ARBOR REALTY TRUST INC
Form 10-Q
November 06, 2015
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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 September 30, 2015

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)

Maryland	**20-0057959**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
333 Earle Ovington Boulevard, Suite 900	
Uniondale, NY	**11553**
(Address of principal executive offices)	(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No o

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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: 50,962,516 outstanding (excluding 2,650,767 shares held in the treasury) as of November 6, 2015.

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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. We use words such as anticipates, expects, believes, intends, should, will, may and similar expressions to identify forward-looking statements, although n forward-looking statements include these words. 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. 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; legislative/regulatory changes; the availability and cost of capital for future investments; competition; and other risks detailed from time to time in our reports filed with the Securities and Exchange Commission (SEC). Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect 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, 2014 (the 2014 Annual Report).

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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		September 30, 2015 (Unaudited)		December 31, 2014
Assets:				
Cash and cash equivalents	$	115,612,829	$	50,417,745
Restricted cash (includes $57,182,387 and $216,405,894 from consolidated VIEs, respectively)		58,810,664		218,100,529
Loans and investments, net (includes $966,708,196 and $968,600,472 from consolidated VIEs, respectively)		1,506,324,128		1,459,475,650
Available-for-sale securities, at fair value		646,682		2,499,709
Investments in equity affiliates		27,828,747		4,869,066
Real estate owned, net (includes $0 and $80,732,144 from consolidated VIEs, respectively)		70,758,676		84,925,641
Real estate held-for-sale, net		17,651,894		14,381,733
Due from related party (includes $43,451 and $0 from consolidated VIEs, respectively)		674,958		36,515
Other assets (includes $16,919,931 and $14,949,956 from consolidated VIEs, respectively)		49,121,917		45,716,002
Total assets	$	1,847,430,495	$	1,880,422,590
Liabilities and Equity:				
Credit facilities and repurchase agreements	$	122,463,494	$	180,386,200
Collateralized loan obligations (includes $767,877,232 and $458,250,000 from consolidated VIEs, respectively)		767,877,232		458,250,000
Collateralized debt obligations (includes $0 and $331,395,126 from consolidated VIEs, respectively)				331,395,126
Senior unsecured notes		97,860,025		97,860,025
Junior subordinated notes to subsidiary trust issuing preferred securities		160,250,265		159,833,260
Notes payable		1,000,000		1,300,000
Mortgage note payable real estate owned		27,155,000		21,865,136
Mortgage note payable real estate held-for-sale				9,119,221
Due to related party		2,686,325		2,653,333
Due to borrowers (includes $953,138 and $0 from consolidated VIEs, respectively)		51,229,859		32,972,606
Other liabilities (includes $1,739,903 and $7,385,474 from consolidated VIEs, respectively)		51,244,284		49,332,212
Total liabilities		1,281,766,484		1,344,967,119
Commitments and contingencies				
Equity:				
Arbor Realty Trust, Inc. stockholders equity:				
		89,295,905		89,295,905

Preferred stock, cumulative, redeemable, $0.01 par value: 100,000,000 shares authorized; 8.25% Series A, $38,787,500 aggregate liquidation preference; 1,551,500 shares issued and outstanding; 7.75% Series B, $31,500,000 aggregate liquidation preference; 1,260,000 shares issued and outstanding; 8.50% Series C, $22,500,000 aggregate liquidation preference; 900,000 shares issued and outstanding				
Common stock, $0.01 par value: 500,000,000 shares authorized; 53,613,283 and 53,128,075 shares issued, respectively; 50,962,516 and 50,477,308 shares outstanding, respectively		536,132		531,280
Additional paid-in capital		632,766,503		629,880,774
Treasury stock, at cost 2,650,767 shares		(17,100,916)		(17,100,916)
Accumulated deficit		(133,491,962)		(152,483,322)
Accumulated other comprehensive loss		(6,341,651)		(14,668,250)
Total equity		565,664,011		535,455,471
Total liabilities and equity	$	1,847,430,495	$	1,880,422,590

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Interest income	$ 26,025,709	$ 29,657,960	$ 79,575,689	$ 80,062,244
Other interest income, net			7,884,344	
Interest expense	11,885,363	12,334,034	37,405,492	34,148,009
Net interest income	14,140,346	17,323,926	50,054,541	45,914,235
Other revenue:				
Property operating income	7,202,851	8,443,877	22,855,028	26,703,348
Other income, net	51,633	518,318	164,449	1,526,901
Total other revenue	7,254,484	8,962,195	23,019,477	28,230,249
Other expenses:				
Employee compensation and benefits	4,877,059	3,639,722	14,133,403	10,578,219
Selling and administrative	3,179,534	2,330,033	8,985,148	7,507,097
Property operating expenses	6,028,585	7,266,859	18,381,317	21,687,062
Depreciation and amortization	1,250,761	1,806,683	4,137,080	5,776,719
Impairment loss on real estate owned				250,000
Provision for loan losses (net of recoveries)	277,464	1,326,538	2,353,688	590,695
Management fee - related party	2,725,000	2,450,000	8,075,000	7,400,000
Total other expenses	18,338,403	18,819,835	56,065,636	53,789,792
Income before gain on acceleration of deferred income, loss on termination of swaps, (loss) gain on sale of real estate, gain on sale of equity interest, incentive management fee and income (loss) from equity affiliates	3,056,427	7,466,286	17,008,382	20,354,692
Gain on acceleration of deferred income	8,162,720		19,171,882	
Loss on termination of swaps	(340,197)		(4,629,647)	
(Loss) gain on sale of real estate		(199,749)	3,984,364	(199,749)
Gain on sale of equity interest		77,123,133		84,974,399
Incentive management fee equity interest related party		(19,047,949)		(19,047,949)
Income (loss) from equity affiliates	6,353,239	(51,170)	10,983,177	29,371
Net income	17,232,189	65,290,551	46,518,158	86,110,764
Preferred stock dividends	1,888,430	1,888,430	5,665,290	5,367,825
Net income attributable to common stockholders	$ 15,343,759	$ 63,402,121	$ 40,852,868	$ 80,742,939
Basic earnings per common share	$ 0.30	$ 1.26	$ 0.80	$ 1.61
Diluted earnings per common share	$ 0.30	$ 1.26	$ 0.80	$ 1.60
Dividends declared per common share	$ 0.15	$ 0.13	$ 0.43	$ 0.39
Weighted average number of shares of common stock outstanding:				
Basic	50,962,516	50,477,308	50,822,444	50,031,205
Diluted	50,962,516	50,477,308	50,917,442	50,331,623

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	$ 17,232,189	$ 65,290,551	$ 46,518,158	$ 86,110,764
Unrealized (loss) gain on securities available-for-sale, net	(176,368)	(276,368)	246,973	(305,763)
Reclassification of unrealized gain on securities available-for-sale realized into earnings				(431,476)
Unrealized (loss) gain on derivative financial instruments, net	(349,012)	265,078	(1,255,739)	(813,366)
Reclassification of net realized loss on derivatives designated as cash flow hedges into loss on termination of swaps	340,197		4,626,192	
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	1,467,673	3,059,660	4,709,173	9,614,701
Comprehensive income	18,514,679	68,338,921	54,844,757	94,174,860
Less:				
Preferred stock dividends	1,888,430	1,888,430	5,665,290	5,367,825
Comprehensive income attributable to common stockholders	$ 16,626,249	$ 66,450,491	$ 49,179,467	$ 88,807,035

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

Nine Months Ended September 30, 2015

	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 Other Comprehensive Loss**	**Total**
Balance January 1, 2015	3,711,500	$ 89,295,905	53,128,075	$ 531,280	$ 629,880,774	(2,650,767)	$ (17,100,916)	$ (152,483,322)	$ (14,668,250)	$ 535,455,47
Stock-based compensation			486,124	4,861	2,885,720					2,890,58
Forfeiture of unvested restricted stock			(916)	(9)	9					
Distributions common stock								(21,850,942)		(21,850,94
Distributions preferred stock								(5,665,290)		(5,665,29
Distributions preferred stock of private REIT								(10,566)		(10,56
Net income								46,518,158		46,518,15
Unrealized gain on securities available-for-sale									246,973	246,97
Unrealized loss on derivative financial instruments, net									(1,255,739)	(1,255,73
Reclassification of net realized loss on derivatives designated as cash flow hedges into loss on termination of swaps									4,626,192	4,626,19
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings									4,709,173	4,709,17
	3,711,500	$ 89,295,905	53,613,283	$ 536,132	$ 632,766,503	(2,650,767)	$ (17,100,916)	$ (133,491,962)	$ (6,341,651)	$ 565,664,01

Balance
September 30,
2015

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30, 2015		2014	
Operating activities:				
Net income	$	46,518,158	$	86,110,764
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		4,137,080		5,776,719
Stock-based compensation		2,890,581		1,688,631
Gain on acceleration of deferred income		(19,171,882)		
Loss on termination of swaps		4,629,647		
(Gain) loss on sale of real estate		(3,984,364)		199,749
Gain on sale of securities				(518,640)
Provision for loan losses (net of recoveries)		2,353,688		590,695
Impairment loss on real estate owned				250,000
Amortization and accretion of interest, fees and intangible assets, net		1,709,609		(960,987)
Change in fair value of non-qualifying swaps and linked transactions				(41,867)
Gain on sale of equity interest				(84,974,399)
Incentive management fee equity interest related party				19,047,949
Income from equity affiliates		(10,983,177)		(29,371)
Changes in operating assets and liabilities:				
Other assets		(1,711,045)		(1,711,433)
Distributions of operations from equity affiliates		5,041,468		121,475
Other liabilities		4,708,840		1,143,709
Change in restricted cash		66,358		(594,552)
Due to/from related party		(605,451)		(1,277,682)
Net cash provided by operating activities	$	35,599,510	$	24,820,760
Investing activities:				
Loans and investments funded, originated and purchased, net		(734,651,094)		(685,671,067)
Payoffs and paydowns of loans and investments		698,138,074		694,560,068
Due to borrowers and reserves				(36,239)
Deferred fees		3,707,798		4,692,501
Principal collection on securities, net		2,100,000		663,684
Investment in real estate, net		(2,025,366)		(3,674,350)
Contributions to equity affiliates		(17,017,972)		(526,499)
Proceeds from sale of real estate, net		18,482,352		2,945,590
Proceeds from sale of available-for-sale securities				33,904,172
Distributions from equity affiliates				7,943,465
Net cash (used in) provided by investing activities	$	(31,266,208)	$	54,801,325
Financing activities:				
Proceeds from repurchase agreements, loan participations, credit facilities and notes payable		555,589,837		251,210,535
Paydowns and payoffs of repurchase agreements, loan participations and credit facilities		(612,512,543)		(340,229,448)
Proceeds from mortgage note payable real estate owned		27,155,000		
Paydowns and payoffs of mortgage note payable real estate owned		(30,984,357)		(4,937,098)
Proceeds from collateralized loan obligations		486,625,000		281,250,000
Proceeds from senior unsecured notes				97,860,025

Payoffs and paydowns of collateralized debt obligations		(312,071,055)		(267,332,444)
Payoffs and paydowns of collateralized loan obligations		(177,000,000)		
Change in restricted cash		159,223,507		(88,292,049)
Payments on financial instruments underlying linked transactions				(59,613,649)
Receipts on financial instruments underlying linked transactions				66,027,912
Payments on swaps and margin calls to counterparties		(290,000)		(1,272,106)
Receipts on swaps and returns of margin calls from counterparties		3,330,000		7,243,010
Proceeds from issuance of common stock				6,800,000
Expenses paid on issuance of common stock				(221,143)
Proceeds from issuance of preferred stock				22,500,000
Expenses paid on issuance of preferred stock				(779,131)
Distributions paid on common stock		(21,850,942)		(19,467,490)
Distributions paid on preferred stock		(5,665,290)		(5,208,450)
Distributions paid on preferred stock of private REIT		(10,566)		(10,806)
Cancellation of warrants				(2,602,500)
Payment of deferred financing costs		(10,676,809)		(10,062,642)
Net cash provided by (used in) financing activities	$	60,861,782	$	(67,137,474)
Net increase in cash and cash equivalents	$	65,195,084	$	12,484,611
Cash and cash equivalents at beginning of period		50,417,745		60,389,552
Cash and cash equivalents at end of period	$	115,612,829	$	72,874,163

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

	Nine Months Ended September 30, 2015	2014
Supplemental cash flow information:		
Cash used to pay interest	$ 32,665,815	$ 31,067,603
Cash used for taxes	$ 385,932	$ 76,281
Supplemental schedule of non-cash investing and financing activities:		
Distributions accrued on 8.25% Series A preferred stock	$ 266,664	$ 266,664
Distributions accrued on 7.75% Series B preferred stock	$ 203,438	$ 203,438
Distributions accrued on 8.50% Series C preferred stock	$ 159,375	$ 159,375
Investment transferred from real estate owned, net to real estate held-for-sale, net	$ 17,516,488	$ 14,952,919
Loan transferred to real estate owned, net	$ 5,900,000	$
Satisfaction of participation loan	$ 1,300,000	$
Retirement of participation liability	$ 1,300,000	$
Mortgage note payable - real estate owned transferred to real estate held-for-sale	$	$ 12,785,851
Accrued and unpaid expenses on preferred stock offerings	$	$ 79,619
Accrued and unpaid expenses on common stock offerings	$	$ 64,857

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

Note 1 Description of Business

Arbor Realty Trust, Inc. is a Maryland corporation that was formed in June 2003 to invest in a diversified portfolio of multifamily and commercial real estate related assets, primarily consisting of bridge and mezzanine loans, including junior participating interests in first mortgage loans, preferred and direct equity. We may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. We conduct substantially all of our operations through our operating partnership, Arbor Realty Limited Partnership (ARLP), and ARLP s wholly-owned subsidiaries. We are externally managed and advised by Arbor Commercial Mortgage, LLC (our Manager). We organize and conduct our operations to qualify as a real estate investment trust (REIT) for federal income tax purposes.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), for interim financial statements and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements prepared under GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of our financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our 2014 Annual Report, which was filed with the SEC.

The accompanying unaudited consolidated financial statements include our financial statements, our wholly-owned subsidiaries, and partnerships or other joint ventures in which we own a voting interest of greater than 50 percent, and variable interest entities (VIEs) of which we are 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 us 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, we have separately disclosed parenthetically the assets and liabilities of our collateralized debt obligation (CDO) and collateralized loan obligation (CLO) subsidiaries on our consolidated balance sheets. Entities in which we have significant influence are accounted for primarily under the equity method.

As a REIT, we are generally not subject to federal income tax on our REIT taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT taxable income and meet certain other requirements. As of September 30, 2015 and 2014, we were in compliance with all REIT requirements and, therefore, have not provided for income tax expense for the nine months ended September 30, 2015 and 2014. Certain of our assets that produce non-qualifying income are owned by our taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. During the nine months ended September 30, 2015 and 2014, we did not record any provision for income taxes for these taxable REIT subsidiaries as we expect any income to be offset by available federal and state net operating loss carryforwards.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that could materially affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

Significant Accounting Policies

As of September 30, 2015, our significant accounting policies, which are detailed in our 2014 Annual Report, have not changed materially.

Recently Issued Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (FASB) amended its guidance on measurement-period adjustments arising from business combinations. The guidance is effective for the first quarter of 2016 and we are currently evaluating the impact it may have on our consolidated financial statements.

In April 2015, the FASB amended its guidance on the balance sheet presentation of debt issuance costs. The guidance is effective for the first quarter of 2016 and we do not expect it to have a material effect on our consolidated financial statements other than the balance sheet presentation of debt and other assets.

In February 2015, the FASB amended its guidance on the consolidation analysis of variable interest entities. The guidance is effective for the first quarter of 2016 and we are currently evaluating the impact it may have on our consolidated financial statements.

In January 2015, the FASB eliminated the concept of extraordinary items and thus the requirement to assess whether an event or transaction requires extraordinary classification on the financial statements. The guidance is effective for the first quarter of 2016. We early adopted this new guidance in the first quarter of 2015 and it did not have a material effect on our consolidated financial statements.

Note 3 Loans and Investments

The following table sets forth the composition of our loan and investment portfolio:

	September 30, 2015	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	Wtd. Avg. First Dollar LTV Ratio (2)	Wtd. Avg. Last Dollar LTV Ratio (3)
Bridge loans	$ 1,384,470,022	87%	105	5.44%	16.4	0%	75%
Mezzanine loans	59,942,557	4%	14	9.46%	43.5	45%	81%
Junior participation loans	62,256,582	4%	2	4.50%	10.1	90%	87%
Preferred equity investments	92,350,109	5%	11	7.52%	32.3	43%	81%
	1,599,019,270	100%	132	5.67%	18.1	8%	76%
Unearned revenue	(9,334,634)						
Allowance for loan losses	(83,360,508)						
Loans and investments, net	$ 1,506,324,128						

	December 31, 2014	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	Wtd. Avg. First Dollar LTV Ratio (2)	Wtd. Avg. Last Dollar LTV Ratio (3)
Bridge loans	$ 1,273,439,238	80%	101	5.19%	19.8	0%	74%
Mezzanine loans	76,392,650	5%	17	9.78%	37.1	47%	81%
Junior participation loans	104,091,952	7%	4	4.62%	12.3	86%	88%
Preferred equity investments	133,505,658	8%	17	6.11%	45.5	62%	84%
	1,587,429,498	100%	139	5.45%	22.3	13%	76%
Unearned revenue	(12,466,528)						
Allowance for loan losses	(115,487,320)						
Loans and investments, net	$ 1,459,475,650						

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

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(1) Weighted Average Pay Rate is a weighted average, based on the unpaid principal balances of each loan in our 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.

(2) The First Dollar LTV Ratio is calculated by comparing the total of our 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 we will absorb a total loss of our position.

(3) The Last Dollar LTV Ratio is calculated by comparing the total of the carrying value of our loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will initially absorb a loss.

During the first quarter of 2015, we acquired a $116.0 million defaulted first mortgage, at par. We financed this acquisition primarily with a new $87.0 million warehouse repurchase facility. In the second quarter of 2015, the first mortgage paid off and as a result, we repaid the $87.0 million warehouse facility and recognized income totaling $6.7 million, net of fees and expenses. The $6.7 million of income is comprised of other interest income totaling $7.9 million, partially offset by $1.2 million of expenses related to this transaction that were recorded in employee compensation and benefits.

Concentration of Credit Risk

We operate in one portfolio segment, commercial mortgage loans and investments. Commercial mortgage loans and investments can potentially subject us to concentrations of credit risk. We are subject to concentration risk in that, at September 30, 2015, the unpaid principal balance (UPB) related to 17 loans with five different borrowers represented approximately 18% of total assets. At December 31, 2014, the UPB related to 31 loans with five different borrowers represented approximately 23% of total assets. We measure our relative loss position for our mezzanine loans, junior participation loans, and preferred equity investments by determining the point where we will be exposed to losses based on our position in the capital stack as compared to the fair value of the underlying collateral. We determine our loss position on both a first dollar loan-to-value (LTV) and a last dollar LTV basis. First dollar LTV is calculated by comparing the total of our 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 we will absorb a total loss of our position. Last dollar LTV is calculated by comparing the total of the carrying value of our loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will initially absorb a loss.

We assign a credit risk rating to each loan and investment. 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 that 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 our 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. Assets are subject to, at minimum, a thorough quarterly financial evaluation in which historical operating performance and forward-looking projections are reviewed. Generally speaking, given our typical loan and investment profile, a risk rating of three suggests that we expect 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 we anticipate that the loan will require a modification of some kind. A risk rating of five indicates we expect the loan to underperform over its term, and 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.

As a result of the loan review process at September 30, 2015 and December 31, 2014, we identified loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of approximately $151.4 million and $189.4 million, respectively, and a weighted average last dollar LTV ratio of 94% for each period.

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A summary of the loan portfolio s weighted average internal risk ratings and LTV ratios by asset class is as follows:

	September 30, 2015				
Asset Class	Unpaid Principal Balance	Percentage of Portfolio	Wtd. Avg. Internal Risk Rating	Wtd. Avg. First Dollar LTV Ratio	Wtd. Avg. Last Dollar LTV Ratio
Multi-family	$ 1,113,588,289	69.6%	2.8	3%	74%
Office	199,197,437	12.5%	3.0	29%	83%
Land	179,900,212	11.3%	3.7	4%	84%
Hotel	66,250,000	4.1%	3.3	32%	80%
Other	40,083,332	2.5%	2.6	10%	67%
Total	$ 1,599,019,270	100.0%	2.9	8%	76%

	December 31, 2014				
Asset Class	Unpaid Principal Balance	Percentage of Portfolio	Wtd. Avg. Internal Risk Rating	Wtd. Avg. First Dollar LTV Ratio	Wtd. Avg. Last Dollar LTV Ratio
Multi-family	$ 1,157,462,400	72.9%	2.9	10%	73%
Office	230,491,164	14.5%	3.3	29%	79%
Land	128,367,601	8.1%	3.9	6%	88%
Hotel	66,250,000	4.2%	3.5	32%	83%
Other	4,858,333	0.3%	2.9	69%	75%
Total	$ 1,587,429,498	100.0%	3.1	13%	76%

Geographic Concentration Risk

As of September 30, 2015, 29%, 14%, 14% and 13% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Texas, California and Florida, respectively. As of December 31, 2014, 28%, 14% and 10% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Florida and Texas, respectively.

Impaired Loans and Allowance for Loan Losses

We perform an evaluation of the loan portfolio quarterly to assess the performance of our loans and whether a reserve for impairment should be recorded. We consider a loan impaired when, based upon current information and events, it is probable that we 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 and nine months ended September 30, 2015, we recognized provision for loan losses totaling $1.0 million and $3.1 million, respectively. During both periods, we also recorded net recoveries of previously recorded loan losses totaling $0.7 million, resulting in a provision for loan losses, net of recoveries totaling $0.3 million and $2.4 million, respectively.

During the three and nine months ended September 30, 2014 we recognized a provision for loan losses totaling $2.9 million and $7.8 million, respectively. During these periods, we also recorded net recoveries of previously recorded loan losses totaling $1.5 million and $7.2 million, respectively, resulting in a provision for loan losses, net of recoveries totaling $1.3 million and $0.6 million, respectively.

The provision for loan losses recorded in the three months ended September 30, 2015 was on two loans with an aggregate carrying value before reserves of $117.2 million, while the provision for the nine months ended September 30, 2015 was comprised of three loans with an aggregate carrying value of $121.9 million and a loan that was transferred to real estate owned with a carrying value of $8.3 million before reserves.

The provision for loan losses recorded in the three months ended September 30, 2014 was comprised of two loans with an aggregate carrying value of $144.7 million, while the provision for the nine months ended September 30, 2014 was comprised of four loans with an aggregate carrying value of $158.5 million.

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Allowance at beginning of the period	$ 117,563,544	$ 115,059,988	$ 115,487,320	$ 122,277,411
Provision for loan losses	982,453	2,860,000	3,093,082	7,810,000
Charge-offs	(32,000,000)		(32,000,000)	(6,501,079)
Charge-off on loan reclassified to real estate owned, net	(2,500,000)		(2,500,000)	
Recoveries of reserves	(685,489)	(1,533,462)	(719,894)	(7,199,806)
Allowance at end of the period	$ 83,360,508	$ 116,386,526	$ 83,360,508	$ 116,386,526

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Charge-offs:				
Hotel	$ (32,000,000)	$	$ (32,000,000)	$
Office	(2,500,000)		(2,500,000)	
Multi-family				(6,501,079)
Total	$ (34,500,000)	$	$ (34,500,000)	$ (6,501,079)
Recoveries:				
Multi-family	$ (685,489)	$ (1,533,462)	$ (719,894)	$ (7,199,806)
Total	$ (685,489)	$ (1,533,462)	$ (719,894)	$ (7,199,806)
Net (Charge-offs) Recoveries	$ (33,814,511)	$ 1,533,462	$ (33,780,106)	$ 698,727
Ratio of net (charge-offs) recoveries during the period to average loans and investments outstanding during the period	(2.0)%	0.1%	(2.1)%	0.0%

There were no loans for which the fair value of the collateral securing the loan was less than the carrying value of the loan for which we had not recorded a provision for loan loss as of September 30, 2015 and 2014.

During the three and nine months ended September 30, 2015, we charged-off $32.0 million of previously recorded reserves due to the write-off of a fully reserved junior participation loan. We also charged-off $2.5 million in connection with the transfer of an office building by deed in lieu of foreclosure to real estate owned, net.

We have six loans with a carrying value totaling $116.4 million at September 30, 2015, which mature in September 2017, that are collateralized by a land development project. The loans do not carry a current pay rate of interest, but four of the loans with a carrying value totaling $97.5 million entitle us to a weighted average accrual rate of interest of 9.60%. We 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. We have recorded cumulative allowances for loan losses of $47.8 million related to these loans as of September 30, 2015. 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.

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A summary of our impaired loans by asset class is as follows:

	September 30, 2015			Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
Asset Class	**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	$ 7,377,115	$ 7,365,764	$ 5,020,653	$ 23,291,302	$ 109,115	$ 23,308,505	$ 253,096
Office	27,585,082	22,800,944	21,972,444	31,835,832	1,225,877	31,835,832	1,782,922
Land	125,674,855	121,216,612	52,667,411	124,865,743		123,742,628	
Hotel	34,750,000	34,489,277	3,700,000	34,750,000	264,898	34,750,000	782,926
Total	$ 195,387,052	$ 185,872,597	$ 83,360,508	$ 214,742,877	$ 1,599,890	$ 213,636,965	$ 2,818,944

	December 31, 2014			Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
Asset Class	**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	$ 39,239,894	$ 39,232,710	$ 36,469,894	$ 44,727,875	$ 257,014	$ 52,795,793	$ 689,284
Office	36,086,582	30,498,273	23,972,444	45,086,582	517,319	40,586,582	1,303,615
Land	121,810,400	117,621,457	51,344,982	118,752,869		117,608,264	
Hotel	34,750,000	34,249,959	3,700,000	34,875,000	231,808	17,375,000	403,182
Total	$ 231,886,876	$ 221,602,399	$ 115,487,320	$ 243,442,326	$ 1,006,141	$ 228,365,639	$ 2,396,081

(1) Represents the UPB of impaired loans less unearned revenue and other holdbacks and adjustments by asset class and was comprised of eight loans at September 30, 2015 and ten loans at December 31, 2014.

(2) Represents an average of the beginning and ending UPB of each asset class.

As of September 30, 2015, three loans with an aggregate net carrying value of $1.7 million, net of related loan loss reserves on two of the loans of $21.2 million, were classified as non-performing. 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, 2014, three loans with an aggregate net carrying value of $7.0 million, net of related loan loss reserves on the two loans of $34.0 million, were classified as non-performing.

A summary of our non-performing loans by asset class is as follows:

	September 30, 2015			December 31, 2014		
Asset Class	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	$ 765,799	$	$ 765,799	$ 32,765,799	$ 765,799	$ 32,000,000
Office	20,472,444		20,472,444	8,277,757		8,277,757
Commercial	1,700,000	1,700,000				
Total	$ 22,938,243	$ 1,700,000	$ 21,238,243	$ 41,043,556	$ 765,799	$ 40,277,757

At September 30, 2015, we did not have any loans contractually past due 90 days or more that are still accruing interest.

A summary of loan modifications, refinancings and/or extensions by asset class that we considered to be troubled debt restructurings were as follows:

	Three Months Ended September 30, 2015					Nine Months Ended September 30, 2015				
Asset Class	Number of Loans	Original Unpaid Principal Balance	Original Rate of Interest	Extended Unpaid Principal Balance	Extended Weighted Average Rate of Interest	Number of Loans	Original Unpaid Principal Balance	Original Weighted Average Rate of Interest	Extended Unpaid Principal Balance	Extended Weighted Average Rate of Interest
Multifamily		$		$		5	$ 35,609,122	5.12%	$ 35,609,122	5.12%
Office	1	2,430,000	3.69%	2,430,000	3.69%	1	2,430,000	3.69%	2,430,000	3.69%
Total	1	$ 2,430,000	3.69%	$ 2,430,000	3.69%	6	$ 38,039,122	5.03%	$ 38,039,122	5.03%

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	Three Months Ended September 30, 2014					Nine Months Ended September 30, 2014				
Asset Class	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	Extended Unpaid Principal Balance	Extended Rate of Interest
Hotel	1	$ 35,000,000	1.95%	$ 34,750,000	2.95%	1	$ 35,000,000	1.95%	$ 34,750,000	2.95%

There were no loans in which we considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of September 30, 2015 and 2014 and no additional loans were considered to be impaired due to our troubled debt restructuring analysis for the three and nine months ended September 30, 2015 and 2014. We had an unfunded commitment of $0.1 million on the extended loans which were considered troubled debt restructurings as of September 30, 2015 and no unfunded commitment on the extended loan which was considered troubled debt restructuring as of September 30, 2014.

Given the transitional nature of some of our real estate loans, we may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. As of September 30, 2015, we had total interest reserves of $21.4 million on 62 loans with an aggregate UPB of $858.8 million.

Note 4 Securities

The following is a summary of our securities classified as available-for-sale at September 30, 2015:

	Amortized Cost	Cumulative Unrealized Gain	Carrying Value / Estimated Fair Value
Common equity securities	$ 58,789	$ 587,893	$ 646,682

The following is a summary of our securities classified as available-for-sale at December 31, 2014:

Face	Amortized	Cumulative Unrealized	Carrying Value /

		Value		Cost		(Loss) / Gain		Estimated Fair Value
Commercial mortgage-backed security (CMBS)	$	2,100,000	$	2,100,000	$	(100,000)	$	2,000,000
Common equity securities				58,789		440,920		499,709
Total available-for-sale securities	$	2,100,000	$	2,158,789	$	340,920	$	2,499,709

In the second quarter of 2015, our CMBS investment, which had a carrying value of $2.0 million, paid off in full. In connection with this pay off, we received proceeds of $2.1 million and reversed a $0.1 million unrealized loss from accumulated other comprehensive loss on our consolidated balance sheet. Our CMBS investment had an underlying credit rating of CCC- based on the rating published by Standard & Poor s at December 31, 2014.

We own 2,939,465 shares of common stock of CV Holdings, Inc., formerly Realty Finance Corporation, a commercial real estate specialty finance company, which had a fair value of $0.6 million and $0.5 million at September 30, 2015 and December 31, 2014, respectively.

Available-for-sale securities are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive loss.

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In the first quarter of 2014, we sold all of our residential mortgage backed securities (RMBS) investments, which had an aggregate carrying value of $33.4 million, for $33.9 million and recorded a net gain of $0.5 million to other income, net on our consolidated statements of income, which includes the reclassification of a net unrealized gain of $0.4 million from accumulated other comprehensive loss on our consolidated balance sheet. Included in these sales were two RMBS investments with deteriorated credit quality that had an aggregate carrying value of $25.8 million and that were sold for $25.9 million. The RMBS investments were financed with two repurchase agreements totaling $25.3 million which were repaid with the proceeds.

The weighted average yield on our CMBS and RMBS investments, including the amortization of premium and the accretion of discount, based on their face values was 1.13% for the three months ended September 30, 2014 and 0.69% and 1.90% for the nine months ended September 30, 2015 and 2014, respectively.

Note 5 Investments in Equity Affiliates

The following is a summary of our investments in equity affiliates:

Equity Affiliates	Investment in Equity Affiliates at September 30, 2015	Investment in Equity Affiliates at December 31, 2014	UPB of Loans to Equity Affiliates at September 30, 2015
Arbor Residential Investor LLC	$ 22,898,430	$	$
West Shore Café	1,937,017	1,872,661	1,687,500
Lightstone Value Plus REIT L.P.	1,894,727	1,894,727	
Issuers of Junior Subordinated Notes	578,000	578,000	
JT Prime	425,000	425,000	
East River Portfolio	95,473	98,578	4,994,166
Lexford Portfolio	100	100	2,328,500
Ritz-Carlton Club			
Total	$ 27,828,747	$ 4,869,066	$ 9,010,166

We account for all investments in equity affiliates under the equity method.

Arbor Residential Investor LLC (ARI) In the first quarter of 2015, we invested $9.6 million for 50% of our Manager s indirect interest in a joint venture with a third party that was formed to invest in a residential mortgage banking business. Our Manager retained a promote of 25% over a 10% return on this investment. As a result of this transaction, we had an initial indirect interest of 22.5% in the mortgage banking business, which is subject to dilution upon attaining certain profit hurdles of the business. As a result of the business s profitability to date, we currently own a 20% indirect interest. During the three and nine months ended September 30, 2015, we recorded $1.3 million and $5.9 million, respectively, to income from equity affiliates in our consolidated statements of income related to this investment.

In the first quarter of 2015, we invested $1.7 million through ARI for 100% of our Manager s investment in non-qualified residential mortgages purchased from the mortgage banking business s origination platform, resulting in a non-controlling ownership interest of 50% in this investment. We also funded $5.7 million of additional mortgage purchases during the nine months ended September 30, 2015, for a total investment of $7.4 million as of September 30, 2015. During the three and nine months ended September 30, 2015, we recorded a gain and loss of less than $0.1 million, respectively, to income from equity affiliates in our consolidated statements of income related to this investment.

Lexford Portfolio In the third quarter of 2015, we received a distribution from this equity investment and recognized income of $3.9 million, net of expenses. The $3.9 million of income is comprised of income from equity affiliates of $4.9 million, partially offset by $1.0 million of expenses related to this distribution that were recorded in employee compensation and benefits. See Note 14 Agreements and Transactions with Related Parties for further details.

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930 Flushing & 80 Evergreen In the second quarter of 2014, our interest in these properties was sold, and we received $7.9 million in cash. As a result, we recorded a gain on sale of equity interest in our consolidated statements of income of $7.9 million and reduced our investment by its carrying value of $0.1 million. In the third quarter of 2014, our outstanding loans totaling $22.9 million to this joint venture were repaid in full.

450 West 33rd Street In the third quarter of 2014, the existing debt on the property was refinanced and our portion of a guarantee was terminated, resulting in the recognition of the $77.1 million deferred gain as well as a $19.0 million prepaid incentive management fee for a net gain of $58.1 million. See Note 14 Agreements and Transactions with Related Parties for details of the prepaid incentive fee recorded in 2007 related to this investment.

Note 6 Real Estate Owned and Held-For-Sale

Our real estate assets were comprised