

ARBOR REALTY TRUST INC
Form 10-Q
August 02, 2013
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2013

Or

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

For the transition period from to

Commission file number: 001-32136

Arbor Realty Trust, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Maryland
(State or other jurisdiction of
incorporation)

333 Earle Ovington Boulevard, Suite 900

Uniondale, NY
(Address of principal executive offices)

20-0057959
(I.R.S. Employer

Identification No.)

11553

(Zip Code)

(516) 506-4200

(Registrant's telephone number, including area code)

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common stock, \$0.01 par value per share: 43,136,975 outstanding (excluding 2,650,767 shares held in the treasury) as of August 2, 2013.

Table of Contents

ARBOR REALTY TRUST, INC.

FORM 10-Q

INDEX

<u>PART I. FINANCIAL INFORMATION</u>	2
<u>Item 1. Financial Statements</u>	2
<u>Consolidated Balance Sheets at June 30, 2013 (Unaudited) and December 31, 2012</u>	2
<u>Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2013 and 2012</u>	3
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2013 and 2012</u>	4
<u>Consolidated Statement of Changes in Equity (Unaudited) for the Six Months Ended June 30, 2013</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2013 and 2012</u>	6
<u>Notes to the Consolidated Statements (Unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	70
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	105
<u>Item 4. Controls and Procedures</u>	108
<u>PART II. OTHER INFORMATION</u>	108
<u>Item 1. Legal Proceedings</u>	108
<u>Item 1A. Risk Factors</u>	109
<u>Item 2. Unregistered Sale of Equity Securities and Use of Proceeds</u>	109
<u>Item 3. Defaults Upon Senior Securities</u>	109
<u>Item 4. Mine Safety Disclosures</u>	109
<u>Item 5. Other Information</u>	109
<u>Item 6. Exhibits</u>	110
<u>Signatures</u>	116

Table of Contents

CAUTIONARY STATEMENTS

The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in Arbor Realty Trust, Inc. We urge you to carefully review and consider the various disclosures made by us in this report.

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as may, will, should, potential, intend, expect, endeavor, anticipate, estimate, overestimate, underestimate, believe, could, project, predict, continue or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically; adverse changes in the financing markets we access affecting our ability to finance our loan and investment portfolio; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; changes in the markets; legislative/regulatory changes; completion of pending investments; the availability and cost of capital for future investments; competition within the finance and real estate industries; and other risks detailed in our Annual Report on Form 10-K for the year ended December 31, 2012. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Significant Accounting Estimates and Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2012.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	June 30, 2013 (Unaudited)	December 31, 2012
Assets:		
Cash and cash equivalents	\$ 50,712,074	\$ 29,188,889
Restricted cash (includes \$33,056,424 and \$41,537,212 from consolidated VIEs, respectively)	34,147,603	42,535,514
Loans and investments, net (includes \$1,322,272,207 and \$1,113,745,356 from consolidated VIEs, respectively)	1,532,567,253	1,325,667,053
Available-for-sale securities, at fair value (includes \$0 and \$1,100,000 from consolidated VIEs, respectively)	2,511,525	3,552,736
Securities held-to-maturity, net	47,598,688	42,986,980
Investment in equity affiliates	59,368,740	59,581,242
Real estate owned, net (includes \$80,787,215 and \$80,787,215 from consolidated VIEs, respectively)	124,274,290	124,148,199
Due from related party (includes \$7,279 and \$0 from consolidated VIEs, respectively)	25,283	24,094
Prepaid management fee related party	19,047,949	19,047,949
Other assets (includes \$15,170,276 and \$11,709,103 from consolidated VIEs, respectively)	63,089,178	55,148,624
Total assets	\$ 1,933,342,583	\$ 1,701,881,280
Liabilities and Equity:		
Repurchase agreements and credit facilities	\$ 101,097,436	\$ 130,661,619
Collateralized debt obligations (includes \$744,105,570 and \$812,452,845 from consolidated VIEs, respectively)	744,105,570	812,452,845
Collateralized loan obligation (includes \$264,500,000 and \$87,500,000 from consolidated VIEs, respectively)	264,500,000	87,500,000
Junior subordinated notes to subsidiary trust issuing preferred securities	159,025,006	158,767,145
Notes payable	51,457,708	51,457,708
Mortgage note payable real estate owned	53,751,004	53,751,004
Due to related party	1,902,881	3,084,627
Due to borrowers (includes \$0 and \$1,320,943 from consolidated VIEs, respectively)	17,556,616	23,056,640
Deferred revenue	77,123,133	77,123,133
Other liabilities (includes \$17,767,315 and \$22,013,896 from consolidated VIEs, respectively)	65,599,159	72,765,437
Total liabilities	1,536,118,513	1,470,620,158
Commitments and contingencies		
Equity:		
Arbor Realty Trust, Inc. stockholders equity:	67,654,655	

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Preferred stock, \$0.01 par value: 100,000,000 shares authorized; 8.25% Series A cumulative redeemable preferred stock, \$38,787,500 aggregate liquidation preference; 1,551,500 shares issued and outstanding at June 30, 2013, no shares issued and outstanding at December 31, 2012; 7.75% Series B cumulative redeemable preferred stock, \$31,500,000 aggregate liquidation preference; 1,260,000 shares issued and outstanding at June 30, 2013, no shares issued and outstanding at December 31, 2012		
Common stock, \$0.01 par value: 500,000,000 shares authorized; 45,787,742 shares issued, 43,136,975 shares outstanding at June 30, 2013 and 33,899,992 shares issued, 31,249,225 shares outstanding at December 31, 2012	457,877	339,000
Additional paid-in capital	582,842,587	493,211,222
Treasury stock, at cost 2,650,767 shares at June 30, 2013 and December 31, 2012	(17,100,916)	(17,100,916)
Accumulated deficit	(207,260,372)	(207,558,257)
Accumulated other comprehensive loss	(31,305,199)	(39,561,700)
Total Arbor Realty Trust, Inc. stockholders' equity	395,288,632	229,329,349
Noncontrolling interest in consolidated entity	1,935,438	1,931,773
Total equity	397,224,070	231,261,122
Total liabilities and equity	\$ 1,933,342,583	\$ 1,701,881,280

See Notes to Consolidated Financial Statements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

For the Three and Six Months Ended June 30, 2013 and 2012

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income	\$ 24,329,116	\$ 19,502,713	\$ 47,317,938	\$ 39,109,120
Interest expense	10,333,073	9,770,807	20,975,317	21,532,207
Net interest income	13,996,043	9,731,906	26,342,621	17,576,913
Other revenue:				
Property operating income	8,231,822	8,109,440	17,127,256	16,854,910
Other income, net	605,317	369,609	1,984,775	401,639
Total other revenue	8,837,139	8,479,049	19,112,031	17,256,549
Other expenses:				
Employee compensation and benefits	2,968,678	2,381,817	6,052,317	4,866,595
Selling and administrative	2,969,733	2,191,769	5,159,016	3,852,002
Property operating expenses	7,161,334	7,363,040	14,031,493	14,497,378
Depreciation and amortization	1,827,595	1,512,024	3,459,726	2,660,980
Provision for loan losses (net of recoveries)	821,722	7,945,453	3,321,877	15,734,861
Management fee - related party	2,800,000	2,500,000	5,600,000	5,000,000
Total other expenses	18,549,062	23,894,103	37,624,429	46,611,816
Income (loss) from continuing operations before gain on extinguishment of debt, loss from equity affiliates and (provision) benefit for income taxes	4,284,120	(5,683,148)	7,830,223	(11,778,354)
Gain on extinguishment of debt		20,968,214	3,763,000	26,314,335
Loss from equity affiliates	(81,804)	(224,136)	(163,689)	(474,710)
Income before (provision) benefit for income taxes	4,202,316	15,060,930	11,429,534	14,061,271
(Provision) benefit for income taxes		(600,000)		801,558
Income from continuing operations	4,202,316	14,460,930	11,429,534	14,862,829
Gain on sale of real estate held-for-sale				3,487,145
Income from operations of real estate held-for-sale		1,138,899		1,465,446
Income from discontinued operations		1,138,899		4,952,591
Net income	4,202,316	15,599,829	11,429,534	19,815,420
Preferred stock dividends	1,152,617		1,685,945	
Net income attributable to noncontrolling interest	53,833	53,811	107,484	107,622
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 2,995,866	\$ 15,546,018	\$ 9,636,105	\$ 19,707,798

Basic earnings per common share:

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Income from continuing operations, net of noncontrolling interest and preferred stock dividends	\$	0.07	\$	0.57	\$	0.25	\$	0.60
Income from discontinued operations				0.05				0.20
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$	0.07	\$	0.62	\$	0.25	\$	0.80
Diluted earnings per common share:								
Income from continuing operations, net of noncontrolling interest and preferred stock dividends	\$	0.07	\$	0.57	\$	0.25	\$	0.59
Income from discontinued operations				0.05				0.20
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$	0.07	\$	0.62	\$	0.25	\$	0.79
Dividends declared per common share	\$	0.12	\$	0.075	\$	0.24	\$	0.075
Weighted average number of shares of common stock outstanding:								
Basic		43,113,898		24,977,879		38,468,718		24,579,022
Diluted		43,555,495		25,267,459		38,921,834		24,805,807

See Notes to Consolidated Financial Statements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the Three and Six Months Ended June 30, 2013 and 2012

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 4,202,316	\$ 15,599,829	\$ 11,429,534	\$ 19,815,420
Unrealized gain (loss) on securities available-for-sale, net	58,789	(411,817)	58,789	(411,817)
Reclassification of unrealized gain on securities available-for-sale realized into earnings	(100,000)		(100,000)	
Unrealized gain (loss) on derivative financial instruments	1,640,042	(3,468,402)	1,285,062	(4,734,869)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	3,516,886	3,950,019	7,012,650	9,146,648
Comprehensive income	9,318,033	15,669,629	19,686,035	23,815,382
Less:				
Preferred stock dividends	1,152,617		1,685,945	
Comprehensive income attributable to noncontrolling interest	53,833	53,811	107,484	107,622
Comprehensive income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 8,111,583	\$ 15,615,818	\$ 17,892,606	\$ 23,707,760

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2013

(Unaudited)

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock	Accumulated Deficit	Accumulated Comprehensive Other Loss	Total Arbor Realty Trust, Inc. Stockholders Equity	Non- controlling Interest
Balance											
January 1, 2013		\$	33,899,992	\$ 339,000	\$ 493,211,222	(2,650,767)	\$ (17,100,916)	\$ (207,558,257)	\$ (39,561,700)	\$ 229,329,349	\$ 1,931,773
Issuance of common stock			11,625,000	116,250	88,384,501					88,500,751	
Issuance of 8.25% Series A preferred stock	1,551,500	37,315,694								37,315,694	
Issuance of 7.75% Series B preferred stock	1,260,000	30,338,961								30,338,961	
Stock-based compensation			262,750	2,627	1,246,864					1,249,491	
Distributions common stock								(9,330,990)		(9,330,990)	
Distributions preferred stock								(1,685,945)		(1,685,945)	
Distributions preferred stock of private REIT								(7,230)		(7,230)	
Net income								11,322,050		11,322,050	107,484
Distribution to non-controlling interest											(103,819)
Unrealized gain on securities available-for-sale									58,789	58,789	
Reclassification of unrealized gain on securities available-for- sale realized into earnings									(100,000)	(100,000)	
Unrealized gain on derivative financial instruments, net									1,285,062	1,285,062	
Reclassification of net realized loss on derivatives									7,012,650	7,012,650	

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

designated as
cash flow hedges
into earnings

Balance June 30,
2013

2,811,500 \$ 67,654,655 45,787,742 \$ 457,877 \$ 582,842,587 (2,650,767) \$ (17,100,916) \$ (207,260,372) \$ (31,305,199) \$ 395,288,632 \$ 1,935,438 \$ 3

See Notes to Consolidated Financial Statements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Six Months Ended June 30, 2013 and 2012

(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Operating activities:		
Net income	\$ 11,429,534	\$ 19,815,420
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,459,726	2,716,972
Stock-based compensation	1,249,491	578,190
Gain on sale of securities	(1,100,000)	
Gain on sale of real estate held-for-sale		(3,487,145)
Reversal of liabilities related to discontinued operations		(1,175,120)
Gain on extinguishment of debt	(3,763,000)	(26,314,335)
Provision for loan losses (net of recoveries)	3,321,877	15,734,861
Amortization and accretion of interest, fees and intangible assets, net	(855,523)	1,816,482
Change in fair value of non-qualifying swaps	1,040,379	718,788
Loss from equity affiliates	163,689	474,710
Changes in operating assets and liabilities:		
Other assets	(335,388)	(4,216,312)
Distributions of operations from equity affiliates	48,813	48,851
Other liabilities	(41,279)	1,084,682
Change in restricted cash	(332,851)	83,093
Due to/from related party	(1,182,935)	(719,315)
Net cash provided by operating activities	\$ 13,102,533	\$ 7,159,822
Investing activities:		
Loans and investments funded, originated and purchased, net	(285,483,359)	(88,248,229)
Payoffs and paydowns of loans and investments	70,432,700	114,877,983
Proceeds from sale of loan		17,945,000
Due to borrowers and reserves	(585,143)	(310,788)
Deferred fees	1,937,037	1,441,138
Purchase of securities held-to-maturity, net	(29,024,327)	(60,792,951)
Principal collection on securities held-to-maturity, net	24,611,838	26,650,036
Investment in real estate, net	(3,938,759)	(1,749,552)
Proceeds from sale of available-for-sale security	2,100,000	
Proceeds from sale of real estate, net		24,131,557
Contributions to equity affiliates		(223,532)
Distributions from equity affiliates		52,518
Net cash (used in) / provided by investing activities	\$ (219,950,013)	\$ 33,773,180
Financing activities:		
Proceeds from repurchase agreements and credit facilities	88,043,151	86,330,470
Paydowns and payoffs of repurchase agreements and credit facilities	(117,607,334)	(35,137,876)
Payoff and paydown of mortgage notes payable		(20,750,000)
Proceeds from collateralized loan obligations	177,000,000	

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Payoffs and paydowns of collateralized debt obligations	(64,214,811)	(65,723,348)
Change in restricted cash	8,720,762	(10,448,344)
Payments on financial instruments underlying linked transactions	(97,567,458)	(27,099,099)
Receipts on financial instruments underlying linked transactions	91,913,598	24,293,352
Payments on swaps and margin calls to counterparties	(51,364,587)	(2,600,000)
Receipts on swaps and margin calls from counterparties	51,972,076	3,740,000
Purchases of treasury stock		(684,764)
Distributions paid to noncontrolling interest	(103,819)	(108,989)
Proceeds from issuance of common stock	91,696,328	18,900,000
Expenses paid on issuance of common stock	(3,194,741)	(1,175,746)
Proceeds from issuance of preferred stock	70,287,500	
Expenses paid on issuance of preferred stock	(2,614,057)	
Distributions paid on common stock	(9,330,990)	(1,818,691)
Distributions paid on preferred stock	(1,066,656)	
Distributions paid on preferred stock of private REIT	(7,230)	(3,615)
Payment of deferred financing costs	(4,191,067)	398,979
Net cash provided by / (used in) financing activities	\$ 228,370,665	\$ (31,887,671)
Net increase in cash and cash equivalents	\$ 21,523,185	\$ 9,045,331
Cash and cash equivalents at beginning of period	29,188,889	55,236,479
Cash and cash equivalents at end of period	\$ 50,712,074	\$ 64,281,810

See Notes to Consolidated Financial Statements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

For the Six Months Ended June 30, 2013 and 2012

(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Supplemental cash flow information:		
Cash used to pay interest	\$ 23,611,936	\$ 18,064,143
Cash used for taxes	\$ 208,071	\$ 136,074
Supplemental schedule of non-cash investing and financing activities:		
Distributions accrued on 8.25% Series A preferred stock	\$ 266,664	\$
Distributions accrued on 7.75% Series B preferred stock	\$ 352,625	\$
Accrued and unpaid expenses on preferred stock offering	\$ 18,788	\$
Accrued and unpaid expenses on CLO offering	\$ 500,000	\$
Transfer of real estate held-for-sale to first lien holder	\$	\$ 41,440,000
Release of mortgage note payable held-for-sale	\$	\$ 41,440,000
Satisfaction of participation loan	\$	\$ 32,000,000
Retirement of participation liability	\$	\$ 32,000,000

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Note 1 Description of Business / Form of Ownership

Arbor Realty Trust, Inc. (the Company) is a Maryland corporation that was formed in June 2003 to invest in a diversified portfolio of multi-family and commercial real estate related assets, primarily consisting of bridge loans, mezzanine loans, junior participating interests in first mortgage loans, and preferred and direct equity. The Company may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. The Company conducts substantially all of its operations through its operating partnership, Arbor Realty Limited Partnership (ARLP), and ARLP's wholly-owned subsidiaries. The Company is externally managed and advised by Arbor Commercial Mortgage, LLC (ACM).

The Company is organized and conducts its operations to qualify as a real estate investment trust (REIT) for federal income tax purposes. A REIT is generally not subject to federal income tax on its REIT taxable income that it distributes to its stockholders, provided that it distributes at least 90% of its REIT taxable income and meets certain other requirements. Certain assets of the Company that produce non-qualifying income are owned by its taxable REIT subsidiaries, the income of which is subject to federal and state income taxes.

The Company's charter provides for the issuance of up to 500 million shares of common stock, with a par value of \$0.01 per share, and 100 million shares of preferred stock, with a par value of \$0.01 per share. The Company was incorporated in June 2003 and was initially capitalized through the sale of 67 shares of common stock for \$1,005.

In July 2003, ACM contributed \$213.1 million of structured finance assets and \$169.2 million of borrowings supported by \$43.9 million of equity in exchange for a commensurate equity ownership in ARLP. In addition, certain employees of ACM were transferred to ARLP. At that time, these assets, liabilities and employees represented a substantial portion of ACM's structured finance business. The Company is externally managed and advised by ACM and pays ACM a management fee in accordance with a management agreement. ACM also sources originations, provides underwriting services, and services all structured finance assets on behalf of ARLP and its wholly owned subsidiaries.

In July 2003, the Company completed a private equity offering of 1,610,000 units (including an overallotment option), each consisting of five shares of common stock and one warrant to purchase one share of common stock at \$75.00 per unit. The Company sold 8,050,000 shares of common stock in the offering. Gross proceeds from the private equity offering totaled \$120.2 million. Gross proceeds from the private equity offering combined with the concurrent equity contribution by ACM totaled approximately \$164.1 million in equity capital. The Company paid and accrued offering expenses of \$10.1 million resulting in Arbor Realty Trust, Inc. stockholders' equity and noncontrolling interest of \$154.0 million as a result of the private placement.

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

In April 2004, the Company sold 6,750,000 shares of its common stock in a public offering at a price of \$20.00 per share, for net proceeds of approximately \$124.4 million after deducting the underwriting discount and other offering expenses. The Company used the proceeds to pay down its indebtedness. In May 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares. The Company received net proceeds of approximately \$9.8 million after deducting the underwriting discount. In October 2004, ARLP received proceeds of approximately \$9.4 million from the exercise of warrants for 629,345 operating partnership units. Additionally, in 2004 and 2005, the Company issued 973,354 and 282,776 shares of common stock, respectively, from the exercise of warrants under its Warrant Agreement dated July 1, 2003 and received net proceeds of \$12.9 million and \$4.2 million, respectively.

In June 2007, the Company completed a public offering in which it sold 2,700,000 shares of its common stock registered for \$27.65 per share, and received net proceeds of approximately \$73.6 million after deducting the underwriting discount and other offering expenses. The Company used the proceeds to pay down debt and finance its loan and investment portfolio.

In June 2008, the Company's external manager exercised its right to redeem its approximate 3.8 million operating partnership units in the Company's operating partnership for shares of the Company's common stock on a

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

one-for-one basis. In addition, the special voting preferred shares paired with each operating partnership unit, pursuant to a pairing agreement, were redeemed simultaneously and cancelled by the Company.

In June 2010, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (the 1933 Act) with respect to an aggregate of \$500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants that may be sold by the Company from time to time pursuant to Rule 415 of the 1933 Act. On June 23, 2010, the SEC declared this shelf registration statement effective. In June 2013, the Company filed a new shelf registration statement for \$500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants.

In June 2012, the Company completed a public offering in which it sold 3,500,000 shares of its common stock for \$5.40 per share, and received net proceeds of approximately \$17.5 million after deducting the underwriting discount and other offering expenses. The Company used the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes.

In October 2012, the Company completed another public offering in which it sold 3,500,000 shares of its common stock for \$5.80 per share, and received net proceeds of approximately \$19.2 million after deducting the underwriting discount and other offering expenses. The Company used the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes.

In December 2012, the Company entered into an At-The-Market (ATM) equity offering sales agreement with JMP Securities LLC (JMP) whereby, in accordance with the terms of the agreement, from time to time the Company could issue and sell through JMP up to 6,000,000 shares of our common stock. Sales of the shares were made by means of ordinary brokers transactions at market prices prevailing at the time of sale, or at negotiated prices. As of March 15, 2013, JMP sold all 6,000,000 common shares for total net proceeds of \$45.6 million. The Company used the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes.

On February 1, 2013, the Company completed an underwritten public offering of 1,400,000 shares of 8.25% Series A cumulative redeemable preferred stock generating net proceeds of approximately \$33.6 million after deducting underwriting fees and estimated offering costs. On February 5, 2013, the underwriters exercised a portion of their over-allotment option for 151,500 shares providing additional net proceeds of approximately \$3.7 million. The Company used the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes.

On March 27, 2013, the Company completed another public offering in which it sold 5,625,000 shares of its common stock for \$8.00 per share, and received net proceeds of approximately \$43.0 million after deducting the underwriting discount and other offering expenses. The Company

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

used the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes. The underwriters were granted an over-allotment option for 843,750 additional shares which expired in April 2013.

On May 9, 2013, the Company completed an underwritten public offering of 1,200,000 shares of 7.75% Series B cumulative redeemable preferred stock generating net proceeds of approximately \$28.9 million after deducting underwriting fees and estimated offering costs. On May 15, 2013, the underwriters exercised a portion of their over-allotment option for 60,000 shares providing additional net proceeds of approximately \$1.5 million. The Company used the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes.

The Company had 43,136,975 shares of common stock outstanding at June 30, 2013 and 31,249,225 shares of common stock outstanding at December 31, 2012.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification , the authoritative reference for accounting principles generally accepted in the United States (GAAP), for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements, although management believes that the disclosures presented herein are adequate to prevent the accompanying unaudited consolidated interim financial statements presented from being misleading.

The accompanying unaudited consolidated financial statements include the financial statements of the Company, its wholly owned subsidiaries, partnerships or other joint ventures in which the Company owns a voting interest of greater than 50 percent, and Variable Interest Entities (VIEs) of which the Company is the primary beneficiary. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Current accounting guidance requires the Company to present a) assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE, and b) liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary. As a result of this guidance, the Company has separately disclosed parenthetically the assets and liabilities of its three collateralized debt obligation (CDO) and two collateralized loan obligation (CLO) subsidiaries on its Consolidated Balance Sheets. Entities in which the Company owns a voting interest of 20 percent to 50 percent are accounted for primarily under the equity method.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All significant inter-company transactions and balances have been eliminated in consolidation.

The preparation of consolidated interim financial statements in conformity with GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Further, in connection with the preparation of the consolidated interim financial statements, the Company evaluated events subsequent to the balance sheet date of June 30, 2013 through the issuance of the Consolidated Financial Statements.

Certain prior year amounts have been reclassified to conform to current period presentation. During the fourth quarter of 2012, the Company sold a real estate investment that was part of a portfolio of hotel properties, resulting in a reclassification of the operating activity from property operating income and expenses to discontinued operations for all prior periods presented.

The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2013. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated annual financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company places its cash and cash equivalents in high quality financial institutions. The

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

consolidated account balances at each institution periodically exceed Federal Deposit Insurance Corporation (FDIC) insurance coverage and the Company believes that this risk is not significant.

Restricted Cash

At June 30, 2013 and December 31, 2012, the Company had restricted cash of \$34.1 million and \$42.5 million, respectively. Restricted cash primarily represents proceeds from the Company's second CLO which will be used to purchase underlying assets, loan repayments on deposit with the trustees for the Company's CDOs which will be used for principal repayments, unfunded loan commitments and interest payments received from loans. As of January 2012, all three of the CDOs have reached their replenishment dates and principal repayments are remitted quarterly to the bond holders and the Company in the month following the quarter. See Note 7 Debt Obligations. The Company's real estate owned assets also had restricted cash balances totaling \$1.1 million and \$1.0 million as of June 30, 2013 and December 31, 2012, respectively, due to escrow requirements. See Note 6 Real Estate Owned and Held-For-Sale.

Loans, Investments and Securities

At the time of purchase, the Company designates a security as available-for-sale, held-to-maturity, or trading depending on the Company's ability and intent to hold it to maturity. The Company does not have any securities designated as trading as of June 30, 2013. Securities available-for-sale are reported at fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss, while securities held-to-maturity are reported at amortized cost. Unrealized losses that are determined to be other-than-temporary are recognized in earnings up to their credit component. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions. The process may include, but is not limited to, assessment of recent market events and prospects for near-term recovery, assessment of cash flows, internal review of the underlying assets securing the investments, credit of the issuer and the rating of the security, as well as the Company's ability and intent to hold the investment to maturity. Management closely monitors market conditions on which it bases such decisions.

The Company also assesses certain of its securities, other than those of high credit quality, to determine whether significant changes in estimated cash flows or unrealized losses on these securities, if any, reflect a decline in value which is other-than-temporary and, accordingly, should be written down to their fair value against earnings. On a quarterly basis, the Company reviews these changes in estimated cash flows, which could occur due to actual prepayment and credit loss experience, to determine if an other-than-temporary impairment is deemed to have occurred. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions and is not necessarily intended to indicate a permanent decline in value. The Company calculates a revised yield based on the current amortized cost of the investment, including any other-than-temporary impairments recognized to date, and the revised yield is then applied prospectively to recognize interest income.

Securities that are purchased at a discount and that are not of high credit quality at the time of purchase are accounted for as debt securities acquired with deteriorated credit quality. Interest income on these securities is recognized using the effective interest method based on the Company's estimates of expected cash flows to be received, which include assumptions related to fluctuations in prepayment speeds and the timing and amount of credit losses which are reviewed on an ongoing basis.

Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. The Company invests in preferred equity interests that, in some cases, allow the Company to participate in a percentage of the underlying property's cash flows from operations and proceeds from a sale or refinancing. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, joint venture or as real estate. To date, management has determined that all such investments are properly accounted for and reported as loans.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

From time to time, the Company may enter into an agreement to sell a loan. These loans are considered held-for-sale and are valued at the lower of the loan's carrying amount or fair value less costs to sell. For the sale of loans, recognition occurs when ownership passes to the buyer.

Impaired Loans, Allowance for Loan Losses, Loss on Sale and Restructuring of Loans and Charge-offs

The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. The Company evaluates each loan in its portfolio on a quarterly basis. The Company's loans are individually specific and unique as it relates to product type, geographic location, and collateral type, as well as to the rights and remedies and the position in the capital structure the Company's loans and investments have in relation to the underlying collateral. The Company evaluates all of this information as well as general market trends related to specific classes of assets, collateral type and geographic locations, when determining the appropriate assumptions such as capitalization and market discount rates, as well as the borrower's operating income and cash flows, in estimating the value of the underlying collateral when determining if a loan is impaired. The Company utilizes internally developed valuation models and techniques primarily consisting of discounted cash flow and direct capitalization models in determining the fair value of the underlying collateral on an individual loan. The Company may also obtain a third party appraisal, which may value the collateral through an as-is or stabilized value methodology. Such appraisals may be used as an additional source of valuation information only and no adjustments are made to appraisals. Included in the evaluation of the capitalization and market discount rates, the Company considers not only assumptions specific to the collateral but also considers geographical and industry trends that could impact the collateral's value.

If upon completion of the valuation, the fair value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level that is believed to be adequate by management to absorb probable losses. The Company had an allowance for loan losses of \$146.6 million relating to 20 loans with an aggregate carrying value, before loan loss reserves, of approximately \$247.6 million at June 30, 2013 and \$161.7 million in allowance for loan losses relating to 20 loans with an aggregate carrying value, before loan loss reserves, of approximately \$240.2 million at December 31, 2012.

Loan terms may be modified if the Company determines that based on the individual circumstances of a loan and the underlying collateral, a modification would more likely increase the total recovery of the combined principal and interest from the loan. Any loan modification is predicated upon a goal of maximizing the collection of the loan. Typical triggers for a modification would include situations where the projected cash flow is insufficient to cover required debt service, when asset performance is lagging the initial projections, where there is a requirement for rebalancing, where there is an impending maturity of the loan, and where there is an actual loan default. Loan terms that have been modified have included, but are not limited to interest rate, maturity date and in certain cases, principal amount. Length and amounts of each modification have varied based on individual circumstances and are determined on a case by case basis. If the loan modification constitutes a concession whereas the Company does not receive ample consideration in return for the modification, and the borrower is experiencing financial difficulties and cannot repay the loan under the current terms, then the modification is considered by the Company to be a troubled debt restructuring. If the Company receives a benefit, either monetary or strategic, and the above criteria are not met, the modification

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

is not considered to be a troubled debt restructuring. The Company records interest on modified loans on an accrual basis to the extent that the modified loan is contractually current.

Loss on restructured loans is recorded when the Company has granted a concession to the borrower in the form of principal forgiveness related to the payoff or the substitution or addition of a new debtor for the original borrower or when the Company incurs costs on behalf of the borrower related to the modification, payoff or the substitution or addition of a new debtor for the original borrower. When a loan is restructured, the Company records its investment at net realizable value, taking into account the cost of all concessions at the date of restructuring. The reduction in the recorded investment is recorded as a charge to the Consolidated Statement of Operations in the period in which the loan is restructured. In addition, a gain or loss may be recorded upon the sale of a loan to a third

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

party as a charge to the Consolidated Statement of Operations in the period in which the loan was sold. No loss on sale and restructuring of loans was recorded for the six months ended June 30, 2013 and 2012.

Charge-offs to the allowance for loan losses occur when losses are confirmed through the receipt of cash or other consideration from the completion of a sale; when a modification or restructuring takes place in which the Company grants a concession to a borrower or agrees to a discount in full or partial satisfaction of the loan; when the Company takes ownership and control of the underlying collateral in full satisfaction of the loan; when loans are reclassified as other investments; or when significant collection efforts have ceased and it is highly likely that a loss has been realized. For the six months ended June 30, 2013 and 2012, the Company recorded charge-offs to the allowance for loan losses of \$18.5 million and \$12.8 million, respectively.

Real Estate Owned and Held-For-Sale

Real estate owned, shown net of accumulated depreciation and impairment charges, is comprised of real property acquired by foreclosure or through partial or full settlement of mortgage debt. The real estate acquired is recorded at the estimated fair value at the time of acquisition.

Costs incurred in connection with the foreclosure of the properties collateralizing the real estate loans are expensed as incurred and costs subsequently incurred to extend the life or improve the assets subsequent to foreclosure are capitalized.

The Company allocates the purchase price of its operating properties to land, building, tenant improvements, deferred lease costs for the origination costs of the in-place leases, intangibles for the value of the above or below market leases at fair value and to any other identified intangible assets or liabilities. The Company finalizes its purchase price allocation on these assets within one year of the acquisition date. The Company amortizes the value allocated to the in-place leases over the remaining lease term. The value allocated to the above or below market leases are amortized over the remaining lease term as an adjustment to rental income.

Real estate assets, including assets acquired by foreclosure or through partial or full settlement of mortgage debt, that are operated for the production of income are depreciated using the straight-line method over their estimated useful lives. Ordinary repairs and maintenance which are not reimbursed by the tenants are expensed as incurred. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their estimated useful life.

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

The Company's properties are individually reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. The Company recognizes impairment if the undiscounted estimated cash flows to be generated by the assets are less than the carrying amount of those assets. Measurement of impairment is based upon the estimated fair value of the asset. Upon evaluating a property for impairment, many factors are considered, including estimated current and expected operating cash flows from the property during the projected holding period, costs necessary to extend the life or improve the asset, expected capitalization rates, projected stabilized net operating income, selling costs, and the ability to hold and dispose of such real estate owned in the ordinary course of business. Valuation adjustments may be necessary in the event that effective interest rates, rent-up periods, future economic conditions, and other relevant factors vary significantly from those assumed in valuing the property. If future evaluations result in a diminution in the value of the property, the reduction will be recognized as an impairment charge at that time.

Real estate is classified as held-for-sale when management commits to a plan of sale, the asset is available for immediate sale, there is an active program to locate a buyer, and it is probable the sale will be completed within one year. Properties classified as held-for-sale are not depreciated and the results of their operations are shown in discontinued operations. Real estate assets that are expected to be disposed of are valued, on an individual asset basis, at the lower of their carrying amount or their fair value less costs to sell.

The Company recognizes sales of real estate properties upon closing. Payments received from purchasers prior to closing are recorded as deposits. Profit on real estate sold is recognized upon closing using the full accrual

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

method when the collectability of the sale price is reasonably assured and the Company is not obligated to perform significant activities after the sale. Profit may be deferred in whole or in part until collectability of the sales price is reasonably assured and the earnings process is complete.

Revenue Recognition

Interest income Interest income is recognized on the accrual basis as it is earned from loans, investments, and securities. In certain instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, a prepayment fee and/or deferred interest upon maturity. In some cases, interest income may also include the amortization or accretion of premiums and discounts arising from the purchase or origination of the loan or security. This additional income, net of any direct loan origination costs incurred, is deferred and accreted into interest income on an effective yield or interest method adjusted for actual prepayment activity over the life of the related loan or security as a yield adjustment. Income recognition is suspended for loans when, in the opinion of management, a full recovery of all contractual principal is not probable. Income recognition is resumed when the loan becomes contractually current and performance is resumed. The Company records interest income on certain impaired loans to the extent cash is received, in which a loan loss reserve has been recorded, as the borrower continues to make interest payments. The Company recorded loan loss reserves related to these loans as it was deemed that full recovery of principal and interest was not probable.

Several of the Company's loans provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management's determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the asset. If management cannot make this determination, interest income above the current pay rate is recognized only upon actual receipt.

Given the transitional nature of some of the Company's real estate loans, the Company may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. The Company will analyze these interest reserves on a periodic basis and determine if any additional interest reserves are needed. Recognition of income on loans with funded interest reserves are accounted for in the same manner as loans without funded interest reserves. The Company will not recognize any interest income on loans in which the borrower has failed to make the contractual interest payment due or has not replenished the interest reserve account. As of June 30, 2013, the Company had total interest reserves of \$7.4 million on 40 loans with an aggregate unpaid principal balance of \$493.9 million and had three non-performing loans with an aggregate unpaid principal balance of \$38.4 million with a funded interest reserve of \$0.1 million. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

Additionally, interest income is recorded when earned from equity participation interests, referred to as equity kickers. These equity kickers have the potential to generate additional revenues to the Company as a result of excess cash flow distributions and/or as appreciated properties

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

are sold or refinanced. The Company did not record interest income from such investments for the three and six month periods ended June 30, 2013 and 2012.

Property operating income Property operating income represents income associated with the operations of commercial real estate properties classified as real estate owned. The Company recognizes revenue for these activities when the fees are fixed or determinable, or are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided. For the three and six months ended June 30, 2013, the Company recorded approximately \$8.2 million and \$17.1 million, respectively, of property operating income relating to its real estate owned properties, as compared to approximately \$8.1 million and \$16.9 million, respectively, for the three and six months ended June 30, 2012. As of June 30, 2013 and 2012, the Company had two real estate owned properties, a portfolio of multifamily assets that was purchased by the Company out of bankruptcy and a portfolio of hotel assets that was transferred to the Company by the owner, a creditor trust. Both of these portfolios were acquired in the first quarter of 2011. See Note 6 Real Estate Owned and Held-For-Sale for further details.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Other income, net Other income, net represents net interest income and gains and losses recorded on the Company's linked transactions, as well as loan structuring, defeasance, and miscellaneous asset management fees associated with the Company's loans and investments portfolio. The Company recognizes these forms of income when the fees are fixed or determinable, are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided.

Investment in Equity Affiliates

The Company invests in joint ventures that are formed to acquire, develop, and/or sell real estate assets. These joint ventures are not majority owned or controlled by the Company, or are VIEs for which the Company is not the primary beneficiary, and are not consolidated in its financial statements. These investments are recorded under either the equity or cost method of accounting as deemed appropriate. The Company records its share of the net income and losses from the underlying properties of its equity method investments and any other-than-temporary impairment on these investments on a single line item in the Consolidated Statement of Operations as income or losses from equity affiliates.

Stock-Based Compensation

The Company has granted certain of its employees, directors, and employees of ACM, stock awards consisting of shares of the Company's common stock that vest immediately or annually over a multi-year period, subject to the recipient's continued service to the Company. The Company records stock-based compensation expense at the grant date fair value of the related stock-based award with subsequent remeasurement for any unvested shares granted to non-employees of the Company with such amounts expensed against earnings, at the grant date (for the portion that vests immediately) or ratably over the respective vesting periods. Dividends are paid on restricted stock as dividends are paid on shares of the Company's common stock whether or not they are vested. Stock-based compensation is disclosed in the Company's Consolidated Statements of Operations under employee compensation and benefits for employees and under selling and administrative expense for non-employees.

Income Taxes

The Company is organized and conducts its operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on taxable income which is distributed to its stockholders, provided that the Company distributes at least 90% of its taxable income and meets certain other requirements. Certain REIT income may be subject to state and local income taxes. The Company's assets or operations that would not otherwise comply with the REIT requirements, are owned or

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

conducted by the Company's taxable REIT subsidiaries, the income of which is subject to federal and state income tax. Under current federal tax law, the income and any tax on or distribution requirements attributable to certain debt extinguishment transactions realized in 2009 and 2010 have been deferred to future periods at the Company's election.

Current accounting guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This guidance also provides clarity on derecognition, classification, interest and penalties, accounting in interim periods and disclosure.

Other Comprehensive Income / (Loss)

The Company divides comprehensive income or loss into net income (loss) and other comprehensive income (loss), which includes unrealized gains and losses on available-for-sale securities. In addition, to the extent the Company's derivative instruments qualify as hedges, net unrealized gains or losses are reported as a component of accumulated other comprehensive income (loss). See "Derivatives and Hedging Activities" below. At June 30, 2013, accumulated other comprehensive loss was \$31.3 million and consisted of \$31.7 million of net unrealized losses on derivatives designated as cash flow hedges and a \$0.4 million unrealized gain related to available-for-sale

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

securities. At December 31, 2012, accumulated other comprehensive loss was \$39.6 million and consisted of \$40.0 million of net unrealized losses on derivatives designated as cash flow hedges and a \$0.4 million unrealized gain related to available-for-sale securities.

Hedging Activities and Derivatives

Hedging Activities

The Company recognizes all derivatives as either assets or liabilities at fair value and these amounts are recorded in other assets or other liabilities in the Consolidated Balance Sheets. Additionally, the fair value adjustments will affect either accumulated other comprehensive income (loss) until the hedged item is recognized in earnings, or net income (loss) depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The Company uses derivatives for hedging purposes rather than speculation. Fair values are approximated based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions.

Derivatives

The Company records all derivatives in the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In the normal course of business, the Company may use a variety of derivative financial instruments to manage, or hedge, interest rate risk. These derivative financial instruments must be effective in reducing its interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

the instrument are marked-to-market with changes in value included in net income (loss) for each period until the derivative instrument matures or is settled. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income (loss). In cases where a derivative financial instrument is terminated early, any gain or loss is generally amortized over the remaining life of the hedged item.

In certain circumstances, the Company may finance the purchase of Residential Mortgage Backed Securities (RMBS) investments through a repurchase agreement with the same counterparty which may qualify as a linked transaction. If both transactions are entered into contemporaneously or in contemplation of each other, the transactions are presumed to be linked transactions unless certain criteria are met, and the Company accounts for the purchase of such securities and the repurchase agreement on a combined basis as a forward contract derivative at fair value which is reported in other assets on the Consolidated Balance Sheet with changes in the fair value of the assets and liabilities underlying linked transactions and associated interest income and expense reported in other income on the Consolidated Statement of Operations. The analysis of transactions under these rules requires management's judgment and experience. See Note 8 Derivative Financial Instruments for further details.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Variable Interest Entities

The Company has evaluated its loans and investments, mortgage related securities, investments in equity affiliates, junior subordinated notes, CDOs and CLOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in the Company determining that its bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CDOs, CLOs, and investments in debt securities were potential VIEs or variable interests in VIEs. A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 9 Variable Interest Entities for further details.

Recently Issued Accounting Pronouncements

In June 2013, the FASB issued updated guidance on the definition and measurement of investment companies. The guidance does not address the applicability of investment company accounting for real estate entities and thus does not have a material effect on the Company's Consolidated Financial Statements.

In December 2011, the FASB issued updated guidance on disclosure about offsetting assets and liabilities which amends U.S. GAAP to conform more to the disclosure requirements of International Financial Reporting Standards (IFRS). Under the updated guidance, an entity is required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB issued further guidance clarifying the scope of disclosures about offsetting assets and liabilities. The scope applies to certain derivatives (including bifurcated embedded derivatives,) repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions. The guidance is effective as of the first quarter of 2013 and its adoption did not have a material effect on the Company's Consolidated Financial Statements.

In June 2011, the FASB issued updated guidance on comprehensive income which amends U.S. GAAP to conform to IFRS disclosure requirements. The amendment eliminates the option to present components of other comprehensive income as part of the Statement of Changes in Stockholders' Equity and requires a separate Statement of Comprehensive Income or two consecutive statements in the Statement of Operations and in a separate Statement of Comprehensive Income. The guidance also requires the presentation of reclassification adjustments for each component of other comprehensive income on the face of the financial statements rather than in the notes to the financial statements. This guidance was effective as of the first quarter of 2012, except for guidance on the disclosure of reclassification adjustments which was

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

postponed for re-deliberation by the FASB, and early adoption was permitted. The Company early adopted the guidance in the fourth quarter of 2011, with the exception of the disclosure of reclassification adjustments postponed for re-deliberation by the FASB. As the guidance only amends existing disclosure requirements, its adoption did not have a material effect on the Company's Consolidated Financial Statements. In February 2013, the FASB issued updated guidance on the disclosure of reclassification adjustments. The updated guidance requires the Company to disclose, either on the face of the financial statements or in the notes to the financial statements, the financial statement effects on earnings from items that are reclassified out of other comprehensive income, by component. This guidance is effective as of the first quarter of 2013 and its adoption did not have a material effect on the Company's Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Note 3 Loans and Investments

The following table sets forth the composition of the Company's loan and investment portfolio at June 30, 2013 and December 31, 2012:

	June 30, 2013	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	First Dollar LTV Ratio (2)	Last Dollar LTV Ratio (3)
Bridge loans	\$ 1,198,479,237	71%	101	5.12%	19.7	0%	76%
Mezzanine loans	106,994,692	6%	24	5.80%	63.5	53%	86%
Junior participation loans	276,966,700	16%	8	4.29%	22.9	58%	79%
Preferred equity investments	110,323,672	7%	13	6.80%	61.8	59%	79%
	1,692,764,301	100%	146	5.13%	25.8	17%	78%
Unearned revenue	(13,633,283)						
Allowance for loan losses	(146,563,765)						
Loans and investments, net	\$ 1,532,567,253						
	December 31, 2012	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	First Dollar LTV Ratio (2)	Last Dollar LTV Ratio (3)
Bridge loans	\$ 1,006,726,838	67%	83	4.87%	25.0	0%	75%
Mezzanine loans	112,843,639	7%	24	4.94%	62.6	59%	88%
Junior participation loans	280,662,498	19%	9	3.90%	29.1	59%	79%
Preferred equity investments	100,823,672	7%	12	6.04%	72.2	77%	97%
	1,501,056,647	100%	128	4.77%	31.8	21%	80%
Unearned revenue	(13,683,281)						
Allowance for loan losses	(161,706,313)						
Loans and investments, net	\$ 1,325,667,053						

(1) Weighted Average Pay Rate is a weighted average, based on the unpaid principal balances of each loan in the Company's portfolio, of the interest rate that is required to be paid monthly as stated in the individual loan agreements. Certain loans and investments that require an additional rate of interest Accrual Rate to be paid at the maturity are not included in the weighted average pay rate as shown in the table.

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

- (2) The First Dollar LTV Ratio is calculated by comparing the total of the Company's senior most dollar and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will absorb a total loss of its position.
- (3) The Last Dollar LTV Ratio is calculated by comparing the total of the carrying value of the Company's loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will initially absorb a loss.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Concentration of Credit Risk

The Company operates in one portfolio segment, commercial mortgage loans and investments. Commercial mortgage loans and investments can potentially subject the Company to concentrations of credit risk. The Company is subject to concentration risk in that, as of June 30, 2013, the unpaid principal balance related to 31 loans with five different borrowers represented approximately 31% of total assets. At December 31, 2012, the unpaid principal balance related to 23 loans with five different borrowers represented approximately 31% of total assets. As of June 30, 2013 and December 31, 2012, the Company had 146 and 128 loans and investments, respectively.

As a result of the loan review process, the Company identified loans and investments that it considers higher-risk loans that had a carrying value, before loan loss reserves, of approximately \$220.2 million and a weighted average last dollar loan-to-value (LTV) ratio of 92%, compared to lower-risk loans with a carrying value, before loan loss reserves, of \$1.4 billion and a weighted average last dollar LTV ratio of 76% at June 30, 2013.

The Company measures its relative loss position for its mezzanine loans, junior participation loans, and preferred equity investments by determining the point where the Company will be exposed to losses based on its position in the capital stack as compared to the fair value of the underlying collateral. The Company determines its loss position on both a first dollar LTV and a last dollar LTV basis. First dollar LTV is calculated by comparing the total of the Company's senior most dollar and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will absorb a total loss of its position. Last dollar LTV is calculated by comparing the total of the carrying value of the Company's loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will initially absorb a loss.

As a component of the Company's policies and procedures for loan valuation and risk assessment, each loan and investment is assigned a credit risk rating. Individual ratings range from one to five, with one being the lowest risk and five being the highest. Each credit risk rating has benchmark guidelines which pertain to debt-service coverage ratios, LTV ratios, borrower strength, asset quality, and funded cash reserves. Other factors such as guarantees, market strength, remaining loan term, and borrower equity are also reviewed and factored into determining the credit risk rating assigned to each loan. This metric provides a helpful snapshot of portfolio quality and credit risk. Given the Company's asset management approach, however, the risk rating process does not result in differing levels of diligence contingent upon credit rating. That is because all portfolio assets are subject to the level of scrutiny and ongoing analysis consistent with that of a high-risk loan. All assets are subject to, at minimum, a thorough quarterly financial evaluation in which historical operating performance is reviewed, and forward-looking projections are created. Generally speaking, given the Company's typical loan and investment profile, a risk rating of three suggests that the Company expects the loan to make both principal and interest payments according to the contractual terms of the loan agreement, and is not considered impaired. A risk rating of four indicates the Company anticipates that the loan will require a modification of some kind. A risk rating of five indicates the Company expects the loan to underperform over its term, and that there could be loss of interest and/or principal. Ratings of 3.5 and 4.5 generally indicate loans that have characteristics of both the immediately higher and lower classifications. Further, while the above are the primary guidelines used in determining a certain risk rating, subjective items such as borrower strength, condition of the market of the underlying collateral, additional collateral or other credit enhancements, or loan terms, may result in a rating that is higher or lower

than might be indicated by any risk rating matrix.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2013****(Unaudited)**

A summary of the loan portfolio's weighted average internal risk ratings and LTV ratios by asset class as of June 30, 2013 and December 31, 2012 is as follows:

Asset Class	Unpaid Principal Balance	As of June 30, 2013			
		Percentage of Portfolio	Wtd. Avg. Internal Risk Rating	First Dollar LTV Ratio	Last Dollar LTV Ratio
Multi-family	\$ 980,756,061	57.9%	3.2	13%	77%
Office	414,692,898	24.5%	3.2	31%	80%
Land	140,250,273	8.3%	4.2	0%	85%
Hotel	101,566,240	6.0%	3.5	18%	78%
Commercial	23,498,829	1.4%	3.0	0%	49%
Retail	16,750,000	1.0%	2.8	0%	71%
Condo	15,250,000	0.9%	3.7	54%	70%
Total	\$ 1,692,764,301	100.0%	3.3	17%	78%

Asset Class	Unpaid Principal Balance	As of December 31, 2012			
		Percentage of Portfolio	Wtd. Avg. Internal Risk Rating	First Dollar LTV Ratio	Last Dollar LTV Ratio
Multi-family	\$ 771,140,021	51.4%	3.4	19%	79%
Office	415,162,338	27.6%	3.2	31%	81%
Land	140,745,980	9.4%	4.2	0%	86%
Hotel	105,613,791	7.0%	3.6	22%	78%
Commercial	23,794,517	1.6%	3.0	0%	50%
Retail	19,350,000	1.3%	2.9	0%	61%
Condo	25,250,000	1.7%	4.2	58%	90%
Total	\$ 1,501,056,647	100.0%	3.4	21%	80%

Geographic Concentration Risk

As of June 30, 2013, 30%, 9%, 9% and 9% of the outstanding balance of the Company's loans and investments portfolio had underlying properties in New York, California, Texas and Florida, respectively. As of December 31, 2012, 34%, 11%, 10% and 8% of the outstanding balance of the Company's loans and investments portfolio had underlying properties in New York, California, Texas and Florida, respectively.

Impaired Loans and Allowance for Loan Losses

The Company performs an evaluation of the loan portfolio quarterly to assess the performance of its loans and whether a reserve for impairment should be recorded. The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement.

During the three months ended June 30, 2013, the Company determined that the fair value of the underlying collateral securing two impaired loans with an aggregate carrying value of \$12.9 million was less than the net carrying value of the loans, resulting in a \$1.5 million provision for loan losses. During the six months ended June 30, 2013, the Company determined that the fair value of the underlying collateral securing four impaired loans with an aggregate carrying value of \$26.6 million was less than the net carrying value of the loans, resulting in a \$4.0 million provision for loan losses. In addition, during the three and six months ended June 30, 2013, the Company recorded \$0.7 million, respectively of net recoveries of previously recorded loan loss reserves. These recoveries were recorded in provision for loan losses on the Consolidated Statement of Operations. The effect of the recoveries resulted in a provision for loan losses, net of recoveries, of \$0.8 million and \$3.3 million for the three and six months ended June 30, 2013, respectively. The \$1.5 million and \$4.0 million of loan loss reserves recorded during the three and six months ended June 30, 2013 was attributable to four loans on which the Company had not previously recorded reserves. The Company recorded an \$8.6 million and \$16.4 million provision for loan losses for the three and six months ended June 30, 2012, respectively, when it performed an evaluation of its loan portfolio and determined that the fair value of the underlying collateral securing one and three impaired loans, respectively, with an aggregate carrying value of \$20.6 million and \$55.4 million, respectively, were less than the net carrying value of the loans. In addition, during the three and six months ended June 30, 2012, the Company recorded \$0.6

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2013****(Unaudited)**

million and \$0.7 million, respectively of net recoveries of previously recorded loan loss reserves. The effect of these recoveries resulted in a provision for loan losses, net of recoveries, of \$8.0 million and \$15.7 million for the three and six months ended June 30, 2012, respectively. There were no loans for which the value of the collateral securing the loan was less than the carrying value of the loan for which the Company had not recorded a provision for loan loss as of June 30, 2013 and 2012.

At June 30, 2013, the Company had a total of 20 loans with an aggregate carrying value, before reserves, of \$247.6 million for which impairment reserves have been recorded. At December 31, 2012, the Company had a total of 20 loans with an aggregate carrying value, before loan loss reserves, of \$240.2 million for which impairment reserves have been recorded. Additionally, the Company has five loans with an unpaid principal balance totaling approximately \$111.2 million at June 30, 2013, which mature in September 2013, that are collateralized by a land development project. The loans do not carry a pay rate of interest, but four of the loans with an unpaid principal balance totaling approximately \$101.9 million entitle the Company to a weighted average accrual rate of interest of approximately 9.60%. During the fourth quarter of 2010, the Company suspended the recording of the accrual rate of interest on these loans, as these loans were impaired and management deemed the collection of this interest to be doubtful. The Company has recorded cumulative allowances for loan losses of \$43.7 million related to these loans as of June 30, 2013. The loans are subject to certain risks associated with a development project including, but not limited to, availability of construction financing, increases in projected construction costs, demand for the development's outputs upon completion of the project, and litigation risk. Additionally, these loans were not classified as non-performing as the borrower is in compliance with all of the terms and conditions of the loans.

A summary of the changes in the allowance for loan losses is as follows:

	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Allowance at beginning of the period	\$ 161,706,313	\$ 185,381,855
Provision for loan losses	4,000,000	16,396,064
Charge-offs	(18,461,330)	(12,763,663)
Recoveries of reserves	(681,218)	(697,341)
Allowance at end of the period	\$ 146,563,765	\$ 188,316,915

A summary of charge-offs and recoveries is as follows:

	For the Six Months Ended June 30, 2013	June 30, 2012
--	---	----------------------

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

<i>Charge-offs:</i>		
Multi-family	\$ (4,789,815)	\$ (6,951,004)
Office		(5,812,659)
Hotel	(3,671,515)	
Condo	(10,000,000)	
Total	\$ (18,461,330)	\$ (12,763,663)
<i>Recoveries:</i>		
Multi-family	\$ (681,218)	\$ (10,000)
Office		(687,341)
Total	\$ (681,218)	\$ (697,341)
Net Charge-offs	\$ (17,780,112)	\$ (12,066,322)
Ratio of net charge-offs during the period to average loans and investments outstanding during the period	1.1%	0.8%

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

A summary of the Company's impaired loans by asset class is as follows:

Asset Class	June 30, 2013			Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Unpaid Principal Balance	Carrying Value (1)	Allowance for Loan Losses	Average Recorded Investment (2)	Interest Income Recognized	Average Recorded Investment (2)	Interest Income Recognized
Multi-family	\$ 72,817,504	\$ 72,155,238	\$ 50,116,428	\$ 66,389,172	\$ 432,625	\$ 66,142,984	\$ 1,381,705
Office	46,762,808	39,331,814	30,929,067	46,762,808	480,204	42,562,808	952,515
Land	139,063,945	136,157,821	65,518,270	139,063,945		139,050,225	
Total	\$ 258,644,257	\$ 247,644,873	\$ 146,563,765	\$ 252,215,925	\$ 912,829	\$ 247,756,017	\$ 2,334,220

Asset Class	December 31, 2012			Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Unpaid Principal Balance	Carrying Value (1)	Allowance for Loan Losses	Average Recorded Investment (2)	Interest Income Recognized	Average Recorded Investment (2)	Interest Income Recognized
Multi-family	\$ 59,468,463	\$ 59,277,872	\$ 53,587,461	\$ 61,930,906	\$ 126,996	\$ 63,717,216	\$ 250,942
Office	38,362,808	30,545,156	28,929,067	41,755,321	387,241	41,785,210	812,136
Land	139,036,505	136,716,617	65,518,270	135,177,024		134,909,285	
Hotel	3,671,507	3,671,507	3,671,515	33,671,507	244,935	33,671,507	491,637
Condo	10,000,000	10,000,000	10,000,000	10,000,000	86,306	10,000,000	172,566
Total	\$ 250,539,283	\$ 240,211,152	\$ 161,706,313	\$ 282,534,758	\$ 845,478	\$ 284,083,218	\$ 1,727,281

(1) Represents the unpaid principal balance of impaired loans less unearned revenue and other holdbacks and adjustments by asset class.

(2) Represents an average of the beginning and ending unpaid principal balance of each asset class.

During the quarter ended June 30, 2013, the Company recorded cash recoveries of \$0.7 million. During the quarter ended March 31, 2013, the Company wrote off a bridge loan, two mezzanine loans and a junior participation loan with a total carrying value of \$18.5 million and recorded a charge-off to previously recorded reserves of \$18.5 million as well as a cash recovery of less than \$0.1 million.

During the quarter ended June 30, 2012, the Company wrote off two preferred equity investments with a total carrying value of \$3.4 million and a mezzanine loan with a carrying value of \$6.5 million and recorded charge-offs to previously recorded reserves totaling \$9.2 million as well as a cash recovery of \$0.7 million. During the quarter ended March 31, 2012, the Company wrote off two preferred equity investments with a total

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

carrying value of \$3.6 million and recorded charge-offs to previously recorded reserves totaling \$3.6 million.

As of June 30, 2013, six loans with an aggregate net carrying value of approximately \$14.8 million, net of related loan loss reserves of \$30.1 million, were classified as non-performing, all of which had loan loss reserves. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced. As of December 31, 2012, nine loans with an aggregate net carrying value of approximately \$14.9 million, net of related loan loss reserves of \$45.1 million, were classified as non-performing, of which one loan with a carrying value of \$5.0 million did not have a loan loss reserve.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

A summary of the Company's non-performing loans by asset class as of June 30, 2013 and December 31, 2012 is as follows:

Asset Class	As of June 30, 2013			As of December 31, 2012		
	Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due	Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due
Multi-family	\$ 9,492,835	\$	\$ 9,492,835	\$ 10,951,549	\$	\$ 10,951,549
Office	10,406,138		10,406,138	10,373,229		10,373,229
Land	24,999,972		24,999,972	24,999,972		24,999,972
Hotel				3,671,507		3,671,507
Condo				10,000,000		10,000,000
Total	\$ 44,898,945	\$	\$ 44,898,945	\$ 59,996,257	\$	\$ 59,996,257

At June 30, 2013, the Company did not have any loans contractually past due 90 days or more that are still accruing interest. During the quarter ended June 30, 2013, the Company did not refinance and/or modify or extend any loans considered to be trouble debt restructurings. During the quarter and six months ended June 30, 2013, the Company refinanced and/or modified one loan with a unpaid principal balance of \$6.3 million which was not considered by the Company to be a troubled debt restructuring, however, two loans with a combined unpaid principal balance of \$14.6 million that were extended during the period were considered to be trouble debt restructurings. During the quarter ended June 30, 2012, the Company refinanced and/or modified one loan with a unpaid principal balance of \$8.4 million which was not considered by the Company to be a troubled debt restructuring. During the six months ended June 30, 2012, the Company refinanced and/or modified two loans with a combined unpaid principal balance \$43.8 million which were not considered by the Company to be troubled debt restructurings. In addition, during the three and six months ended June 30, 2012, one loan with an unpaid principal balance of \$35.0 million and two loans with a combined unpaid principal balance of \$37.8 million, respectively, that were extended during the periods were considered to be trouble debt restructurings. The Company had no unfunded commitments on the modified loans which were considered troubled debt restructurings as of June 30, 2013.

A summary of loan modifications and extensions by asset class that the Company considered to be troubled debt restructurings during the three and six months ended June 30, 2013 were as follows:

Asset Class	For the Three Months Ended June 30, 2013					For the Six Months Ended June 30, 2013				
	Number of Loans	Original Unpaid Principal Balance	Original Rate of Interest	Extended Unpaid Principal Balance	Extended Rate of Interest	Number of Loans	Original Unpaid Principal Balance	Original Weighted Average Rate of Interest	Modified Unpaid Principal Balance	Modified Weighted Average Rate of Interest
Multifamily		\$		\$		1	\$ 6,192,666	5.96%	\$ 6,192,666	5.96%

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Office				1	8,400,000	8.24%	8,400,000	8.24%
Total	\$	\$		2	\$ 14,592,666	7.27%	\$ 14,592,666	7.27%

A summary of loan modifications and extensions by asset class that the Company considered to be troubled debt restructurings during the three and six months ended June 30, 2012 were as follows:

Asset Class	Number of Loans	For the Three Months Ended June 30, 2012				For the Six Months Ended June 30, 2012				
		Original Unpaid Principal Balance	Original Rate of Interest	Extended Unpaid Principal Balance	Extended Rate of Interest	Number of Loans	Original Unpaid Principal Balance	Original Weighted Average Rate of Interest	Modified Unpaid Principal Balance	Modified Weighted Average Rate of Interest
Land		\$		\$		1	\$ 2,818,270		\$ 2,818,270	
Hotel	1	35,000,000	2.00%	35,000,000	2.00%	1	35,000,000	2.00%	35,000,000	2.00%
Total	1	\$ 35,000,000	2.00%	\$ 35,000,000	2.00%	2	\$ 37,818,270	1.85%	\$ 37,818,270	1.85%

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

There were no loans which the Company considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of June 30, 2013 and 2012 and no additional loans were considered to be impaired due to the Company's troubled debt restructuring analysis for the three and six months ended June 30, 2013 and 2012. These loans were modified to increase the total recovery of the combined principal and interest from the loan. Any loan modification is predicated upon a goal of maximizing the collection of the loan. Loan terms that have been modified have included, but are not limited to interest rate, maturity date and in certain cases, principal amount.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Note 4 Securities

The following is a summary of the Company's securities classified as available-for-sale at June 30, 2013:

	Face Value	Amortized Cost	Cumulative Unrealized Gain	Carrying Value / Estimated Fair Value
Common equity securities	\$	\$ 58,789	\$ 352,736	\$ 411,525
Commercial mortgage-backed security (CMBS)	2,100,000	2,100,000		2,100,000
Total available-for-sale securities	\$ 2,100,000	\$ 2,158,789	\$ 352,736	\$ 2,511,525

The following is a summary of the Company's securities classified as available-for-sale at December 31, 2012:

	Face Value	Amortized Cost	Cumulative Unrealized Gain	Carrying Value / Estimated Fair Value
Common equity securities	\$	\$ 58,789	\$ 293,947	\$ 352,736
Collateralized debt obligation (CDO) bond	10,000,000	1,000,000	100,000	1,100,000
Commercial mortgage-backed security (CMBS)	2,100,000	2,100,000		2,100,000
Total available-for-sale securities	\$ 12,100,000	\$ 3,158,789	\$ 393,947	\$ 3,552,736

The following is a summary of the underlying credit rating of the Company's available-for-sale securities at June 30, 2013 and December 31, 2012:

Rating (1)	#	At June 30, 2013		#	At December 31, 2012	
		Amortized Cost	Percent of Total		Amortized Cost	Percent of Total

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

CCC-	1	\$	2,100,000	100%	2	\$	3,100,000	100%
------	---	----	-----------	------	---	----	-----------	------

(1) Based on the rating published by Standard & Poor's for each security.

The Company owns 2,939,465 shares of common stock of Realty Finance Corporation, formerly CBRE Realty Finance, Inc., a commercial real estate specialty finance company, which it purchased in 2007 for \$16.7 million, and which had a fair value of \$0.4 million at June 30, 2013. As of June 30, 2013, a net unrealized gain of \$0.4 million was recorded in accumulated other comprehensive loss related to these securities.

The Company owns a CMBS investment, purchased at a premium in 2010 for \$2.1 million, which is collateralized by a portfolio of hotel properties. The Company had two mezzanine loans with a total carrying value before loan loss reserves of \$30.0 million related to this portfolio which were charged off in the fourth quarter of 2012. The CMBS investment bears interest at a spread of 89 basis points over LIBOR, has a stated maturity of 7.0 years, but has an estimated life of 0.9 years based on the extended maturity of the underlying asset and a fair value of \$2.1 million at June 30, 2013.

The Company owned a CDO bond security, purchased at a discount in 2008 for \$7.5 million, which bore interest at a spread of 30 basis points over LIBOR. In May 2013, the Company sold the bond which had a carrying

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

value of \$1.1 million for approximately \$2.1 million and recorded a gain of approximately \$1.1 million in other income in the Company's Consolidated Statement of Operations, which includes the realization of an unrealized gain of \$0.1 million that was reclassified out of accumulated other comprehensive loss.

Available-for-sale securities are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive loss. The Company generally does not intend to sell its investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be at maturity. The Company evaluates these securities periodically to determine whether a decline in their value is other-than-temporary, though such a determination is not intended to indicate a permanent decline in value. The Company's evaluation is based on its assessment of cash flows which is supplemented by third-party research reports, internal review of the underlying assets securing the investments, levels of subordination and the ratings of the securities and the underlying collateral. The Company's estimation of cash flows expected to be generated by the securities portfolio is based upon an internal review of the underlying mortgage loans securing the investments both on an absolute basis and compared to the Company's initial underwriting for each investment and efforts are supplemented by third party research reports, third party market assessments and dialogue with market participants. Management closely monitors market conditions on which it bases such decisions. No impairment was recorded on the Company's available-for-sale securities for the three and six months ended June 30, 2013 and 2012.

The premium on the CMBS investment was fully amortized as of December 31, 2011. For the three and six months ended June 30, 2013 and 2012, no discount was accreted from the CDO bond investment.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2013****(Unaudited)**

The following is a summary of the Company's securities classified as held-to-maturity at June 30, 2013:

	Face Value	Amortized Cost	Carrying Value	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Residential mortgage-backed securities (RMBS)	\$ 53,628,770	\$ 47,598,688	\$ 47,598,688	\$ 1,102,692	\$ (46,274)	\$ 48,655,106
Total securities held-to-maturity	\$ 53,628,770	\$ 47,598,688	\$ 47,598,688	\$ 1,102,692	\$ (46,274)	\$ 48,655,106

The following is a summary of the Company's securities classified as held-to-maturity at December 31, 2012:

	Face Value	Amortized Cost	Carrying Value	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Residential mortgage-backed securities (RMBS)	\$ 44,431,768	\$ 42,986,980	\$ 42,986,980	\$ 169,450	\$ (3,306)	\$ 43,153,124
Total securities held-to-maturity	\$ 44,431,768	\$ 42,986,980	\$ 42,986,980	\$ 169,450	\$ (3,306)	\$ 43,153,124

The following is a summary of the underlying credit ratings of the Company's held-to-maturity securities at June 30, 2013 and December 31, 2012:

Rating (1)	#	At June 30, 2013		#	At December 31, 2012	
		Amortized Cost	Percent of Total		Amortized Cost	Percent of Total
AAA	1	\$ 103,962		2	\$ 407,514	1%
AA+	1	124,449				
AA				1	167,196	1%
BB	3	2,777,608	6%	3	8,742,011	20%
CCC	1	19,601,625	41%			
D	1	8,313,458	17%	1	9,496,933	22%
NR	8	16,677,586	36%	9	24,173,326	56%
	15	\$ 47,598,688	100%	16	\$ 42,986,980	100%

(1) Based on the rating published by Standard & Poor's for each security. NR stands for not rated.

During the six months ended June 30, 2013, the Company purchased three RMBS investments, at a discount of \$4.7 million, for \$25.8 million and two RMBS investments, at par, for a total of \$3.2 million and received total principal paydowns of \$24.6 million on the portfolio. During the twelve months ended December 31, 2012, the Company purchased eight RMBS investments, at par, for a total of \$31.8 million, eight RMBS investments, at a combined premium of \$0.2 million, for a total of \$22.9 million, and two RMBS investments, at a combined discount of \$1.5 million, for \$14.4 million, and received total principal paydowns of \$55.2 million on the portfolio. The total carrying value of the RMBS investments was \$47.6 million and \$43.0 million at June 30, 2013 and December 31, 2012, respectively. The RMBS investments are collateralized by portfolios of residential properties, bear interest at a weighted average fixed rate of 3.73%, have a weighted average stated maturity of 25.0 years, but have weighted average estimated lives of 10.6 years based on the estimated maturity of the RMBS investments, and had a total fair value of \$48.7 million at June 30, 2013. Approximately \$2.9 million of carrying value is estimated to mature within one year, \$15.5 million is estimated to mature after one year through five years,

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

and \$29.3 million is estimated to mature after ten years. The RMBS investments were financed with two repurchase agreements with financial institutions which generally finance between 80% to 90% of the value of each individual investment. During the six months ended June 30, 2013, the Company financed \$21.7 million of the RMBS investments and paid down the total debt by \$19.4 million due to the principal paydowns received on the RMBS investments. During the year ended December 31, 2012, the Company financed \$55.5 million of the RMBS investments and paid down the total debt by \$45.9 million due to the principal paydowns received on the RMBS investments. The total repurchase agreement debt balance was \$38.0 million and \$35.8 million at June 30, 2013 and December 31, 2012, respectively. See Note 7 Debt Obligations for further details.

Securities held-to-maturity are carried at cost, net of unamortized premiums and discounts. The Company does not intend to sell its investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its cost basis, which may be at maturity. The Company evaluates these securities periodically to determine whether a decline in their value is other-than-temporary, though such a determination is not intended to indicate a permanent decline in value. The Company's evaluation is based on its assessment of cash flows which is supplemented by third-party research reports, internal review of the underlying assets securing the investments, levels of subordination and the ratings of the securities and the underlying collateral. The Company's estimation of cash flows expected to be generated by the securities portfolio is based upon an internal review of the underlying mortgage loans securing the investments both on an absolute basis and compared to the Company's initial underwriting for each investment and efforts are supplemented by third party research reports, third party market assessments and dialogue with market participants. Management closely monitors market conditions on which it bases such decisions. No impairment was recorded on the Company's securities held-to-maturity for the three and six months ended June 30, 2013 and 2012.

For the three and six months ended June 30, 2013 and 2012, approximately \$0.1 million of premium was amortized and approximately \$0.1 million of discount was accreted from the Company's held-to-maturity investments, respectively.

At June 30, 2013, the Company owned two RMBS investments with deteriorated credit quality that had a total aggregate carrying value of \$27.9 million. At December 31, 2012 the Company owned an RMBS investment with deteriorated credit quality that had a carrying value of \$9.5 million.

The weighted average yield on the Company's CDO bond, CMBS and RMBS investments available-for-sale and held-to-maturity based on their face values was 3.87% and 3.70%, including the amortization of premium and the accretion of discount, for the three months ended June 30, 2013 and 2012, respectively, and 4.18% and 4.62%, including the amortization of premium and the accretion of discount, for the six months ended June 30, 2013 and 2012, respectively.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Note 5 Investment in Equity Affiliates

The following is a summary of the Company's investment in equity affiliates at June 30, 2013 and December 31, 2012:

Equity Affiliates	Investment in Equity Affiliates at June 30, 2013	Investment in Equity Affiliates at December 31, 2012	Unpaid Principal Balance to Equity Affiliates at June 30, 2013
930 Flushing & 80 Evergreen	\$ 217,197	\$ 342,197	\$ 23,498,829
450 West 33rd Street			
St. John's Development			25,000,000
Lightstone Value Plus REIT L.P.	55,988,409	55,988,409	
JT Prime	851,000	851,000	
West Shore Café	1,734,034	1,821,536	5,500,000
Ritz-Carlton Club			
Lexford Portfolio	100	100	130,947,000
Issuers of Junior Subordinated Notes	578,000	578,000	

The Company accounts for the 450 West 33rd Street and Lightstone Value Plus REIT L.P. investments under the cost method of accounting and the remaining investments under the equity method.

The following represents the change in the Company's investments in equity affiliates:

930 Flushing & 80 Evergreen

In June 2003, ACM invested approximately \$0.8 million in exchange for a 12.5% preferred interest in a joint venture that owns and operates two commercial properties. The Company purchased this investment from ACM in August 2003. In 2007, the Company had contributed an additional \$1.2 million to this joint venture. The Company had a \$4.8 million bridge loan and a \$3.5 million mezzanine loan outstanding to affiliated entities of the joint venture. The loans required monthly interest payments based on one month LIBOR and matured in November 2006 and June 2006, respectively. The bridge loan was extended for two one-year periods and during the second quarter of 2008, the Company was repaid in full. In addition, in August 2005, the joint venture refinanced one of these properties with a \$25.0 million amortizing bridge loan provided by the Company. The loan originally was to mature in April 2016 and had a fixed rate of 6.45%. However, the loan was modified in the third quarter of 2012 and now matures in August 2017, has a variable rate of LIBOR plus 3.23%, and has an outstanding principal balance of \$23.0 million at June 30, 2013. Proceeds from this loan were used to pay off senior debt as well as the Company's \$3.5 million mezzanine loan. Excess proceeds were distributed to each of the members in accordance with the operating agreement of which the Company received \$1.3 million, which was recorded as a return of capital in 2005. In the third quarter of 2012, the Company also originated a mezzanine loan to the joint venture for \$0.5 million which matures in August 2017, has a variable rate of LIBOR plus 4.23% with a LIBOR floor of 0.24%, and has an outstanding principal balance of \$0.5 million at June 30, 2013. During 2008, the Company received a \$0.2 million return of capital from contribution made in 2007. In addition, during 2010, the Company contributed an additional \$0.1 million of capital, resulting in a balance of \$0.6 million at December 31, 2010. In the fourth quarter of 2011, the Company recorded \$0.3 million of losses from the entity against the equity investment, which was also recorded

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

in loss from equity affiliates in the Company's 2011 Consolidated Statement of Operations, reducing the balance of the investment to \$0.2 million at December 31, 2011. In the second quarter of 2012, the Company contributed an additional \$0.2 million of capital and during the three and six months ended June 30, 2013 and 2012, the Company recorded approximately \$0.1 million of losses from the entity against the equity investment, which was also recorded in loss from equity affiliates in the Company's Consolidated Statement of Operations. The balance of the investment was \$0.2 million at June 30, 2013.

West Shore Café

In August 2010, the Company invested approximately \$2.1 million in exchange for a 50% non-controlling interest with a 20% preferred return subject to certain conditions in the West Shore Café, a restaurant / inn on an approximate 12,463 square foot lakefront property in Lake Tahoe, California. The Company also provided a \$5.5 million first mortgage loan, \$5.5 million of which was funded as of June 30, 2013, that matures in August 2013 and bears interest at a yield of 10.5%. During the year ended December 31, 2011 and in the second quarter of 2012, the Company received distributions totaling approximately \$0.2 million related to the preferred return, which were recorded as a return of investment. During the three and six months ended June 30, 2013 and 2012, the Company recorded less than \$0.1 million and \$0.1 million, respectively, of losses from the entity against the equity investment, which was also recorded in loss from equity affiliates in the Company's Consolidated Statements of Operations, reducing the balance of the investment to \$1.7 million at June 30, 2013.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Note 6 Real Estate Owned and Held-For-Sale

Real Estate Owned

The Company had a \$29.8 million loan secured by a portfolio of multifamily assets in various locations of the United States that had a maturity date of June 2010 and a weighted average interest rate of approximately 4.26%. In prior years, the Company established an \$18.4 million provision for loan loss related to this portfolio reducing its carrying value to \$11.4 million as of December 31, 2010. In March 2011, the Company purchased the portfolio of multifamily assets (the Multifamily Portfolio) securing this loan out of bankruptcy and assumed a \$55.4 million first mortgage loan secured by the portfolio of assets. The Company recorded this transaction as real estate owned in its first quarter 2011 Consolidated Financial Statements at a fair value of \$65.3 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. In the second quarter of 2011, one of the properties in the Multifamily Portfolio was sold to a third party for \$1.6 million and the proceeds were used to pay down the first lien mortgage. No gain or loss was recorded on the transaction as the asset was sold for its historical cost basis. For the three and six months ended June 30, 2013, the Company recorded property operating income of \$2.9 million and \$5.8 million, respectively, property operating expense of \$2.5 million and \$5.0 million, respectively, which includes \$0.2 million and \$0.4 million, respectively, of interest expense, and depreciation of \$0.8 million and \$1.7 million, respectively. For the three and six months ended June 30, 2012, the Company recorded property operating income of \$2.8 million and \$5.3 million, respectively, property operating expense of \$2.5 million and \$5.1 million, respectively, which includes \$0.2 million and \$0.4 million of interest expense, respectively, and depreciation of \$0.7 million and \$1.1 million, respectively. At June 30, 2013, this investment's balance sheet was comprised of land of \$15.7 million, building and intangible asset of approximately \$45.8 million, which is net of \$8.2 million of accumulated depreciation and amortization, cash of \$0.6 million, restricted cash of \$0.9 million due to a first mortgage escrow requirement, other assets of \$0.2 million, other liabilities of \$1.3 million and a mortgage note payable of \$53.8 million.

As of June 30, 2013, the Company's seven multifamily properties classified as real estate owned had a weighted average occupancy rate of approximately 86%.

The Company had an \$85.0 million loan secured by a portfolio of six hotel assets in Florida that had a maturity date of July 2014 and a weighted average interest rate of approximately 3.75%. During 2010, the Company established a \$13.4 million provision for loan loss related to this portfolio reducing its carrying value to \$71.6 million as of December 31, 2010. In February 2011, the portfolio of hotel assets (the Hotel Portfolio) securing this loan were transferred to the Company by the owner, a creditor trust. The Company recorded this transaction as real estate owned in its first quarter 2011 Consolidated Financial Statements at a fair value of \$67.3 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. In the fourth quarter of 2012, one of the properties in the Hotel Portfolio was sold to a third party for \$2.4 million and the Company recorded a gain on sale of \$0.5 million. For the three and six months ended June 30, 2013, the Company recorded property operating income of \$5.3 million and \$11.4 million, respectively, property operating expense of \$4.6 million and \$9.0 million, respectively, and depreciation of \$1.0 million and \$1.8 million, respectively. For the three and six months ended June 30, 2012, the Company recorded property operating income of \$5.3 million and \$11.5 million, respectively, property operating expense of \$4.8 million and \$9.4 million, respectively, depreciation of \$0.8 million and \$1.6 million, respectively, and loss from discontinued operations of

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

less than \$0.1 million and income from discontinued operations of less than \$0.1 million, respectively. The operating results of the Hotel Portfolio are seasonal with the majority of revenues earned in the first two quarters of the calendar year. At June 30, 2013, this investment's balance sheet was comprised of land of \$10.9 million, building of approximately \$51.9 million, which is net of \$7.7 million of accumulated depreciation, cash of \$2.2 million, restricted cash of \$0.2 million, other assets of \$2.3 million, receivable from related party of \$0.1 million and other liabilities of \$3.5 million.

For the six months ended June 30, 2013, the Company's five hotel properties classified as real estate owned had a weighted average occupancy rate of approximately 59%.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Real Estate Held-For-Sale

The Company had a \$5.6 million junior participating interest in a first mortgage loan secured by an apartment building in Tucson, Arizona that had a maturity date of July 2012 and bore interest at a fixed rate of 10%. During 2009, the Company established a \$5.6 million provision for loan loss related to this property equal to the carrying value of the loan and in the second quarter of 2010, the Company purchased the property securing this loan by deed-in-lieu of foreclosure and assumed the \$20.8 million interest in a first mortgage loan. The Company recorded this transaction as real estate owned in its Consolidated Financial Statements at a fair value of \$20.8 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. During the fourth quarter of 2011, the Company entered into negotiations to sell the property to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a value of \$19.4 million and reclassified property operating income and expenses and impairment loss for current and prior periods to discontinued operations in the Company's Consolidated Financial Statements. In addition, discontinued operations have not been segregated in the Company's Consolidated Statements of Cash Flows. The Company sold the property in March 2012 and recorded a gain on sale of real estate held-for-sale of \$3.5 million in its Consolidated Statement of Operations and the \$20.8 million first mortgage loan was paid off. For the six months ended June 30, 2012, income from discontinued operations consisted of property operating income of \$0.6 million and property operating expense of \$0.5 million, which includes \$0.3 million of interest expense.

The Company had a \$4.0 million bridge loan secured by a hotel located in St. Louis, Missouri that matured in 2009 and bore interest at a variable rate of LIBOR plus 5.00%. In April 2009, the borrower delivered a deed-in-lieu of foreclosure to the Company. As a result, during the second quarter of 2009 the Company recorded this investment on its Consolidated Balance Sheet as real estate owned at a fair value of \$2.9 million. The carrying value represented the fair value of the underlying collateral at the time of the transfer. During the second quarter of 2011, through site visits and discussion with market participants, the Company determined that the asset exhibited indicators of impairment and performed an impairment analysis. As a result of the impairment analysis based on the indicators of value from the market participants, the Company recorded an impairment loss of \$0.8 million in the Consolidated Statement of Operations. During the third quarter of 2011, the Company entered into negotiations to sell the property to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a value of \$1.9 million and reclassified property operating income and expenses and impairment loss for current and prior periods to discontinued operations in the Company's Consolidated Financial Statements. In addition, discontinued operations have not been segregated in the Company's Consolidated Statements of Cash Flows. In the fourth quarter of 2011, the Company recorded an additional impairment loss of \$0.7 million in the Consolidated Statement of Operations, reducing the carrying value of the investment to \$1.2 million. The Company sold the property in March 2012 and recorded a gain on sale of real estate held-for-sale of less than \$0.1 million in its Consolidated Statement of Operations. For the six months ended June 30, 2012, income from discontinued operations consisted of net property operating income of \$0.2 million.

The Company had a \$5.0 million mezzanine loan secured by an office building located in Indianapolis, Indiana that was scheduled to mature in June 2012 and bore interest at a fixed rate of 10.72%. During the first quarter of 2008, the Company established a \$1.5 million provision for loan loss related to this property reducing the carrying value to \$3.5 million at March 31, 2008. In April 2008, the Company was the winning bidder at a UCC foreclosure sale of the entity which owns the equity interest in the property securing this loan, subject to a \$41.4 million first

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

mortgage on the property. As a result, during the second quarter of 2008, the Company recorded this investment on its Consolidated Balance Sheet as real estate owned at fair value, which included the Company's \$3.5 million carrying value of the mezzanine loan and the \$41.4 million first lien mortgage note payable. During the third quarter of 2009, the Company mutually agreed with a first mortgage lender to appoint a receiver to operate the property and the Company was working to assist in the transfer of title to the first mortgage lender. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a fair value of \$41.4 million, reclassified property operating income and expenses for current and prior periods to discontinued operations in the Company's Consolidated Financial Statements, and recorded an impairment loss of \$4.9 million in 2009. The real estate held-for-sale investment consisted of land and building, net of accumulated depreciation, of

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

approximately \$41.4 million, a mortgage note payable held-for-sale of \$41.4 million and other liabilities of \$1.2 million. The Company did not record interest expense related to the note payable, as the interest expense was non-recourse and the Company was in the process of cooperating with the receiver and the first lien holder in order for the first lien holder to take title to the office building. The Company also did not believe that net income for the office building was realizable and, as such, did not record any income or loss on this held-for-sale investment up to its transfer. In May 2012, the Company surrendered the property to the first mortgage lender in full satisfaction of the mortgage note payable and recorded income from discontinued operations of \$1.2 million related to the reversal of accrued liabilities which were not incurred.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2013****(Unaudited)****Note 7 Debt Obligations**

The Company utilizes repurchase agreements, warehouse credit facilities, a revolving credit facility, collateralized debt obligations, collateralized loan obligations, junior subordinated notes, a note payable, loan participations and mortgage notes payable to finance certain of its loans and investments. Borrowings underlying these arrangements are primarily secured by a significant amount of the Company's loans and investments.

Repurchase Agreements and Credit Facilities

The following table outlines borrowings under the Company's repurchase agreements and credit facilities as of June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Repurchase agreement, financial institution, rolling monthly term, interest is variable based on one-month LIBOR; the weighted average note rate was 1.81% and 1.75%, respectively	\$ 22,762,000	\$ 27,364,164	\$ 35,072,000	\$ 43,604,281
Repurchase agreement, financial institution, rolling monthly term, interest is variable based on one-month LIBOR; the weighted average note rate was 2.02% and 1.73%, respectively	15,277,935	20,234,524	689,619	827,488
Repurchase agreement, financial institution, rolling monthly term, interest is variable based on one-month LIBOR				
Warehousing credit facility, financial institution, \$75.0 million committed line, expiration April 2015, interest is variable based on one-month LIBOR, the note rate was 2.48% and 3.00%, respectively	22,522,501	30,350,000	50,000,000	70,075,000
	20,535,000	28,080,000		

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Warehousing credit facility, financial institution, \$50.0 million committed line, expiration February 2014, interest is variable based on LIBOR the weighted average note rate was 2.73%		
Warehousing credit facility, financial institution, \$40.0 million committed line, expiration June 2014, interest is variable based on LIBOR		
Warehousing credit facility, financial institution, \$17.3 million committed line, interest was variable based on LIBOR or Prime, the weighted average note rate was 3.00%	17,300,000	30,000,000
Warehousing credit facility, financial institution, \$12.6 million committed line, interest was variable based on LIBOR or Prime, the weighted average note rate was 3.00%	12,600,000	18,000,000
Revolving credit facility, financial institution, \$20.0 million committed line, expiration May 2014, interest is fixed at 8.50% with an 8.50% non-use fee on the first \$5.0 million, then a 1.00% non-use fee, the weighted average note rate was 8.50% and 8.00%, respectively	20,000,000	15,000,000

At June 30, 2013 and December 31, 2012, the weighted average note rate for the Company's repurchase agreements and credit facilities was 3.53% and 3.25%, respectively. There were no interest rate swaps on these

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

facilities at June 30, 2013 and December 31, 2012. Including certain fees and costs, the weighted average note rate was 4.14% and 3.82% at June 30, 2013 and December 31, 2012, respectively.

In July 2011, the Company entered into a repurchase agreement with a financial institution to finance the purchase of RMBS investments. During the six months ended June 30, 2013, the Company financed the purchase of four RMBS investments with this repurchase agreement for a total of \$6.3 million and paid down the total debt by \$18.6 million due to principal paydowns received on the RMBS investments. During the year ended December 31, 2012, the Company financed the purchase of 17 RMBS investments with this repurchase agreement for a total of \$54.7 million and paid down the total debt by \$45.7 million due to principal paydowns received on the RMBS investments. See Note 4

Securities for further details. The total debt balance was \$22.8 million and \$35.1 million at June 30, 2013 and December 31, 2012, respectively. The facility generally finances between 60% and 90% of the value of each investment, has a rolling monthly term, and bears interest at a rate of 125 to 200 basis points over LIBOR. The facility also includes a minimum net worth covenant of \$100.0 million.

In June 2012, the Company entered into another repurchase agreement with a financial institution to finance the purchase of RMBS investments. During the six months ended June 30, 2013, the Company financed the purchase of an RMBS investment with this repurchase agreement for \$15.4 million and paid down the total debt by \$0.8 million due to principal paydowns received on the RMBS investments. During the year ended December 31, 2012 the Company financed the purchase of an RMBS investment for \$0.8 million and paid down the debt by \$0.1 million due to principal paydowns received on the RMBS investment. The total debt balance was \$15.3 million and \$0.7 million at June 30, 2013 and December 31, 2012, respectively. See Note 4 Securities for further details. The facility generally finances between 75% and 80% of the value of the investment, has a rolling monthly term, and bears interest at a rate of 180 to 185 basis points over LIBOR.

In June 2013, the Company entered into another repurchase agreement with a financial institution to finance the purchase of RMBS investments. At June 30, 2013, this facility was not used for RMBS investments classified as held-to-maturity.

In July 2011, the Company entered into a two year, \$50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. In January 2013, the Company amended the facility, increasing the committed amount to \$75.0 million. In April 2013, the facility was amended to bear interest at a rate of 225 basis points over LIBOR which was originally 275 basis points over LIBOR, required a 0.25% commitment fee, which was originally 1.0%, upon closing, matures in April 2015 with a one year extension option on outstanding advances that requires two 5% paydowns and has warehousing and non-use fees. The facility also has a maximum advance rate of 75% and contains several restrictions including full repayment of an advance if a loan becomes 60 days past due, is in default or is written down by the Company. The facility also includes various financial covenants including a minimum liquidity requirement of \$20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of \$150.0 million, maximum total liabilities less subordinate debt of \$2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. The facility also has a compensating balance requirement of \$50.0 million to be maintained by the Company and its affiliates. At June 30, 2013, the outstanding balance of this facility was \$22.5 million.

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

In February 2013, the Company entered into a one year, \$50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. The facility bears interest at a rate of 250 basis points over LIBOR, requires a 12.5 basis point commitment fee upon closing, matures in February 2014, has warehousing and non-use fees and allows for an original warehousing period of up to 24 months from the initial advance on an asset. The facility also has a maximum advance rate of 75% and contains certain restrictions including partial prepayment of an advance if a loan becomes 90 days past due or in the process of foreclosure, subject to certain conditions. The facility also includes various financial covenants including a minimum liquidity requirement of \$20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of \$150.0 million, maximum total liabilities less subordinate debt of \$2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. At June 30, 2013, the outstanding balance of this facility was \$20.5 million.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

In June 2013, the Company entered into a one year, \$40.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties, including a \$10.0 million sublimit to finance retail and office properties. The facility bears interest at a rate of 200 basis points over LIBOR, matures in June 2014, has warehousing fees and allows for an original warehousing period of up to 24 months from the initial advance on an asset. The facility also has a maximum advance rate of 70% or 75%, depending on the property type, and contains certain restrictions including prepayment of an advance if a loan becomes 60 days past due or in the process of foreclosure, subject to certain conditions. The facility also includes various financial covenants including a minimum liquidity requirement of \$20.0 million, minimum tangible net worth of \$150.0 million, as well as a minimum debt service coverage ratio. At June 30, 2013, this facility was not used.

In December 2012, the Company entered into a \$17.3 million warehouse facility with a financial institution to finance the first mortgage loan on a multifamily property. The facility bore interest at a rate of 275 basis points over LIBOR or Prime at the Company's election, required a 1% commitment fee upon closing and had a maturity of December 2017. In January 2013, the facility was repaid in full as part of the issuance of a second CLO.

In June 2012, the Company entered into a \$12.6 million warehouse facility with a financial institution to finance the first mortgage loan on a multifamily property. The facility bore interest at a rate of 275 basis points over LIBOR or Prime at the Company's election, required a 1% commitment fee upon closing, had a maturity of December 2013 and had a non-use fee. In January 2013, the facility was repaid in full as part of the issuance of a second CLO.

In May 2012, the Company entered into a \$15.0 million committed revolving line of credit with a one year term maturing in May 2013, which is secured by a portion of the bonds originally issued by the Company's CDO entities that have been repurchased by the Company. This facility has a 1% commitment fee, a 1% non-use fee and pays interest at a fixed rate of 8% on any drawn portion of the line. The facility also includes a debt service coverage ratio requirement for the posting of collateral. In January 2013, the Company amended the facility, increasing the committed amount to \$20.0 million and a fixed rate of interest of 8.5% on any drawn portion of the \$20.0 million commitment. The amendment also included a one year extension option upon maturity in May 2013 and required a 1% commitment fee and a 1% non-use fee. In May 2013, the Company extended the facility to a maturity in May 2014 with a one year extension option and a 1% extension fee, as well as amended the facility to have an 8.5% non-use fee on the first \$5.0 million not borrowed and a 1% non-use fee on the remaining funds not borrowed. If not extended in May 2014, there will be a \$0.1 million fee. At June 30, 2013, the outstanding balance of this facility was \$20.0 million.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Collateralized Debt Obligations

The following table outlines borrowings and the corresponding collateral under the Company's collateralized debt obligations as of June 30, 2013:

	Debt		Loans Unpaid Principal (1)	Collateral			Cash Restricted Cash (3)	Collateral At-Risk (4)
	Face Value	Carrying Value		Carrying Value (1)	Face Value	Carrying Value		
CDO I Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.12%	\$ 127,372,181	\$ 133,127,478	\$ 284,732,671	\$ 235,067,531	\$	\$	\$ 34,681	\$ 188,349,668
CDO II Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.29%	230,006,381	235,919,273	394,454,071	344,198,943			2,241,087	178,271,174

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

CDO III Issued ten investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 0.74%	366,282,297	375,058,819	484,908,993	454,317,526			2,238,167	237,892,280
Total CDOs	\$ 723,660,859	\$ 744,105,570	\$ 1,164,095,735	\$ 1,033,584,000	\$	\$	\$ 4,513,935	\$ 604,513,122

The following table outlines borrowings and the corresponding collateral under the Company's collateralized debt obligations as of December 31, 2012:

	Debt		Loans		Collateral		Fair Value (2)	Cash Restricted Cash (3)	Collateral At-Risk (4)
	Face Value	Carrying Value	Unpaid Principal (1)	Carrying Value (1)	Face Value	Securities Carrying Value			
CDO I Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.28%	\$ 133,994,136	\$ 139,856,472	\$ 299,881,599	\$ 238,852,726	\$	\$	\$ 1,036,155	\$ 207,772,049	
CDO II Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month	231,186,301	237,209,429	395,266,909	345,919,525	10,000,000	1,100,000	1,100,000	470,952	188,271,174

LIBOR; the weighted average note rate was 3.24%
 CDO III Issued ten investment grade tranches December 14, 2006.
 Reinvestment period through January 2012.
 Stated maturity date of January 2042.
 Interest is variable based on three-month LIBOR; the weighted average note rate was 0.68%

	426,458,233	435,386,944	515,403,735	485,235,214				24,819,361	244,697,945
Total CDOs	\$ 791,638,670	\$ 812,452,845	\$ 1,210,552,243	\$ 1,070,007,465	\$ 10,000,000	\$ 1,100,000	\$ 1,100,000	\$ 26,326,468	\$ 640,741,168

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

(1) Amounts include loans to real estate assets consolidated by the Company that were reclassified to real estate owned and held-for-sale, net on the Consolidated Financial Statements.

(2) The security with a fair value of \$1,100,000 was rated a CCC- at December 31, 2012 by Standard & Poor's and was sold in May 2013.

(3) Represents restricted cash held for principal repayments in the CDOs. Does not include restricted cash related to interest payments, delayed fundings and expenses.

(4) Amounts represent the face value of collateral in default, as defined by the CDO indenture, as well as assets deemed to be credit risk. Credit risk assets are reported by each of the CDOs and are generally defined as one that, in the CDO collateral manager's reasonable business judgment, has a significant risk of declining in credit quality or, with a passage of time, becoming a defaulted asset.

At June 30, 2013 and December 31, 2012, the aggregate weighted average note rate for the Company's collateralized debt obligations, including the cost of interest rate swaps on assets financed in these facilities, was 1.97% and 1.87%, respectively. Excluding the effect of swaps, the weighted average note rate at June 30, 2013 and December 31, 2012 was 0.83% and 0.86%, respectively. Including certain fees and costs, the weighted average note rate was 2.94% and 2.77% at June 30, 2013 and December 31, 2012, respectively.

As of April 15, 2009, CDO I has reached the end of its replenishment date and will no longer make \$2.0 million amortization payments to investors that were made quarterly prior to the replenishment date. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability.

As of April 15, 2011, CDO II has reached the end of its replenishment date and will no longer make \$1.2 million amortization payments to investors that were made quarterly prior to the replenishment date. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability.

As of January 15, 2012, CDO III has reached the end of its replenishment date. Investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability. CDO III has a \$100.0 million revolving note class that provided a revolving note facility. The outstanding note balance for CDO III was \$375.1 million at June 30, 2013 which included \$68.5 million outstanding under the revolving note facility.

In the first quarter of 2013, the Company purchased, at a discount, a \$7.1 million investment grade rated Class H note originally issued by its CDO III issuing entity for a price of \$3.3 million from a third party investor and recorded a gain on extinguishment of debt of \$3.8 million in its

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

2013 Consolidated Statement of Operations.

During the three and six months ended June 30, 2012, the Company purchased, at a discount, \$42.7 million and \$57.2 million, respectively, of investment grade rated Class B, C, D, E, F, G and H notes originally issued by its CDO II and CDO III issuing entities for a price of \$21.7 million and \$30.9 million, respectively, from third party investors and recorded a net gain on extinguishment of debt of \$21.0 million and \$26.3 million, respectively, in its 2012 Consolidated Statement of Operations.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2013****(Unaudited)**

The following table sets forth the face amount and gain on extinguishment of the Company's CDO bonds repurchased in the following periods by bond class:

Class:	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2013		2012		2013		2012	
	Face Amount	Gain	Face Amount	Gain	Face Amount	Gain	Face Amount	Gain
B	\$	\$	\$	\$	\$	\$	\$	\$
C			3,329,509	1,200,182			3,329,509	1,200,182
D			10,350,000	4,537,503			10,350,000	4,537,503
E			6,250,000	2,850,787			7,765,276	3,581,908
F			9,708,556	5,048,417			9,708,556	5,048,417
G			8,672,039	4,777,138			8,672,039	4,777,138
H			4,403,771	2,554,187	7,100,000	3,763,000	4,403,771	2,554,187
Total	\$	\$	\$ 42,713,875	\$ 20,968,214	\$ 7,100,000	\$ 3,763,000	\$ 57,229,151	\$ 26,314,335

In 2010, the Company re-issued its own CDO bonds it had acquired throughout 2009 with an aggregate face amount of approximately \$42.8 million as part of an exchange for the retirement of \$114.1 million of its junior subordinated notes. This transaction resulted in the recording of \$65.2 million of additional CDO debt, of which \$42.3 million represents the portion of the Company's CDO bonds that were exchanged and \$22.9 million represents the estimated interest due on the reissued bonds through their maturity, of which \$20.4 million remains at June 30, 2013. See Liquidity and Capital Resources - Junior Subordinated Notes below for further details.

The Company accounts for these transactions on its Consolidated Balance Sheet as financing facilities. The Company's CDOs are VIEs for which the Company is the primary beneficiary and are consolidated in the Company's Financial Statements accordingly. The investment grade tranches are treated as secured financings, and are non-recourse to the Company.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Collateralized Loan Obligations

The following table outlines borrowings and the corresponding collateral under the Company's collateralized loan obligations as of June 30, 2013:

CLO I Issued two investment grade tranches September 24, 2012. Replacement period through September 2014. Stated maturity date of October 2022. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.64%	\$	87,500,000	\$	87,500,000	\$	125,000,146	\$	124,646,506	\$	86,504
CLO II Issued two investment grade tranches January 28, 2013. Replacement period through January 2015. Stated maturity date of February 2023. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.59%		177,000,000		177,000,000		245,437,960		244,828,912		14,200,126
Total CLOs	\$	264,500,000	\$	264,500,000	\$	370,438,106	\$	369,475,418	\$	14,286,630

The following table outlines borrowings and the corresponding collateral under the Company's collateralized loan obligation as of December 31, 2012:

Debt

Collateral

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

	Face Value	Carrying Value	Unpaid Principal	Loans Carrying Value	Cash Restricted Cash
CLO I Issued two investment grade tranches September 24, 2012. Replacement period through September 2014. Stated maturity date of October 2022. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.65%	\$ 87,500,000	\$ 87,500,000	\$ 125,086,650	\$ 124,525,103	\$

On September 24, 2012, the Company completed its first collateralized loan obligation, or CLO, issuing to third party investors two tranches of investment grade collateralized loan obligations through a newly-formed wholly-owned subsidiaries, Arbor Realty Collateralized Loan Obligation 2012-1, Ltd. (the Issuer) and Arbor Realty Collateralized Loan Obligation 2012-1, LLC (the Co-Issuer and together with the Issuer, the Issuers). Initially, the notes are secured by a portfolio of loan obligations with a face value of approximately \$125.1 million, consisting primarily of bridge loans and a senior participation interest in a first mortgage loan that were contributed from the Company's existing loan portfolio. The financing has a two-year replacement period that allows the principal proceeds and sale proceeds (if any) of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. The aggregate principal amounts of the two classes of notes were \$75.0 million of Class A senior secured floating rate notes and \$12.5 million of Class B secured floating rate notes. The Company retained a residual interest in the portfolio with a notional amount of \$37.6 million. The notes have an initial weighted average interest rate of approximately 3.39% plus one-month LIBOR and interest payments on the notes are payable monthly, beginning on November 15, 2012, to and including October 15, 2022, the stated maturity date of the notes. The Company incurred approximately \$2.4 million of issuance costs which is being

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

amortized on a level yield basis over the average estimated life of the CLO. Including certain fees and costs, the initial weighted average note rate was 4.35%. The Company accounts for this transaction on its balance sheet as a financing facility.

On January 28, 2013, the Company completed its second CLO, issuing to third party investors two tranches of investment grade collateralized loan obligations through a newly-formed wholly-owned subsidiaries, Arbor Realty Collateralized Loan Obligation 2013-1, Ltd. (the Issuer) and Arbor Realty Collateralized Loan Obligation 2013-1, LLC (the Co-Issuer and together with the Issuer, the Issuers). As of the CLO closing date, the notes are secured by a portfolio of loan obligations with a face value of approximately \$210.0 million, consisting primarily of bridge loans and a senior participation interest in a first mortgage loan that were contributed from the Company's existing loan portfolio. The financing has a two-year replacement period that allows the principal proceeds and sale proceeds (if any) of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Initially, the proceeds of the issuance of the securities also included \$50.0 million for the purpose of acquiring additional loan obligations for a period of up to 90 days from the closing date of the CLO. Subsequently, the Issuer owns loan obligations with a face value of approximately \$260.0 million. The aggregate principal amounts of the two classes of notes were \$156.0 million of Class A senior secured floating rate notes and \$21.0 million of Class B secured floating rate notes. The Company retained a residual interest in the portfolio with a notional amount of approximately \$83.0 million. The notes have an initial weighted average interest rate of approximately 2.36% plus one-month LIBOR and interest payments on the notes are payable monthly, beginning on March 15, 2013, to and including February 15, 2023, the stated maturity date of the notes. The Company incurred approximately \$3.2 million of issuance costs which is being amortized on a level yield basis over the average estimated life of the CLO. Including certain fees and costs, the initial weighted average note rate was 3.00%. The Company accounts for this transaction on its balance sheet as a financing facility.

The Company's CLO vehicles are VIEs for which the Company is the primary beneficiary and are consolidated in the Company's Financial Statements. The two investment grade tranches are treated as a secured financing, and are non-recourse to the Company.

At June 30, 2013 and December 31, 2012, the aggregate weighted average note rate for the Company's collateralized loan obligations was 2.93% and 3.65%, respectively. Including certain fees and costs, the weighted average note rate was 3.43% and 4.33% at June 30, 2013 and December 31, 2012, respectively.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2013****(Unaudited)***Junior Subordinated Notes*

The following table outlines borrowings under the Company's junior subordinated notes as of June 30, 2013 and December 31, 2012:

	June 30, 2013 Debt Carrying Value	December 31, 2012 Debt Carrying Value
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$28.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 3.15% and 3.18%, respectively	\$ 25,333,726	\$ 25,289,857
Junior subordinated notes, maturity April 2035, unsecured, face amount of \$7.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 3.48% and 3.51%, respectively	6,305,817	6,296,128
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$28.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 3.15% and 3.18%, respectively	25,333,726	25,289,857
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$27.3 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 3.15% and 3.18%, respectively	24,699,695	24,656,921
Junior subordinated notes, maturity June 2036, unsecured, face amount of \$14.6 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 2.79% and 2.83%, respectively	13,179,730	13,160,155
Junior subordinated notes, maturity April 2037, unsecured, face amount of \$15.7 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 2.71% and 2.74%, respectively	14,163,409	14,142,185
Junior subordinated notes, maturity April 2037, unsecured, face amount of \$31.5 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 2.71% and 2.74%, respectively	28,453,396	28,410,761
Junior subordinated notes, maturity April 2035, unsecured, face amount of \$21.2 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 3.48% and 3.51%, respectively	19,178,050	19,147,508
Junior subordinated notes, maturity June 2036, unsecured, face amount of \$2.6 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 2.79% and 2.83%, respectively	2,377,457	2,373,773
Total junior subordinated notes	\$ 159,025,006	\$ 158,767,145

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

The carrying value under these facilities was \$159.0 million at June 30, 2013 and \$158.8 million at December 31, 2012, which is net of a deferred amount of \$16.8 million and \$17.1 million, respectively. The current weighted average note rate was 3.05% and 3.08% at June 30, 2013 and December 31, 2012, respectively, however, based upon the accounting treatment for the restructuring mentioned below, the effective rate was 3.09% and 3.12% at June 30, 2013 and December 31, 2012, respectively. Including certain fees and costs, the weighted average note rate was 3.27% and 3.35% at June 30, 2013 and December 31, 2012, respectively. The impact of these variable interest entities with respect to consolidation is discussed in Note 9 Variable Interest Entities.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

In 2010, the Company retired \$114.1 million of its junior subordinated notes, with a carrying value of \$102.1 million, in exchange for the re-issuance of its own CDO bonds it had acquired throughout 2009 with an aggregate face amount of \$42.8 million, CDO bonds of other issuers it had acquired in the second quarter of 2008 with an aggregate face amount of \$25.0 million and a carrying value of \$0.4 million, and \$10.5 million in cash.

In 2009, the Company retired \$265.8 million of its then outstanding trust preferred securities, primarily consisting of \$258.4 million of junior subordinated notes issued to third party investors and \$7.4 million of common equity issued to the Company in exchange for \$289.4 million of newly issued unsecured junior subordinated notes, representing 112% of the original face amount. The notes bore a fixed interest rate of 0.50% per annum until March 31, 2012 or April 30, 2012 (the Modification Period). Thereafter, interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to three month LIBOR plus a weighted average spread of 2.90%, which was reduced to 2.77% after the exchange in 2010 mentioned above. The 12% increase to the face amount due upon maturity, which had a balance of \$16.8 million at June 30, 2013, is being amortized into expense over the life of the notes. The Company also paid transaction fees of approximately \$1.3 million to the issuers of the junior subordinated notes related to this restructuring which is being amortized over the life of the notes. The terms of the Modification Period expired in April 2012.

The junior subordinated notes are unsecured, have original maturities of 25 to 28 years, pay interest quarterly at a fixed rate or floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, were not redeemable during the first two years.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2013****(Unaudited)***Notes Payable*

The following table outlines borrowings under the Company's notes payable as of June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Note payable relating to investment in equity affiliates, \$50.2 million, expiration July 2016, interest is fixed, the weighted average note rate was 4.06%	\$ 50,157,708	\$ 55,988,411	\$ 50,157,708	\$ 55,988,411
Junior loan participation, secured by the Company's interest in a first mortgage loan with a principal balance of \$1.3 million, participation interest was based on a portion of the interest received from the loan which has a fixed rate of 9.57%	1,300,000	1,300,000	1,300,000	1,300,000
Total notes payable.	\$ 51,457,708	\$ 57,288,411	\$ 51,457,708	\$ 57,288,411

At June 30, 2013 and December 31, 2012, the aggregate weighted average note rate for the Company's notes payable was 3.95%, respectively. There were no interest rate swaps on the notes payable at June 30, 2013 and December 31, 2012.

In 2008, the Company recorded a \$49.5 million note payable after receiving cash related to a transaction with Lightstone Value Plus REIT, L.P. to exchange the Company's profits interest in Prime Outlets Member, LLC (POM) for operating partnership units in Lightstone Value Plus REIT, L.P. The note, which was paid down to \$48.5 million as of December 31, 2008, was initially secured by the Company's interest in POM, matures in July 2016 and bears interest at a fixed rate of 4.06% with payment deferred until the closing of the transaction. Upon the closing of the POM transaction in March 2009, the note balance was increased to \$50.2 million and is secured by the Company's investment in common and preferred operating partnership units in Lightstone Value Plus REIT, L.P. At June 30, 2013, the outstanding balance of this note was \$50.2 million.

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

The Company also has a junior loan participation with an outstanding balance at June 30, 2013 of \$1.3 million on a \$1.3 million bridge loan. Participations have a maturity date equal to the corresponding mortgage loan and are secured by the participant's interest in the mortgage loan. Interest expense is based on the portion of the interest received from the loan that is paid to the junior participant. The Company's obligation to pay interest on the participation is based on the performance of the related loan.

Mortgage Note Payable Real Estate Owned

During 2011, the Company assumed a \$55.4 million interest-only first lien mortgage in connection with the acquisition of real property pursuant to bankruptcy proceedings for an entity in which the Company had a \$29.8 million loan secured by the Multifamily Portfolio. The real estate investment was classified as real estate owned in the Company's Consolidated Balance Sheet in March 2011. The mortgage bears interest at a variable rate of one-month LIBOR plus 1.23% and has a maturity date of March 2014 with a one year and three month extension option. In June 2011, one of the properties in the Multifamily Portfolio was sold to a third party for \$1.6 million and the proceeds were used to pay down the first lien mortgage to a balance of \$53.8 million at June 30, 2013.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2013****(Unaudited)***Debt Covenants*

The Company's debt facilities contain various financial covenants and restrictions, including minimum net worth, minimum liquidity and maximum debt balance requirements, as well as certain other debt service coverage ratios and debt to equity ratios. The Company was in compliance with all financial covenants and restrictions at June 30, 2013.

The Company's CDO and CLO vehicles contain interest coverage and asset overcollateralization covenants that must be met as of the waterfall distribution date in order for the Company to receive such payments. If the Company fails these covenants in any of its CDOs or CLOs, all cash flows from the applicable CDO or CLO would be diverted to repay principal and interest on the outstanding CDO or CLO bonds and the Company would not receive any residual payments until that CDO or CLO regained compliance with such tests. The Company's CDOs and CLOs were in compliance with all such covenants as of June 30, 2013, as well as on the most recent determination date in July 2013. In the event of a breach of the CDO or CLO covenants that could not be cured in the near-term, the Company would be required to fund its non-CDO or non-CLO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO or CLO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, (v) or accessing the equity or debt capital markets, if available. The Company has the right to cure covenant breaches which would resume normal residual payments to it by purchasing non-performing loans out of the CDOs or CLOs. However, the Company may not have sufficient liquidity available to do so at such time.

The chart below is a summary of the Company's CDO and CLO compliance tests as of the most recent determination date in July 2013:

Cash Flow Triggers	CDO I	CDO II	CDO III	CLO I	CLO II
Overcollateralization (1)					
Current	176.69%	139.10%	106.61%	142.96%	146.89%
Limit	145.00%	127.30%	105.60%	137.86%	144.25%
Pass / Fail	Pass	Pass	Pass	Pass	Pass
Interest Coverage (2)					
Current	590.16%	509.66%	621.88%	255.32%	367.57%
Limit	160.00%	147.30%	105.60%	120.00%	120.00%

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Pass / Fail

Pass

Pass

Pass

Pass

Pass

(1) The overcollateralization ratio divides the total principal balance of all collateral in the CDO and CLO by the total principal balance of the bonds associated with the applicable ratio. To the extent an asset is considered a defaulted security, the asset's principal balance for purposes of the overcollateralization test is the lesser of the asset's market value or the principal balance of the defaulted asset multiplied by the asset's recovery rate which is determined by the rating agencies. Rating downgrades of CDO and CLO collateral will generally not have a direct impact on the principal balance of a CDO and CLO asset for purposes of calculating the CDO and CLO overcollateralization test unless the rating downgrade is below a significantly low threshold (e.g. CCC-) as defined in each CDO and CLO vehicle.

(2) The interest coverage ratio divides interest income by interest expense for the classes senior to those retained by the Company.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

The chart below is a summary of the Company's CDO and CLO overcollateralization ratios as of the following determination dates:

Determination Date	CDO I	CDO II	CDO III	CLO I	CLO II
July 2013	176.69%	139.10%	106.61%	142.96%	146.89%
April 2013	174.76%	138.97%	106.56%	142.96%	146.89%
January 2013	172.73%	138.89%	105.90%	142.96%	
October 2012	171.36%	138.59%	105.64%		
July 2012	168.66%	144.75%	106.96%		

The ratio will fluctuate based on the performance of the underlying assets, transfers of assets into the CDOs and CLOs prior to the expiration of their respective replenishment dates, purchase or disposal of other investments, and loan payoffs. No payment due under the Junior Subordinated Indentures may be paid if there is a default under any senior debt and the senior lender has sent notice to the trustee. The Junior Subordinated Indentures are also cross-defaulted with each other.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Note 8 Derivative Financial Instruments

Hedging Activities

The Company recognizes all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measures those instruments at fair value. Additionally, the fair value adjustments will affect either accumulated other comprehensive loss until the hedged item is recognized in earnings, or net income (loss) attributable to Arbor Realty Trust, Inc. common stockholders, depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The ineffective portion of a derivative's change in fair value is recognized immediately in earnings.

Derivatives

In connection with the Company's interest rate risk management, the Company periodically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts. Specifically, the Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of its expected cash receipts and its expected cash payments principally related to its investments and borrowings. The Company's objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The Company has entered into various interest rate swap agreements to hedge its exposure to interest rate risk on (i) variable rate borrowings as it relates to fixed rate loans; (ii) the difference between the CDO investor return being based on the three-month LIBOR index while the supporting assets of the CDO are based on the one-month LIBOR index; and (iii) use of LIBOR rate caps in loan agreements.

Derivative financial instruments must be effective in reducing the Company's risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income for each period until the derivative instrument matures or is settled. In cases where a derivative financial instrument is terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income. The Company does not use derivatives for trading or speculative purposes.

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

In certain circumstances, the Company may finance the purchase of RMBS investments through a repurchase agreement with the same counterparty which may qualify as a linked transaction if certain criteria are met. The Company's linked transactions are evaluated on a combined basis, reported as forward contract derivative instruments and included in other assets on the Consolidated Balance Sheets at fair value. The fair value of linked transactions reflect the value of the underlying RMBS, linked repurchase agreement borrowings and accrued interest receivable/payable on such instruments. The Company's linked transactions are not designated as hedging instruments and, as a result, the change in the fair value and net interest income from linked transactions is reported in other income on the Consolidated Statement of Operations.

The Company has no master netting or similar arrangements and does not offset derivatives.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

The following is a summary of the derivative financial instruments held by the Company as of June 30, 2013 and December 31, 2012 (dollars in thousands):

Designation\ Cash Flow	Derivative	Count	Notional Value		December 31, 2012	Expiration Date	Balance Sheet Location	Fair Value	
			June 30, 2013	Count				June 30, 2013	December 31, 2012
Non- Qualifying	Basis Swaps	2	\$ 58,537	8	\$ 603,524	2013 - 2015	Other Assets	\$ 25	\$ 128
Non- Qualifying	LIBOR Caps		\$	1	\$ 6,000		Other Assets	\$	\$
Qualifying	LIBOR Cap		\$	1	\$ 73,301		Other Assets	\$	\$
Qualifying	Interest Rate Swaps	14	\$ 297,628	14	\$ 312,227	2014 - 2017	Other Liabilities	\$ (29,782)	\$ (37,755)
Non- Qualifying	Forward Contracts	20	\$	12	\$	2014 - 2036	Other Assets	\$ 15,494	\$ 10,800

The fair value of Non-Qualifying Basis Swap Hedges was less than \$0.1 million and \$0.1 million as of June 30, 2013 and December 31, 2012, respectively, and was recorded in other assets in the Consolidated Balance Sheets. These basis swaps are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet hedge accounting requirements. The Company is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in benchmark interest rates and uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. These interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. During the six months ended June 30, 2013, six basis swaps matured with a combined notional value of approximately \$464.4 million and the notional value of two basis swaps decreased by approximately \$80.6 million pursuant to the contractual terms of the respective swap agreement. The Non-Qualifying LIBOR Cap Hedge with a notional value of approximately \$6.0 million at December 31, 2012 also matured during the six months ended June 30, 2013. The Company entered into this hedge in the fourth quarter of 2010 due to a loan agreement which required a LIBOR Cap of 1%. During the six months ended June 30, 2012, a basis swap matured with a notional value of approximately \$110.1 million and the notional value of two basis swaps decreased by approximately \$109.4 million pursuant to the contractual terms of the respective swap agreements. For the three months ended June 30, 2013 and 2012, the change in fair value of the Non-Qualifying Basis Swaps and LIBOR Caps was less than \$(0.1) million and \$(0.3) million, respectively, and for the six months ended June 30, 2013 and 2012, the change in fair value of the Non-Qualifying Basis Swaps and LIBOR Caps was \$(0.1) million and \$(0.7) million, respectively, and was recorded in interest expense on the Consolidated Statements of Operations.

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

The fair value of Qualifying Interest Rate Swap Cash Flow Hedges as of June 30, 2013 and December 31, 2012 was \$(29.8) million and \$(37.8) million, respectively, and was recorded in other liabilities in the Consolidated Balance Sheets. The change in the fair value of Qualifying Interest Rate Swap Cash Flow Hedges was recorded in accumulated other comprehensive loss in the Consolidated Balance Sheets. These interest rate swaps are used to hedge the variable cash flows associated with existing variable-rate debt, and amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the six months ended June 30, 2013, the notional value on an interest rate swap decreased by approximately \$14.5 million pursuant to the contractual terms of the respective swap agreement. The Qualifying LIBOR Cap Hedge with a notional value of approximately \$73.3 million at December 31, 2012 also matured during the six months ended June 30, 2013. The Company entered into this hedge in the first quarter of 2011 due to a loan agreement which required a LIBOR Cap of 2%. During the six months ended June 30, 2012, eight interest rate swaps matured with a combined notional value of approximately \$171.2 million and the notional value on an interest rate swap decreased by approximately \$6.4 million pursuant to the contractual terms of the

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

respective swap agreement. As of June 30, 2013, the Company expects to reclassify approximately \$(13.8) million of other comprehensive loss from Qualifying Cash Flow Hedges to interest expense over the next twelve months assuming interest rates on that date are held constant. Gains and losses on terminated swaps are being deferred and recognized in earnings over the original life of the hedged item. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. As of June 30, 2013 and December 31, 2012, the Company has a net deferred loss of \$1.9 million and \$2.2 million, respectively, in accumulated other comprehensive loss. The Company recorded \$0.2 million and \$0.2 million as additional interest expense related to the amortization of the loss for the three months ended June 30, 2013 and 2012, respectively, and \$0.1 million and \$0.1 million as a reduction to interest expense related to the accretion of the net gains for the three months ended June 30, 2013 and 2012, respectively. The Company recorded \$0.4 million and \$0.5 million as additional interest expense related to the amortization of the loss for the six months ended June 30, 2013 and 2012, respectively, and \$0.1 million and \$0.1 million as a reduction to interest expense related to the accretion of the net gains for the six months ended June 30, 2013 and 2012, respectively. The Company expects to record approximately \$0.6 million of net deferred loss to interest expense over the next twelve months.

The fair value of Non-Qualifying Forward Contracts was \$15.5 million as of June 30, 2013 and was recorded in other assets in the Consolidated Balance Sheets and consisted of \$143.2 million of RMBS investments net of \$0.7 million of net losses in fair value and \$127.0 million of repurchase financing. The fair value of Non-Qualifying Forward Contracts was \$10.8 million as of December 31, 2012 and was recorded in other assets in the Consolidated Balance Sheets and consisted of \$75.3 million of RMBS investments, net of \$64.6 million of repurchase financing. During the six months ended June 30, 2013, the Company purchased nine RMBS investments for \$85.3 million and financed the purchases with repurchase agreements totaling \$73.7 million, which are accounted for as linked transactions and considered forward contracts. The repurchase agreements generally finance 80% - 90% of the purchase and bear interest at a rate of 125 to 175 basis points over LIBOR. The Company received total principal paydowns on the RMBS of \$17.3 million and paid down the associated repurchase agreement by \$12.3 million. During the six months ended June 30, 2012, the Company purchased five RMBS investments for \$25.9 million and financed 80% - 90% of the purchases with repurchase agreements totaling \$22.4 million, which are accounted for as linked transactions and considered forward contracts. The Company received total principal paydowns on the RMBS of \$1.9 million and paid down the associated repurchase agreement by \$1.2 million. For the six months ended June 30, 2013, \$1.1 million of net interest income and a \$0.9 million decrease in fair value was recorded to other income in the Consolidated Statement of Operations. For the six months ended June 30, 2012, \$0.3 million of net interest income and a \$0.1 million increase in fair value was recorded to other income in the Consolidated Statement of Operations. The RMBS investments bear interest at a weighted average fixed rate of 3.04%, have a weighted average stated maturity of 23.2 years, but have weighted average estimated lives of 9.1 years based on the estimated maturities of the RMBS investments.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

The following table presents the effect of the Company's derivative financial instruments on the Statements of Operations as of June 30, 2013 and 2012 (dollars in thousands):

Designation Cash Flow	Derivative	Amount of (Gain) Loss Recognized in Other Comprehensive Loss (Effective Portion) For the Six Months Ended		Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Six Months Ended		Amount of (Loss) Gain Recognized in Interest Expense (Ineffective Portion) For the Six Months Ended		Amount of (Loss) Gain Recognized in Other Income For the Six Months Ended				
		June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012			
Non-Qualifying	Basis Swaps/Caps	\$	\$	\$	\$	\$	(7)	\$	159	\$	\$	
Qualifying	InterestRate Swaps/ Cap	\$	(1,285)	\$	4,735	\$	(7,013)	\$	(9,147)	\$	\$	
Non-Qualifying	Forward Contracts	\$	\$	\$	\$	\$	\$	\$	\$	(937)	\$	65

The cumulative amount of other comprehensive loss related to net unrealized losses on derivatives designated as qualifying hedges as of June 30, 2013 and December 31, 2012 of approximately \$(31.7) million and approximately \$(40.0) million, respectively, is a combination of the fair value of qualifying cash flow hedges of \$(29.8) million and \$(37.8) million, respectively, deferred losses on terminated interest swaps of \$(2.3) million and \$(2.7) million, respectively, and deferred net gains on termination of interest swaps of \$0.4 million and \$0.5 million, respectively.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. As of June 30, 2013 and December 31, 2012, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was \$(15.5) million and \$(19.2) million, respectively. As of June 30, 2013 and December 31, 2012, the Company had minimum collateral posting thresholds with certain of its derivative counterparties and had posted collateral of \$15.7 million and \$20.0 million, respectively, which is recorded in other assets in the Company's Consolidated Balance Sheets.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Note 9 Variable Interest Entities

The Company has evaluated its loans and investments, mortgage related securities, investments in equity affiliates, junior subordinated notes, CDOs and CLOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in the Company determining that its bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CDOs, CLOs and investments in mortgage related securities are potential VIEs. A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties.

A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company's involvement with VIEs primarily affects its financial performance and cash flows through amounts recorded in interest income, interest expense, provision for loan losses and through activity associated with its derivative instruments.

Consolidated VIEs

The Company consolidates its three CDO and two CLO subsidiaries, which qualify as VIEs, of which the Company is the primary beneficiary. These CDOs and CLOs invest in real estate and real estate-related securities and are financed by the issuance of CDO and CLO debt securities. The Company, or one of its affiliates, is named collateral manager, servicer, and special servicer for all CDO and CLO collateral assets which the Company believes gives it the power to direct the most significant economic activities of the entity. The Company also has exposure to CDO and CLO losses to the extent of its equity interests and also has rights to waterfall payments in excess of required payments to CDO and CLO bond investors. As a result of consolidation, equity interests in these CDOs and CLOs have been eliminated, and the Consolidated Balance Sheet reflects both the assets held and debt issued by the CDOs and CLOs to third parties. The Company's operating results and cash flows include the gross amounts related to CDO and CLO assets and liabilities as opposed to the Company's net economic interests in the CDO and CLO entities.

Assets held by the CDOs and CLOs are restricted and can be used only to settle obligations of the CDOs and CLOs. The liabilities of the CDOs and CLOs are non-recourse to the Company and can only be satisfied from each CDOs and CLOs respective asset pool. Assets and liabilities related to the CDOs and CLOs are disclosed parenthetically, in the aggregate, in the Company's Consolidated Balance Sheets. See Note 7 Debt Obligations for further details.

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

The Company is not obligated to provide, has not provided, and does not intend to provide financial support to any of the consolidated CDOs and CLOs.

Unconsolidated VIEs

The Company determined that it is not the primary beneficiary of 58 VIEs in which it has a variable interest as of June 30, 2013 because it does not have the ability to direct the activities of the VIEs that most significantly impact each entity's economic performance. VIEs, of which the Company is not the primary beneficiary, have an aggregate carrying amount of \$765.7 million and exposure to real estate debt of approximately \$4.4 billion at June 30, 2013.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2013****(Unaudited)**

The following is a summary of the Company's variable interests in identified VIEs, of which the Company is not the primary beneficiary, as of June 30, 2013:

Type	Carrying Amount (1)	Maximum Exposure to Loss (2)
Loans	\$ 438,632,837	\$ 438,632,837
Loans and equity investments	130,482,324	130,482,324
RMBS	193,864,344	193,864,344
CMBS	2,100,000	2,100,000
Junior subordinated notes (3)	578,000	578,000
Total	\$ 765,657,505	\$ 765,657,505

(1) Represents the carrying amount of loans and investments before reserves. At June 30, 2013, \$219.4 million of loans to VIEs had corresponding loan loss reserves of approximately \$134.5million and \$33.7 million of loans to VIEs were related to loans classified as non-performing. See Note 3 Loans and Investments for further details.

(2) The Company's maximum exposure to loss as of June 30, 2013 would not exceed the carrying amount of its investment.

(3) These entities that issued the junior subordinated notes are VIEs. It is not appropriate to consolidate these entities as equity interests are variable interests only to the extent that the investment is considered to be at risk. Since the Company's investments were funded by the entities that issued the junior subordinated notes, it is not considered to be at risk.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Note 10 Fair Value*Fair Value of Financial Instruments*

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The following table summarizes the carrying values and the estimated fair values of the Company's financial instruments as of June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Loans and investments, net	\$ 1,532,567,253	\$ 1,552,474,916	\$ 1,325,667,053	\$ 1,316,001,339
Available-for-sale securities	2,511,525	2,511,525	3,552,736	3,552,736
Securities held-to-maturity, net	47,598,688	48,655,106	42,986,980	43,153,124
Derivative financial instruments	15,519,286	15,519,286	10,927,551	10,927,551
Financial liabilities:				
Repurchase agreements and credit facilities.	\$ 101,097,436	\$ 100,851,895	\$ 130,661,619	\$ 130,363,126
Collateralized debt obligations	744,105,570	558,970,396	812,452,845	590,901,757
Collateralized loan obligations	264,500,000	266,077,500	87,500,000	87,500,000
Junior subordinated notes	159,025,006	100,627,567	158,767,145	99,984,066
Notes payable	51,457,708	47,334,066	51,457,708	46,743,406
Mortgage note payable - real estate owned	53,751,004	51,444,528	53,751,004	50,005,874
Derivative financial instruments	29,782,120	29,782,120	37,754,775	37,754,775

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument:

Loans and investments, net: Fair values of loans and investments that are not impaired are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates that would be offered for loans with similar

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

characteristics and credit quality. Fair values of loans and investments that are impaired are estimated by the Company using significant judgments, which include assumptions regarding discount rates, 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 management.

Available-for-sale securities: Fair values are approximated based on current market quotes received from active markets or financial sources that trade such securities and are based on prevailing market data and, in some cases, are derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions. The fair values of certain CMBS securities are estimated by the Company using 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 management.

Securities held-to-maturity, net: Fair values are approximated based on internally developed valuation models, which are compared to current non-binding market quotes received from financial sources that trade such securities.

Derivative financial instruments: Fair values of interest rate swap derivatives are approximated based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

estimates about relevant future market conditions. These items are included in other assets and other liabilities on the Consolidated Balance Sheets. The Company incorporates credit valuation adjustments in the fair values of its derivative financial instruments to reflect counterparty nonperformance risk. The fair values of RMBS underlying linked transactions are estimated based on internally developed valuation models which are compared to broker quotations. The value of the underlying RMBS is then netted against the carrying amount (which approximates fair value) of the repurchase agreement borrowing at the valuation date. The fair value of linked transactions also includes accrued interest receivable on the RMBS and accrued interest payable on the underlying repurchase agreement borrowings.

Repurchase agreements, credit facilities, notes payable and mortgage notes payable: Fair values are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates for financing with similar characteristics and credit quality.

Collateralized debt obligations and collateralized loan obligations: Fair values are estimated based on broker quotations, representing the discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Junior subordinated notes: Fair values are estimated based on discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Fair Value Measurement

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Assets and liabilities disclosed at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

- Level 1 Inputs are unadjusted and quoted prices exist in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Level 2 inputs include quoted market prices in markets that are not active for an identical or similar asset or liability, and quoted market prices in active markets for a similar asset or liability. Fair valued assets and liabilities that are generally included in this category are non-government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset-backed securities, certain corporate debt, certain commitments and guarantees, certain private equity investments and certain derivatives.
- Level 3 Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. These valuations are based on significant unobservable inputs that require a considerable amount of judgment and assumptions. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

securities, certain corporate debt, certain private equity investments, certain municipal bonds, certain commitments and guarantees and certain derivatives.

Determining which category an asset or liability falls within the hierarchy requires significant judgment and the Company evaluates its hierarchy disclosures each quarter.

The Company measures certain financial assets and financial liabilities at fair value on a recurring basis, including available for sale securities and derivative financial instruments. The fair value of these financial assets and liabilities was determined using the following inputs as of June 30, 2013:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Available-for-sale securities (1)	\$ 2,511,525	\$ 2,511,525	\$ 411,525	\$	\$ 2,100,000
Derivative financial instruments (2)	15,519,286	15,519,286		24,791	15,494,495
Financial liabilities:					
Derivative financial instruments	\$ 29,782,120	\$ 29,782,120	\$	\$ 29,782,120	\$

(1) For the six months ended June 30, 2013, the Company's equity securities available-for-sale were measured using Level 1 inputs and the Company's CDO bond and CMBS investments available-for-sale were measured using Level 3 inputs.

(2) For the six months ended June 30, 2013, the Company's basis swap derivatives were measured using Level 2 inputs and the Company's forward contract derivatives were measured using Level 3 inputs.

Available-for-sale securities: Fair values are approximated based on current market quotes received from financial sources that trade such securities. The fair values of available-for-sale equity securities traded in active markets are approximated using Level 1 inputs, while the fair values of available-for-sale debt securities that are approximated using current, non-binding market quotes received from financial sources that trade such investments are valued using Level 3 inputs. The fair value of a CMBS security is estimated by the Company using Level 3 inputs that 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 management.

Derivative financial instruments: Fair values of interest rate swap derivatives are approximated using Level 2 inputs based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles including counterparty risks, credit spreads and interest rate projections, as well as reasonable estimates about relevant future market conditions. These items are included in other assets and other liabilities on the Consolidated Balance Sheet. The Company incorporates credit valuation adjustments in the fair values of its derivative financial instruments to reflect counterparty nonperformance risk. The fair values of forward contract derivatives are approximated using Level 3 inputs in internally developed valuation models, which are compared to current, non-binding market quotes for the underlying RMBS received from pricing services and financial sources that trade such investments.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

The following roll forward table reconciles the beginning and ending balances of financial assets measured at fair value on a recurring basis using Level 3 inputs:

	Available-for-sale Securities	Derivative Financial Instruments
Balance as of December 31, 2012	\$ 3,200,000	\$ 10,799,536
Adjustments to fair value:		
Additions (1)		10,719,127
Paydowns (2)		(5,087,012)
Net changes in fair value (3)		(937,156)
Sale (4)	(1,100,000)	
Balance as of June 30, 2013	\$ 2,100,000	\$ 15,494,495

(1) Represents forward contract derivatives recorded at fair value in the six months ended June 30, 2013.

(2) Represents the paydowns on the forward contracts during the six months ended June 30, 2013.

(3) Represents the net change in fair value recorded to other income during the six months ended June 30, 2013.

(4) Represents the sale of a CDO bond investment in May 2013.

The Company measures certain financial and non-financial assets at fair value on a nonrecurring basis, such as impaired loans. The fair value of these financial assets was determined using the following inputs as of June 30, 2013:

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

	Net Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Impaired loans, net (1)	\$ 101,081,108	\$ 125,012,977	\$	\$	125,012,977

(1) The Company had an allowance for loan losses of \$146.6 million relating to 20 loans with an aggregate carrying value, before loan loss reserves, of approximately \$247.6 million at June 30, 2013.

Loan impairment assessments: Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. The Company performs evaluations of its loans to determine if the value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, which may result in an allowance and corresponding charge to the provision for loan losses. 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 management. The table above includes all impaired loans, regardless of the period in which an impairment was recognized.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Quantitative information about Level 3 Fair Value Measurements on a recurring and non-recurring basis:

At June 30, 2013

	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range (Weighted Average)
Financial assets:				
Impaired loans (1):				
Multi-family	\$ 31,845,565	Direct capitalization analysis and discounted cash flows	Discount rate Capitalization rate Revenue growth rate	7.50% to 8.00% (7.92%) 6.00% to 8.25% (7.10%) 2.00% to 3.00% (2.17%)
Office	11,167,440	Discounted cash flows	Discount rate Capitalization rate Revenue growth rate	9.00% to 10.00% (9.33%) 7.50% to 8.50% (8.07%) 0.00% to 3.00% (2.53%)
Land	76,000,000	Discounted cash flows	Discount rate Capitalization rate Revenue growth rate	15.50% 9.73%
			Dollar per acre Discount rate	5.40%
	5,999,972	Comparable sales and discounted cash flows		\$293K/Acre
CMBS	2,100,000	Discounted cash flows	Discount rate	11.00% 14.00%
Forward Contract	15,494,495	Valuation models	Discount rate	(2)
Derivatives			Loss severity	(2)
			Cumulative default rate	(2)
			Voluntary prepayment rate	(2)

(1) Includes all impaired loans regardless of the period in which provision was recorded.

(2) Each forward contract derivative is associated with an underlying security that is individually modeled and valued based on the security's specific characteristics, which include current collateral composition, collateral performance projections, tranche credit enhancement and other market factors. Accordingly, as the range of the unobservable inputs used to value each individual security varies greatly, disclosing a range or weighted average of such inputs would not be meaningful.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Impaired Loans and CMBS: The Asset Management department is responsible for the Company's valuation policies and procedures and analyzes changes in fair value from period to period through its quarterly impairment analysis. Many methods are used to develop and substantiate unobservable inputs such as analyzing discount and capitalization rates as well as researching revenue and expense growth. Significant increases in discount or capitalization rates in isolation would result in a significantly lower fair value measurement while significant increases in revenue growth rates in isolation would result in a significantly higher fair value measurement. Significant decreases in discount or capitalization rates in isolation would result in a significantly higher fair value measurement while significant decreases in revenue growth rates in isolation would result in a significantly lower fair value measurement.

Forward Contract Derivatives: Fair value is approximated based on internally developed valuation models, which are compared to current non-binding market quotes received from financial sources that trade such securities. Significant unobservable inputs used to calculate the quotes are not readily available to the Company.

The Company measures certain assets and liabilities for which fair value is only disclosed. The fair value of these assets and liabilities was determined using the following inputs as of June 30, 2013:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Loans and investments, net	\$ 1,532,567,253	\$ 1,552,474,916	\$	\$	1,552,474,916
Securities held-to-maturity, net	47,598,688	48,655,106			48,655,106
Financial liabilities:					
Repurchase agreements and credit facilities	\$ 101,097,436	\$ 100,851,895	\$	\$	100,851,895
Collateralized debt obligations	744,105,570	558,970,396			558,970,396
Collateralized loan obligation	264,500,000	266,077,500			266,077,500
Junior subordinated notes	159,025,006	100,627,567			100,627,567
Notes payable	51,457,708	47,334,066			47,334,066
Mortgage note payable - real estate owned	53,751,004	51,444,528			51,444,528

Loans and investments, net: Fair values of loans and investments that are not impaired are estimated using Level 3 inputs in a discounted cash flow model, using discount rates, which, in the opinion of management, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Fair values of loans and investments that are impaired are estimated at Level 3 by the Company using 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 management.

Securities held-to-maturity, net: Fair values are approximated at Level 3 based on internally developed valuation models, which are compared to current non-binding market quotes received from financial sources that trade such securities.

Repurchase agreements, credit facilities, notes payable and mortgage notes payable: Fair values are estimated at Level 3 using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates for financing with similar characteristics and credit quality.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

Collateralized debt obligations and collateralized loan obligation: Fair values are estimated at Level 3 based on broker quotations, representing the discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Junior subordinated notes: Fair values are estimated at Level 3 based on broker quotations, representing the discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Note 11 Commitments and Contingencies

Contractual Commitments

As of June 30, 2013, the Company had the following material contractual obligations (dollars in thousands):

Contractual Obligations	2013	2014	Payments Due by Period (1)		2017	Thereafter	Total
			2015	2016			
Repurchase agreements and credit facilities	\$ 38,040	\$ 40,535	\$ 22,522	\$	\$		