ARBOR REALTY TRUST INC
Form 10-Q
August 05, 2016
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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 June 30, 2016

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

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: 51,381,405 outstanding as of August 4, 2016.

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Forward Looking 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 no 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, 2015 (the 2015 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

		June 30, 2016 (Unaudited)		December 31, 2015
Assets:				
Cash and cash equivalents	$	160,177,704	$	188,708,687
Restricted cash		158,667,541		48,301,244
Loans and investments, net		1,511,596,691		1,450,334,341
Available-for-sale securities, at fair value		440,920		2,022,030
Investments in equity affiliates		38,649,254		30,870,235
Real estate owned, net		20,012,783		60,845,509
Real estate held-for-sale, net				8,669,203
Due from related party		781,782		8,082,265
Other assets		26,419,806		29,558,430
Total assets	$	1,916,746,481	$	1,827,391,944
Liabilities and Equity:				
Credit facilities and repurchase agreements	$	259,171,941	$	136,252,135
Collateralized loan obligations		760,632,528		758,899,661
Senior unsecured notes		94,140,028		93,764,994
Junior subordinated notes to subsidiary trust issuing preferred securities		157,468,377		157,117,130
Mortgage note payable - real estate owned				27,155,000
Due to related party		2,166,790		3,428,333
Due to borrowers		32,561,558		34,629,595
Other liabilities		44,932,044		51,054,321
Total liabilities		1,351,073,266		1,262,301,169
Commitments and contingencies (Note 11)				
Equity:				
Arbor Realty Trust, Inc. stockholders equity:				
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		89,295,905		89,295,905
		513,814		509,625

Common stock, $0.01 par value: 500,000,000 shares authorized; 51,381,405 and 50,962,516 shares issued and outstanding, respectively				
Additional paid-in capital		618,403,101		616,244,196
Accumulated deficit		(140,103,326)		(136,118,001)
Accumulated other comprehensive loss		(2,436,279)		(4,840,950)
Total equity		565,673,215		565,090,775
Total liabilities and equity	$	1,916,746,481	$	1,827,391,944

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest income	$ 27,969,498	$ 26,340,585	$ 53,787,963	$ 53,549,980
Other interest income, net	2,539,274	7,884,344	2,539,274	7,884,344
Interest expense	13,243,488	11,592,762	25,992,101	25,520,129
Net interest income	17,265,284	22,632,167	30,335,136	35,914,195
Other revenue:				
Property operating income	4,426,555	7,201,834	9,758,087	15,652,177
Other income, net	214,668	76,816	304,431	112,816
Total other revenue	4,641,223	7,278,650	10,062,518	15,764,993
Other expenses:				
Employee compensation and benefits	4,311,412	4,966,138	8,639,754	9,256,344
Selling and administrative	1,719,337	2,623,750	4,374,813	5,521,560
Acquisition costs	745,734	284,054	3,855,644	284,054
Property operating expenses	3,856,264	5,967,644	8,172,819	12,352,732
Depreciation and amortization	443,112	1,447,642	1,320,645	2,886,319
Impairment loss on real estate owned	11,200,000		11,200,000	
Provision for loan losses (net of recoveries)	44,005	1,093,544	29,005	2,076,224
Management fee - related party	2,850,000	2,675,000	5,550,000	5,350,000
Total other expenses	25,169,864	19,057,772	43,142,680	37,727,233
(Loss) income before gain on acceleration of deferred income, loss on termination of swaps, gain on sale of real estate and income from equity affiliates	(3,263,357)	10,853,045	(2,745,026)	13,951,955
Gain on acceleration of deferred income				11,009,162
Loss on termination of swaps				(4,289,450)
Gain on sale of real estate	11,023,134		11,630,687	3,984,364
Income from equity affiliates	4,367,101	1,534,025	6,264,543	4,629,938
Net income	12,126,878	12,387,070	15,150,204	29,285,969
Preferred stock dividends	1,888,430	1,888,430	3,776,860	3,776,860
Net income attributable to common stockholders	$ 10,238,448	$ 10,498,640	$ 11,373,344	$ 25,509,109
Basic earnings per common share	$ 0.20	$ 0.21	$ 0.22	$ 0.50
Diluted earnings per common share	$ 0.20	$ 0.21	$ 0.22	$ 0.50
Weighted average number of shares of common stock outstanding				
Basic	51,381,405	50,955,648	51,213,312	50,751,247
Diluted	51,741,951	50,955,648	51,418,539	50,894,531
Dividends declared per common share	$ 0.15	$ 0.15	$ 0.30	$ 0.28

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 June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income	$ 12,126,878	$ 12,387,070	$ 15,150,204	$ 29,285,969
Unrealized gain (loss) on securities available-for-sale, at fair value	29,395	364,552	(29,395)	423,341
Unrealized loss on derivative financial instruments, net	(52,445)	(165,156)	(262,234)	(906,727)
Reclassification of net realized loss on derivatives designated as cash flow hedges into loss on termination of swaps				4,285,995
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	1,331,637	1,510,573	2,696,300	3,241,500
Comprehensive income	13,435,465	14,097,039	17,554,875	36,330,078
Less:				
Preferred stock dividends	1,888,430	1,888,430	3,776,860	3,776,860
Comprehensive income attributable to common stockholders	$ 11,547,035	$ 12,208,609	$ 13,778,015	$ 32,553,218

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

Six Months Ended June 30, 2016

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2016	3,711,500	$ 89,295,905	50,962,516	$ 509,625	$ 616,244,196	$ (136,118,001)	$ (4,840,950)	$ 565,090,775
Stock-based compensation			419,890	4,199	2,158,895			2,163,094
Forfeiture of unvested restricted stock			(1,001)	(10)	10			
Distributions - common stock						(15,351,438)		(15,351,438)
Distributions - preferred stock						(3,776,860)		(3,776,860)
Distributions - preferred stock of private REIT						(7,231)		(7,231)
Net income						15,150,204		15,150,204
Unrealized loss on securities available-for-sale							(29,395)	(29,395)
Unrealized loss on derivative financial instruments, net							(262,234)	(262,234)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings							2,696,300	2,696,300
Balance - June 30, 2016	3,711,500	$ 89,295,905	51,381,405	$ 513,814	$ 618,403,101	$ (140,103,326)	$ (2,436,279)	$ 565,673,215

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Operating activities:		
Net income	$ 15,150,204	$ 29,285,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,320,645	2,886,319
Stock-based compensation	2,163,094	2,427,268
Gain on acceleration of deferred income		(11,009,162)
Loss on termination of swaps		4,289,450
Gain on sale of real estate	(11,630,687)	(3,984,364)
Impairment loss on real estate owned	11,200,000	
Gain on sale of securities	(15,491)	
Provision for loan losses (net of recoveries)	29,005	2,076,224
Amortization and accretion of interest, fees and intangible assets, net	1,652,392	1,684,017
Income from equity affiliates	(6,264,543)	(4,629,938)
Changes in operating assets and liabilities	4,082,516	(3,505,259)
Net cash provided by operating activities	17,687,135	19,520,524
Investing Activities:		
Loans and investments funded, originated and purchased, net	(475,924,501)	(557,256,118)
Payoffs and paydowns of loans and investments	410,975,653	551,201,085
Deferred fees	4,568,476	2,482,316
Principle collection on securities, net		2,100,000
Investments in real estate, net	(417,809)	(1,393,615)
Contributions to equity affiliates	(4,187,582)	(14,949,918)
Distributions from equity affiliates	1,013,080	
Proceeds from sale of real estate	49,029,780	18,482,352
Proceeds from sale of available-for-sale securities	1,567,207	
Net cash (used in) provided by investing activities	(13,375,696)	666,102
Financing activities:		
Proceeds from repurchase agreements, credit facilities and notes payable	204,046,488	479,205,709
Paydowns and payoffs of repurchase agreements, loan participations and credit facilities	(81,620,294)	(335,854,714)
Proceeds from mortgage note payable - real estate owned		27,155,000
Paydowns and payoffs of mortgage note payable - real estate owned	(27,155,000)	(30,984,357)
Proceeds from collateralized loan obligations		219,000,000
Payoffs and paydowns of collateralized debt obligations		(240,971,174)
Payoffs and paydowns of collateralized loan obligations		(177,000,000)
Change in restricted cash	(111,072,901)	141,293,748
Payments on swaps and margin calls to counterparties		(290,000)
Receipts on swaps and returns of margin calls from counterparties	2,250,049	2,200,000
Distributions paid on common stock	(15,351,438)	(14,206,565)
Distributions paid on preferred stock	(3,776,860)	(3,776,860)
Distributions paid on preferred stock of private REIT	(7,231)	(6,952)
Payment of deferred financing costs	(155,235)	(6,304,548)
Net cash (used in) provided by financing activities	(32,842,422)	59,459,287
Net (decrease) increase in cash and cash equivalents	(28,530,983)	79,645,913
Cash and cash equivalents at beginning of period	188,708,687	50,417,745

Cash and cash equivalents at end of period	$	160,177,704	$	130,063,658

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Supplemental cash flow information:		
Cash used to pay interest	$ 22,983,701	$ 22,715,060
Cash used for taxes	$ 112,799	$ 345,259
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

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2016

Note 1 Description of Business

Arbor Realty Trust, Inc. is a Maryland corporation that was formed in 2003 to invest in a diversified portfolio of structured finance assets in the multifamily and commercial real estate markets, primarily consisting of bridge and mezzanine loans, including junior participating interests in first mortgages, 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 subsidiaries. We are externally managed and advised by Arbor Commercial Mortgage, LLC (ACM or our Manager). We organize and conduct our operations to qualify as a real estate investment trust (REIT) for federal income tax purposes.

Acquisition of our Manager s Agency Platform

On July 14, 2016, we completed the previously announced acquisition of the agency platform (the ACM Agency Business) of our Manager (the ACM Acquisition) pursuant to an asset purchase agreement (Purchase Agreement) dated February 25, 2016. The aggregate purchase price was $276.0 million, which was paid with $138.0 million in stock, $88.0 million in cash and with the issuance of a $50.0 million seller financing instrument. The equity component of the purchase price was paid with 21.23 million of operating partnership units (OP Units), which was based on a stock price of $6.50 per share. The closing price of our common stock on the day of the ACM Acquisition was $7.29 per share; therefore, the estimated fair value of the total consideration given to our Manager approximates $293.0 million. Each of the OP Units are paired with a share of our newly-designated special voting preferred stock, which provides ACM to one vote per share on any matter submitted to a vote of our stockholders. The OP Units are entitled to receive distributions if and when our Board of Directors authorizes and declares future common stock distributions. The OP Units are also redeemable for cash, or at our option, for shares of our common stock on a one-for-one basis.

The ACM Agency Business is comprised of its (i) underwriting, originating, selling and servicing multifamily mortgages under the Federal National Mortgage Association (Fannie Mae) delegated underwriting and servicing (DUS), U.S. Department of Housing and Urban Development (HUD)/Federal Housing Administration (FHA), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (Freddie Mac) and conduit/commercial mortgage-backed securities (CMBS) programs, and (ii) certain assets and liabilities primarily consisting of the mortgage servicing rights related to the agency servicing portfolio, agency loans held for sale, warehouse financing of agency loans held for sale and other assets and liabilities directly related to the ACM Agency Business.

All ACM employees directly related to the ACM Agency Business (approximately 235 employees) have become our employees as of the acquisition completion date. In addition, pursuant to the Purchase Agreement, we have a two year option to purchase the existing management agreement and fully internalize our management structure for $25.0 million (increasing to $27.0 million in the second year). The exercise of this option is at the discretion of the special committee of our Board of Directors, which has no obligation to exercise its option.

In connection with the ACM Acquisition, we incurred advisory fees totaling $0.7 million and $3.9 million during the three and six months ended June 30, 2016, respectively, and fees totaling $8.3 million to date. We expect to recognize additional fees in the third quarter of 2016 as a result of completing the ACM Acquisition in July 2016.

Except where specifically indicated, the information contained in this report does not include information pertaining to the ACM Agency Business.

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2016

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 2015 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. 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 June 30, 2016 and 2015, we were in compliance with all REIT requirements and, therefore, have not provided for income tax expense for the six months ended June 30, 2016 and 2015. 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 six months ended June 30, 2016 and 2015, 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.

Significant Accounting Policies

As of June 30, 2016, our significant accounting policies, which are detailed in our 2015 Annual Report, have not changed materially.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued updated guidance which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Companies will be required to use forward-looking information to better form their credit loss estimates. This updated guidance also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses. The guidance is effective for us beginning in the first quarter of 2020, and early adoption is permitted beginning in the first quarter of 2019. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In March 2016, the FASB amended its guidance on stock compensation, which is intended to simplify several aspects of the accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2016

is effective for the first quarter of 2017 and we are currently evaluating the impact it may have on our consolidated financial statements.

In March 2016, the FASB amended its guidance on accounting for equity method investments. Among other things, the amended guidance eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The guidance is effective for the first quarter of 2017 and we are currently evaluating the impact it may have on our consolidated financial statements.

In February 2016, the FASB amended its guidance on accounting for leases that requires an entity to recognize balance sheet assets and liabilities for leases with terms of more than 12 months and also requires disclosure of key information about an entity s leasing arrangements. The guidance is effective for the first quarter of 2019 with early adoption permitted. A modified retrospective approach is required. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In January 2016, the FASB amended its guidance on the recognition and measurement of financial assets and liabilities. The amended guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This update also, among other things, eliminates the requirement for an entity to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The guidance is effective for the first quarter of 2018 and we are currently evaluating the impact it may have on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In September 2015, the FASB amended its guidance on measurement-period adjustments arising from business combinations. The guidance was effective for the first quarter of 2016 and it did not have an impact on our consolidated financial statements.

In February 2015, the FASB amended its guidance on the consolidation analysis of VIEs. The guidance was effective for the first quarter of 2016 and it did not have a material impact on our consolidated financial statements. See Note 9 Variable Interest Entities for further details.

Note 3 Loans and Investments

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

	June 30, 2016	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	$ 1,422,007,444	89%	111	5.26%	18.6	0%	76%
Mezzanine loans	54,115,825	3%	12	8.99%	21.3	37%	79%
Junior participation loans	62,256,582	4%	2	4.50%	5.2	83%	84%
Preferred equity investments	66,668,000	4%	9	6.37%	27.7	47%	92%
	1,605,047,851	100%	134	5.40%	18.6	6%	77%
Unearned revenue	(9,619,585)						
Allowance for loan losses	(83,831,575)						
Loans and investments, net	$ 1,511,596,691						

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2016

	December 31, 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	$ 1,353,132,435	88%	105	5.48%	16.7	0%	75%
Mezzanine loans	40,390,905	3%	11	8.19%	32.9	35%	83%
Junior participation loans	62,256,582	4%	2	4.50%	11.2	85%	87%
Preferred equity investments	89,346,123	5%	10	7.52%	30.5	43%	80%
	1,545,126,045	100%	128	5.63%	17.7	7%	76%
Unearned revenue	(8,030,129)						
Allowance for loan losses	(86,761,575)						
Loans and investments, net	$ 1,450,334,341						

(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, that paid off in the subsequent quarter resulting in the recognition of income totaling $6.7 million, net of fees and expenses. The $6.7 million of income consisted 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. In April 2016, additional funds held in escrow from the note payoff were released following an arbitration proceeding and we recognized income totaling $1.9 million, net of fees and expenses. The $1.9 million of income consisted of other interest income totaling $2.5 million, partially offset by $0.6 million of expenses related to the 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 June 30, 2016, the unpaid principal balance (UPB) related to 31 loans with five different borrowers represented 21% of total assets. At December 31, 2015, the UPB related to 22 loans with five different borrowers represented 22% 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.

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

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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 June 30, 2016 and December 31, 2015, we identified loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of $152.2 million and $154.7 million, respectively, and a weighted average last dollar LTV ratio of 99% for each period.

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

	June 30, 2016				
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**
Multifamily	$ 1,223,485,513	76%	2.9	1%	75%
Office	165,703,185	10%	3.3	36%	73%
Land	141,508,043	9%	3.9	3%	95%
Hotel	55,587,776	4%	3.8	38%	80%
Other	18,763,334	1%	3.2	21%	69%
Total	$ 1,605,047,851	100%	3.0	6%	77%

	December 31, 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**
Multifamily	$ 1,083,822,788	70%	3.0	2%	75%
Office	198,829,086	13%	3.0	27%	75%
Land	164,410,838	11%	3.8	5%	90%
Hotel	66,250,000	4%	3.5	32%	80%
Other	31,813,333	2%	3.1	13%	67%
Total	$ 1,545,126,045	100%	3.1	7%	76%

Geographic Concentration Risk

As of June 30, 2016, 26%, 16%, 14% and 12% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, California, Florida and Texas, respectively. As of December 31, 2015, 34%, 14%, 14% and 12% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Florida, California 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 accrued interest according to the contractual terms of the loan agreement.

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Allowance at beginning of period	$ 86,746,575	$ 116,470,000	$ 86,761,575	$ 115,487,320
Provision for loan losses	59,005	1,110,629	59,005	2,110,629
Charge-offs	(2,959,005)		(2,959,005)	
Recoveries of reserves	(15,000)	(17,085)	(30,000)	(34,405)
Allownace at end of period	$ 83,831,575	$ 117,563,544	$ 83,831,575	$ 117,563,544

During the three and six months ended June 30, 2016, we received a $1.8 million discounted payoff on an impaired bridge loan with an aggregate carrying value before reserves of $4.8 million, resulting in the recognition of an additional provision for loan losses of $0.1 million and a charge-off of $3.0 million.

The provision for loan losses recorded in the three and six months ended June 30, 2015 was comprised of one loan and three loans, respectively, with an aggregate carrying value before reserves of $114.8 million and $127.8 million, respectively.

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Charge-offs:				
Multifamily	$ 2,959,005	$	$ 2,959,005	$
Recoveries:				
Multifamily	(15,000)	(17,085)	(30,000)	(34,405)
Net (Charge-offs) Recoveries	$ (2,944,005)	$ 17,085	$ (2,929,005)	$ 34,405
Ratio of net (charge-offs) recoveries during the period to average loans and investments outstanding during the period	(0.2)%	0.0%	(0.2)%	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 June 30, 2016 and 2015.

We have six loans with a carrying value totaling $120.4 million at June 30, 2016, 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 five of the loans with a carrying value totaling $111.0 million entitle us to a weighted average accrual rate of interest of 8.15%. We suspended the recording of the accrual rate of interest on these loans, as these loans were impaired and we deemed the collection of this interest to be doubtful. We have recorded cumulative allowances for loan losses of $49.1 million related to these loans as of June 30, 2016. 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:

	June 30, 2016			Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
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**
Multifamily	$ 2,662,115	$ 2,570,618	$ 2,575,653	$ 5,004,615	$ 47,669	$ 5,012,115	$ 111,205
Office	27,571,582	22,787,444	21,972,444	27,573,832	23,115	27,576,082	46,162
Land	130,012,569	125,168,351	53,883,478	129,042,390		128,740,618	
Hotel	34,750,000	34,496,568	3,700,000	34,750,000	283,768	34,750,000	565,917
Commercial	1,700,000	1,700,000	1,700,000	1,700,000		1,700,000	
Total	$ 196,696,266	$ 186,722,981	$ 83,831,575	$ 198,070,837	$ 354,552	$ 197,778,815	$ 723,284

	December 31, 2015			Three Months Ended June 30, 2015		Six Months Ended June 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**
Multifamily	$ 7,362,115	$ 7,350,764	$ 5,505,653	$ 39,214,032	$ 73,892	$ 39,222,692	$ 143,981
Office	27,580,582	22,796,444	21,972,444	36,086,582	282,192	36,086,582	557,045
Land	127,468,667	122,875,774	53,883,478	123,196,757		122,933,516	
Hotel	34,750,000	34,486,433	3,700,000	34,750,000	260,898	34,750,000	518,028
Commercial	1,700,000	1,700,000	1,700,000				
Total	$ 198,861,364	$ 189,209,415	$ 86,761,575	$ 233,247,371	$ 616,982	$ 232,992,790	$ 1,219,054

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(1) Represents the UPB of impaired loans less unearned revenue and other holdbacks and adjustments by asset class and was comprised of nine loans at both June 30, 2016 and December 31, 2015.

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

As of June 30, 2016, three fully reserved loans with loan loss reserves totaling $22.9 million were classified as non-performing. As of December 31, 2015, three loans with an aggregate net carrying value of less than $0.1 million, net of related loan loss reserves on the loans of $22.9 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.

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

	June 30, 2016			December 31, 2015		
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**
Multifamily	$ 770,653	$	$ 770,653	$ 765,799	$	$ 765,799
Office	20,472,444		20,472,444	20,472,444		20,472,444
Commercial	1,700,000		1,700,000	1,700,000		1,700,000
Total	$ 22,943,097	$	$ 22,943,097	$ 22,938,243	$	$ 22,938,243

At June 30, 2016, we did not have any loans contractually past due 90 days or more that are still accruing interest.

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

Asset Class	Number of Loans	Original Unpaid Principal Balance	Original Weighted Average 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
	Three Months Ended June 30, 2016					Six Months Ended June 30, 2016				
Multifamily										