Hannon Armstrong Sustainable Infrastructure Capital, Inc.
Form 10-Q
May 03, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 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 001-35877

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
(Exact name of registrant as specified in its charter)

Maryland	46-1347456
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1906 Towne Centre Blvd, Suite 370 Annapolis, Maryland	21401
(Address of principal executive offices)	(Zip code)

(410) 571-9860
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	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 ý

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 per value per share	HASI	New York Stock Exchange

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 63,861,385 shares of common stock, par value $0.01 per share, outstanding as of April 29, 2019 (which includes 985,747 shares of unvested restricted common stock).

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Quarterly Report on Form 10-Q ("Form 10-Q") within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are subject to risks and uncertainties. For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Sections. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, we intend to identify forward-lo statements.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements are contained in our Annual Report on Form 10-K for the year ended December 31, 2018, as amended by our Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2018 (collectively, our "2018 Form 10-K") that was filed with the U.S. Securities and Exchange Commission (the "SEC"), and include risks discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q and in other periodic reports that we file with the SEC. Statements regarding the following subjects, among others, may be forward-looking:

- our expected returns and performance of our investments;
- the state of government legislation, regulation and policies that support or enhance the economic feasibility of sustainable infrastructure projects, including energy efficiency and renewable energy projects and the general market demands for such projects;
- market trends in our industry, energy markets, commodity prices, interest rates, the debt and lending markets or the general economy;
- our business and investment strategy;
- availability of opportunities to invest in projects that reduce carbon emissions or increase resilience to climate change including energy efficiency and renewable energy projects and our ability to complete potential new opportunities in our pipeline;
- our relationships with originators, investors, market intermediaries and professional advisers;
- competition from other providers of capital;
- our or any other companies' projected operating results;
- actions and initiatives of the federal, state and local governments and changes to federal, state and local government policies, regulations, tax laws and rates and the execution and impact of these actions, initiatives and policies;
- the state of the U.S. economy generally or in specific geographic regions, states or municipalities, economic trends and economic recoveries;
- our ability to obtain and maintain financing arrangements on favorable terms, including securitizations;
- general volatility of the securities markets in which we participate;
- changes in the value of our assets, our portfolio of assets and our investment and underwriting process;
- the impact of weather conditions, natural disasters, accidents or equipment failures or other events that disrupt the operation of our investments or negatively impact the value our assets;
- rates of default or decreased recovery rates on our assets;
- interest rate and maturity mismatches between our assets and any borrowings used to fund such assets;
- changes in interest rates, including the flattening of the yield curve, and the market value of our assets and target assets;
- changes in commodity prices, including continued low natural gas prices;
- effects of hedging instruments on our assets or liabilities;
- the degree to which our hedging strategies may or may not protect us from risks, such as interest rate volatility;
- impact of and changes in accounting guidance;

- our ability to maintain our qualification as a real estate investment trust ("REIT") for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the “1940 Act”);
- availability of and our ability to attract and retain qualified personnel;
- estimates relating to our ability to generate sufficient cash in the future to operate our business and to make distributions to our stockholders; and
- our understanding of our competition.

Forward-looking statements are based on beliefs, assumptions and expectations as of the date of this Form 10-Q. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements after the date of this Form 10-Q, whether as a result of new information, future events or otherwise.

The risks included here are not exhaustive. Other sections of this Form 10-Q or our 2018 Form 10-K may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

The following discussion is a supplement to and should be read in conjunction with our 2018 Form 10-K.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	March 31, 2019 (unaudited)	December 31, 2018
Assets		
Equity method investments	$458,916	$471,044
Government receivables	463,715	497,464
Commercial receivables	453,828	447,196
Real estate	364,582	365,370
Investments	177,636	169,793
Cash and cash equivalents	62,091	21,418
Other assets	206,102	182,628
Total Assets	$2,186,870	$2,154,913
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable, accrued expenses and other	$33,266	$36,509
Deferred funding obligations	66,350	72,100
Credit facilities	283,381	258,592
Non-recourse debt (secured by assets of $1,041 million and $1,105 million, respectively)	814,662	834,738
Convertible notes	147,150	148,451
Total Liabilities	1,344,809	1,350,390
Stockholders' Equity:		
Preferred stock, par value $0.01 per share, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, par value $0.01 per share, 450,000,000 shares authorized, 62,875,638 and 60,510,086 shares issued and outstanding, respectively	629	605
Additional paid in capital	1,009,346	965,384
Accumulated deficit	(170,953)	(163,205)
Accumulated other comprehensive income (loss)	(375)	(1,684)
Non-controlling interest	3,414	3,423
Total Stockholders' Equity	842,061	804,523
Total Liabilities and Stockholders' Equity	$2,186,870	$2,154,913

See accompanying notes.

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	For the Three Months Ended March 31,	
	2019	2018
Revenue		
Interest income, receivables	$15,520	$12,849
Interest income, investments	1,884	1,541
Rental income	6,476	5,941
Gain on sale of receivables and investments	6,839	6,256
Fee income	2,174	1,321
Total revenue	32,893	27,908
Expenses		
Interest expense	15,430	18,711
Compensation and benefits	7,439	5,321
General and administrative	3,092	2,801
Total expenses	25,961	26,833
Income before equity method investments	6,932	1,075
Income (loss) from equity method investments	4,506	(2,285)
Income (loss) before income taxes	11,438	(1,210)
Income tax (expense) benefit	2,270	(18)
Net income (loss)	$13,708	$(1,228)
Net income (loss) attributable to non-controlling interest holders	61	(5)
Net income (loss) attributable to controlling stockholders	$13,647	$(1,223)
Basic earnings (loss) per common share	$0.22	$(0.03)
Diluted earnings (loss) per common share	$0.21	$(0.03)
Weighted average common shares outstanding—basic	61,748,905	61,710,910
Weighted average common shares outstanding—diluted	62,365,275	61,710,910

See accompanying notes.

- 2 -

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31,	
	2019	2018
Net income (loss)	$13,708	$(1,228)
Unrealized gain (loss) on available-for-sale securities, net of tax benefit (provision) of ($0.3) million in 2019 and $0.0 million 2018	1,999	(2,728)
Unrealized gain (loss) on interest rate swaps, net of tax benefit (provision) of $0.0 million in 2019 and 2018	(684)	5,897
Comprehensive income (loss)	15,023	1,941
Less: Comprehensive income (loss) attributable to non-controlling interest holders	69	12
Comprehensive income (loss) attributable to controlling stockholders	$14,954	$1,929

See accompanying notes.

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(AMOUNTS IN THOUSANDS)
(UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling interests	Total
Balance at December 31, 2017	51,665	$ 517	$770,983	$(131,251)	$ (1,065)	$ 3,597	$642,781
Net income (loss)				(1,223)		(5)	(1,228)
Unrealized gain (loss) on available-for-sale securities					(2,714)	(14)	(2,728)
Unrealized gain (loss) on interest rate swaps					5,865	32	5,897
Issued shares of common stock	5		43				43
Equity-based compensation			1,739			9	1,748
Issuance (repurchase) of vested equity-based compensation shares	157	1	(1,823)				(1,822)
Redemption of OP Units			(20)			(47)	(67)
Dividends and distributions				(17,578)		(94)	(17,672)
Balance at March 31, 2018	51,827	$ 518	$770,922	$(150,052)	$ 2,086	$ 3,478	$626,952
Balance at December 31, 2018	60,510	$ 605	$965,384	$(163,205)	$ (1,684)	$ 3,423	$804,523
Net income				13,647		61	13,708
Unrealized gain (loss) on available-for-sale securities					1,990	9	1,999
Unrealized gain (loss) on interest rate swaps					(681)	(3)	(684)
Issued shares of common stock	2,068	21	46,791				46,812
Equity-based compensation			3,596			17	3,613
Issuance (repurchase) of vested equity-based compensation shares	298	3	(6,425)				(6,422)
Dividends and distributions				(21,395)		(93)	(21,488)
Balance at March 31, 2019	62,876	$ 629	$1,009,346	$(170,953)	$ (375)	$ 3,414	$842,061

See accompanying notes.

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash flows from operating activities		
Net income (loss)	$13,708	$(1,228)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,136	1,116
Amortization of deferred financing costs	1,673	2,615
Equity-based compensation	3,578	1,845
Equity method investments	2,024	9,052
Non-cash gain on securitization	(6,610)	(7,256)
Changes in receivables held-for-sale	—	3,243
Changes in accounts payable and accrued expenses	(8,241)	(866)
Other	(3,815)	(3,174)
Net cash provided by (used in) operating activities	3,453	5,347
Cash flows from investing activities		
Equity method investments	(10,448)	—
Equity method distributions received	20,530	23,387
Purchases of receivables	(22,430)	(3,441)
Principal collections from receivables	21,345	10,275
Proceeds from sales of receivables	26,919	—
Purchases of investments	(6,809)	(3,826)
Principal collections from investments	1,325	744
Funding of escrow accounts	(11,869)	(9,655)
Withdrawal from escrow accounts	7,945	8,647
Other	69	(297)
Net cash provided by (used in) investing activities	26,577	25,834
Cash flows from financing activities		
Proceeds from credit facilities	26,500	—
Principal payments on credit facilities	(1,925)	—
Proceeds from issuance of non-recourse debt	13,923	30,952
Principal payments on non-recourse debt	(35,180)	(28,787)
Payments on deferred funding obligations	(5,759)	(16,993)
Net proceeds of common stock issuances	46,388	—
Payments of dividends and distributions	(20,518)	(17,606)
Other	(6,671)	(367)
Net cash provided by (used in) financing activities	16,758	(32,801)
Increase (decrease) in cash, cash equivalents, and restricted cash	46,788	(1,620)
Cash, cash equivalents, and restricted cash at beginning of period	59,353	118,177
Cash, cash equivalents, and restricted cash at end of period	$106,141	$116,557
Interest paid	$14,882	$17,427
Non-cash changes in residual assets (investing activity)	(6,636)	(7,761)

See accompanying notes.

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
March 31, 2019

1. The Company

Hannon Armstrong Sustainable Infrastructure Capital, Inc. (the “Company”) focuses on making investments in climate change solutions by providing capital to the leading companies in the energy efficiency, renewable energy and other sustainable infrastructure markets. Our goal is to generate attractive returns for our stockholders by investing in a diversified portfolio of investments that generate long-term, recurring and predictable cash flows from proven commercial technologies.

The Company and its subsidiaries are hereafter referred to as “we,” “us,” or “our.” Our investments take various forms, including equity, joint ventures, lending or other financing transactions, as well as land ownership and typically benefit from contractually committed high credit quality obligors. We also generate on-going fees through gain-on-sale securitization transactions, advisory services and asset management. We refer to the income producing assets that we hold on our balance sheet as our “Portfolio.” Our Portfolio may include:

- Equity in either preferred or common structures in unconsolidated entities;
- Government and commercial receivables, such as loans for renewable energy and energy efficiency projects;
- Real estate, such as land or other assets leased for use by sustainable infrastructure projects typically under long-term leases; and
- Investments in debt securities of renewable energy or energy efficiency projects.

We finance our business through cash on hand, borrowings under credit facilities and debt transactions, asset-backed securitization transactions and equity issuances. We also generate fee income through securitizations and syndications, by providing broker/dealer services and by managing and servicing assets owned by third parties. Some of our subsidiaries are special purpose entities that are formed for specific operations associated with investing in sustainable infrastructure receivables for specific long-term contracts.

Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “HASI.” We have qualified as a real estate investment trust (“REIT”) and also intend to continue to operate our business in a manner that will maintain our exemption from registration as an investment company under the 1940 Act, as amended. We operate our business through, and serve as the sole general partner of, our operating partnership subsidiary, Hannon Armstrong Sustainable Infrastructure, L.P., (the “Operating Partnership”), which was formed to acquire and directly or indirectly own our assets.

2. Summary of Significant Accounting Policies

Basis of Presentation

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and such differences could be material. These financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2018, as filed with the SEC. In the opinion of management, all adjustments necessary to present fairly our financial position, results of operations and cash flows have been included. Our results of operations for the quarterly period ended March 31, 2019, are not necessarily indicative of the results to be expected for the full year or any other future period. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Certain amounts in the prior years have been reclassified to conform to the current year presentation.

The consolidated financial statements include our accounts and controlled subsidiaries, including the Operating Partnership. All significant intercompany transactions and balances have been eliminated in consolidation.

Following the guidance for non-controlling interests in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, Consolidation ("ASC 810"), references in this report to our earnings per share and our net

income and stockholders' equity attributable to common stockholders do not include amounts attributable to non-controlling interests.

Consolidation and Equity Method Investments

We account for our investments in entities that are considered voting interest entities or variable interest entities ("VIEs") under ASC 810 and assess whether we should consolidate these entities on an ongoing basis. We have established various special purpose entities or securitization trusts for the purpose of securitizing certain receivables or other debt investments which are not consolidated in our financial statements as described in Securitization of Receivables below.

Substantially all of the activities of the special purpose entities that are formed for the purpose of holding our government and commercial receivables and investments on our balance sheet are closely associated with our activities. Based on our assessment, we determined that we have power over and receive the benefits of these special purpose entities; hence, we are the primary beneficiary and should consolidate these entities under the provisions of ASC 810.

We have made equity investments in various renewable energy projects. Our renewable energy projects are typically owned in holding companies (using limited liability companies ("LLCs") taxed as partnerships) where we partner with either the operator of the project or other institutional investors. We share in the cash flows, income, and tax attributes according to a negotiated schedule (which typically does not correspond with our ownership percentages) and we typically receive a stated preferred return consisting of a priority distribution of all or a portion of the project's cash flows, and in some cases, tax attributes. Once our preferred return, if applicable, is achieved, the partnership "flips" and the operator of the project, receives a larger portion of the cash flows through its interest in the holding company and we, along with any other institutional investors, will have an on-going residual interest.

These equity investments in renewable energy projects are accounted for under the equity method of accounting. Certain of our equity method investments were determined to be VIEs in which we are not the primary beneficiary, as we do not direct the significant activities of those entities in which we invest. Our maximum exposure to loss associated with the continued operation of the underlying projects in our equity method investments is limited to our recorded value of our investments. Under the equity method of accounting, the carrying value of these equity method investments is determined based on amounts we invested, adjusted for the equity in earnings or losses of the investee allocated based on the LLC agreement, less distributions received. For the LLC agreements which contain preferences with regard to cash flows from operations, capital events and liquidation, we reflect our share of profits and losses by determining the difference between our claim on the investee's book value at the beginning and the end of the period, which is adjusted for distributions received and contributions made. This claim is calculated as the amount we would receive (or be obligated to pay) if the investee were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to creditors and investors in accordance with their respective priorities. This method is commonly referred to as the hypothetical liquidation at book value method or ("HLBV"). Any difference between the amount of our investment and the amount of underlying equity in net assets is generally amortized over the life of the assets and liabilities to which the difference relates. Cash distributions received from these equity method investments are classified as operating activities to the extent of cumulative HLBV earnings in our consolidated statements of cash flows. We have elected to recognize earnings from these investments one quarter in arrears to allow for the receipt of financial information.

We have also made an investment in a joint venture which holds land under solar projects that we have determined to be a voting interest entity. This investment entitles us to receive an equal percentage of both cash distributions and profit and loss under the terms of the LLC operating agreement. The investment is accounted for under the equity method of accounting with our portion of income being recognized in income (loss) from equity method investments in the period in which the income is earned. Cash distributions received from this equity method investment are classified as operating activities to the extent of cumulative earnings in our consolidated statements of cash flows. Our initial investment and additional cash distributions beyond that which are classified as operating activities are classified as investing activities in our consolidated statements of cash flows.

We evaluate on a quarterly basis whether our investments accounted for using the equity method have an other than temporary impairment ("OTTI"). An OTTI occurs when the estimated fair value of an investment is below the carrying value and the difference is determined to not be recoverable. This evaluation requires significant judgment regarding, but not limited to, the severity and duration of the impairment; the ability and intent to hold the securities until recovery; financial condition, liquidity, and near-term prospects of the issuer; specific events; and other factors.

Government and Commercial Receivables

Government and commercial receivables ("receivables"), include project loans and receivables. These receivables are separately presented in our balance sheet to illustrate the differing nature of the credit risk related to these assets. Unless otherwise noted, we generally have the ability and intent to hold our receivables for the foreseeable future and thus they are classified as held for investment. Our ability and intent to hold certain receivables may change from time to time depending on a number of factors, including economic, liquidity and capital market conditions. At inception of the arrangement, the carrying value of receivables held for investment represents the present value of the note, lease or other payments, net of any unearned fee income, which is recognized as income over the term of the note or lease using the effective interest method. Receivables that are held for investment are carried, unless deemed impaired, at amortized cost, net of any unamortized acquisition premiums or discounts and include origination and acquisition costs, as applicable. Our initial investment and principal repayments of these receivables are classified as investing activities and the interest collected is classified as operating activities in our consolidated statements of cash flows. Receivables that we intend to sell in the short-term are classified as held-for-sale and are carried at the lower of amortized cost or fair value on our balance sheet. The net purchases and proceeds from receivables that we intend to sell at origination are classified as operating activities in our consolidated statements of cash flows, otherwise the net purchases and proceeds are classified as investing activities. Interest collected is classified as an operating activity in our consolidated statements of cash flows. Certain of our receivables may include the ability to defer required interest payments in exchange for increasing the receivable balance at the borrower's option. We generally accrue this paid-in-kind ("PIK") interest when collection is expected, and cease accruing PIK interest if there is insufficient value to support the accrual or we expect that any portion of the principal or interest due is not collectible.

We evaluate our receivables for potential delinquency or impairment on at least a quarterly basis and more frequently when economic or other conditions warrant such an evaluation. When a receivable becomes 90 days or more past due, and if we otherwise do not expect the debtor to be able to service all of its debt or other obligations, we will generally consider the receivable delinquent or impaired and place the receivable on non-accrual status and cease recognizing income from that receivable until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a receivable’s status significantly improves regarding the debtor’s ability to service the debt or other obligations, we will remove it from non-accrual status.

A receivable is also considered impaired as of the date when, based on current information and events, it is determined that it is probable that we will be unable to collect all amounts due in accordance with the original contracted terms. Many of our receivables are secured by energy efficiency and renewable energy infrastructure projects. Accordingly, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and value of the underlying project, as well as the financial and operating capability of the borrower, its sponsors or the obligor as well as any guarantors. We consider a number of qualitative and quantitative factors in our assessment, including, as appropriate, a project’s operating results, loan-to-value ratio, any cash reserves, the ability of expected cash from operations to cover the cash flow requirements currently and into the future, key terms of the transaction, the ability of the borrower to refinance the transaction, other credit support from the sponsor or guarantor and the project’s collateral value. In addition, we consider the overall economic environment, the sustainable infrastructure sector, the effect of local, industry, and broader economic factors, the impact of any variation in weather and the historical and anticipated trends in interest rates, defaults and loss severities for similar transactions.

If a receivable is considered to be impaired, we will determine if an allowance should be recorded. We will record an allowance if the present value of expected future cash flows discounted at the receivable’s contractual effective rate is less than its carrying value. This estimate of cash flows may include the currently estimated fair market value of the collateral less estimated selling costs if repayment is expected from the collateral. We charge off receivables against the allowance, if any, when we determine the unpaid principal balance is uncollectible, net of recovered amounts.

Real Estate

Real estate consists of land or other real estate and its related lease intangibles, net of any amortization. Our real estate is generally leased to tenants on a triple net lease basis, whereby the tenant is responsible for all operating expenses relating to the property, generally including property taxes, insurance, maintenance, repairs and capital expenditures. Certain real estate transactions may be characterized as "failed sale-leaseback" transactions as defined under ASC Topic 842 ("Topic 842"), Leases, and thus are accounted for similar to our Commercial Receivables as described above in Government and Commercial Receivables.

For our other real estate lease transactions that are classified as operating leases, the scheduled rental revenue typically varies during the lease term and thus rental income is recognized on a straight-line basis, unless there is considerable risk as to collectability, so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis and is recorded in other assets. Expenses, if any, related to the ongoing operation of leases where we are the lessor, are charged to operations as incurred. Our initial investment is classified as investing activities and income collected for rental income is classified as operating activities in our consolidated statements of cash flows. When our real estate transactions are treated as an asset acquisition with an operating lease, we typically record our real estate purchases as asset acquisitions that are recorded at cost, including acquisition and closing costs, which is allocated to each tangible and intangible asset acquired on a relative fair value basis.

The fair value of the tangible assets of an acquired leased property is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, building and tenant improvements, if any, based on the determination of the fair values of these assets. The as-if-vacant fair value of a property is typically determined by management based on appraisals by a qualified appraiser. In determining the fair value of the identified intangibles of an acquired property, above-market and below-market in-place lease values are valued based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease, including renewal periods likely of being exercised by the lessee.

The capitalized above-market lease values are amortized as a reduction of rental income and the capitalized below-market lease values are amortized as an increase to rental income, both of which are amortized over the term used to value the intangible. We also record, as appropriate, an intangible asset for in-place leases. The value of the leases in place at the time of the transaction is equal to the potential income lost if the leases were not in place. The amortization of this intangible occurs over the initial term unless management believes that it is likely that the tenant would exercise the renewal option, in which case the amortization would extend through the renewal period. If a lease were to be terminated, all unamortized amounts relating to that lease would be written off.

Investments

Investments are debt securities that meet the criteria of ASC 320, Investments-Debt and Equity Securities. We have designated our debt securities as available-for-sale and carry these securities at fair value on our balance sheet. Unrealized gains and losses, to the extent not considered to have an OTTI, on available-for-sale debt securities are recorded as a component of accumulated other comprehensive income ("AOCI") in equity on our balance sheet. Our initial investment and principal repayments of these investments are classified as investing activities and the interest collected is classified as operating activities in our consolidated statements of cash flows.

We evaluate our investments for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Our OTTI assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we regularly evaluate the extent and impact of any credit deterioration associated with the financial and operating performance and value of the underlying project. We consider a number of qualitative and quantitative factors in our assessment. We first consider the current fair value of the security and the duration of any unrealized loss. Other factors considered include changes in the credit rating, performance of the underlying project, key terms of the transaction, the value of any collateral and any support provided by the sponsor or guarantor.

To the extent that we have identified an OTTI for a security and intend to hold the investment to maturity and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of the OTTI in earnings. We determine the credit component using the difference between the security's amortized cost basis and the present value of its expected future cash flows, discounted using the effective interest method or its estimated collateral value. Any remaining unrealized loss due to factors other than credit is recorded in AOCI.

To the extent we hold investments with an OTTI and if we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings.

Premiums or discounts on investment securities are amortized or accreted into interest income using the effective interest method.

Securitization of Receivables

We have established various special purpose entities or securitization trusts for the purpose of securitizing certain receivables or investments. We determined that the trusts used in securitizations are VIEs, as defined in ASC 810. We typically serve as primary or master servicer of these trusts; however, as the servicer, we do not have the power to make significant decisions impacting the performance of the trusts. Based on an analysis of the structure of the trusts, we have concluded that we are not the primary beneficiary of the trusts as we do not have power over the trusts' significant activities. Therefore, we do not consolidate these trusts in our consolidated financial statements.

We account for transfers of receivables or investments to these securitization trusts as sales pursuant to ASC 860, Transfers and Servicing, when we have concluded the transferred receivables have been isolated from the transferor (i.e., put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership) and we have surrendered control over the transferred receivables. We have received true-sale-at-law opinions for all of our securitization trust structures and non-consolidation legal opinions for all but one legacy securitization trust structure that support our conclusion regarding the transferred receivables. When we sell receivables in securitizations, we generally retain interests in the form of servicing rights and residual assets, which we refer to as securitization assets.

Gain or loss on the sale of receivables is calculated based on the excess of the proceeds received from the securitization (less any transaction costs) plus any retained interests obtained over the cost basis of the receivables sold. For retained interests, we generally estimate fair value based on the present value of future expected cash flows using our best estimates of the key assumptions of anticipated losses, prepayment rates, and current market discount rates commensurate with the risks involved. Cash flows related to our securitizations at origination are classified as operating activities in our consolidated statements of cash flows.

We initially account for all separately recognized servicing assets and servicing liabilities at fair value and subsequently measure such servicing assets and liabilities using the amortization method. Servicing assets and liabilities are amortized in proportion to, and over the period of, estimated net servicing income with servicing income recognized as earned. We assess servicing assets for impairment at each reporting date. If the amortized cost of servicing assets is greater than the estimated fair value, we will recognize an impairment in net income.

Our other retained interest in securitized assets, the residual assets, are accounted for as available-for-sale securities and carried at fair value on the consolidated balance sheets in other assets. We generally do not sell our residual assets. Our residual assets are evaluated for impairment on a quarterly basis. Interest income related to the residual assets is recognized using the effective interest rate method. If there is a change in the expected cash flows related to the residual assets, we calculate a new yield based on the current amortized cost of the residual assets and the revised expected cash flows. This yield is used prospectively to recognize interest income.

Cash and Cash Equivalents

Cash and cash equivalents include short-term government securities, certificates of deposit and money market funds, all of which had an original maturity of three months or less at the date of purchase. These securities are carried at their purchase price, which approximates fair value.

Restricted Cash

Restricted cash includes cash and cash equivalents set aside with certain lenders primarily to support deferred funding and other obligations outstanding as of the balance sheet dates. Restricted cash is reported as part of other assets in the consolidated balance sheets. Refer to Note 3 for disclosure of the balances of restricted cash included in other assets.

Convertible Notes

We have issued convertible senior notes that are accounted for in accordance with ASC 470-20, Debt with Conversion and Other Options, and ASC 815, Derivatives and Hedging ("ASC 815"). Under ASC 815, issuers of certain convertible debt instruments are generally required to separately account for the conversion option of the convertible debt instrument as either a derivative or equity, unless it meets the scope exemption for contracts indexed to, and settled in, an issuer’s own equity. Since this conversion option is both indexed to our equity and can only be settled in our common stock, we have met the scope exemption, and therefore, we are not separately accounting for the embedded conversion option. The initial issuance and any principal repayments are classified as financing activities and interest payments are classified as operating activities in our consolidated statements of cash flows.

Income Taxes

We elected and qualified to be taxed as a REIT for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2013. We also have taxable REIT subsidiaries ("TRSs") which are taxed separately, and which will generally be subject to U.S. federal, state, and local income taxes as well as taxes of foreign jurisdictions, if any. To qualify as a REIT, we must meet on an ongoing basis a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our REIT's net taxable income before dividends paid, excluding capital gains, to our stockholders. As a REIT, we are not subject to U.S. federal corporate income tax on that portion of net income that is currently distributed to our owners.

We account for income taxes under ASC 740, Income Taxes ("ASC 740") for our TRSs using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted. We evaluate any deferred tax assets for valuation allowances based on an assessment of available evidence including sources of taxable income, prior years taxable income, any existing taxable temporary differences and our future investment and business plans that may give rise to taxable income. We treat any tax credits we receive from our equity investments in renewable energy projects as reductions of federal income taxes of the year in which the credit arises.

We apply ASC 740 with respect to how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. This guidance requires the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more likely than not" to be sustained by the applicable tax authority. We are required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which includes U.S. federal and certain states.

Equity-Based Compensation

In 2013, we adopted the 2013 Hannon Armstrong Sustainable Infrastructure Capital, Inc. Equity Incentive Plan (as amended, the "2013 Plan"), which provides for grants of stock options, stock appreciation rights, restricted stock units, shares of restricted common stock, phantom shares, dividend equivalent rights, long-term incentive-plan units ("LTIP units") and other restricted limited partnership units issued by our Operating Partnership and other equity-based awards. From time to time, we may make equity or equity based awards as compensation to members of our senior management team, our independent directors, employees, advisors, consultants and other personnel under our 2013 Plan. Certain awards earned under the plan are based on achieving various performance targets, which are generally earned between 0% and 200% of the initial target, depending on the extent to which the performance target is met. We record compensation expense for grants made under the 2013 Plan in accordance with ASC 718, Compensation-Stock Compensation. We record compensation expense for unvested grants that vest solely based on service conditions on a straight-line basis over the vesting period of the entire award based upon the fair market value of the grant on the date of grant. Fair market value for restricted common stock is based on our share price on the date of grant. For awards where the vesting is contingent upon achievement of certain performance targets, compensation expense is measured based on the fair market value on the grant date and is recorded over the requisite service period (which includes the performance period). Actual performance results at the end of the performance period determines the number of shares that will ultimately be awarded. We have also issued awards where the vesting is contingent upon service being provided for a defined period and certain market conditions being met. The fair value of these awards, as measured at the grant date, is recognized over the requisite service period, even if the market conditions are not met. The grant date fair value of these awards was developed by an independent appraiser using a Monte Carlo simulation.

Earnings Per Share

We compute earnings per share of common stock in accordance with ASC 260, Earnings Per Share. Basic earnings per share is calculated by dividing net income attributable to controlling stockholders (after consideration of the earnings allocated to unvested grants under the 2013 Plan, if applicable) by the weighted-average number of shares of common stock outstanding during the period excluding the weighted average number of unvested grants under the 2013 Plan, if applicable ("participating securities" as defined in Note 12). Diluted earnings per share is calculated by dividing net income attributable to controlling stockholders (after consideration of the earnings allocated to unvested grants under the 2013 Plan, if applicable) by the weighted-average number of shares of common stock outstanding during the period plus other potential common stock instruments if they are dilutive. Other potentially dilutive common stock instruments include our unvested restricted stock, other equity-based awards, and convertible notes. The restricted stock and other equity-based awards are included if they are dilutive using the treasury stock method. The treasury stock method assumes that theoretical proceeds received for future service provided is used to purchase treasury stock at our stock's average market price, which is deducted from the amount of stock included in the calculation. When unvested grants are dilutive, the earnings allocated to these dilutive unvested grants are not deducted from the net income attributable to controlling stockholders when calculating diluted earnings per share. The convertible notes are included if they are dilutive using the if-converted method. The if-converted method removes interest expense related to the convertible notes from the net income attributable to controlling stockholders and includes the weighted average shares over the period issuable upon conversion of the note. No adjustment is made for shares that are anti-dilutive during a period.

Segment Reporting

We make equity and debt investments in the energy efficiency, renewable energy, and other sustainable infrastructure markets. We manage our business as a single portfolio and report all of our activities as one business segment.

Recently Issued Accounting Pronouncements

Leases

In February 2016, the FASB issued guidance codified in ASC Topic 842, which amends the guidance in former ASC Topic 840, Leases. The main principle of Topic 842 requires lessees to recognize the assets and liabilities that arise from nearly all leases on the balance sheet. Lessor accounting remains relatively consistent with some changes to align Topic 842 with ASC Topic 606, Revenue from Contracts with Customers, including changes to the guidance on classification of real estate lease transactions. The standard is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Topic 842 provides companies with a choice of transitioning to the new standard using one of two modified retrospective transition approaches; one that requires companies to adjust comparative periods upon adoption and another where the impact of adoption is reflected in retained earnings and comparative periods are not adjusted.

We have adopted Topic 842 effective January 1, 2019 and have elected to apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We have also elected the package of practical expedients which allowed us to not reassess (1) whether existing contracts contain leases, (2) the lease classification for existing leases, and (3) whether existing initial direct costs meet the new definition. The adoption of Topic 842 did not have a material impact on our financial statements.

Subsequent to adoption of Topic 842, due to the changes in the lessor rules for classification of real estate leasing transactions, certain of our real estate leasing transactions may be accounted for as commercial receivables rather than being treated as real estate asset acquisitions with operating leases.

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses-Measurement of Credit Losses on Financial Instruments ("Topic 326"). Topic 326 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. Topic 326 will replace the “incurred loss” approach under existing guidance with an “expected loss” model for instruments measured at amortized cost, and require entities to record allowances for expected losses from available-for-sale debt securities rather than reduce the amortized cost, as currently required. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. Topic 326 is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We are currently evaluating the impact the adoption of Topic 326 will have on our consolidated financial statements and related disclosures.

Other accounting standards updates issued before May 2, 2019, and effective after March 31, 2019, are not expected to have a material effect on our consolidated financial statements and related disclosures.

3.Fair Value Measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value accounting guidance provides a three-level hierarchy for classifying financial instruments. The levels of inputs used to determine the fair value of our financial assets and liabilities carried on the balance sheet at fair value and for those which only disclosure of fair value is required are characterized in accordance with the fair value hierarchy established by ASC 820, Fair Value Measurements. Where inputs for a financial asset or liability fall in more than one level in the fair value hierarchy, the financial asset or liability is classified in its entirety based on the lowest level input that is significant to the fair value measurement of that financial asset or liability. We use our judgment and consider factors specific to the financial assets and liabilities in determining the significance of an input to the fair value measurements. As of March 31, 2019 and December 31, 2018, only our residual assets related to our securitization trusts, interest rate swaps and investments, if any, were carried at fair value on the consolidated balance sheets on a recurring basis. The three levels of the fair value hierarchy are described below:

- Level 1 — Quoted prices (unadjusted) in active markets that are accessible at the measurement date.
- Level 2 — Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3 — Unobservable inputs are used when little or no market data is available.

The tables below illustrate the estimated fair value of our financial instruments on our balance sheet. Unless otherwise discussed below, fair value for our Level 2 and Level 3 measurements is measured using a discounted cash flow model, contractual terms and inputs which consist of base interest rates and spreads over base rates which are based upon market observation and recent comparable transactions. An increase in these inputs would result in a lower fair value and a decline would result in a higher fair value. Our convertible notes are valued using a market based approach and observable prices. The receivables held-for-sale, if any, are carried at the lower of cost or fair value.

	As of March 31, 2019		
	Fair Value	Carrying Value	Level
	(in millions)		
Assets			
Government receivables	$463	$ 464	Level 3
Commercial receivables	449	454	Level 3
Investments (1)	178	178	Level 3
Securitization residual assets (2)	77	77	Level 3
Liabilities			
Credit facilities (3)	$283	$ 283	Level 3
Non-recourse debt (3)	828	831	Level 3
Convertible notes (3)	153	151	Level 2

(1) The amortized cost of our investments as of March 31, 2019, was $179 million.
(2) Included in other assets on the consolidated balance sheet.
(3) Fair value and carrying value exclude unamortized debt issuance costs.

	As of December 31, 2018		
	Fair Value	Carrying Value	Level
	(in millions)		
Assets			
Government receivables	$487	$ 497	Level 3
Commercial receivables	443	447	Level 3
Investments (1)	170	170	Level 3
Securitization residual assets (2)	71	71	Level 3
Liabilities			
Credit facilities (3)	$259	$ 259	Level 3
Non-recourse debt (3)	835	852	Level 3
Convertible notes (3)	139	152	Level 2

(1) The amortized cost of our investments as of December 31, 2018, was $173 million.
(2) Included in other assets on the consolidated balance sheet.
(3) Fair value and carrying value exclude unamortized debt issuance costs.

Investments

The following table reconciles the beginning and ending balances for our Level 3 investments that are carried at fair value on a recurring basis:

	For the three months ended March 31,	
	2019	2018
	(in millions)	
Balance, beginning of period	$170	$151
Purchases of investments	7	4
Payments on investments	(1)	—
Unrealized gains (losses) on investments recorded in AOCI	2	(3)
Balance, end of period	$178	$152

The following table illustrates our investments in an unrealized loss position:

	Estimated Fair Value		Unrealized Losses [1]	
	Securities with a loss shorter than 12 months	Securities with a loss longer than 12 months	Securities with a loss shorter than 12 months	Securities with a loss longer than 12 months
	(in millions)			
March 31, 2019	$11	$ 132	$ 1	$ 2
December 31, 2018	82	67	1	3

(1) Loss position is due to interest rates movements. We have the intent and ability to hold these investments until a recovery of fair value.

In determining the fair value of our investments, we used a range of interest rate spreads of approximately 1% to 4% based upon comparable transactions as of March 31, 2019 and December 31, 2018.

Non-recurring Fair Value Measurements

Our financial statements may include non-recurring fair value measurements related to acquisitions and non-monetary transactions, if any. Assets acquired in a business combination are recorded at their fair value. We may use third party valuation firms to assist us with developing our estimates of fair value.

Concentration of Credit Risk

Government and commercial receivables, real estate leases, and debt investments consist primarily of U.S. federal government-backed receivables, investment grade state and local government receivables and receivables from various sustainable infrastructure projects and do not, in our view, represent a significant concentration of credit risk. See Note 6 for an analysis by type of obligor and the method of rating. Additionally, our investments are collateralized by projects concentrated in certain geographic regions throughout the United States. We have structural credit protections to mitigate our risk exposure and, in most cases, the projects are insured for estimated physical loss which helps to mitigate the possible risk from these concentrations.

We had cash deposits that are subject to credit risk as shown below:

	March 31, 2019	December 31, 2018
	(in millions)	
Cash deposits	$62	$ 21

Restricted cash deposits (included in other assets)	44	38
Total cash deposits	$106	$ 59
Amount of cash deposits in excess of amounts federally insured	$105	$ 57

4. Non-Controlling Interest

Units of limited partnership interests in the Operating Partnership ("OP units") that are owned by limited partners other than us are included in non-controlling interest on our consolidated balance sheets. The non-controlling interest holders are generally allocated their pro rata share of income, other comprehensive income and equity transactions.

The outstanding OP units held by outside limited partners represent less than 1% of our outstanding OP units and are redeemable by the limited partners for cash, or at our option, for a like number of shares of our common stock. No OP units held by our non-controlling interest holders were exchanged during the three months ended March 31, 2019, and 3,703 OP units were exchanged for the same number of shares during the same period in 2018.

5. Securitization of Receivables

The following summarizes certain transactions with our securitization trusts:

	As of and for the three months ended March 31,	
	2019	2018
	(in millions)	
Gains on securitizations	$ 7	$ 6
Purchase of receivables securitized	302	129
Proceeds from securitizations	309	135
Residual and servicing assets included in other assets	78	53
Cash received from residual and servicing assets	1	1

In connection with securitization transactions, we typically retain servicing responsibilities and residual assets. In certain instances, we receive annual servicing fees of up to 0.20% of the outstanding balance. We may periodically make servicer advances, which are subject to credit risk. Included in other assets in our consolidated balance sheets are our servicing assets at amortized cost, our residual assets at fair value, and our servicing advances at cost, if any. Our residual assets are subordinate to investors' interests, and their values are subject to credit, prepayment and interest rate risks on the transferred financial assets. The investors and the securitization trusts have no recourse to our other assets for failure of debtors to pay when due. In computing gains and losses on securitizations, we use the same discount rates we use for the fair value calculation of residual assets, which are determined based on a review of comparable market transactions including Level 3 unobservable inputs which consist of base interest rates and spreads over base rates. Depending on the nature of the transaction risks, the discount rate ranged from 4% to 7%.

As of March 31, 2019 and December 31, 2018, our managed assets totaled $5.5 billion and $5.3 billion, respectively, of which $3.6 billion and $3.3 billion, respectively, were securitized assets held in unconsolidated securitization trusts. There were no securitization credit losses in the three months ended March 31, 2019 or 2018. As of March 31, 2019, there were approximately $1.4 million in payments from certain debtors to the securitization trusts that were greater than 90 days past due. The securitized assets generally consist of receivables from contracts for the installation of energy efficiency and other technologies in facilities owned by, or operated for or by, federal, state or local government entities where the ultimate obligor is the government. The contracts may have guarantees of energy savings from third party service providers, which typically are entities rated investment grade by an independent rating agency. Based on the nature of the receivables and experience-to-date, we do not currently expect to incur any credit losses of our residual interests related to the receivables sold.

6. Our Portfolio

As of March 31, 2019, our Portfolio included approximately $1.9 billion of equity method investments, receivables, real estate and investments on our balance sheet. The equity method investments represent our non-controlling equity investments in renewable energy projects and land. The receivables and investments are typically collateralized by contractually committed debt obligations of government entities or private high credit quality obligors and are often supported by additional forms of credit enhancement, including security interests and supplier guaranties. The real estate is typically land and related lease intangibles for long-term leases to wind and solar projects.

The following is an analysis of our Portfolio as of March 31, 2019:

	Investment Grade					
	Government (1)	Commercial Investment Grade (2)	Commercial Non-Investment Grade (3)	Subtotal, Debt and Real Estate	Equity Method Investments	Total
	(dollars in millions)					
Equity investments in renewable energy projects	$—	$ —	$—	$ —	$ 437	$437
Receivables (4)	465	167	286	918	—	918
Real estate (5)	—	364	—	364	22	386
Investments	104	74	—	178	—	178
Total	$569	$ 605	$286	$ 1,460	$ 459	$1,919
% of Debt and real estate portfolio	39 %	41 %	20 %	100 %	N/A	N/A
Average remaining balance (6)	$11	$ 6	$14	$ 9	$ 16	$10

(1) Transactions where the ultimate obligor is the U.S. federal government or state or local governments where the obligors are rated investment grade (either by an independent rating agency or based upon our internal credit analysis). This amount includes $382 million of U.S. federal government transactions and $187 million of transactions where the ultimate obligors are state or local governments. Transactions may have guaranties of energy savings from third party service providers, which typically are entities rated investment grade by an independent rating agency.

(2) Transactions where the projects or the ultimate obligors are commercial entities that have been rated investment grade (either by an independent rating agency or based on our internal credit analysis). Of this total, $9 million of the transactions have been rated investment grade by an independent rating agency.

(3) Transactions where the projects or the ultimate obligors are commercial entities that either have ratings below investment grade (either by an independent rating agency or using our internal credit analysis) or where the nature of the subordination in the asset causes it to be considered non-investment grade. This category of assets includes $260 million of mezzanine loans made on a non-recourse basis to special purpose subsidiaries of residential solar companies where the nature of the subordination causes it to be considered non-investment grade. These loans are secured by residential solar assets and we rely on certain limited indemnities, warranties, and other obligations of the residential solar companies or their other subsidiaries. This amount also includes $18 million of transactions where the projects or the ultimate obligors are commercial entities that have ratings below investment grade using our internal credit analysis, and $8 million of loans on non-accrual status. See Receivables and Investments below for further information.

(4) Total reconciles to the total of the government receivables and commercial receivables lines of the consolidated balance sheets.

(5) Includes the real estate and the lease intangible assets (including those held through equity method investments) from which we receive scheduled lease payments, typically under long-term triple net lease agreements.

(6) Excludes approximately 170 transactions each with outstanding balances that are less than $1 million and that in the aggregate total $61 million.

Equity Method Investments

We have made non-controlling equity investments in a number of renewable energy projects as well as in a joint venture that owns land with long-term triple net lease agreements to several solar projects that we account for as equity method investments. As of March 31, 2019, we held the following equity method investments:

Investment Date	Investee