of directors reviews the amount of the administrative services expenses reimbursable to FS Real Estate Advisor and Rialto to determine whether such amounts are reasonable in relation to the services provided. The Company will not reimburse FS Real Estate Advisor or Rialto for any services for

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 6. Related Party Transactions (continued)

which it receives a separate fee or for any administrative expenses allocated to employees to the extent they serve as executive officers of the Company.

FS Investments funded the Company's organization and offering costs in the amount of \$10,174 for the period from November 7, 2016 (Inception) to December 31, 2019. These expenses include legal, accounting, printing, mailing and filing fees and expenses, due diligence expenses of participating broker-dealers supported by detailed and itemized invoices, costs in connection with preparing sales materials, design and website expenses, fees and expenses of the Company's transfer agent, fees to attend retail seminars sponsored by participating broker-dealers and reimbursements for customary travel, lodging, and meals, but excluding selling commissions, dealer manager fees and stockholder servicing fees. Under the advisory agreement, FS Real Estate Advisor has agreed to advance all of the Company's organization and offering expenses on the Company's behalf until it has raised \$250,000 of gross proceeds from its public offering.

The Company will reimburse FS Real Estate Advisor for any organization and offering expenses that it or Rialto has incurred on the Company's behalf, up to a cap of 0.75% of the gross proceeds from its public offering in excess of \$250,000. As of December 31, 2019, the Company has not reimbursed FS Real Estate Advisor for any organization and offering expenses.

During the year ended December 31, 2017, the Company incurred costs of \$341 in connection with obtaining the WF-1 Facility which were paid on behalf of the Company by FS Investments. The Company has recorded these costs as deferred financing costs on the Company's consolidated balance sheets and amortizes to interest expense over the life of the facility. During the year ended December 31, 2018, all of these costs were reimbursed to FS Investments.

The following table describes the fees and expenses accrued under the advisory agreement during the years ended December 31, 2019, 2018 and 2017:

| Related Party | Source Agreement | Description | Year Ended December 31, | | |
|------------------------------|--------------------|---|-------------------------|---------|-------|
| | | | 2019 | 2018 | 2017 |
| FS Real Estate Advisor . . . | Advisory Agreement | Base Management Fee ⁽¹⁾ | \$ 752 | \$ 70 | — |
| FS Real Estate Advisor . . . | Advisory Agreement | Performance Fee ⁽²⁾ | \$ 152 | \$ 44 | — |
| FS Real Estate Advisor . . . | Advisory Agreement | Administrative Services Expenses ⁽³⁾ | \$2,512 | \$1,885 | \$203 |

(1) During the years ended December 31, 2019, 2018 and 2017, \$476, \$23 and \$0, respectively, in base management fees were paid to FS Real Estate Advisor. As of December 31, 2019, \$323 in base management fees were payable to FS Real Estate Advisor.

(2) During the years ended December 31, 2019, 2018 and 2017, \$176, \$20 and \$0, respectively, in performance fees were paid to FS Real Estate Advisor. As of December 31, 2019, \$0 in performance fees were payable to FS Real Estate Advisor.

(3) During the years ended December 31, 2019, 2018 and 2017, \$2,284, \$1,826 and \$196, respectively, of the accrued administrative services expenses related to the allocation of costs of administrative personnel for services rendered to the Company by FS Real Estate Advisor and Rialto and the remainder related to other reimbursable expenses.

The dealer manager for the Company's continuous public offering is FS Investment Solutions, LLC, or FS Investment Solutions, which is an affiliate of FS Real Estate Advisor. Under the amended and restated dealer manager agreement dated as of August 17, 2018, or the dealer manager agreement, FS Investment Solutions is

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 6. Related Party Transactions (continued)

entitled to receive upfront selling commissions of up to 3.0%, and upfront dealer manager fees of 0.5% of the transaction price of each Class T share sold in the primary offering, however such amounts may vary at certain participating broker-dealers provided that the sum will not exceed 3.5% of the transaction price (subject to reductions for certain categories of purchasers). FS Investment Solutions is entitled to receive upfront selling commissions of up to 3.5% of the transaction price per Class S share sold in the primary offering (subject to reductions for certain categories of purchasers). The dealer manager anticipates that all of the selling commissions and dealer manager fees will be re-allowed to participating broker-dealers, unless a particular broker-dealer declines to accept some portion of the dealer manager fee they are otherwise eligible to receive. Pursuant to the dealer manager agreement, the Company also reimburses FS Investment Solutions or participating broker-dealers for bona fide due diligence expenses, provided that total organization and offering expenses shall not exceed 15% of the gross proceeds in the Company's public offering.

No selling commissions or dealer manager fees are payable on the sale of Class D, Class M, Class I, Class F or Class Y shares or on shares of any class sold pursuant to the Company's distribution reinvestment plan.

Subject to the limitations described below, the Company pays FS Investment Solutions stockholder servicing fees for ongoing services rendered to stockholders by participating broker-dealers or by broker-dealers servicing investors' accounts, referred to as servicing broker-dealers:

- with respect to the Company's outstanding Class T shares equal to 0.85% per annum of the aggregate NAV of its outstanding T shares, consisting of an advisor stockholder servicing fee of 0.65% per annum and a dealer stockholder servicing fee of 0.20% per annum; however, with respect to Class T shares sold through certain participating broker-dealers, the advisor stockholder servicing fee and the dealer stockholder servicing fee may be other amounts, provided that the sum of such fees will always equal 0.85% per annum of the NAV of such shares;
- with respect to the Company's outstanding Class S shares equal to 0.85% per annum of the aggregate NAV of its outstanding Class S shares;
- with respect to the Company's outstanding Class D shares equal to 0.3% per annum of the aggregate NAV of its outstanding Class D shares; and
- with respect to the Company's outstanding Class M shares equal to 0.3% per annum of the aggregate NAV of its outstanding Class M shares.

The Company does not pay a stockholder servicing fee with respect to its Class I, Class F or Class Y shares. The dealer manager reallows some or all of the stockholder servicing fees to participating broker-dealers, servicing broker-dealers and financial institutions (including bank trust departments) for ongoing stockholder services performed by such broker-dealers, and waives (pays back to the Company) stockholder servicing fees to the extent a broker-dealer or financial institution is not eligible or otherwise declines to receive all or a portion of such fees.

The Company will cease paying stockholder servicing fees with respect to any Class D, Class M, Class S and Class T shares held in a stockholder's account at the end of the month in which the total underwriting compensation from the upfront selling commissions, dealer manager fees and stockholder servicing fees, as applicable, paid with respect to such account would exceed 1.25%, 7.25%, 8.75% and 8.75%, respectively (or a

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued) (in thousands, except share and per share amounts)

Note 6. Related Party Transactions (continued)

lower limit for shares sold by certain participating broker-dealers or financial institutions) of the gross proceeds from the sale of shares in such account. These amounts are referred to as the sales charge cap. At the end of such month that the sales charge cap is reached, each Class D, Class M, Class S or Class T share in such account will convert into a number of Class I shares (including any fractional shares) with an equivalent aggregate NAV as such share.

In addition, the Company will cease paying stockholder servicing fees on each Class D share, Class M share, Class S share and Class T share held in a stockholder's account and each such share will convert to Class I shares on the earlier to occur of the following: (i) a listing of Class I shares on a national securities exchange; (ii) the sale or other disposition of all or substantially all of the Company's assets or the Company's merger or consolidation with or into another entity in a transaction in which holders of Class D, Class M, Class S or Class T shares receive cash and/or shares of stock that are listed on a national securities exchange; or (iii) the date following the completion of the Company's public offering on which, in the aggregate, underwriting compensation from all sources in connection with the Company's public offering, including selling commissions, dealer manager fees, stockholder servicing fees and other underwriting compensation, is equal to 10% of the gross proceeds from its primary offering.

The Company accrues future stockholder servicing fees in an amount equal to its best estimate of fees payable to FS Investment Solutions at the time such shares are sold. As of December 31, 2019 and 2018, the Company accrued \$6,290 and \$912, respectively, of stockholder servicing fees payable to FS Investment Solutions. FS Investment Solutions has entered into agreements with selected dealers distributing the Company's shares in the public offering, which provide, among other things, for the re-allowance of the full amount of the selling commissions and dealer manager fee and all or a portion of the stockholder servicing fees received by FS Investment Solutions to such selected dealers.

FS Investment Solutions also serves or served as the placement agent for the Company's private offerings of Class F and Class Y shares pursuant to placement agreements. FS Investment Solutions does not receive any compensation pursuant to these agreements.

Expense Limitation

The Company has entered into an amended and restated expense limitation agreement with FS Real Estate Advisor and Rialto, or the expense limitation agreement, pursuant to which FS Real Estate Advisor and Rialto have agreed to waive reimbursement of or pay, on a quarterly basis, the Company's annualized ordinary operating expenses for such quarter to the extent such expenses exceed 1.5% per annum of its average net assets attributable to each of its classes of common stock. The Company will repay FS Real Estate Advisor or Rialto on a quarterly basis any ordinary operating expenses previously waived or paid, but only if the reimbursement would not cause the then-current expense limitation, if any, to be exceeded. In addition, the reimbursement of expenses will be made only if payable not more than three years from the end of the fiscal quarter in which the expenses were paid or waived.

FS Real Estate Advisor and Rialto each have agreed to waive the recoupment of any amounts that may be subject to conditional reimbursement during the quarterly period ending March 31, 2020. To the extent that the conditions to recoupment are satisfied in a future quarter (prior to the expiration of the three-year period for reimbursement set forth in the Expense Limitation Agreement), such expenses may be subject to conditional recoupment in accordance with the terms of the Expense Limitation Agreement.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 6. Related Party Transactions (continued)

During the period from September 13, 2017 (Commencement of Operations) to December 31, 2019, the Company accrued \$4,760 for reimbursement of expenses that FS Real Estate Advisor and Rialto have agreed to pay, including \$1,948 in reimbursements for the year ended December 31, 2019. During the period from September 13, 2017 (Commencement of Operations) to December 31, 2019, the Company received \$4,260 in cash reimbursements from FS Real Estate Advisor. As of December 31, 2019, the Company had \$500 of reimbursements due from FS Real Estate Advisor and Rialto.

Capital Contributions and Commitments

In December 2016, pursuant to a private placement, Michael C. Forman and David J. Adelman, principals of FS Investments, contributed an aggregate of \$200 to purchase 8,000 Class F shares at the price of \$25.00 per share. These individuals will not tender these shares of common stock for repurchase as long as FS Real Estate Advisor remains the Company's adviser. FS Investments is controlled by Mr. Forman, the Company's president and chief executive officer, and Mr. Adelman.

Each of FS Investments and Rannel Investments, LLC (f/k/a Rialto Investments, LLC) ("RI"), a former affiliate of Rialto, the Company's sub-adviser, previously committed to purchase, or to cause its designees to purchase, the Company's Class F shares and to maintain a minimum investment of \$10,000 in Class F shares until such date as the Company reaches \$750,000 in net assets (the "Minimum Investment Amount"). FS Investments, Rialto and RI previously agreed that the remaining commitments to purchase additional Class F shares would expire in October 2019. On October 25, 2019, FS Investments and the Company's board of directors agreed that FS Investments' remaining commitment to purchase up to approximately \$21,400 in Class F shares will continue until November 1, 2020.

Following the sale of Rialto in November 2018, RI remained a wholly-owned subsidiary of Lennar Corporation and no longer has any affiliation with Rialto or the Company other than its ownership of the Company's Class F shares. On October 25, 2019, the Company's board of directors approved the termination of RI's remaining commitment to purchase Class F shares and agreed that the Company may repurchase up to approximately \$17,000 of RI's Class F Shares, in its discretion and in one or more repurchases, outside the Company's share repurchase plan at the most recently published NAV per Class F share at the time of any such repurchase. As of December 31, 2019, all of these shares were repurchased by the Company outside of the share repurchase plan at an average price of \$24.95 per Class F share.

As of March 23, 2020, FS Investments (including its affiliates and designees) owned approximately \$21,200 in Class F shares.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 7. Stockholder's Equity

Below is a summary of transactions with respect to shares of the Company's common stock during the years ended December 31, 2019, 2018 and 2017:

| | Shares | | | | | | | |
|---------------------------------|-------------|----------|---------|-----------|---------|-----------|-----------|-------------|
| | Class F | Class Y | Class T | Class S | Class D | Class M | Class I | Total |
| Balance as of December 31, 2016 | 8,000 | — | — | — | — | — | — | 8,000 |
| Issuance of common stock | 968,796 | 190,023 | — | — | — | — | — | 1,158,819 |
| Reinvestment of distributions | 12,005 | 1,091 | — | — | — | — | — | 13,096 |
| Balance as of December 31, 2017 | 988,801 | 191,114 | — | — | — | — | — | 1,179,915 |
| Issuance of common stock | 1,387,498 | — | 123,923 | 3,752 | 60,774 | 421,104 | 127,882 | 2,124,933 |
| Reinvestment of distributions | 95,565 | 1,899 | 658 | 21 | 160 | 867 | 644 | 99,814 |
| Redemptions of common stock | — | — | — | — | — | (3,979) | — | (3,979) |
| Balance as of December 31, 2018 | 2,471,864 | 193,013 | 124,581 | 3,773 | 60,934 | 417,992 | 128,526 | 3,400,683 |
| Issuance of common stock | — | — | 842,857 | 1,347,145 | 258,386 | 946,244 | 1,091,101 | 4,485,733 |
| Reinvestment of distributions | 86,990 | — | 15,436 | 1,069 | 3,282 | 9,624 | 11,978 | 128,379 |
| Redemptions of common stock | (1,083,699) | (51,897) | (1,038) | (400) | — | (16,042) | (1,245) | (1,154,321) |
| Balance as of December 31, 2019 | 1,475,155 | 141,116 | 981,836 | 1,351,587 | 322,602 | 1,357,818 | 1,230,360 | 6,860,474 |

| | Amount | | | | | | | |
|---|-----------|----------|-----------|-----------|----------|-----------|-----------|------------|
| | Class F | Class Y | Class T | Class S | Class D | Class M | Class I | Total |
| Balance as of December 31, 2016 | \$ 200 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 200 |
| Issuance of common stock | 24,240 | 4,758 | — | — | — | — | — | 28,998 |
| Reinvestment of distributions | 301 | 27 | — | — | — | — | — | 328 |
| Balance as of December 31, 2017 | 24,741 | 4,785 | — | — | — | — | — | 29,526 |
| Issuance of common stock | 34,175 | — | 3,104 | 94 | 1,522 | 10,581 | 3,151 | 52,627 |
| Reinvestment of distributions | 2,353 | 47 | 16 | 1 | 4 | 22 | 16 | 2,459 |
| Redemptions of common stock | — | — | — | — | — | (100) | — | (100) |
| Accrued stockholder servicing fees ⁽¹⁾ | — | — | (133) | (4) | (19) | (767) | — | (923) |
| Balance as of December 31, 2018 | 61,269 | 4,832 | 2,987 | 91 | 1,507 | 9,736 | 3,167 | 83,589 |
| Issuance of common stock | — | — | 21,192 | 34,180 | 6,506 | 23,880 | 26,935 | 112,693 |
| Reinvestment of distributions | 2,160 | — | 389 | 27 | 83 | 241 | 296 | 3,196 |
| Redemptions of common stock | (27,010) | (1,284) | (26) | (10) | — | (405) | (31) | (28,766) |
| Accrued stockholder servicing fees ⁽¹⁾ | — | — | (926) | (2,859) | (81) | (1,695) | — | (5,561) |
| Balance as of December 31, 2019 | \$ 36,419 | \$ 3,548 | \$ 23,616 | \$ 31,429 | \$ 8,015 | \$ 31,757 | \$ 30,367 | \$ 165,151 |

- (1) Stockholder servicing fees only apply to Class T, Class S, Class D and Class M shares. Under GAAP, the Company accrues future stockholder servicing fees in an amount equal to its best estimate of fees payable to FS Investment Solutions at the time such shares are sold. For purposes of NAV, the Company recognizes the stockholder servicing fee as a reduction of NAV on a monthly basis. As a result, the estimated liability for the future stockholder servicing fees, which are accrued at the time each share is sold, will have no effect on the NAV of any class.

Status of Offerings

As of March 23, 2020, the Company has issued 11,799,349 shares of common stock (consisting of 2,563,478 shares of Class F common stock, 193,013 shares of Class Y common stock, 1,191,429 shares of Class T common stock, 3,869,896 shares of Class S common stock, 482,754 shares of Class D common stock,

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 7. Stockholder's Equity (continued)

1,742,497 shares of Class M common stock and 1,756,281 shares of Class I common stock), including shares issued pursuant to its distribution reinvestment plan, for gross proceeds of \$297,439.

Share Repurchase Plan

The Company has adopted an amended and restated share repurchase plan, or share repurchase plan, whereby on a monthly basis, stockholders may request that the Company repurchase all or any portion of their shares. Prior to September 2019, Class F shares and Class Y shares were not eligible to participate in the Company's share repurchase plan. The repurchase of shares is limited to no more than 2% of the Company's aggregate NAV per month of all classes of shares then participating in the share repurchase plan and no more than 5% of the Company's aggregate NAV per calendar quarter of all classes of shares then participating in the share repurchase plan, which means that in any 12-month period, the Company limits repurchases to approximately 20% of the total NAV of all classes of shares then participating in the share repurchase plan. The Company's board of directors may modify, suspend or terminate the share repurchase plan if it deems such action to be in the Company's best interest and the best interest of its stockholders. During the years ended December 31, 2019, 2018 and 2017, the Company repurchased 1,154,321, 3,979 and 0, respectively, of shares of common stock representing a total of \$28,766, \$100 and \$0, respectively. The Company had no unfulfilled repurchase requests during the year ended December 31, 2019.

Distribution Reinvestment Plan

Pursuant to the Company's distribution reinvestment plan, holders of shares of any class of the Company's common stock may elect to have their cash distributions reinvested in additional shares of the Company's common stock. The purchase price for shares pursuant to the distribution reinvestment plan will be equal to the transaction price for such shares at the time the distribution is payable.

Distributions

The Company generally intends to distribute substantially all of its taxable income, which does not necessarily equal net income as calculated in accordance with GAAP, to its stockholders each year to comply with the REIT provisions of the Code. All distributions will be made at the discretion of the Company's board of directors and will depend upon its taxable income, financial condition, maintenance of REIT status, applicable law, and other factors that the Company's board of directors deems relevant.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 7. Stockholder's Equity (continued)

The following table reflects the cash distributions per share that the Company paid on its common stock during the year ended December 31, 2019:

| <u>Record Date</u> | <u>Class F</u> | <u>Class Y</u> | <u>Class T</u> | <u>Class S</u> | <u>Class D</u> | <u>Class M</u> | <u>Class I</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| January 30, 2019 | \$0.1510 | \$0.1510 | \$0.1073 | \$0.1073 | \$0.1188 | \$0.1188 | \$0.1250 |
| February 27, 2019 | 0.1510 | 0.1510 | 0.1073 | 0.1073 | 0.1188 | 0.1188 | 0.1250 |
| March 28, 2019 | 0.1510 | 0.1510 | 0.1073 | 0.1073 | 0.1188 | 0.1188 | 0.1250 |
| April 29, 2019 | 0.1510 | 0.1510 | 0.1073 | 0.1073 | 0.1188 | 0.1188 | 0.1250 |
| May 30, 2019 | 0.1510 | 0.1510 | 0.1073 | 0.1073 | 0.1188 | 0.1188 | 0.1250 |
| June 27, 2019 | 0.1560 | 0.1560 | 0.1123 | 0.1123 | 0.1238 | 0.1238 | 0.1300 |
| July 30, 2019 | 0.1610 | 0.1610 | 0.1173 | 0.1173 | 0.1288 | 0.1288 | 0.1350 |
| August 31, 2019 | 0.1610 | 0.1610 | 0.1173 | 0.1173 | 0.1288 | 0.1288 | 0.1350 |
| September 27, 2019 | 0.1610 | 0.1610 | 0.1173 | 0.1173 | 0.1288 | 0.1288 | 0.1350 |
| October 30, 2019 | 0.1610 | 0.1610 | 0.1173 | 0.1173 | 0.1288 | 0.1288 | 0.1350 |
| November 27, 2019 | 0.1610 | 0.1610 | 0.1173 | 0.1173 | 0.1288 | 0.1288 | 0.1350 |
| December 30, 2019 ⁽¹⁾ | 0.1610 | 0.1610 | 0.1173 | 0.1173 | 0.1288 | 0.1288 | 0.1350 |
| Total | <u>\$1.8770</u> | <u>\$1.8770</u> | <u>\$1.3526</u> | <u>\$1.3526</u> | <u>\$1.4906</u> | <u>\$1.4906</u> | <u>\$1.5650</u> |

(1) Distribution was paid on January 2, 2020.

The following table reflects the cash distributions that the Company has paid on its common stock during the years ended December 31, 2019, 2018 and 2017:

| | <u>Year Ended December 31,</u> | | |
|---|--------------------------------|----------------|--------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Distributions: | | | |
| Paid or payable in cash | \$ 5,156 | \$1,488 | \$ 79 |
| Reinvested in shares | 3,196 | 2,459 | 328 |
| Total distributions | <u>\$ 8,352</u> | <u>\$3,947</u> | <u>\$407</u> |
| Source of distributions: | | | |
| Cash flows from operating activities | \$ 5,156 | \$1,488 | \$ 79 |
| Reinvested via the distribution reinvestment plan | 3,196 | 2,459 | 328 |
| Offering proceeds | — | — | — |
| Total sources of distributions | <u>\$ 8,352</u> | <u>\$3,947</u> | <u>\$407</u> |
| Net cash provided by operating activities ⁽¹⁾ | <u>\$11,071</u> | <u>\$5,198</u> | <u>\$579</u> |

(1) Cash flows from operating activities are supported by expense support payments from FS Real Estate Advisor and Rialto pursuant to the Company's expense limitation agreement. See Note 6 for additional information regarding the Company's expense limitation agreement.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 7. Stockholder's Equity (continued)

The Company currently declares and pays regular cash distributions on a monthly basis. On November 14, 2019, the Company's board of directors declared regular monthly cash distributions for January through March 2020 for each class of its outstanding common stock in the net distribution amounts per share set forth below:

| <u>Class F</u> | <u>Class Y</u> | <u>Class T</u> | <u>Class S</u> | <u>Class D</u> | <u>Class M</u> | <u>Class I</u> |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| \$0.1610 | \$0.1610 | \$0.1173 | \$0.1173 | \$0.1288 | \$0.1288 | \$0.1350 |

The distributions for each class of outstanding common stock have been or will be paid monthly to stockholders of record as of the monthly record dates previously determined by the Company's board of directors. These distributions have been or will be paid in cash or reinvested in shares of the Company's common stock for stockholders participating in the Company's distribution reinvestment plan.

For federal income tax purposes, distributions to stockholders are characterized as either ordinary income, capital gain or non-taxable return of capital. Distributions that exceed the Company's current and accumulated tax earnings and profits constitute a return of capital and reduce the stockholders' basis in the common shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the stockholders' basis in the common shares, the distributions will generally be treated as a gain from the sale or exchange of such stockholders' common shares. Under the new tax laws effective January 1, 2018, all distributions (other than distributions designated as capital gain distributions and distributions traceable to distributions from a taxable REIT subsidiary) which are received by a pass-through entity or an individual, are eligible for a 20% deduction from gross income. This eligibility for a 20% deduction will expire as of 2025. At the beginning of each year, the Company notifies its stockholders of the taxability of the distributions paid during the preceding year. In any given year, the overall taxability of distributions could be higher or lower than the preceding year.

The following table shows the character of distributions the Company paid on a percentage basis during the years ended December 31, 2019, 2018 and 2017:

| | <u>For the Year Ended December 31,</u> | | |
|---|--|-------------|-------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Ordinary income | 100% | 100% | 53% |
| Non-taxable return of capital | — | — | 47% |
| Capital gain | — | — | — |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> |

Note 8. Fair Value of Financial Instruments

The following table presents the Company's financial instruments carried at fair value in the consolidated balance sheets by its level in the fair value hierarchy:

| | <u>December 31, 2019</u> | | | | <u>December 31, 2018</u> | | | |
|--------------------------------------|--------------------------|----------------|----------------|----------------|--------------------------|----------------|----------------|----------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Mortgage-backed securities | \$6,651 | — | \$6,651 | — | \$1,987 | — | \$1,987 | — |

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 8. Fair Value of Financial Instruments (continued)

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

| | December 31, 2019 | | | December 31, 2018 | | |
|---|-------------------|-------------|------------|-------------------|-------------|------------|
| | Book Value | Face Amount | Fair Value | Book Value | Face Amount | Fair Value |
| Financial Assets | | | | | | |
| Cash, cash equivalents and restricted cash | | | | | | |
| cash | \$ 78,155 | \$ 78,155 | \$ 78,155 | \$ 2,608 | \$ 2,608 | \$ 2,608 |
| Loans receivable ⁽¹⁾ | \$406,645 | \$405,985 | \$407,283 | \$239,207 | \$238,979 | \$239,342 |
| Financial Liabilities | | | | | | |
| Repurchase obligations | — | — | — | \$158,248 | \$159,126 | \$159,126 |
| Collateralized loan obligation ⁽²⁾ | \$322,182 | \$327,665 | \$327,665 | — | — | — |

(1) Book value of loans receivable represents the face amount, net of unamortized loan fees and costs and accrual of exit fees, as applicable.

(2) Book value represents the face amount, net of deferred financing costs.

Estimates of fair value for cash, cash equivalents and restricted cash are measured using observable, quoted market prices, or Level 1 inputs. Estimates of fair value for loans receivable, repurchase obligations and the collateralized loan obligation are measured using unobservable inputs, or Level 3 inputs.

Note 9. Variable Interest Entities

The Company has financed a portion of its loans through the CLO, which is considered a VIE. The Company has a controlling financial interest in the CLO and, therefore, consolidates it on its balance sheet because the Company has both (i) the power to direct activities of the CLO that most significantly affect the CLO's economic performance and (ii) the obligation to absorb losses and the right to receive benefits of the CLO that could potentially be significant to the CLO.

The following table details the assets and liabilities of the Company's consolidated CLO:

| | December 31, 2019 |
|---|--------------------------|
| Assets: | |
| Restricted cash | \$ 35,706 |
| Loans receivable | 385,408 |
| Interest receivable | 1,100 |
| Other assets | 5,241 |
| Total assets | \$427,455 |
| Liabilities | |
| Collateralized loan obligation (net of deferred financing costs of \$5,483 and \$0, respectively) | \$322,182 |
| Interest payable | 764 |
| Total liabilities | \$322,946 |

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 9. Variable Interest Entities (continued)

Assets held by the VIE are restricted and can be used only to settle obligations of the VIE. The liabilities are non-recourse to the Company and can only be satisfied from the assets of the VIE.

Note 10. Commitments and Contingencies

The Company enters into contracts that contain a variety of indemnification provisions. The Company's maximum exposure under these arrangements is unknown; however, the Company has not had prior claims or losses pursuant to these contracts. Management of FS Real Estate Advisor has reviewed the Company's existing contracts and expects the risk of loss to the Company to be remote.

The Company is not currently subject to any material legal proceedings and, to the Company's knowledge, no material legal proceedings are threatened against the Company. From time to time, the Company may be party to certain legal proceedings in the ordinary course of business. While the outcome of any legal proceedings cannot be predicted with certainty, the Company does not expect that any such proceedings will have a material effect upon its financial condition or results of operations.

See Note 6 for a discussion of the Company's commitments to FS Real Estate Advisor and its affiliates (including FS Investments) for the reimbursement of organization and offering costs funded by FS Investments once gross proceeds from the Company's public offering exceed \$250,000.

Note 11. Summary of Quarterly Results

The following are the quarterly results of operations for the years ended December 31, 2019 and 2018, respectively. The following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

| | Quarter Ended | | | |
|---|----------------------|-----------------------|------------------|-------------------|
| | December 31, 2019 | September 30, 2019 | June 30, 2019 | March 31, 2019 |
| Net interest income | \$ 3,633 | \$ 3,277 | \$ 2,617 | \$ 2,410 |
| Net other expenses | 974 | 769 | 593 | 487 |
| Net income | <u>\$ 2,659</u> | <u>\$ 2,508</u> | <u>\$ 2,024</u> | <u>\$ 1,923</u> |
| Per share information-basic and diluted | | | | |
| Net income per share of common stock | <u>\$ 0.43</u> | <u>\$ 0.47</u> | <u>\$ 0.45</u> | <u>\$ 0.51</u> |
| Weighted average common stock outstanding | <u>6,166,972</u> | <u>5,355,898</u> | <u>4,538,627</u> | <u>3,789,218</u> |

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 11. Summary of Quarterly Results (continued)

| | Quarter Ended | | | |
|---|----------------------|-----------------------|------------------|-------------------|
| | December 31, 2018 | September 30, 2018 | June 30, 2019 | March 31, 2019 |
| Net interest income | \$ 1,894 | \$ 1,724 | \$ 901 | \$ 417 |
| Net other expenses | 354 | 311 | 165 | 115 |
| Net income | \$ 1,540 | \$ 1,413 | \$ 736 | \$ 302 |
| Per share information-basic and diluted | | | | |
| Net income per share of common stock | \$ 0.51 | \$ 0.55 | \$ 0.41 | \$ 0.24 |
| Weighted average common stock outstanding | 3,026,364 | 2,551,864 | 1,780,663 | 1,256,174 |

The sum of quarterly per share amounts does not equal per share amounts reported for the years ended December 31, 2019 and 2018. This is due to changes in the number of weighted-average shares outstanding and the effects of rounding for each period.

Note 12. Subsequent Events

The following is a discussion of material events that have occurred subsequent to December 31, 2019 through the issuance of the consolidated financial statements.

Class F Share Repurchase

On February 14, 2020, the Company repurchased approximately \$14,700 of its Class F shares from MCFDA SCV LLC, a special purpose vehicle jointly owned by Michael C. Forman and David J. Adelman, the principals of FS Investments, at the then-current transaction price of \$24.9546 per share. Following such repurchase, FS Investments and its affiliates owned approximately \$21,200 in Class F shares. In addition, FS Investments' existing commitment to purchase up to approximately \$21,000 in Class F shares will continue until November 1, 2020.

Board of Directors

On March 10, 2020, Richard W. Vague resigned from his role as a director and audit committee member of the Company in order to pursue other opportunities.

FS Credit Real Estate Income Trust, Inc.

Notes to Consolidated Financial Statements (continued)
(in thousands, except share and per share amounts)

Note 12. Subsequent Events (continued)

Coronavirus Outbreak

In December 2019, a novel strain of coronavirus emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it has now spread to several other countries and infections have been reported globally. The World Health Organization has declared the coronavirus outbreak a pandemic, the Health and Human Services Secretary has declared a public health emergency in the United States in response to the outbreak and the President of the United States has declared the coronavirus outbreak a national emergency. Due to the fact the Company's investments are secured entirely by properties located in the United States, the coronavirus will impact the Company's investments and operating results to the extent that its continued spread within the United States reduces occupancy, increases the cost of operation, negatively impacts the ability to obtain necessary goods and services or provide adequate staffing, limits hours or necessitates the closure of such properties or results in an economic downturn and corporate bankruptcies. The extent to which the coronavirus impacts the Company's investments and operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions taken to contain the coronavirus or treat its impact, among others. At this time, the Company is unable to estimate the impact of this event on its investments and operations.

FS Credit Real Estate Income Trust, Inc.

Schedule IV - Mortgage Loans on Real Estate

As of December 31, 2019

(in thousands)

| <u>Loan Type</u> | <u>Description</u> | <u>Location</u> | <u>Interest Payment Rates</u> | <u>Maximum Maturity Date⁽¹⁾</u> | <u>Periodic Payment Terms⁽²⁾</u> | <u>Prior Liens</u> | <u>Face Amount of Loans</u> | <u>Carrying Amount of Loans</u> | |
|-------------------------------|--------------------|-------------------|-------------------------------|--|---|--------------------|-----------------------------|---------------------------------|------------------|
| Senior loan ⁽³⁾⁽⁴⁾ | Mixed Use | New York, NY | L+3.75% | 4/9/2024 | I/O | \$— | \$ 38,000 | \$ 37,992 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Office | Memphis, TN | L+4.25% | 10/9/2022 | I/O | — | 29,250 | 29,360 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Office | New York, NY | L+3.75% | 5/9/2021 | I/O | — | 30,000 | 29,997 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Hospitality | Davis, CA | L+5.35% | 7/9/2024 | I/O | — | 28,500 | 28,516 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Mixed Use | Philadelphia, PA | L+5.00% | 8/15/2024 | I/O | — | 24,250 | 24,270 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Industrial | Bordentown, NJ | L+3.95% | 3/9/2024 | I/O | — | 14,300 | 14,329 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Hospitality | Gaithersburg, MD | L+5.25% | 8/9/2023 | I/O | — | 15,530 | 15,575 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Office | Katy, TX | L+4.00% | 12/9/2024 | I/O | — | 18,500 | 18,505 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Office | Austin, TX | L+4.25% | 4/9/2023 | I/O | — | 18,962 | 19,051 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Multifamily | Jersey City, NJ | L+3.00% | 12/19/2023 | I/O | — | 20,500 | 20,480 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Multifamily | East Orange, NJ | L+4.65% | 5/1/2023 | I/O | — | 19,800 | 19,851 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Office | Landover, MD | L+4.85% | 12/9/2022 | I/O | — | 14,212 | 14,272 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Mixed Use | Oakland, CA | L+4.50% | 11/9/2024 | I/O | — | 14,565 | 14,571 | |
| Senior loan ⁽⁴⁾ | Multifamily | Jacksonville, FL | L+4.25% | 7/9/2023 | I/O | — | 9,691 | 9,723 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Industrial | Fayetteville, NC | L+3.50% | 8/9/2023 | I/O | — | 15,661 | 15,690 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Multifamily | Las Vegas, NV | L+4.00% | 3/9/2023 | I/O | — | 12,633 | 12,671 | |
| Senior loan ⁽³⁾⁽⁴⁾ | Multifamily | Seattle, WA | L+3.80% | 11/9/2022 | I/O | — | 12,400 | 12,431 | |
| Senior loan ⁽⁴⁾ | Office | Indianapolis, IN | L+3.75% | 8/9/2024 | I/O | — | 9,968 | 9,966 | |
| Senior loan ⁽⁴⁾ | Retail | Holly Springs, GA | L+4.00% | 11/9/2024 | I/O | — | 11,500 | 11,496 | |
| Senior loan ⁽⁴⁾ | Hospitality | Las Vegas, NV | L+4.50% | 3/7/2022 | I/O | — | 12,050 | 12,130 | |
| Senior loan ⁽⁴⁾ | Retail | Miami, FL | L+4.00% | 6/9/2023 | I/O | — | 12,000 | 12,026 | |
| Senior loan ⁽⁴⁾ | Retail | Miami, FL | L+4.50% | 6/9/2023 | I/O | — | 11,000 | 11,023 | |
| Senior loan ⁽⁴⁾ | Retail | Miami, FL | L+4.25% | 6/9/2023 | I/O | — | 6,750 | 6,765 | |
| Senior loan ⁽⁴⁾ | Multifamily | New York, NY | L+3.75% | 4/9/2024 | I/O | — | 5,963 | 5,955 | |
| | | | | | | | <u>\$—</u> | <u>\$405,985</u> | <u>\$406,645</u> |

(1) Maximum maturity assumes all extension options are exercised by the borrower.

(2) I/O = interest only.

(3) Loan is in excess of 3% of the carrying amount of total loans.

(4) Loan is not delinquent with respect to principal or interest.

The following table reconciles mortgage loans on real estate for the years ended December 31, 2019 and 2018:

| | For the Year Ended December 31, | |
|---|--|------------------|
| | 2019 | 2018 |
| Balance at beginning of period | \$239,207 | \$ 49,929 |
| Additions during period: | | |
| Loan fundings | 199,128 | 191,437 |
| Amortization of deferred fees and expenses on loans | 689 | 296 |
| Deductions during period: | | |
| Collections of principal | (32,249) | (2,455) |
| Receipt of fees on loans | (130) | — |
| Balance at end of period | <u>\$406,645</u> | <u>\$239,207</u> |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2019.

Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that we would meet our disclosure obligations.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed under the supervision of our chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and preparation of our financial statements for external purposes in accordance with GAAP.

As of December 31, 2019, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2019 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) or 15d-15(f)) that occurred during the three-month period ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

CNB Facility Amendment

On March 23, 2020, the Company and FS CREIT Finance Holdings LLC, a direct wholly owned subsidiary of the Company, as borrowers, entered into a Second Amendment to Loan and Security Agreement with City National Bank, as administrative agent and lender, which amended the CNB Facility, to, among other things, (i) increase the maximum amount of financing available from \$10,000 to \$15,000 and (ii) increase the minimum net asset value the Company is required to maintain from \$85,000 to \$100,000.

The foregoing description of the Second Amendment to Loan and Security Agreement is a summary only and is qualified in all respects by the agreement attached hereto as Exhibit 10.27 and is incorporated by reference herein.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Our directors and executive officers are set forth below.

| NAME | AGE | POSITION HELD |
|----------------------------------|-----|---|
| Michael C. Forman | 58 | Chairman, President and Chief Executive Officer |
| Edward T. Gallivan, Jr. | 57 | Chief Financial Officer |
| Stephen S. Sypherd | 43 | Vice President, Treasurer and Secretary |
| James Volk | 57 | Chief Compliance Officer |
| David J. Adelman | 47 | Director |
| Jeffrey Krasnoff | 64 | Director |
| Terence J. Connors | 65 | Independent Director |
| John A. Fry | 59 | Independent Director |
| Jack A. Markell | 59 | Independent Director |
| Karen D. Buchholz ⁽¹⁾ | 53 | Independent Director |

(1) Karen Dougherty Buchholz was appointed to the board of directors on January 9, 2020.

Michael C. Forman has served as our president and chief executive officer since our inception in 2016, as our chairman since July 2017 and as the chairman and chief executive officer of FS Real Estate Advisor since its inception in August 2016. Mr. Forman also currently serves as chairman, president and/or chief executive officer of each of the other funds sponsored by FS Investments and each of their respective investment advisers. In 2005, Mr. Forman co-founded FB Capital Partners, L.P., an investment firm that previously invested in private equity, senior and mezzanine debt and real estate, and has served as managing general partner since inception. In May 2007, Mr. Forman co-founded FS Investments. Prior to co-founding FB Capital Partners, L.P., Mr. Forman spent nearly 20 years as an attorney in the Corporate and Securities Department at the Philadelphia based law firm of Klehr, Harrison, Harvey, Branzburg & Ellers LLP, where he was a partner from 1991 until leaving the firm to focus exclusively on investments. In addition to his career as an attorney and investor, Mr. Forman has been an active entrepreneur and has founded several companies, including companies engaged in the gaming, specialty finance and asset management industries. Mr. Forman serves as a member of the board of directors of a number of private companies. He is also a member of a number of civic and charitable boards, including The Franklin Institute (Executive Committee Member), the Vetri Foundation for Children (Chairman), the Children’s Hospital of Philadelphia (corporate council member), Drexel University and the Center City District Foundation. Mr. Forman serves as co-chair of the capital campaign of the Philadelphia School. Mr. Forman received his B.A., summa cum laude, from the University of Rhode Island, where he was elected Phi Beta Kappa, and received his J.D. from Rutgers University.

Our board of directors has determined that Mr. Forman should serve as a director in light of his extensive experience in corporate and securities law and leadership roles of various companies including FS Real Estate Advisor, which serves as our adviser.

Edward T. Gallivan, Jr. has served as our chief financial officer since June 2018. Mr. Gallivan also serves as chief financial officer of FS Credit Income Fund, FS Energy Total Return Fund, FS Multi-Alternative Income Fund, FS Global Credit Opportunities Fund and FS Energy and Power Fund. Prior to joining FS Investments, Mr. Gallivan was a director at BlackRock, Inc. from 2005 to 2012, where he was head of financial reporting for over 350 mutual funds. From 1988 to 2005, Mr. Gallivan worked at State Street Research & Management Company, where he served as the assistant treasurer of mutual funds. Mr. Gallivan began his career as an auditor at the global accounting firm, PricewaterhouseCoopers LLP, where he practiced as a certified public accountant. Mr. Gallivan received his B.S. in Business Administration (Accounting) degree at Stonehill College in Massachusetts.

Stephen S. Sypherd has served as our vice president, treasurer and secretary since our inception in 2016. Mr. Sypherd also serves as vice president, treasurer, secretary or general counsel of each of the other funds

sponsored by FS Investments. Mr. Sypherd has also served in various senior officer capacities for Franklin Square Holdings and its affiliated investment advisers, including as senior vice president from December 2011 to August 2014, general counsel since January 2013 and managing director since August 2014. He is responsible for legal and compliance matters across all entities and investment products of Franklin Square Holdings. Prior to joining Franklin Square Holdings, Mr. Sypherd served for eight years as an attorney at Skadden, Arps, Slate, Meagher & Flom LLP, where he practiced corporate and securities law. Mr. Sypherd received his B.A. in Economics from Villanova University and his J.D. from the Georgetown University Law Center, where he was an executive editor of the Georgetown Law Journal. He serves on the board of trustees of the University of the Arts, including its audit and governance committees.

James Volk has served as our chief compliance officer since February 2017. Mr. Volk also serves as the chief compliance officer of each of the other funds sponsored by FS Investments. Before joining FS Investments and its affiliated investment advisers in October 2014, Mr. Volk worked at SEI Investments from February 1996 to October 2014, including serving as the chief compliance officer, chief accounting officer and head of traditional fund operations at the Investment Manager Services market unit. Mr. Volk was also formerly the assistant chief accountant at the SEC's Division of Investment Management and a senior manager for PricewaterhouseCoopers LLP. Mr. Volk received his B.S. in Accounting from the University of Delaware.

David J. Adelman has been a member of our board since February 2018. Until April 2018, Mr. Adelman also served as the vice-chairman of FS Investment Corporation, FS Energy and Power Fund, FS Investment Corporation II, FS Global Credit Opportunities Fund, the FSGCOF Feeder Funds, FS Investment Corporation III, FS Investment Corporation IV and their respective investment advisers, and presided in such roles since each entity's inception. Mr. Adelman has significant managerial and investment experience and has served as the president and chief executive officer of Philadelphia based Campus Apartments, Inc. ("Campus Apartments") since 1997. Campus Apartments develops, manages, designs and privately finances more than 220 upscale housing facilities for colleges and universities across the United States. In 2006, Campus Apartments entered into a \$1.1 billion venture with GIC Real Estate Pte. Ltd., the real estate investment arm of the Government of Singapore Investment Corporation, in which Campus Apartments uses the venture's capital to acquire, develop, operate and manage student housing projects across the United States. In addition to his duties as president and chief executive officer of Campus Apartments, Mr. Adelman has served as the chief executive officer of Campus Technologies, Inc. since 2001, the vice-chairman of University City District board of directors since 1997, board member of Actua Corporation (formerly known as ICG Group, Inc.) since June 2011, board member of Wheels Up since May 2013 and a member of the National Multifamily Council and the Young Presidents' Organization. Mr. Adelman formerly served as a board member of Hyperion Bank and on the executive committee of the Urban Land Institute's Philadelphia Chapter. Mr. Adelman is also an active private investor and entrepreneur, having co-founded FS Investments with Mr. Forman. Mr. Adelman received his B.A. in Political Science from The Ohio State University.

Our board of directors has determined that Mr. Adelman should serve as a director in light of his extensive investment experience and management positions with affiliates of our sponsor.

Jeffrey Krasnoff has been a member of our board since February 2017. Mr. Krasnoff is the chief executive officer of Rialto. With over 35 years of experience in commercial and residential real estate investment, finance and management, Mr. Krasnoff has been involved in the evaluation or oversight of over \$300 billion of real estate assets around the world. Mr. Krasnoff was also the co-founder of LNR Property Corporation, and was its President since its spinoff from Lennar as a separate public company in 1997, as well as its Chief Executive Officer from 2002 to 2007. He was also instrumental in taking the company private in a \$4 billion transaction in early 2005. Mr. Krasnoff joined Lennar in 1986 and from 1990 until LNR spun off from Lennar, he was responsible for the growth of Lennar's commercial real estate and joint venture businesses, as well as the formation of LNR Partners and its loan workout and special servicing operations. Prior to LNR and Lennar, Mr. Krasnoff spent ten years with KPMG, LLC (formerly Peat Marwick) in New York and Miami specializing in real estate companies and mergers and acquisitions. Mr. Krasnoff received his B.A. in accounting from Duke University.

Our board of directors has determined that Mr. Krasnoff should serve as a director in light of his decades of commercial real estate experience, experience with public companies and role as the Chief Executive Officer of the sub-adviser.

Terence J. Connors has been a member of our board since July 2017. Mr. Connors brings to the board nearly 40 years of public accounting experience. Mr. Connors retired in September 2015 from KPMG LLP, where he served as Professional Practice Partner, SEC Reviewing Partner and as a member of KPMG's board of directors (2011-2015), where he chaired the Audit, Finance & Operations Committee. Prior to joining KPMG in 2002, he was a partner with another large international accounting firm. During his career, he served as a senior audit and global lead partner for numerous public companies, including Fortune 500 companies. Mr. Connors currently serves as a director and audit committee chairman of both Suburban Propane Partners L.P. (NYSE) and AdaptHealth Corp. (NASDAQ) and previously served as a director and audit committee chairman of Cardone Industries, Inc. Mr. Connors also serves as a trustee of St. Joseph's Preparatory School in Philadelphia and he also previously served as Chairman and President of the Philadelphia Chapter of the National Association of Corporate Directors (NACD). Mr. Connors received his B.S. in Accounting from LaSalle University.

Our board of directors has determined that Mr. Connors should serve as a director in light of his extensive public accounting experience.

John A. Fry has been a member of our board since July 2017. Mr. Fry has served as the President of Drexel University in Philadelphia, Pennsylvania since August 2010. Prior to becoming President of Drexel University, Mr. Fry served as President of Franklin & Marshall College in Lancaster, Pennsylvania from 2002 until 2010. From 1995 to 2002, he was Executive Vice President of the University of Pennsylvania and served as the Chief Operating Officer of the University and as a member of the executive committee of the University of Pennsylvania Health System. Mr. Fry is a member of the Board of Trustees of Delaware Investments, an asset management firm, with oversight responsibility for all of the portfolios in that mutual fund family. He also serves on its audit committee. Mr. Fry also serves as a director of Drexel Morgan & Co., Community Health Systems, where he also serves on the compensation committee, and vTv Therapeutics. Mr. Fry received his Masters in Business Administration from the NYU Stern School of Business, and received his B.A. in American Civilization from Lafayette College.

Our board of directors has determined that Mr. Fry should serve as a director in light of his leadership experience and experience serving as a board member for other investment and management operations.

Jack A. Markell has been a member of our board since February 2018. Mr. Markell served as the 73rd Governor of Delaware from 2009-2017, leading a \$4 billion enterprise with 30,000 employees. Governor Markell won re-election in 2012 with more than 69% of the vote. During his tenure, Governor Markell was particularly focused on improving Delaware's schools and positioning its citizens for future prosperity by launching and scaling important workforce development efforts. Governor Markell served as Chair of the National Governors Association and the Democratic Governors Association. Governor Markell previously served as state treasurer of Delaware from 1999-2009. Prior to public service, Governor Markell had a sixteen-year career in business, banking and consulting including serving as a senior vice president for corporate development at Nextel. Governor Markell's other professional experience includes working in a senior management position at Comcast Corporation, as a consultant at McKinsey and Company, Inc. and as a banker at First Chicago Corporation. Governor Markell serves on the National Board of Directors of Jobs for America's Graduates and as a trustee of the Annie E. Casey Foundation and Upstream USA. Governor Markell also serves on the boards of Graham Holdings Company, Symbiont.io and on the board of trustees of Delaware State University. Governor Markell received his B.A. in Economics and Development Studies from Brown University and an M.B.A. from The University of Chicago.

Our board of directors has determined that Mr. Markell should serve as a director in light of his significant leadership and business experience.

Karen Dougherty Buchholz has been a member of our board since January 2020. Ms. Buchholz is Senior Vice President of Administration and Chief Diversity Officer at Comcast Corporation where she has a wide array

of corporate development responsibilities, including corporate real estate, facilities, aviation, diversity, political affairs, corporate services, business continuity, travel, security and sustainability. She was the executive in charge of the development of Comcast's new Technology Center, a \$1.5 billion, 60-story tower adjacent to Comcast's corporate headquarters, the Comcast Center. Ms. Buchholz also previously oversaw the development of Comcast Center, a \$750 million, 56-story tower from 2005 through 2008. Prior to Comcast, in 1997, then-Mayor Edward G. Rendell appointed Ms. Buchholz as President of Philadelphia 2000, the organization that brought the 2000 Republican National Convention to Philadelphia and served as the City's official Host Committee. Ms. Buchholz served as Sales Executive for Comcast-Spectacor from 1993 to 1997 to develop corporate sponsorships for what is now called the Wells Fargo Center, a 20,000-seat arena and home to the Comcast-owned Philadelphia Flyers and the Philadelphia 76ers. In 1991, Ms. Buchholz led the development of the Pyramid Club at the top of the Mellon Bank Center for Club Corporation of America. Ms. Buchholz currently serves on WSFS Financial Corporation and Wilmington Savings Fund Society, FSB Board of Directors. She also serves on the boards of many civic and charitable organizations, including: Board of Trustees, Drexel University; Global Board of Directors, Women in Cable Telecommunications, and Board of Directors, Museum of the American Revolution. Ms. Buchholz received her B.A. in Political Science from Dickinson College and a M.S. from the University of Pennsylvania.

Our board of directors has determined that Ms. Buchholz should serve as a director in light of her leadership and business experience.

Although most of the services provided to us by the individuals who are executive officers are in their respective roles as executive officers of our adviser, they have certain duties as executive officers of our company arising from Maryland law, our charter and our bylaws. These duties include executing contracts and other instruments in our name and on our behalf and such other duties as may be prescribed by our board of directors from time to time.

Our executive officers will act as our agents, execute contracts and other instruments in our name and on our behalf, and in general perform all duties incident to their offices and such other duties as may be prescribed by our board of directors from time to time. Our officers will devote such portion of their time to our affairs as is required for the performance of their duties, but they are not required to devote all of their time to us.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires executive officers and directors and persons who beneficially own more than 10% of any class of a company's common stock, to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than 10% stockholders are required by regulation of the SEC to furnish us with copies of all Section 16(a) forms they file. None of the foregoing persons were required to file Section 16(a) forms during the fiscal year ended December 31, 2019 because we do not have a class of securities registered pursuant to Section 12 of the Exchange Act.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors and executive officers, including but not limited to, our principal executive officer, principal financial officer and principal accounting officer or persons performing similar functions. Our Code of Business Conduct and Ethics is designed to comply with SEC regulations relating to codes of conduct and ethics. Our Code of Business Conduct and Ethics is available on our website, www.fsinvestments.com.

Any waiver of the Code of Business Conduct and Ethics may be made only by our board of directors or the audit committee and will be promptly disclosed as required by law. Any modifications to the Code of Business Conduct and Ethics will be reflected on our website.

Audit Committee

Our board of directors has established an audit committee in accordance with Section 3(a)(58)(A) of the Exchange Act. The audit committee is responsible for selecting, engaging and discharging our independent

accountants, reviewing the plans, scope and results of the audit engagement with our independent accountants, approving professional services provided by our independent and internal accountants (including compensation therefor), overseeing the integrity and audits of our financial statements reviewing the independence and performance of our independent accountants and reviewing the adequacy of our internal controls over financial reporting. The members of the audit committee are Terence J. Connors and John A. Fry, both of whom are “independent directors” as defined by our charter. Terence J. Connors serves as the chairman of the audit committee. Our board of directors has determined that Terence J. Connors is an “audit committee financial expert” as defined under SEC rules.

Item 11. Executive Compensation.

Compensation of Executive Officers

Our executive officers do not receive any direct compensation from us. Furthermore, we do not compensate our executive officers under any stock based compensation plans. We do not currently have any employees and do not expect to have any employees. Services necessary for our business are provided by individuals who are employees of FS Real Estate Advisor or by individuals who were contracted by us or by FS Real Estate Advisor, including Rialto, to work on our behalf pursuant to the advisory agreement. Each of our executive officers is an employee of FS Real Estate Advisor, and the day-to-day investment operations and administration of our portfolio are managed by FS Real Estate Advisor. Each of these individuals receives compensation for his or her services, including services performed for us on behalf of FS Real Estate Advisor, from FS Investments or its affiliates. We will reimburse FS Real Estate Advisor for our allocable portion of expenses incurred by FS Real Estate Advisor and Rialto in performing its obligations under the advisory agreement, including personnel costs for employees who do not serve as our executive officers.

Compensation of Directors

Each of our directors who does not serve in an executive officer capacity for us, FS Real Estate Advisor or Rialto is entitled to receive annual retainer fees, fees for participating in board and committee meetings and annual fees for serving as a committee chairperson, determined based on our NAV as of the end of each fiscal quarter. We do not pay compensation to our directors who also serve in an executive officer capacity for us, FS Real Estate Advisor or Rialto. The following director compensation table sets forth the compensation paid to our independent directors during the fiscal year ended December 31, 2019 (in thousands).

| <u>Name</u> | <u>Fees Earned or Paid in Cash</u> | <u>Stock Awards⁽¹⁾</u> | <u>Option Awards</u> | <u>Non-Equity Incentive Plan Compensation</u> | <u>Change in Pension Value and Nonqualified Deferred Compensation</u> | <u>All Other Compensation</u> | <u>Total</u> |
|--|------------------------------------|-----------------------------------|----------------------|---|---|-------------------------------|--------------|
| Terence J. Connors | \$— | \$27 | \$— | \$— | \$— | \$— | \$27 |
| John A. Fry | — | 22 | — | — | — | — | 22 |
| Jack A. Markell | — | 18 | — | — | — | — | 18 |
| Richard Vague ⁽²⁾ | — | 18 | — | — | — | — | 18 |
| Total | <u>\$—</u> | <u>\$85</u> | <u>\$—</u> | <u>\$—</u> | <u>\$—</u> | <u>\$—</u> | <u>\$85</u> |

(1) In February 2020, we granted 779 restricted shares of our restricted Class I common stock to our independent directors pursuant to our independent director restricted share plan. The grant date fair value of the stock was \$24.67 per share.

(2) Richard Vague resigned from the Board in March 2020.

The annual retainer fees, fees for participating in board and committee meetings and annual fees for serving as a committee chairperson, determined based on our NAV as of the end of each fiscal quarter, are determined as follows:

| Net Asset Value | Annual Retainer | Board Meeting Fee | Audit Committee Chair Retainer | Committee Meeting Fee |
|--|-----------------|-------------------|--------------------------------|-----------------------|
| \$0 to \$250 million | \$10,000 | \$2,000 | \$ 5,000 | \$1,000 |
| \$250 million to \$500 million | \$25,000 | \$2,000 | \$ 7,500 | \$1,000 |
| > \$500 million | \$55,000 | \$2,000 | \$10,000 | \$1,000 |

Until we achieve a net asset value of \$250 million, which we refer to as the “NAV Threshold”, we will pay 100% of the applicable independent director compensation in the form of restricted shares of Class I common stock. Effective for the first calendar quarter immediately following the date that we achieve the NAV Threshold, we will pay 75% of the applicable compensation quarterly in cash in arrears, and we will pay 25% of the applicable compensation in the form of restricted shares of Class I common stock. The restricted shares of Class I common stock will be granted under, and subject to the terms and conditions of, our independent director restricted share plan, which is described below, on the first calendar day of the second month following the calendar quarter to which the compensation relates. We will determine the number of restricted shares to grant by dividing 100% or 25%, as applicable, of the quarterly compensation due by the current transaction price of Class I common stock, and rounding to the nearest whole number. The restricted shares of Class I common stock will vest on the one year anniversary of the grant date, provided that the independent director remains on the board of directors on such vesting date, or upon the earlier occurrence of his or her termination service due to his or her death or disability or a change in our control.

We will also reimburse each of our directors for all reasonable and authorized business expenses in accordance with our policies as in effect from time to time, including reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and each committee meeting not held concurrently with a board meeting.

We will not pay compensation to our directors who also serve in an executive officer capacity for us, FS Real Estate Advisor or Rialto.

Independent Director Restricted Share Plan

We have adopted a restricted share plan for our independent directors in order to increase the interest of our directors in our welfare through their participation in the growth in the value of our shares of common stock.

Our restricted share plan will be administered by the board of directors. The board of directors will have the full authority to: (1) administer and interpret the restricted share plan; (2) determine the number of shares of Class I common stock to be covered by each award; (3) determine the terms, provisions and conditions of each award (which may not be inconsistent with the terms of the restricted share plan); (4) make determinations of the fair market value of shares; (5) waive any provision, condition or limitation set forth in an award agreement; (6) delegate its duties under the restricted share plan to such agents as it may appoint from time to time; and (7) make all other determinations, perform all other acts and exercise all other powers and authority necessary or advisable for administering the restricted share plan, including the delegation of those ministerial acts and responsibilities as the board of directors deems appropriate. The total number of shares of Class I common stock that may be issued under the restricted share plan will not exceed 5.0% of the total shares common stock available in connection with our primary offering, and in any event will not exceed 200,000 shares (as such number may be adjusted for stock splits, stock dividends, combinations and similar events). The maximum aggregate number of Class I shares associated with any award granted under the plan in any calendar year to any one independent director is 10,000.

Restricted share awards entitle the recipient to shares of Class I common stock from us under terms that provide for vesting over a specified period of time. Such awards would typically be forfeited with respect to the

unvested shares upon the termination of the recipient’s service with us or our affiliates. Restricted shares may not, in general, be sold or otherwise transferred until restrictions are removed and the shares have vested. Pursuant to the form of award agreement approved by the board of directors, holders of restricted shares may receive distributions prior to the time that the restrictions on the restricted shares have lapsed, but such distributions shall be subject to the same restrictions as the underlying restricted shares.

Compensation Committee Interlocks and Insider Participation

We currently do not have a compensation committee of our board of directors because we do not pay, or plan to pay, any compensation to our officers, and we have no employees. There are no interlocks or insider participation as to compensation decisions required to be disclosed pursuant to SEC regulations.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2019, relating to our equity compensation plans pursuant to which shares of our common stock or other equity securities may be granted from time to time:

| <u>Plan category</u> | <u>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</u> | <u>Weighted-average exercise price of outstanding options, warrants, and rights</u> | <u>Number of securities remaining available for future issuance under equity compensation plans</u> |
|--|---|---|---|
| Equity compensation plans approved by security holders | — | \$ — | 200,000 |
| Equity compensation plans not approved by security holders | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |
| Total | <u>—</u> | <u>\$ —</u> | <u>200,000</u> |

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 23, 2020, information regarding the number and percentage of shares owned by each director, our named executive officers, all directors and executive officers as a group, and any person known to us to be the beneficial owner of more than 5% of outstanding shares of our common stock. As of March 23, 2020, there were a total of 10,025,828 shares of our common stock issued and outstanding. Beneficial ownership is determined in accordance with the rules of the SEC and includes securities that a person has the right to acquire within 60 days. Except as noted below, to our knowledge, each person listed below that beneficially owns our shares has sole voting and dispositive power with regard to such shares and has not pledged any of the shares as security. The address for each of the persons named below is in care of our principal executive offices at 201 Rouse Boulevard, Philadelphia, PA 19112.

| Name of Beneficial Owner | Number of Shares Beneficially Owned | Percentage of All Shares |
|---|--|-----------------------------|
| Directors and Executive Officers | | |
| Michael C. Forman | 8,072 | * |
| Edward T. Gallivan, Jr. | — | — |
| Stephen S. Sypherd | 12,554 | * |
| James Volk | — | — |
| David J. Adelman | 12,859 | * |
| Jeffrey Krasnoff | — | — |
| Terence J. Connors | 4,847 | * |
| John A. Fry | 2,027 | * |
| Jack A. Markell | 4,594 | * |
| Karen D. Buchholz | — | — |
| All directors and executive officers as a group | <u>44,953</u> | <u>*</u> |

* Less than one percent.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Director Independence

Our charter and committee charters require a majority of the members of our board, all members of our audit committee, and a majority of the members of any other committee established by our board, to be “independent directors” in accordance with the criteria in our charter, bylaws, the applicable rules of the SEC. As required by the NASAA REIT Guidelines, our charter provides that an independent director means a director who is not on the date of determination, and within the last two years from the date of determination has not been, directly or indirectly associated with our sponsor or our adviser by virtue of (i) ownership of an interest in our sponsor, our adviser or any of their affiliates, (ii) employment by our sponsor, our adviser or any of their affiliates, (iii) service as an officer or director of our sponsor, our adviser or any of their affiliates, (iv) performance of services, other than as a director, for the Company, (v) service as a director or trustee of more than three REITs organized by our sponsor or advised by our adviser or (vi) maintenance of a material business or professional relationship our sponsor, our adviser or any of their affiliates. Based upon its review, our board has affirmatively determined that each of Messrs. Connors, Fry, and Markell and Ms. Buchholz are “independent directors” under all applicable standards for independence, including with respect to committee service on our audit committee.

Certain Transactions with Related Persons

The following describes all transactions during the fiscal year ended December 31, 2019 and currently proposed transactions involving us, our directors, our adviser, our sponsor and any affiliate thereof. Our

independent directors are specifically charged with the duty to examine, and have examined, the fairness of such transactions, and have determined that all such transactions are fair and reasonable to us.

Our Relationship with Our Adviser and Sponsor

We are externally managed by our adviser pursuant to our advisory agreement. The adviser is responsible for sourcing, evaluating and monitoring our investment opportunities and making decisions related to the acquisition, management, financing and disposition of our assets, in accordance with our investment objectives, guidelines, policies and limitations, subject to oversight by our board. Our adviser is an affiliate of our sponsor. All of our officers are employees of our adviser or its affiliates. We have and will continue to have certain relationships with our adviser and its affiliates.

The Advisory Agreement

Our board of directors has ultimate oversight and policy-making authority, including responsibility for governance, financial controls, compliance and disclosure with respect to our business. Pursuant to the advisory agreement, our board of directors has delegated to our adviser the authority to source, evaluate and monitor our investment opportunities and make decisions related to the acquisition, management, financing and disposition of our assets, in accordance with our investment objectives, guidelines, policies and limitations, subject to oversight by our board of directors. We believe that our adviser currently has sufficient staff and resources so as to be capable of fulfilling the duties set forth in the advisory agreement.

Services

Pursuant to the terms of the advisory agreement, our adviser is responsible for, among other things:

- managing and supervising the development of our public offering, and any subsequent offerings, including determination of the specific terms of our securities, approval of marketing materials and negotiating and coordinating the other agreements and services related to our offering;
- serving as an investment and financial adviser to us and obtaining market research and economic and statistical data in connection with our investment objectives and policies;
- identifying, sourcing, evaluating and monitoring our investment opportunities consistent with our investment objectives and policies, including but not limited to, locating, analyzing and selecting potential investments and, within the discretionary limits and authority granted to our adviser by the board of directors, making investments in and dispositions of our assets;
- structuring and conducting negotiations on our behalf with respect to prospective acquisitions, purchases, sales, exchanges or other dispositions of investments, with sellers, purchasers, and other counterparties and, if applicable, their respective agents, advisors and representatives, and determining the structure and terms of such transactions;
- providing us with portfolio management and other related services;
- serving as our adviser with respect to decisions regarding any of our financings and hedging strategies;
- engaging and supervising, on our behalf and at our expense, various service providers;
- providing asset management services, including but not limited to, daily management services, monitoring and supervising our investments and our management and operational functions;
- providing accounting and administrative services, including but not limited to, the performance of administrative functions required for our day to day operations and calculating our monthly NAV value; and

- managing our communications with our stockholders, including written and electronic communications, and establishing technology infrastructure to assist in supporting and servicing our stockholders.

The above summary is provided to illustrate the material functions which our adviser will perform for us and it is not intended to include all of the services which may be provided to us by our adviser or third parties.

Fees and Expenses

Base Management Fee. As compensation for the services provided pursuant to the advisory agreement, we pay our adviser a base management fee of 1.25% of NAV per annum attributable to the shares subject to the management fee payable quarterly and in arrears. In calculating our management fee, we use our NAV before giving effect to accruals for the management fee, stockholder serving fees or any distributions payable on our shares.

Performance Fee. As compensation for services provided pursuant to the advisory agreement, we also pay our adviser a performance fee. The performance fee is calculated and payable quarterly in arrears in an amount equal to 10.0% of our Core Earnings (defined below) for the immediately preceding quarter, subject to a hurdle rate, expressed as a rate of return on adjusted capital, equal to 1.625% per quarter, or an annualized hurdle rate of 6.50%. As a result, our adviser does not earn a performance fee for any quarter until our Core Earnings for such quarter exceed the hurdle rate of 1.625%. For purposes of the performance fee, “adjusted capital” means cumulative net proceeds generated from sales of our common stock other than Class F common stock (including proceeds from our distribution reinvestment plan) reduced for distributions from non-liquidating dispositions of our investments paid to stockholders and amounts paid for share repurchases pursuant to our share repurchase plan. Once our Core Earnings in any quarter exceed the hurdle rate, our adviser will be entitled to a “catch-up” fee equal to the amount of Core Earnings in excess of the hurdle rate, until our Core Earnings for such quarter equal 1.806%, or 7.222% annually, of adjusted capital. Thereafter, our adviser is entitled to receive 10.0% of our Core Earnings. Class F shares do not pay the performance fee. “Core Earnings” means: the net income (loss) attributable to stockholders of Class T, Class S, Class D, Class M, Class I and Class Y shares computed in accordance with GAAP, including realized gains (losses) not otherwise included in GAAP (provided that net income (loss) attributable to Class Y stockholders shall be subject to certain reductions) net income (loss) and excluding (i) non-cash equity compensation expense, (ii) the performance fee, (iii) depreciation and amortization, (iv) any unrealized gains or losses or other similar non-cash items that are included in net income for the applicable reporting period, regardless of whether such items are included in other comprehensive income or loss, or in net income, and (v) one-time events pursuant to changes in GAAP and certain material non-cash income or expense items, in each case after discussions between our adviser and our independent directors and approved by a majority of our independent directors.

Origination Fees. Our adviser and the sub-adviser may retain origination fees of up to 1.0% of the loan amount for first lien, subordinated or mezzanine debt or preferred equity financing. Such origination fees will be retained only to the extent they are paid by the borrower, either directly to the adviser or sub-adviser or indirectly through us.

Expense Reimbursement. The advisory agreement provides that we must reimburse our adviser and the sub-adviser for out-of-pocket costs and expenses each of them incurs in connection with the services provided to us, including, but not limited to, (1) legal, accounting and printing fees and other expenses attributable to our organization, preparation of our registration statement, registration and qualification of our common stock for sale with the SEC and in the various states and filing fees incurred by our adviser, (2) the actual out-of-pocket cost of goods and services used by us and obtained from third parties, including audit, accounting, legal, brokerage, underwriting, listing and registration fees, (3) expenses of managing, improving, developing, operating and selling our direct and indirect investments and of other transactions related thereto, including prepayments, maturities, workouts and other settlements of such investments, (4) subject to limitations in our charter, expenses related to the acquisition and disposition of our investments, including the selection and

evaluation of investment assets, (5) personnel and related employment costs incurred by our adviser, the sub-adviser or their respective affiliates in performing their services under the advisory agreement and the sub-advisory agreement, including reasonable salaries and wages, benefits and overhead of all employees directly involved in the performance of such services, provided that such reimbursement in this clause (5) shall exclude any personnel costs of employees that serve as our executive officers, and (6) out-of-pocket expenses in connection with (i) our compliance with applicable law and regulations, (ii) communications and services provided to our stockholders, (iii) insurance required in connection with our business or by our directors and executive officers, and (iv) payments to our directors and meetings of our directors and of our stockholders. Such out-of-pocket costs and expenses will include expenses relating to compliance-related matters and regulatory filings relating to our activities (including, expenses and taxes related to the filing, registration and qualification of the sale of our common stock under federal and state laws, including taxes and fees and accountants' and attorneys' fees).

The advisory agreement provides that we must reimburse our adviser or the sub-adviser for reimbursable expenses no less than quarterly. Our adviser prepares a statement documenting our quarterly expenses and deliver such statement to us within 45 days after the end of each quarter. Notwithstanding the foregoing, the advisory agreement provides that our adviser has agreed to fund all of our offering and organizational costs until we have raised \$250 million in aggregate gross proceeds from our offering. From and after the date we raise \$250 million in gross proceeds in our public offering, we will reimburse our adviser for any organization and offering expenses that it or the sub-adviser has incurred on our behalf, up to a cap of 0.75% of the gross proceeds of our public offering in excess of \$250 million.

Limitations on Reimbursement. Notwithstanding the foregoing, commencing with the later of the fourth fiscal quarter after we have commenced material operations or the effective date of our public offering, to the extent that our total operating expenses in any four consecutive fiscal quarters exceed the 2%/25% limitation set forth in our charter we will not reimburse our adviser or the sub-adviser unless our independent directors determine that the excess expenses were justified based on unusual and nonrecurring factors that they deem sufficient. Within 60 days after the end of any fiscal quarter for which our total operating expenses for the four consecutive fiscal quarters then ended exceed these limits and our independent directors approve such excess amount, we will send our stockholders a written disclosure of such fact, or we will include such information in our next quarterly report on Form 10-Q or in a current report on Form 8-K filed with the SEC, together with an explanation of the factors our independent directors considered in arriving at the conclusion that such excess expenses were justified. Each such determination will be recorded in the minutes of a meeting of our board of directors. As of December 31, 2019, we were in compliance with the 2%/25% limitation set forth in our charter.

Reimbursement by the Adviser. The advisory agreement provides that within 60 days after the end of the month in which our primary offering terminates, to the extent we have incurred total organization and offering expenses, selling commissions, dealer manager fees and stockholder servicing fees in excess of 15.0% of the gross proceeds from our primary offering, our adviser will reimburse us for such excess amount.

Indemnification

In addition to the management fee, performance fee and expense reimbursements, we have agreed to indemnify and hold harmless our adviser, the sub-adviser and their respective affiliates performing services for us from specific claims and liabilities arising out of the performance of their obligations under the advisory agreement, subject to certain limitations. The advisory agreement provides that FS Real Estate Advisor and its officers, managers, controlling persons and any other person or entity affiliated with it acting as our agent will not be entitled to indemnification (including reasonable attorneys' fees and amounts reasonably paid in settlement) for any liability or loss suffered by FS Real Estate Advisor or such other person, nor will FS Real Estate Advisor or such other person be held harmless for any loss or liability suffered by us, unless: (1) FS Real Estate Advisor or such other person has determined, in good faith, that the course of conduct which caused the loss or liability was in our best interests; (2) FS Real Estate Advisor or such other person was acting on behalf of or performing services for us; (3) the liability or loss suffered was not the result of negligence or misconduct by

FS Real Estate Advisor or such other person acting as our agent; and (4) the indemnification or agreement to hold FS Real Estate Advisor or such other person harmless for any loss or liability is only recoverable out of our net assets and not from our stockholders.

Term and Termination Rights

The term of the advisory agreement is for one year, subject to renewals by mutual consent of us and our adviser for an unlimited number of successive one-year periods. Our independent directors will evaluate the performance of our adviser before approving the renewal of the advisory agreement. The advisory agreement may be terminated: (i) immediately by us (1) for “Cause,” (2) upon the bankruptcy of our adviser, or (3) upon a material breach of the advisory agreement by our adviser; (ii) upon 60 days’ written notice by us without Cause or penalty upon the vote of a majority of our independent directors; (iii) upon 60 days’ written notice by our adviser; or (iv) immediately by our adviser for “Good Reason.”

“Cause” is defined in the advisory agreement to mean (i) fraud, criminal conduct, willful misconduct or willful or negligent breach of fiduciary duty by our adviser, (ii) a material breach of the advisory agreement by our adviser, (iii) a failure by our adviser to dedicate the personnel and financial resources necessary to effectively manage us, or perform its respective duties and obligations under the advisory agreement, or (iv) a sustained material degradation in the brand or reputation of our adviser’s parent and sponsor, Franklin Square Holdings, L.P. “Good Reason” is defined in the advisory agreement to mean any material breach of the advisory agreement by us of any nature whatsoever.

In the event the advisory agreement is terminated, our adviser will be entitled to receive from us, within thirty (30) days after the effectiveness of such termination, all unpaid reimbursements of expenses and all earned but unpaid fees payable to our adviser prior to the termination of the advisory agreement. In addition, upon the termination or expiration of the advisory agreement, our adviser will cooperate with us in order to provide an orderly transition of advisory functions.

Expense Limitation Agreement

We have entered into an expense limitation agreement with our adviser and the sub-adviser, which we refer to as the Expense Limitation Agreement, pursuant to which our adviser and the sub-adviser have agreed to waive reimbursement of or pay, on a quarterly basis, our annualized ordinary operating expenses (defined below) for such quarter to the extent such expenses exceed 1.5% per annum of our average monthly net assets attributable to each of our classes of common stock. “Ordinary operating expenses” for each class of common stock consist of all ordinary expenses attributable to such class, including administration fees, transfer agent fees, fees paid to our board of directors, loan servicing expenses, administrative services expenses, and related costs associated with legal, regulatory compliance and investor relations, but excluding the following: (a) advisory fees, (b) interest expense and other financing costs, (c) taxes, (d) distribution or shareholder servicing fees and (e) unusual, unexpected and/or nonrecurring expenses. We repay our adviser or the sub-adviser on a quarterly basis any ordinary operating expenses previously waived or paid, but only if the reimbursement would not cause the then-current expense limitation, if any, to be exceeded. In addition, the reimbursement of expenses will be made only if payable not more than three years from the end of the fiscal quarter in which the expenses were paid or waived.

The Expense Limitation Agreement will remain in effect for 12 months from the effective date of our public offering, and will continue in effect for successive 12-month periods provided that such continuance is specifically approved at least annually by a majority of the board of directors and by our adviser and the sub-adviser. The Expense Limitation Agreement may not be terminated by our adviser or the sub-adviser, but may be terminated by our board of directors on written notice to our adviser and the sub-adviser.

Dealer Manager Agreement

We are party to a dealer manager agreement with our dealer manager pursuant to which the dealer manager has agreed to, among other things, manage our relationships with third-party broker-dealers engaged by the

dealer manager to participate in the distribution of shares of our common stock, which we refer to as “participating broker-dealers,” and other financial advisors. The dealer manager also coordinates our marketing and distribution efforts with participating broker-dealers and their registered representatives with respect to communications related to the terms of the offering, our investment strategies, material aspects of our operations and subscription procedures. We will not pay referral or similar fees to any accountants, attorneys or other persons in connection with the distribution of our shares. The dealer manager also serves as the placement agent for our private offering of Class F shares and served as the placement agent for our private offering of Class Y shares pursuant to placement agreements. The dealer manager does not receive any compensation pursuant to these agreements.

Upfront Selling Commissions and Dealer Manager Fees

Class T Shares. Subject to any discounts described below, the dealer manager is entitled to receive upfront selling commissions of up to 3.0%, and dealer manager fees of 0.05%, of the transaction price per share of each Class T share sold in the primary offering, however such amounts may vary at certain participating broker-dealers, provided that the sum will not exceed 3.5% of the transaction price. The dealer manager reallows (pays) these fees to participating broker-dealers, unless a particular broker-dealer declines to accept some portion of the fees they are otherwise eligible to receive in which case such portion may be retained.

Class S Shares. Subject to any discounts described below, the dealer manager will be entitled to receive upfront selling commissions of up to 3.5% of the transaction price per share of each Class S share sold in the primary offering. The dealer manager reallows (pays) these fees to participating broker-dealers, unless a particular broker-dealer declines to accept some portion of the fees they are otherwise eligible to receive in which case such portion may be retained.

A subscriber’s ability to receive a fee waiver or fee discount may depend on the financial advisor or broker-dealer through which it purchases Class T or Class S shares. Selling commissions and dealer manager fees may be lower for certain participating broker-dealers. An investor qualifying for a discount or fee waiver will receive a higher percentage return on his or her investment than investors who do not qualify for such discount or fee waiver.

Class D, Class M, Class I, Class F and Class Y Shares. No selling commissions or dealer manager fees are to be paid with respect to Class D, Class M, Class I, Class F and Class Y shares sold in our public offering.

Stockholder Servicing Fees-Class T, Class S, Class D and Class M Shares

Subject to FINRA limitations on underwriting compensation and certain other limitations described below, we pay the dealer manager a stockholder servicing fee over time with respect to our outstanding Class T, Class S, Class D and Class M shares equal to 0.85%, 0.85%, 0.3% and 0.3%, respectively, per annum of the aggregate NAV of our outstanding shares of the applicable class. The stockholder servicing fee for Class T shares is comprised of an advisor stockholder servicing fee of 0.65% per annum, and a dealer stockholder servicing fee of 0.20% per annum, of the aggregate NAV for the Class T shares, however, with respect to Class T shares sold through certain participating broker-dealers, the advisor stockholder servicing fee and the dealer stockholder servicing fee may be other amounts, provided that the sum of such fees will always equal 0.85% per annum of the NAV of such shares. We do not pay a stockholder servicing fee with respect to our outstanding Class I, Class F or Class Y shares.

The stockholder servicing fees are paid monthly in arrears. The dealer manager reallows (pays) all or a portion of the stockholder servicing fees to participating broker-dealers, servicing broker-dealers and financial institutions (including bank trust departments) for ongoing stockholder services performed by such broker-dealers and financial institutions, and waives stockholder servicing fees to the extent a broker-dealer or financial institutions is not eligible to receive it for failure to provide such services. Because stockholder servicing fees with respect to Class T, Class S, Class D and Class M shares are calculated based on the aggregate NAV for all of the outstanding shares of each such class, it reduces the NAV or, alternatively, the distributions payable with respect to all shares of each such class, including shares issued under our distribution reinvestment plan.

We will cease paying stockholder servicing fees with respect to each Class T, Class S, Class M and Class D share held in a stockholder's account at the end of the month in which the dealer manager in conjunction with the transfer agent determines that total underwriting compensation from the upfront selling commissions, dealer manager fees and stockholder servicing fees, as applicable, paid with respect to such account would exceed 8.75%, 8.75%, 7.25% and 1.25%, respectively, (or a lower limit for shares sold by certain participating broker-dealers) of the gross proceeds from the sale of shares in such account. We refer to these amounts as the sales charge cap. In the case where there is a limit lower than 8.75%, 7.25% or 1.25%, as applicable, the agreement between our dealer manager and the participating broker-dealer of record in effect at the time such shares were first issued to such account sets forth the lower limit and our dealer manager adviser our transfer agent of the lower limit in writing.

In addition, we will cease paying stockholder servicing fees on each Class T share, Class S share, Class D share and Class M share held in a stockholder's account and each such share will convert to Class I shares on the earlier to occur of the following: (i) a listing of Class I shares on a national securities exchange; (ii) the sale or other disposition of all or substantially all of our assets or our merger or consolidation with or into another entity in a transaction in which holders of Class T, Class S, Class D or Class M shares receive cash and/or shares of stock that are listed on a national securities exchange; or (iii) the date following the completion of our public offering on which, in the aggregate, underwriting compensation from all sources in connection with our public offering, including selling commissions, dealer manager fees, stockholder servicing fees and other underwriting compensation, is equal to 10% of the gross proceeds from our primary offering.

Eligibility to receive stockholder servicing fees is conditioned on a broker-dealer providing the following ongoing services with respect to the Class T, Class S Class D and Class M shares: assistance with recordkeeping, answering investor inquiries regarding us, including regarding distribution payments and reinvestments, helping investors understand their investments upon their request and assistance with share repurchase requests. If the applicable broker-dealer is not eligible to receive the stockholder servicing fee due to failure to provide these services, the dealer manager will waive the stockholder servicing fee that broker-dealer would have otherwise been eligible to receive. The stockholder servicing fees are ongoing fees that are not paid at the time of purchase.

Other Compensation

We or our adviser may also pay directly, or reimburse the dealer manager if the dealer manager pays on our behalf, any organization and offering expenses (other than selling commissions, dealer manager fees and stockholder servicing fees).

Term of the Dealer Manager Agreement

Either party may terminate the dealer manager agreement upon 60 days' written notice to the other party or immediately upon notice to the other party in the event such other party failed to comply with a material provision of the dealer manager agreement. Our obligations under the dealer manager agreement to pay the stockholder servicing fees with respect to the shares distributed in our public offering as described therein shall survive termination of the agreement until such shares are no longer outstanding (or until such shares have been converted into Class I shares).

Indemnification

To the extent permitted by law and our charter, we are required to indemnify the participating broker-dealers and the dealer manager against some civil liabilities, including certain liabilities under the Securities Act, and liabilities arising from an untrue statement of material fact contained in, or omission to state a material fact in, this prospectus or the registration statement of which this prospectus is a part, blue sky applications or approved sales literature.

Fees and Expenses for Other Services

During the fiscal year ended December 31, 2019, there were no fees paid to affiliates of our adviser for other services. See Note 6 to our consolidated financial statements included herein for additional information regarding fees payable (incurred) to our adviser as of December 31, 2019.

Fees and Reimbursements Paid to Our Adviser, Sub-Adviser, and Dealer Manager

The following table sets forth the fees and expenses paid or payable (incurred) to our adviser, sub-adviser, and dealer manager related to the year ended December 31, 2019, and the amount payable at December 31, 2019, regardless of when incurred.

| | <u>Year Ended December 31, 2019</u> | <u>Payable at December 31, 2019</u> |
|---|---|---|
| Selling commissions ⁽¹⁾ | \$ 735 | \$— |
| Dealer manager fees ⁽¹⁾ | \$ 99 | \$— |
| Stockholder servicing fees ⁽²⁾ | \$ 228 | \$ 51 |
| Other compensation – dealer manager | \$ — | \$— |
| Reimbursement of organization and offering expenses | \$ — | \$— |
| Base management fee | \$ 752 | \$323 |
| Performance fee | \$ 152 | \$— |
| Origination fee ⁽³⁾ | \$ 1,760 | \$— |
| Reimbursement of organization and offering expenses | \$ — | \$— |
| Reimbursement of operating expenses | \$ — | \$— |

- (1) The dealer manager has entered into agreements with participating broker-dealers distributing our shares in our primary offering, and all of the upfront selling commissions and dealer manager fees were reallocated (paid) to, such participating broker-dealers.
- (2) The dealer manager reallocated (paid) all or a portion of the stockholder servicing fees to participating broker-dealers, servicing broker-dealers and financial institutions (including bank trust departments) for ongoing stockholder services performed by such entities.
- (3) Origination fees are paid directly by the borrower to the adviser or sub-adviser and not by us.

Related Party Transaction Policies

Review of Transactions by our Independent Directors

Every transaction that we enter into with our adviser, the sub-adviser, or their respective affiliates is subject to an inherent conflict of interest. Our board of directors may encounter conflicts of interest in enforcing our rights against any affiliate in the event of a default by or disagreement with such affiliate or in invoking powers, rights or options pursuant to any agreement between us and our adviser or any of its affiliates. In order to reduce or eliminate certain potential conflicts of interest, our charter requires that certain transactions are to be reviewed by our independent directors. Our independent directors are permitted to retain their own legal and financial advisors in connection with any review that they are obligated to undertake pursuant to the terms of our charter.

Among the matters we expect our independent directors to review are:

- the continuation, renewal or enforcement of our agreements with our adviser and its affiliates, including the advisory agreement;
- the continuation, renewal or enforcement of our agreements with our dealer manager and its affiliates, including the dealer manager agreement;
- public offerings of securities;
- transactions with affiliates;

- compensation of our executive officers and directors who are affiliated with our adviser; and
- whether and when we seek to complete a liquidity event.

Our charter contains many other restrictions relating to conflicts of interest including the following:

Advisor Compensation. Our independent directors must evaluate at least annually whether the fees and expenses of the company, including the compensation that we contract to pay to our adviser and its affiliates are reasonable in light of our investment performance, net assets, net income and the fees and expenses of other comparable REITs, and in relation to the nature and quality of services performed and that such compensation is within the limits prescribed by our charter. Our independent directors supervise the performance of our adviser and its affiliates and the compensation we pay to them to determine that the provisions of our compensation arrangements are being carried out. Our independent directors base this evaluation on the factors set forth below as well as any other factors they deem relevant, and such findings will be recorded in the minutes of the board of directors:

- the amount of the fees paid to our adviser and its affiliates in relation to the size, composition and performance of our investments;
- the success of our adviser in generating appropriate investment opportunities;
- the rates charged to other REITs and others by advisors performing similar services;
- additional revenues realized by our adviser and its affiliates through their relationship with us, including whether we pay them or they are paid by others with whom we do business;
- the quality and extent of service and advice furnished by our adviser and its affiliates;
- the performance of our investment portfolio; and
- the quality of our portfolio relative to the investments generated by our adviser for its own account and for its other clients.

Term of Advisory Agreement. According to our charter, each contract for the services of our adviser may not exceed one year, although there is no limit on the number of times that a particular advisor may be retained. The independent directors of our board of directors or our adviser may terminate the advisory agreement without cause or penalty on 60 days' written notice. For purposes of that charter provision, "without penalty" means that we can terminate our adviser without having to compensate our adviser for income lost as a result of the termination of the advisory agreement.

Mortgage Loans Involving Affiliates. Our charter prohibits us from investing in or making mortgage loans in which the transaction is with our sponsor, our adviser or our directors or any of their respective affiliates unless an independent expert appraises the underlying property. We must keep the appraisal for at least five years and make it available for inspection and duplication by any of our stockholders. In addition, we must obtain a mortgagee's or owner's title insurance policy or commitment as to the priority of the mortgage or the condition of the title. Our charter prohibits us from making or investing in any mortgage loans that are subordinate to any mortgage or equity interest of our sponsor, our adviser, our directors or any of our affiliates.

Other Transactions Involving Affiliates. According to our charter, a majority of the members of our board of directors (including a majority of our independent directors) not otherwise interested in the transaction must conclude that all other transactions, including sales and acquisitions of assets and any joint ventures, between us and our sponsor, our adviser, our directors or any of their respective affiliates are fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

In the case of an asset purchase, a majority of our disinterested directors, including a majority of our disinterested independent directors, must also determine that the purchase is at a price to us no greater than the

cost of the asset to our sponsor, our adviser, the director or the affiliate or, if the price to us is in excess of such cost, that substantial justification for such excess exists and such excess is reasonable. In no event will the purchase price paid by us for any such asset exceed the asset's current appraised value.

Limitation on Operating Expenses. According to our charter, commencing on the earlier of four fiscal quarters after we have commenced material operations or the effective date of our public offering, our adviser must reimburse us the amount by which our aggregate total operating expenses for the four fiscal quarters then ended exceed the greater of 2% of our average invested assets or 25% of our net income, unless a majority of our independent directors has determined that such excess expenses were justified based on unusual and non-recurring factors that they deem sufficient. Any findings and the reasons in support thereof shall be reflected in the minutes of the meeting of the board. Within 60 days after the end of any of our fiscal quarters for which total operating expenses exceeded 2% of average invested assets or 25% of net income, whichever is greater, we shall send to the stockholders a written disclosure of such fact together with an explanation or the factors the independent members of our board of directors considered in arriving at the conclusion that such higher operating expenses were justified. In the event the independent members of our board of directors do not determine such excess expenses are justified, the adviser shall reimburse us at the end of the 12-month period the amount by which the aggregate annual expenses paid or incurred by us exceed the limitation provided herein. "Average invested assets" means, for any period, the average of our aggregate book value of the assets invested, directly or indirectly, in equity interests in and loans secured by real estate, before deducting reserves for depreciation or bad debts or other similar non-cash reserves for depreciation or bad debts or other similar non-cash reserves computed by taking the average of such values at the end of each month during such period. "Total operating expenses" means all expenses of every character paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding: (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) non-cash expenditures such as depreciation, amortization and bad debt reserves; (e) incentive fees to the extent permitted by our charter; (f) acquisition fees and expenses; (g) real estate commissions and (h) other fees and expenses connected with the acquisition, disposition, management and ownership of our investments (including insurance premiums and legal services).

Issuance of Options and Warrants to Certain Affiliates. According to our charter, we may not issue options or warrants to purchase our stock to our sponsor, our adviser, our directors or officers or any of their respective affiliates, except on the same terms as such options or warrants, if any, are sold to the general public. We may not issue options or warrants at exercise prices less than the fair market value of the underlying securities on the date of grant and not for consideration (which may include services) that in the judgment of a majority of our independent directors has a market value less than the value of such option or warrant on the date of grant. Any options or warrants we issue to our sponsor, our adviser, our directors or any of their respective affiliates shall not exceed an amount equal to 10% of our outstanding stock on the date of grant.

Repurchase of Our Shares. Our charter prohibits us from paying a fee to our adviser or our directors or officers or any of their affiliates in connection with the repurchase of our stock.

Loans. We do not make any loans to our sponsor, our adviser or our directors or any of their respective affiliates except for certain mortgage loans described above and loans to wholly owned subsidiaries. In addition, we do not borrow from these affiliates unless a majority of our independent directors, including a majority of disinterested independent directors, approves the transaction as being fair, competitive and commercially reasonable, and no less favorable to us than comparable loans between unaffiliated parties. These charter restrictions on loans will only apply to advances of cash that are commonly viewed as loans, as determined by our board of directors. By way of example only, the prohibition on loans would not restrict advances of cash for legal expenses or other costs incurred as a result of any legal action for which indemnification is being sought, nor would the prohibition limit our ability to advance reimbursable expenses incurred by directors or officers or our adviser or its affiliates.

Reports to Stockholders. Our charter requires that we prepare an annual report and deliver it to our stockholders within 120 days after the end of each fiscal year. Our board of directors takes reasonable steps to ensure that these requirements are met. Among the matters that must be included in the annual report are:

- financial statements prepared in accordance with GAAP that are audited and reported on by independent certified public accountants;
- the ratio of the costs of raising capital during the year to the capital raised;
- the aggregate amount of advisory fees and the aggregate amount of other fees paid to our adviser and any affiliate of our adviser by us or third parties doing business with us during the year;
- our total operating expenses for the year, stated as a percentage of our average invested assets and as a percentage of our net income;
- a report from our independent directors that the policies being followed by us are in the best interests of our stockholders and the basis for such determination; and
- separately stated, full disclosure of all material terms, factors and circumstances surrounding any and all transactions involving us and our adviser, a director or any affiliate thereof during the year.

Voting of Shares Owned by Affiliates. According to our charter, our adviser or a director or any of their respective affiliates may not vote their shares regarding (i) the removal of any of these affiliates or (ii) any transaction between them and us. In determining the requisite percentage in interest of shares necessary to approve a matter on which these persons may not vote or consent, any shares owned by any of them will not be included.

Item 14. Principal Accounting Fees and Services.

Independent Auditors

During the year ended December 31, 2019, Ernst & Young, LLP served as our independent registered public accounting firm. Ernst & Young, LLP has served as our independent registered public accounting firm since our formation. Effective as of March 11, 2019, the audit committee engaged Ernst & Young, LLP as our independent auditors to audit our financial statements for the year ended December 31, 2020. The audit committee may, however, select new auditors at any time in the future in its discretion if it deems such decision to be in our best interests. Any such decision would be disclosed to the stockholders in accordance with applicable securities laws.

Audit and Non-Audit Fees

The following table sets forth the aggregate fees billed to us for services performed for the fiscal years ended December 31, 2019 and 2018 by our independent registered public accounting firm, Ernst & Young, LLP:

| | <u>Fiscal Year Ended December 31, 2019</u> | <u>Fiscal Year Ended December 31, 2018</u> |
|------------------------------|--|--|
| Audit fees | \$312,500 | \$260,700 |
| Audit-related fees | 11,000 | 10,000 |
| Tax fees | 107,250 | 45,250 |
| All other fees | — | — |
| Total | <u>\$430,750</u> | <u>\$315,950</u> |

For purposes of the preceding table, Ernst & Young, LLP’s professional fees are classified as follows:

- Audit fees—These are fees for professional services performed for the audit of our annual financial statements and the required review of quarterly financial statements and other procedures performed by

Ernst & Young, LLP in order for them to be able to form an opinion on our consolidated financial statements. These fees also cover services that are normally provided by independent auditors in connection with statutory and regulatory filings or engagements.

- **Audit-related fees**—These are fees for assurance and related services that traditionally are performed by independent auditors that are reasonably related to the performance of the audit or review of financial statements, such as due diligence related to acquisitions and dispositions, attestation services that are not required by statute or regulation, registration statements filed with the SEC, internal control reviews and consultation concerning financial accounting and reporting standards.
- **Tax fees**—These are fees for all professional services performed by professional staff in our independent auditor’s tax division, except those services related to the audit of our financial statements. These include fees for tax compliance, tax planning and tax advice, including federal, state and local issues. Services may also include assistance with tax audits and appeals before the Internal Revenue Service and similar state and local agencies, as well as federal, state and local tax issues related to due diligence.
- **All other fees**—These are fees for any services not included in the above-described categories.

Audit Committee Pre-Approval Policies and Procedures

In accordance with our audit committee pre-approval policy, all audit and non-audit services performed for us by our independent registered public accounting firm for the years ended December 31, 2019 and 2018 were pre-approved by the audit committee of our board, which concluded that the provision of such services by Ernst & Young, LLP was compatible with the maintenance of that firm’s independence in the conduct of its auditing functions.

The pre-approval policy provides for categorical pre-approval of specified audit and permissible non-audit services and related fees. Services to be provided by the independent registered public accounting firm that are not within the category of pre-approved services must be approved by our audit committee prior to engagement, regardless of the service being requested or the dollar amount involved.

Our audit committee may delegate pre-approval authority to one or more of its members, provided that any decision made by such delegate must be presented to our audit committee at its next regularly-scheduled meeting. Our audit committee does not delegate to management its responsibilities to pre-approve services to be performed by the independent registered public accounting firm.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

a. Documents Filed as Part of this Report

(1) The following financial statements are set forth in Item 8:

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|--|-------------|
| Report of Independent Registered Public Accounting Firm | 59 |
| Consolidated Balance Sheets as of December 31, 2019 and 2018 | 60 |
| Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017 | 61 |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017 | 62 |
| Consolidated Statements of Changes in Equity for the years ended December 31, 2019, 2018 and 2017 ... | 63 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017 | 64 |
| Notes to Consolidated Financial Statements | 65 |

(2) The following financial statement schedule is set forth in Item 8:

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|---|-------------|
| Schedule IV - Mortgage Loans on Real Estate | 90 |

(3) See b. below.

b. Exhibits

Please note that the agreements included as exhibits to this Annual Report on Form 10-K are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about FS Credit Real Estate Income Trust, Inc. or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.

The following exhibits are filed as part of this Annual Report on Form 10-K or hereby incorporated by reference to exhibits previously filed with the SEC:

- 3.1 Second Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-11, as filed by the Registrant with the SEC on September 7, 2017 (file number 333-216037)).
- 3.2 Articles of Amendment (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on August 17, 2018 (file number 333-216037)).
- 3.3 Second Articles of Amendment (incorporated by reference to Exhibit 3.3 of the Registrant's Quarterly Report on Form 10-Q, as filed by the Registrant with the SEC on August 14, 2019 (file number 333-216037)).
- 4.1 Form of Subscription Agreement (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-11, as filed by the Registrant with the SEC on August 17, 2018 (file number 333-216037)).
- 4.2 Distribution Reinvestment Plan (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-11, as filed by the Registrant with the SEC on August 17, 2018 (file number 333-216037)).

- 10.1 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form S-11, as filed by the Registrant with the SEC on June 6, 2017 (file number 333-216037)).
- 10.2 Form of Restricted Share Award Certificate (incorporated by reference to Exhibit 10.4 of the Registrant's Registration Statement on Form S-11, as filed by the Registrant with the SEC on June 6, 2017 (file number 333-216037)).
- 10.3 Independent Directors Restricted Share Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Registration Statement on Form S-11, as filed by the Registrant with the SEC on September 7, 2017 (file number 333-216037)).
- 10.4 Master Repurchase and Securities Contract dated as of August 30, 2017 between FS CREIT Finance WF-1 LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.7 of the Registrant's Registration Statement on Form S-11, as filed by the Registrant with the SEC on September 7, 2017 (file number 333-216037)).
- 10.5 Guarantee Agreement dated as of August 30, 2017 made by FS Credit Real Estate Income Trust, Inc. in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.8 of the Registrant's Registration Statement on Form S-11, as filed by the Registrant with the SEC on September 7, 2017 (file number 333-216037)).
- 10.6 Mortgage Loan Purchase and Sale Agreement dated as of September 13, 2017 between Rialto Mortgage Finance, LLC and FS CREIT Originator LLC (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on September 19, 2017 (file number 333-216037)).
- 10.7 Uncommitted Master Repurchase and Securities Contract Agreement dated as of January 26, 2018 between FS CREIT Finance GS-1 LLC and Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on February 1, 2018 (file number 333-216037)).
- 10.8 Guarantee Agreement dated as of January 26, 2018 made by FS Credit Real Estate Investment Trust, Inc. in favor of Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on February 1, 2018 (file number 333-216037)).
- 10.9 Amendment No. 1 to Master Repurchase and Securities Contract dated as of April 26, 2018 among FS CREIT Finance WF-1 LLC, FS Credit Real Estate Income Trust, Inc., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.3 to Registrant's Form 10-Q, as filed by the Registrant with the SEC on May 14, 2018 (file number 333-216037)).
- 10.10 Amendment No. 1 to Guarantee Agreement dated as of April 26, 2018 between FS Credit Real Estate Income Trust, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.4 to Registrant's Form 10-Q, as filed by the Registrant with the SEC on May 14, 2018 (file number 333-216037)).
- 10.11 Amended and Restated Dealer Manager Agreement (incorporated by reference to Exhibit 1.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on August 17, 2018 (file number 333-216037)).
- 10.12 Form of Selected Dealer Agreement (included as Exhibit A to the Amended and Restated Dealer Manager Agreement incorporated by reference to Exhibit 1.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on August 17, 2018 (file number 333-216037)).
- 10.13 Second Amended and Restated Advisory Agreement (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on August 17, 2018 (file number 333-216037)).

- 10.14 Amended and Restated Independent Director Compensation Policy (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on August 17, 2018 (file number 333-216037)).
- 10.15 Amended and Restated Expense Limitation Agreement (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on August 17, 2018 (file number 333-216037)).
- 10.16 First Amendment to Uncommitted Master Repurchase and Securities Contract Agreement dated as of June 6, 2018 among FS CREIT Finance GS-1 LLC and Goldman Sachs Bank, National Association (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on June 11, 2018 (file number 333-216037)).
- 10.17 Amendment No. 2 to Master Repurchase and Securities Contract dated as of July 24, 2018 among FS CREIT Finance WF-1 LLC, FS Credit Real Estate Income Trust, Inc., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on July 30, 2018 (file number 333-216037)).
- 10.18 Amendment No. 3 to Master Repurchase and Securities Contract dated as of November 30, 2018 among FS CREIT Finance WF-1 LLC, FS Credit Real Estate Income Trust, Inc., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.18 of the Registrant's Annual Report on Form 10-K, as filed by the Registrant with the SEC on March 21, 2019 (file number 333-216037)).
- 10.19 Second Amendment to Uncommitted Master Repurchase and Securities Contract Agreement dated as of February 20, 2019 among FS CREIT Finance GS-1 LLC and Goldman Sachs Bank, National Association (incorporated by reference to Exhibit 10.19 of the Registrant's Annual Report on Form 10-K, as filed by the Registrant with the SEC on March 21, 2019 (file number 333-216037)).
- 10.20 Amendment No. 4 to Master Repurchase and Securities Contract dated as of August 1, 2019 among FS CREIT Finance WF-1 LLC, FS Credit Real Estate Income Trust, Inc., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on August 6, 2019 (file number 333-216037)).
- 10.21 Loan and Security Agreement dated as of August 22, 2019 among FS Credit Real Estate Income Trust, Inc, FS CREIT Finance Holdings LLC and City National Bank (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on August 23, 2019 (file number 333-216037)).
- 10.22 Amendment No. 5 to Master Repurchase and Securities Contract dated as of August 29, 2019 among FS CREIT Finance WF-1 LLC, FS Credit Real Estate Income Trust, Inc., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on August 29, 2019 (file number 333-216037)).
- 10.23 Indenture dated as of December 5, 2019 among FS Rialto 2019-FL1 Issuer, Ltd., FS Rialto 2019-FL1 Co-Issuer, LLC, FS Credit Real Estate Income Trust, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed by the Registrant with the SEC on December 11, 2019 (file number 333-216037)).
- 10.24* First Amendment to Loan and Security Agreement dated as of December 4, 2019 among FS Credit Real Estate Income Trust, Inc, FS CREIT Finance Holdings LLC and City National Bank.
- 10.25* Third Amendment to Uncommitted Master Repurchase and Securities Contract Agreement dated as of December 19, 2019 among FS CREIT Finance GS-1 LLC and Goldman Sachs Bank, National Association.

- 10.26* Fourth Amendment to Uncommitted Master Repurchase and Securities Contract Agreement dated as of February 18, 2020 among FS CREIT Finance GS-1 LLC and Goldman Sachs Bank, National Association.
- 10.27* Second Amendment to Loan and Security Agreement, dated as of March 23, 2020, among FS Credit Real Estate Income Trust, Inc., FS CREIT Finance Holdings LLC and City National Bank.
- 21.1* Subsidiaries of the Registrant.
- 24.1* Power of Attorney (included in signature page).
- 31.1* Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification of Chief Executive Officer and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101* Interactive Data File (XBRL).
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Labels Linkbase Document.
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 27, 2020

/s/ MICHAEL C. FORMAN

Michael C. Forman
Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

Each individual whose signature appears below constitutes and appoints Michael C. Forman and Edward T. Gallivan, Jr., and each of them with full power to act without the other and with full power of substitution and resubstitution, his true and lawful attorney-in-fact and agent with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report on Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 27, 2020

/s/ MICHAEL C. FORMAN

Michael C. Forman
Chief Executive Officer
(Principal Executive Officer)

Date: March 27, 2020

/s/ EDWARD T. GALLIVAN, JR.

Edward T. Gallivan, Jr.
Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: March 27, 2020

/s/ JEFFREY KRASNOFF

Jeffrey Krasnoff
Director

Date: March 27, 2020

/s/ DAVID J. ADELMAN

David J. Adelman
Director

Date: March 27, 2020

/s/ TERENCE J. CONNORS

Terence J. Connors
Director

Date: March 27, 2020

/s/ JOHN A. FRY

John A. Fry
Director

Date: March 27, 2020

/s/ JACK A. MARKELL

Jack A. Markell
Director

Date: March 27, 2020

/s/ KAREN D. BUCHHOLZ

Karen D. Buchholz
Director

Supplemental Information to be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act

No annual report or proxy material has been sent to the registrant's stockholders, and the registrant does not presently contemplate sending any annual report, other than the Annual Report on Form 10-K to which this supplemental information is attached, to the registrant's stockholders subsequent to the filing of this Annual Report on Form 10-K. The registrant presently contemplates sending proxy materials to the registrant's stockholders subsequent to the filing of this report and shall furnish copies of any such proxy materials to the Commission when sent to the registrant's stockholders.

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This is neither an offer to sell nor a solicitation of an offer to buy any securities described herein. This annual report to shareholders must be read in conjunction with FS Credit REIT's periodic and other reports filed with the SEC in order to fully understand all of the implications and risks of an investment in FS Credit REIT. Neither the SEC, the Attorney General of the State of New York nor any state securities commission has approved or disapproved of any securities described herein. Any representation to the contrary is a criminal offense.