Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2017

or

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

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)

(Registrant s telephone number, including area code): **(516) 506-4200**

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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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: 61,349,916 outstanding as of July 28, 2017.

Table of Contents

INDEX

Table of Contents

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; adverse changes in our status with government-sponsored enterprises affecting our ability to originate loans through such programs; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; changes in federal and state laws and regulations, including changes in tax laws; the availability and cost of capital for future investments; and competition. 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.

Additional information regarding these and other risks and uncertainties we face is contained in our annual report on Form 10-K for the year ended December 31, 2016 (the 2016 Annual Report) filed with the Securities and Exchange Commission (SEC) on March 3, 2017 and in our other reports and filings with the SEC.

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		June 30, 2017 (Unaudited)		December 31, 2016
Assets:				
Cash and cash equivalents	$	80,759,389	$	138,645,430
Restricted cash		187,239,506		29,314,929
Loans and investments, net		1,798,865,292		1,695,732,351
Loans held-for-sale, net		387,354,589		673,367,304
Capitalized mortgage servicing rights, net		243,083,459		227,742,986
Available-for-sale securities, at fair value		5,102,433		5,403,463
Securities held-to-maturity, net		8,083,435		
Investments in equity affiliates		32,992,895		33,948,853
Real estate owned, net		17,398,560		19,491,805
Due from related party		5,628,805		1,464,732
Goodwill and other intangible assets		119,688,979		97,489,884
Other assets		49,248,026		48,184,509
Total assets	$	2,935,445,368	$	2,970,786,246
Liabilities and Equity:				
Credit facilities and repurchase agreements	$	505,815,453	$	906,636,790
Collateralized loan obligations		1,004,815,901		728,441,109
Senior unsecured notes		94,897,231		94,521,566
Convertible senior unsecured notes, net		94,803,761		80,660,038
Junior subordinated notes to subsidiary trust issuing preferred securities		139,248,112		157,858,555
Related party financing		50,000,000		50,000,000
Due to related party		1,477,443		6,038,707
Due to borrowers		86,947,525		81,019,386
Allowance for loss-sharing obligations		32,797,406		32,407,554
Other liabilities		86,660,938		86,164,613
Total liabilities		2,097,463,770		2,223,748,318
Commitments and contingencies (Note 15)				
Equity:				
Arbor Realty Trust, Inc. stockholders equity:				
Preferred stock, cumulative, redeemable, $0.01 par value: 100,000,000 shares authorized; special voting preferred shares; 21,230,769 shares issued and outstanding; 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		89,508,213		89,508,213

outstanding				
Common stock, $0.01 par value: 500,000,000 shares authorized; 61,349,916 and 51,401,295 shares issued and outstanding, respectively		613,499		514,013
Additional paid-in capital		701,397,021		621,931,995
Accumulated deficit		(117,379,709)		(125,134,403)
Accumulated other comprehensive income		440,919		320,917
Total Arbor Realty Trust, Inc. stockholders equity		674,579,943		587,140,735
Noncontrolling interest		163,401,655		159,897,193
Total equity		837,981,598		747,037,928
Total liabilities and equity	$	2,935,445,368	$	2,970,786,246

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Interest income	$ 34,468,274	$ 27,969,498	$ 67,993,290	$ 53,787,963
Other interest income, net		2,539,274		2,539,274
Interest expense	20,411,386	13,243,488	39,848,224	25,992,101
Net interest income	14,056,888	17,265,284	28,145,066	30,335,136
Other revenue:				
Gain on sales, including fee-based services, net	18,830,042		38,000,898	
Mortgage servicing rights	17,254,059		37,284,399	
Servicing revenue, net	6,609,147		11,402,790	
Property operating income	2,863,259	4,426,555	6,086,463	9,758,087
Other income, net	(821,252)	214,668	(1,707,549)	304,431
Total other revenue	44,735,255	4,641,223	91,067,001	10,062,518
Other expenses:				
Employee compensation and benefits	21,824,684	4,311,412	41,666,148	8,639,754
Selling and administrative	7,834,927	1,719,337	15,528,814	4,374,813
Acquisition costs		745,734		3,855,644
Property operating expenses	2,621,922	3,856,264	5,259,826	8,172,819
Depreciation and amortization	1,815,726	443,112	3,712,975	1,320,645
Impairment loss on real estate owned	1,500,000	11,200,000	2,700,000	11,200,000
Provision for loss sharing	532,185		2,211,570	
Provision for loan losses (net of recoveries)	(1,760,000)	44,005	(2,455,653)	29,005
Management fee - related party	2,673,260	2,850,000	6,673,260	5,550,000
Total other expenses	37,042,704	25,169,864	75,296,940	43,142,680
Income (loss) before gain on extinguishment of debt, gain on sale of real estate, (loss) income from equity affiliates and provision for income taxes	21,749,439	(3,263,357)	43,915,127	(2,745,026)
Gain on extinguishment of debt			7,116,243	
Gain on sale of real estate		11,023,134		11,630,687
(Loss) income from equity affiliates	(2,944)	4,367,101	759,833	6,264,543
Provision for income taxes	(3,435,000)		(9,536,000)	
Net income	18,311,495	12,126,878	42,255,203	15,150,204
Preferred stock dividends	1,888,430	1,888,430	3,776,860	3,776,860
Net income attributable to noncontrolling interest	4,493,627		10,935,231	
Net income attributable to common stockholders	$ 11,929,438	$ 10,238,448	$ 27,543,112	$ 11,373,344
Basic earnings per common share	$ 0.21	$ 0.20	$ 0.51	$ 0.22
Diluted earnings per common share	$ 0.21	$ 0.20	$ 0.50	$ 0.22
Weighted average shares outstanding:				
Basic	56,652,334	51,381,405	54,071,085	51,213,312
Diluted	79,064,503	51,741,951	76,365,118	51,418,539
Dividends declared per common share	$ 0.18	$ 0.15	$ 0.35	$ 0.30

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net income	$ 18,311,495	$ 12,126,878	$ 42,255,203	$ 15,150,204
Unrealized (loss) gain on securities available-for-sale, at fair value	(146,972)	29,395	(117,577)	(29,395)
Unrealized (loss) gain on derivative financial instruments, net		(52,445)	202	(262,234)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings		1,331,637	237,377	2,696,300
Comprehensive income	18,164,523	13,435,465	42,375,205	17,554,875
Less:				
Comprehensive income attributable to noncontrolling interest	4,453,139		10,972,717	
Preferred stock dividends	1,888,430	1,888,430	3,776,860	3,776,860
Comprehensive income attributable to common stockholders	$ 11,822,954	$ 11,547,035	$ 27,625,628	$ 13,778,015

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

Six Months Ended June 30, 2017

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Arbor Realty Trust, Inc. Stockholders Equity	Noncontrolling Interest	Total Eq
Balance December 31, 2016	24,942,269	$ 89,508,213	51,401,295	$ 514,013	$ 621,931,995	$ (125,134,403)	$ 320,917	$ 587,140,735	$ 159,897,193	$ 747,037
Issuance of common stock			9,500,000	95,000	76,130,000			76,225,000		76,225
Stock-based compensation			448,955	4,489	2,981,744			2,986,233		2,986
Forfeiture of unvested restricted stock			(334)	(3)	3					
Issuance of convertible senior unsecured notes, net					353,279			353,279		353
Distributions - common stock						(19,781,265)		(19,781,265)		(19,781
Distributions - preferred stock						(3,776,860)		(3,776,860)		(3,776
Distributions - preferred stock of private REIT						(7,153)		(7,153)		(7
Distributions - noncontrolling interest									(7,430,769)	(7,430
Net income						31,319,972		31,319,972	10,935,231	42,255
Unrealized loss on securities available-for-sale							(117,577)	(117,577)		(117
Unrealized gain on derivative financial instruments, net							202	202		
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings							237,377	237,377		237
Balance June 30, 2017	24,942,269	$ 89,508,213	61,349,916	$ 613,499	$ 701,397,021	$ (117,379,709)	$ 440,919	$ 674,579,943	$ 163,401,655	$ 837,981

See Notes to Consolidated Financial Statements.

5

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating activities:		
Net income	$ 42,255,203	$ 15,150,204
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,712,975	1,320,645
Stock-based compensation	2,986,233	2,163,094
Amortization and accretion of interest and fees, net	1,841,577	1,652,392
Amortization of capitalized mortgage servicing rights	23,715,839	
Originations of loans held-for-sale	(2,288,693,818)	
Proceeds from sales of loans held-for-sale, net of gain on sale	2,569,203,028	
Payoffs and paydowns of loans held-for-sale	72,702	
Mortgage servicing rights	(37,284,399)	
Write-off of capitalized mortgage servicing rights from payoffs	6,497,323	
Impairment loss on real estate owned	2,700,000	11,200,000
Provision for loan losses (net of recoveries)	(2,455,653)	29,005
Provision for loss sharing (net of recoveries)	2,211,570	
Net charge-offs for loss sharing obligations	(1,821,718)	
Gain on extinguishment of debt	(7,116,243)	
Gain on sale of real estate		(11,630,687)
Gain on sale of securities		(15,491)
Deferred tax provision	937,000	
Income from equity affiliates	(759,833)	(6,264,543)
Change in fair value of available-for-sale securities	183,453	
Changes in operating assets and liabilities	(10,269,845)	4,082,516
Net cash provided by operating activities	307,915,394	17,687,135
Investing Activities:		
Loans and investments funded, originated and purchased, net	(551,467,633)	(475,924,501)
Payoffs and paydowns of loans and investments	456,250,969	410,975,653
Internalization of management team	(25,000,000)	
Deferred fees	3,014,291	4,568,476
Investments in real estate, net	(433,208)	(417,809)
Contributions to equity affiliates	(650,037)	(4,187,582)
Distributions from equity affiliates	374,402	1,013,080
Proceeds from sale of real estate, net		49,029,780
Proceeds from sale of available-for-sale securities		1,567,207
Purchase of securities held-to-maturity, net	(7,837,502)	
Payoffs and paydowns of securities held-to-maturity	7,966	
Due to borrowers and reserves	(753,218)	
Net cash used in investing activities	(126,493,970)	(13,375,696)
Financing activities:		
Proceeds from repurchase agreements, loan participations, credit facilities and notes payable	4,343,816,195	204,046,488
Payoffs and paydowns of repurchase agreements, loan participations and credit facilities	(4,744,920,637)	(81,620,294)
Payoffs of junior subordinated notes to subsidiary trust issuing preferred securities	(12,691,086)	
Paydowns and payoffs of mortgage note payable - real estate owned		(27,155,000)

Proceeds from collateralized loan obligations		279,000,000		
Proceeds from convertible senior unsecured notes		13,750,000		
Change in restricted cash		(158,063,713)		(111,072,901)
Receipts on swaps and returns of margin calls from counterparties		429,539		2,250,049
Distributions paid on common stock		(19,781,265)		(15,351,438)
Distributions paid on noncontrolling interest		(7,430,769)		
Distributions paid on preferred stock		(3,776,860)		(3,776,860)
Distributions paid on preferred stock of private REIT		(7,153)		(7,231)
Payment of deferred financing costs		(5,856,716)		(155,235)
Proceeds from issuance of common stock		76,225,000		
Net cash used in financing activities		(239,307,465)		(32,842,422)
Net decrease in cash and cash equivalents		(57,886,041)		(28,530,983)
Cash and cash equivalents at beginning of period		138,645,430		188,708,687
Cash and cash equivalents at end of period	$	80,759,389	$	160,177,704

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Supplemental cash flow information:				
Cash used to pay interest	$	35,142,494	$	22,983,701
Cash used to pay taxes	$	13,451,621	$	112,799
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.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Note 1 Description of Business

Arbor Realty Trust, Inc. (the Company, we, us, or our) is a Maryland corporation formed in 2003. Through our Structured Loan Origination and Investment Business, or Structured Business, we 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. Through our Agency Loan Origination and Servicing Business, or Agency Business, which was formed as a result of the acquisition of the agency platform of Arbor Commercial Mortgage, LLC (ACM or our Former Manager) in the third quarter of 2016 (the Acquisition), we originate, sell and service a range of multifamily finance products through the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the government-sponsored enterprises, or the GSEs), the Government National Mortgage Association (Ginnie Mae), Federal Housing Authority (FHA) and the U.S. Department of Housing and Urban Development (together with Ginnie Mae and FHA, HUD) and the conduit/commercial mortgage-backed securities (CMBS) programs. We retain the servicing rights and asset management responsibilities on substantially all loans we originate and sell under the GSE and HUD programs.

Prior to May 31, 2017, we were externally managed and advised by ACM. Effective May 31, 2017, we exercised our option to fully internalize our management team and terminate the existing management agreement. See Note 3 Acquisition of Our Former Manager s Agency Platform for further details.

Substantially all of our operations are conducted through our operating partnership, Arbor Realty Limited Partnership (ARLP), for which we serve as the general partner, and ARLP s subsidiaries. We are organized to qualify as a real estate investment trust (REIT) for U.S. federal income tax purposes. Certain of our assets that produce non-qualifying income, primarily within the Agency Business, are operated through taxable REIT subsidiaries (TRS), which is part of our TRS consolidated group (the TRS Consolidated Group) and is subject to U.S. federal, state and local income taxes. See Note 18 Income Taxes for further details.

Note 2 Basis of Presentation and Significant Accounting Policies

Basis of Presentation

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 2016 Annual Report filed with the SEC.

Principles of Consolidation

The accompanying unaudited consolidated financial statements include our financial statements and the financial statements of our wholly owned subsidiaries, partnerships and other joint ventures in which we own a controlling interest, including variable interest entities (VIEs) of which we are the primary beneficiary. Entities in which we have a significant influence are accounted for under the equity method. See Note 16 Variable Interest Entities for information about our VIEs. All significant inter-company transactions and balances have been eliminated in consolidation.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Use of Estimates

The preparation of 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

We describe our significant accounting policies in our 2016 Annual Report. There have been no significant changes in our significant accounting policies since December 31, 2016.

Recently Adopted Accounting Pronouncements

Description	Adoption Date	Effect on Financial Statements
In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. This ASU 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.	First quarter of 2017.	The adoption of this guidance did not have a material impact on our consolidated financial statements.
In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting. This ASU, among other things, 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 the investment was held.	First quarter of 2017.	The adoption of this guidance did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

The following table is not intended to represent all recently issued accounting pronouncements that are not yet effective and which have not yet been adopted by us. This table should be read in conjunction with the recently issued accounting pronouncements section included in our 2016 Annual Report filed with the SEC.

Description	Effective Date	Effect on Financial Statements
In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment. This ASU eliminates step two from the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value with the carrying amount of goodwill.	First quarter of 2020 with early adoption permitted beginning in the first quarter of 2017.	We are evaluating the timing of our adoption and the impact this guidance may have on our consolidated financial statements.
In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business. This ASU provides a more robust framework to use in determining when a set of assets and activities constitutes a business. It also provides more consistency in applying the guidance, reduces the costs of application and makes the definition of a business more operable.	First quarter of 2018.	The potential impact of this new guidance will be assessed for future acquisitions, but it is not expected to have a material impact on our consolidated financial statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Description	Effective Date	Effect on Financial Statements
Since 2014, the FASB has issued several amendments to its guidance on revenue recognition. The amended guidance, among other things, introduces a new framework for a single comprehensive model that can be used when accounting for revenue and supersedes most current revenue recognition guidance, including that which pertains to specific industries. The core principle states that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods and services. It also requires expanded quantitative and qualitative disclosures that will enable financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Most revenue associated with financial instruments, including interest and loan origination fees, along with gains and losses on investment securities, derivatives and sales of financial instruments are excluded from the scope of the guidance.	First quarter of 2018 and permits the use of either the full retrospective or modified retrospective method.	A significant portion of our revenue, specifically interest income, loan origination fees and gains on sales of loans and investment securities, will not be impacted by this guidance. We are in the process of evaluating the impact this guidance may have on our other revenue streams to identify changes from our current method of revenue recognition, as well as changes to our footnote disclosures.

Note 3 Acquisition of Our Former Manager s Agency Platform

On July 14, 2016, we completed the previously announced Acquisition of the agency platform of our Former Manager pursuant to an asset purchase agreement dated February 25, 2016 (Purchase Agreement). The aggregate purchase price was $275.8 million, which was paid with $138.0 million in stock, $87.8 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 21,230,769 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 Acquisition date was $7.29 per share; therefore, the estimated fair value of the total consideration was $292.5 million. See Note 11 Debt Obligations for further details about the seller financing and Note 17 Equity for further details about the OP Units.

We finalized the purchase price allocation during the first quarter of 2017 based on the estimated fair values of the assets acquired and liabilities assumed as of the Acquisition date, which remained unchanged from the amounts disclosed in the 2016 Annual Report.

Internalization of Management Team

In connection with the Acquisition, we had the option to fully internalize our management team and terminate the existing management agreement with our Former Manager for $25.0 million. On May 31, 2017, we exercised this option to fully internalize our management team, which included approximately 100 employees. We incurred expenses of less than $0.1 million in connection with this transaction. We accounted for this transaction as a business combination with the settlement of a preexisting relationship. The total purchase price of $25.0 million was assigned to goodwill since the asset transferred represented an assembled workforce. Goodwill was allocated $12.5 million each to our two reporting segments and is expected to be deductible for tax purposes.

Accounting guidance requires the settlement of preexisting relationships to be accounted for separately from the business combination, with the recognition of any corresponding gain or loss through the statement of income upon settlement. Any potential gain or loss is measured based on the favorable or unfavorable terms of the management agreement from the prospective of the acquirer, when compared to current market rates for similar services. Based on this guidance, we performed an analysis and determined that the terminated management agreement contained terms similar to those of arrangements with comparable companies, and therefore no such gain or loss was recorded.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Note 4 Loans and Investments

The following tables set forth the composition of our structured loan and investment portfolio:

		June 30, 2017	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	$	1,704,157,878	90%	127	6.08%	16.5	0%	73%
Preferred equity investments		88,432,654	5%	10	6.09%	52.8	52%	90%
Mezzanine loans		74,210,873	4%	10	7.55%	17.4	24%	58%
Junior participation loans		25,256,582	1%	1	0.00%	1.0	100%	100%
		1,892,057,987	100%	148	6.05%	18.0	5%	73%
Allowance for loan losses		(81,255,922)						
Unearned revenue		(11,936,773)						
Loans and investments, net	$	1,798,865,292						
		December 31, 2016						
Bridge loans	$	1,602,658,179	90%	120	5.59%	16.4	0%	73%
Preferred equity investments		68,120,639	4%	10	6.83%	23.8	42%	91%
Mezzanine loans		57,124,566	3%	12	9.09%	17.9	36%	75%
Junior participation loans		62,256,582	3%	2	4.50%	4.0	83%	84%
		1,790,159,966	100%	144	5.71%	16.3	6%	75%
Allowance for loan losses		(83,711,575)						
Unearned revenue		(10,716,040)						
Loans and investments, net	$	1,695,732,351						

(1) Weighted Average Pay Rate is a weighted average, based on the unpaid principal balance (UPB) 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 maturity are not included in the weighted average pay rate as shown in the table.

(2) The First Dollar Loan-to-Value (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.

Concentration of Credit Risk

We are subject to concentration risk in that, at June 30, 2017, the UPB related to 37 loans with five different borrowers represented 13% of total assets. At December 31, 2016, the UPB related to 35 loans with five different borrowers represented 16% of total assets. During both the six months ended June 30, 2017 and the year ended December 31, 2016, no single loan or investment represented more than 10% of our total assets and no single investor group generated over 10% of our revenue.

Effective January 1, 2017, we revised our methodology used to assign a credit risk rating to each loan and investment to be consistent with the method used by our Agency Business. We now assign ratings of pass, pass/watch, special mention, substandard or doubtful to each loan and investment, instead of a one to five rating. Similar to our previous methodology, there are five ratings, each generally consistent with our prior ratings (i.e., pass is equivalent to a one rating, pass/watch is equivalent to a two rating, etc.), with a pass rating being the lowest risk and a doubtful rating being the highest.

The benchmark guidelines and other factors used in our revised methodology are substantially the same as our previous methodology. 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, and 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

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

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 profile, risk ratings of pass, pass/watch and special mention suggest 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 substandard indicates we anticipate the loan may require a modification of some kind. A risk rating of doubtful indicates we expect the loan to underperform over its term, and there could be loss of interest and/or principal. Further, while the above are the primary guidelines used in determining a certain risk rating, subjective items such as borrower strength, market strength or asset quality 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, 2017 and December 31, 2016, we identified loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of $147.7 million and $150.5 million, respectively, and a weighted average last dollar LTV ratio of 95% for both periods.

A summary of the loan portfolio s weighted average internal risk ratings and LTV ratios by asset class is presented below. The internal risk ratings as of December 31, 2016 have been revised to reflect the revised methodology described above.

			June 30, 2017		
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	$ 1,479,158,419	78%	pass/watch	2%	72%
Land	131,881,255	7%	substandard	0%	93%
Office	129,754,980	7%	pass/watch	27%	73%
Hotel	70,750,000	4%	special mention	29%	81%
Retail	36,508,333	2%	pass/watch	9%	61%
Commercial	33,830,000	2%	special mention	3%	71%
Healthcare	10,175,000	<1%	pass	0%	56%
Total	$ 1,892,057,987	100%	pass/watch	5%	73%
			December 31, 2016		
Multifamily	$ 1,421,731,108	79%	special mention	1%	73%
Land	137,255,369	8%	substandard	2%	92%
Office	141,710,156	8%	pass/watch	43%	73%
Hotel	70,750,000	4%	special mention	30%	74%
Retail	3,958,333	<1%	special mention	81%	91%

Commercial		9,205,000	<1%	special mention	12%	69%
Healthcare		5,550,000	<1%	special mention	0%	63%
Total	$	1,790,159,966	100%	special mention	6%	75%

Geographic Concentration Risk

As of June 30, 2017, 21%, 16%, 14%, 7% and 6% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Texas, California, Georgia and Florida, respectively. As of December 31, 2016, 25%, 15%, 14% and 13% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, California, Florida and Texas, respectively.

Impaired Loans and Allowance for Loan Losses

We evaluate each loan in our portfolio quarterly to assess the performance of our loans and whether a reserve for impairment should be recorded. We measure our relative loss position for our mezzanine loans, junior participation

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

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 LTV and a last dollar LTV basis, as defined above. A summary of the changes in the allowance for loan losses is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Allowance at beginning of period	$ 83,015,922	$ 86,746,575	$ 83,711,575	$ 86,761,575
Provision for loan losses		59,005		59,005
Charge-offs		(2,959,005)		(2,959,005)
Recoveries of reserves	(1,760,000)	(15,000)	(2,455,653)	(30,000)
Allowance at end of period	$ 81,255,922	$ 83,831,575	$ 81,255,922	$ 83,831,575

During the three and six months ended June 30, 2017, a fully reserved mezzanine loan with a UPB of $1.8 million paid off in full, resulting in a $1.8 million reserve recovery. In addition, during the first quarter of 2017, we recorded a reserve recovery of $0.7 million on a multifamily bridge loan.

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 recoveries of reserves for all periods presented were related to multifamily loans and the ratio of net recoveries to the average loans and investments outstanding during both the three and six months ended June 30, 2017 was 0.1%. The ratio of net charge-offs to the average loans and investments outstanding during both the three and six months ended June 30, 2016 was (0.2)%.

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, 2017 and 2016.

We have six loans with a carrying value totaling $120.7 million at June 30, 2017, which mature in September 2017, which was 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 $111.4 million entitle us to a weighted average accrual rate of interest of 8.50%. In 2008, we suspended the recording of the accrual rate of interest on these loans, as they 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, 2017. 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.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

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

	June 30, 2017			Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
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**
Land	$ 131,085,948	$ 125,551,563	$ 53,883,478	$ 131,085,948	$	$ 131,085,948	$
Hotel	34,750,000	34,750,000	3,700,000	34,750,000	60,238	34,750,000	370,877
Office	27,553,582	22,769,444	21,972,444	27,555,832	26,648	27,558,082	51,337
Commercial	1,700,000	1,700,000	1,700,000	1,700,000		1,700,000	
Multifamily				880,000		1,271,058	22,063
Total	$ 195,089,530	$ 184,771,007	$ 81,255,922	$ 195,971,780	$ 86,886	$ 196,365,088	$ 444,277
	December 31, 2016			**Three Months Ended June 30, 2016**		**Six Months Ended June 30, 2016**	
Land	$ 131,085,948	$ 125,925,677	$ 53,883,478	$ 129,042,390	$	$ 128,740,618	$
Hotel	34,750,000	34,496,296	3,700,000	34,750,000	283,768	34,750,000	565,917
Office	27,562,582	22,778,444	21,972,444	27,573,832	23,115	27,576,082	46,162
Commercial	1,700,000	1,700,000	1,700,000	1,700,000		1,700,000	
Multifamily	2,542,115	2,450,618	2,455,653	5,004,615	47,669	5,012,115	111,205
Total	$ 197,640,645	$ 187,351,035	$ 83,711,575	$ 198,070,837	$ 354,552	$ 197,778,815	$ 723,284

(1) Represents the UPB of six and eight impaired loans (less unearned revenue and other holdbacks and adjustments) by asset class at June 30, 2017 and December 31, 2016, respectively.

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

At June 30, 2017, five loans with an aggregate net carrying value of $34.6 million, net of related loan loss reserves of $25.9 million, were classified as non-performing. At December 31, 2016, three fully reserved loans with an aggregate carrying value of $22.9 million were classified as non-performing. Income from non-performing loans is generally recognized on a cash basis when 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, 2017			December 31, 2016		
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**

Hotel	$ 34,750,000	$ 34,750,000	$	$	$	$
Office	20,472,444		20,472,444	20,472,444		20,472,444
Multifamily	2,601,528		2,601,528	680,653		680,653
Commercial	1,700,000		1,700,000	1,700,000		1,700,000
Retail	990,667		990,667			
Total	$ 60,514,639	$ 34,750,000	$ 25,764,639	$ 22,853,097	$	$ 22,853,097

At June 30, 2017 and December 31, 2016, we did not have any loans contractually past due 90 days or more that were still accruing interest.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

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 June 30, 2017					Six Months Ended June 30, 2017				
Asset Class	**Number of Loans**	**Original Unpaid Principal Balance**	**Original Wtd. Avg. Rate of Interest**	**Modified Unpaid Principal Balance**	**Modified Wtd. Avg. Rate of Interest**	**Asset Class**	**Number of Loans**	**Original Unpaid Principal Balance**	**Original Wtd. Avg. Rate of Interest**	**Modified Unpaid Principal Balance**	**Modified Wtd. Avg. Rate of Interest**
Hotel	1	$ 34,750,000	4.01%	$ 34,750,000	4.01%	Hotel	1	$ 34,750,000	4.01%	$ 34,750,000	4.01%
	Three Months Ended June 30, 2016						**Six Months Ended June 30, 2016**				
		$		$		Multifamily	1	$ 14,646,456	5.24%	$ 14,646,456	5.24%

The loan which was modified during the three and six months ended June 30, 2017 was considered a troubled debt restructuring as a result of a forbearance agreement entered into with the borrower in the second quarter of 2017 and was classified as non-performing as of June 30, 2017. There were no other loans in which we considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of June 30, 2017 and 2016 and no additional loans were considered to be impaired due to our troubled debt restructuring analysis for the three and six months ended June 30, 2017 and 2016. These loans were modified to increase the total recovery of the combined principal and interest from the loan.

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 June 30, 2017, we had total interest reserves of $27.9 million on 84 loans with an aggregate UPB of $1.17 billion. As of December 31, 2016, we had total interest reserves of $20.4 million on 75 loans with an aggregate UPB of $1.01 billion.

Note 5 Loans Held-for-Sale, Net

Loans held-for-sale, net consists of the following:

	June 30, 2017	December 31, 2016
Fannie Mae	$ 200,774,000	$ 538,189,475
Freddie Mac	156,866,800	124,102,000

FHA		24,125,011		56,247
		381,765,811		662,347,722
Fair value of future MSR		6,273,180		13,145,814
Unearned discount		(684,402)		(2,126,232)
Loans held-for-sale, net	$	387,354,589	$	673,367,304

Our loans held-for-sale, net are typically sold within 60 days of loan origination. At June 30, 2017 and December 31, 2016, there were no loans held-for-sale that were 90 days or more past due, and there were no loans held-for-sale that were placed on a non-accrual status. During the three and six months ended June 30, 2017, we sold $1.20 billion and $2.57 billion, respectively, of loans held-for-sale and recorded gains on sales of $17.6 million and $35.7 million, respectively, which are included in gain on sales, including fee-based services, net in the consolidated statements of income.

Note 6 Capitalized Mortgage Servicing Rights

Our capitalized mortgage servicing rights (MSRs) reflect commercial real estate MSRs derived from loans sold in our Agency Business. The discount rates used to determine the present value of our MSRs throughout the periods presented for all MSRs were between 8-15% (representing a weighted average discount rate of 13%) based on management s best estimate of market discount rates. The weighted average estimated life remaining of our MSRs was 7.0 years and 6.9 years at June 30, 2017 and December 31, 2016, respectively.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

A summary of our capitalized MSR activity is as follows:

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Acquired	**Originated**	**Total**	**Acquired**	**Originated**	**Total**
Balance at beginning of period	$ 180,945,505	$ 57,985,663	$ 238,931,168	$ 194,800,754	$ 32,942,232	$ 227,742,986
Additions		19,083,989	19,083,989		45,553,635	45,553,635
Amortization	(9,659,698)	(2,168,140)	(11,827,838)	(20,121,484)	(3,594,355)	(23,715,839)
Write-downs and payoffs	(3,096,507)	(7,353)	(3,103,860)	(6,489,970)	(7,353)	(6,497,323)
Balance at end of period	$ 168,189,300	$ 74,894,159	$ 243,083,459	$ 168,189,300	$ 74,894,159	$ 243,083,459

During the three and six months ended June 30, 2017, we recorded $3.1 million and $6.5 million, respectively, of write-offs relating to specific MSRs, primarily due to prepayments of certain loans. During the three and six months ended June 30, 2017, prepayment fees totaling $2.1 million and $4.1 million, respectively, were collected and are included as a component of servicing revenue, net on the consolidated statements of income. As of June 30, 2017 and December 31, 2016, we had no valuation allowance recorded on any of our MSRs.

The expected amortization of the capitalized MSRs recorded as of June 30, 2017 is shown in the table below. Actual amortization may vary from these estimates.

Year	**Amortization**
2017 (six months ended 12/31/2017)	$ 23,539,829
2018	44,515,585
2019	39,968,221
2020	33,376,062
2021	26,364,048
2022	20,442,749
Thereafter	54,876,965
Total	$ 243,083,459

Note 7 Mortgage Servicing

An analysis of the product and geographic concentrations that impact our servicing revenue is shown in the following tables:

June 30, 2017					
Product Concentrations			**Geographic Concentrations**		
Product	**UPB**	**Percent of Total**	**State**	**Percent of Total**
Fannie Mae	$	12,034,573,069	80%	Texas	23%
Freddie Mac		2,458,529,999	16%	North Carolina	10%
FHA		525,943,848	4%	California	9%
Total	$	15,019,046,916	100%	New York	8%
				Florida	5%
				Georgia	5%
				Other (1)	40%
				Total	100%

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

December 31, 2016				
Product Concentrations			**Geographic Concentrations**	
Product	**UPB**	**Percent of Total**	**State**	**Percent of Total**
Fannie Mae	$ 11,181,152,400	83%	Texas	24%
Freddie Mac	1,953,244,541	14%	North Carolina	9%
FHA	420,688,577	3%	California	8%
Total	$ 13,555,085,518	100%	New York	8%
			Georgia	5%
			Other (1)	46%
			Total	100%

(1) No other individual state represented 5% or more of the total.

At June 30, 2017 and December 31, 2016, our weighted average servicing fee was 47.4 basis points and 47.8 basis points, respectively. We held cash in escrow for these loans totaling $469.6 million and $401.7 million at June 30, 2017 and December 31, 2016, respectively, which is not reflected in our consolidated balance sheets. These escrows are maintained in separate accounts at two federally insured depository institutions, which may exceed FDIC insured limits.

Note 8 Securities

Available-for-Sale

Our available-for-sale securities consist of equity securities and Agency Business commercial mortgage interest-only securities (Agency IOs) from loans sold and securitized under the Freddie Mac Small Balance Loan Program (SBL Program).

Equity Securities. We own common stock of CV Holdings, Inc., formerly Realty Finance Corporation, which is a commercial real estate specialty finance company. These securities are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive income.

The following is a summary of the equity securities classified as available-for-sale:

	June 30, 2017		
	Amortized Cost	Cummulative Unrealized Gain	Carrying Value / Estimated Fair Value
2,939,465 common shares of CV Holdings, Inc	$ 58,789	$ 440,922	$ 499,711
	December 31, 2016		
2,939,465 common shares of CV Holdings, Inc	$ 58,789	$ 558,499	$ 617,288

Agency IOs. Through our Agency Business, we originate and sell loans to Freddie Mac under the SBL Program, which are then pooled and securitized. Prior to the Acquisition and upon securitization of SBL Program loans, our Former Manager received Agency IOs under the SBL Program, which we acquired in the Acquisition. We elected the fair value option for the Agency IOs, which requires changes in fair value to be recognized through earnings. We record such gains and losses to gain on sales, including fee-based services, net in the consolidated statements of income. As a result of changes in the Freddie Mac SBL Program in 2016, we do not expect to receive Agency IOs from future securitizations.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

A summary of our Agency IOs activity is as follows:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Balance at beginning of period	$ 4,660,820	$ 4,786,175
Changes in fair value	(58,098)	(183,453)
Balance at end of period	$ 4,602,722	$ 4,602,722

The UPB of our Agency IOs was $869.4 million and $904.4 million at June 30, 2017 and December 31, 2016, respectively, which mature between 2035 and 2036. During the three and six months ended June 30, 2017, we recognized $0.3 million and $0.6 million, respectively, of interest income related to these Agency IOs.

Held-to-Maturity

As part of the SBL Program securitizations described above, we are required to purchase the bottom tranche bond, generally referred to as the B Piece, that represents the bottom 10%, or highest risk of the securitization. Prior to 2017, a third party investor agreed to purchase the B Piece of each SBL Program securitization at par. During the six months ended June 30, 2017, we retained 49%, or $12.1 million face value of a B Piece bond, at a discount, for $7.8 million and sold the remaining 51% to the third party at par. These held-to-maturity securities are carried at cost, net of unamortized discounts and are collateralized by a pool of multifamily mortgage loans, bear interest at an initial weighted average variable rate of 3.50% and have an estimated weighted average maturity of 6.1 years. Approximately $1.8 million is estimated to mature within one year, $5.4 million is estimated to mature after one year through five years, $2.8 million is estimated to mature after five years through ten years and $1.8 million is estimated to mature after ten years.

The following is a summary of the held-to-maturity securities we held at June 30, 2017:

	Face Value	Carrying Value	Unrealized Gain	Estimated Fair Value
B Piece bonds	$ 12,062,041	$ 8,083,435	$ 179,063	$ 8,262,498

We do not intend to sell these investments and it is not more-likely-than-not that we will be required to sell the investments before recovery of its cost basis, which may be at maturity. These securities are evaluated periodically to determine whether a decline in their value is other-than-temporary, though such a determination is not intended to indicate a permanent decline in value. As of June 30, 2017, no impairment was recorded on these held-to-maturity securities. During the three and six months ended June 30, 2017, we recorded interest income of $0.3 million and $0.4 million, respectively, related to this investment.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Note 9 Investments in Equity Affiliates

We account for all investments in equity affiliates under the equity method. The following is a summary of our investments in equity affiliates:

Equity Affiliates	**Investments in Equity Affiliates at June 30, 2017**	**Investments in Equity Affiliates at December 31, 2016**	**UPB of Loans to Equity Affiliates at June 30, 2017**
Arbor Residential Investor LLC	$ 28,503,797	$ 28,917,457	$
West Shore Café	2,095,347	2,050,347	1,687,500
Lightstone Value Plus REIT L.P.	1,894,727	1,894,727	
JT Prime	425,000	425,000	
East River Portfolio	73,924	83,222	1,705,938
Lexford Portfolio	100	100	
Issuers of Junior Subordinated Notes		578,000	
Total	$ 32,992,895	$ 33,948,853	$ 3,393,438

Arbor Residential Investor LLC (ARI). During both the three and six months ended June 30, 2017, we recorded a loss of $0.7 million and, during the three and six months ended June 30, 2016, we recorded income of $3.1 million and $4.6 million, respectively, to (loss) income from equity affiliates in our consolidated statements of income related to our investment in this residential mortgage banking business.

During the six months ended June 30, 2017, we funded $0.6 million of additional mortgage purchases in connection with a joint venture of ours that invests in non-qualified residential mortgages purchased from ARI s origination platform. During the six months ended June 30, 2017, we received a cash distribution from this joint venture totaling $0.4 million (which were classified as a return of capital). During both the three and six months ended June 30, 2017 we recorded income of less than $0.1 million and during both the three and six months ended June 30, 2016, we recorded income of $0.1 million to (loss) income from equity affiliates in our consolidated statements of income related to this investment.

The summarized statements of operations for our investment in ARI are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2017	**2016**	**2017**	**2016**
Statements of Operations:				

Total revenues	$	36,295,460	$	58,959,781	$	75,766,464	$	101,889,213
Total expenses		40,815,647		44,856,886		80,017,646		80,864,284
Net (loss) income	$	(4,520,187)	$	14,102,895	$	(4,251,182)	$	21,024,929
Arbor s share of (loss) income	$	(699,309)	$	3,148,720	$	(613,239)	$	4,718,296

Lexford Portfolio. In the three and six months ended June 30, 2017, we received distributions of $0.6 million and $1.3 million, respectively, and in the three and six months ended June 30, 2016, we received distributions of $1.2 million and $1.4 million, respectively, from this equity investment which was recognized as income. See Note 19 Agreements and Transactions with Related Parties for further details.

Issuers of Junior Subordinated Notes. In the first quarter of 2017, we purchased, at a discount, a portion of our junior subordinated notes. In connection with this extinguishment of debt, we settled our investment in these affiliated entities. See Note 11 Debt Obligations for further details.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Note 10 Real Estate Owned and Held-For-Sale

Our real estate assets at both June 30, 2017 and December 31, 2016 were comprised of a hotel property and an office building.

Real Estate Owned

	June 30, 2017			December 31, 2016		
	Hotel Property	Office Building	Total	Hotel Property	Office Building	Total
Land	$ 3,293,651	$ 4,509,000	$ 7,802,651	$ 3,293,651	$ 4,509,000	$ 7,802,651
Building and intangible assets	30,580,535	1,889,824	32,470,359	30,473,898	1,563,254	32,037,152
Less: Impairment loss	(13,307,354)		(13,307,354)	(11,200,000)		(11,200,000)
Less: Accumulated depreciation and amortization	(8,951,624)	(615,472)	(9,567,096)	(8,658,737)	(489,261)	(9,147,998)
Real estate owned, net	$ 11,615,208	$ 5,783,352	$ 17,398,560	$ 13,908,812	$ 5,582,993	$ 19,491,805

For the six months ended June 30, 2017 and 2016, our hotel properties had a weighted average occupancy rate of approximately 57% and 64%, respectively, a weighted average daily rate of approximately $117 and $99, respectively, and weighted average revenue per available room of approximately $67 and $63, respectively. The operation of a hotel property is seasonal with the majority of revenues earned in the first two quarters of the calendar year. During the second quarter of 2016, through site visits and discussion with market participants, we determined that the hotel property owned exhibited indicators of impairment and performed an impairment analysis. As a result of this impairment analysis, we recorded an impairment loss of $11.2 million. During the first half of 2017, we received additional market analyses, including discussions with market participants, which resulted in further impairments totaling $2.7 million, of which $1.5 million was recorded in the second quarter of 2017.

Our office building was fully occupied by a single tenant until April 2017 when the lease expired. The building is currently vacant.

Our real estate assets had restricted cash balances due to escrow requirements totaling $0.5 million and $0.7 million at June 30, 2017 and December 31, 2016, respectively.

Real Estate Held-For-Sale

In the second quarter of 2016, we sold our three multifamily properties for $41.0 million and recognized a gain of $11.0 million and in the first quarter of 2016, we sold one of our hotel properties for $9.7 million and recognized a gain of $0.6 million.

The results of operations for properties classified as held-for-sale are summarized as follows:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Revenue:		
Property operating income	$ 1,149,883	$ 2,845,231
Expenses:		
Property operating expenses	932,518	1,994,346
Depreciation		334,631
Net income	$ 217,365	$ 516,254

There were no properties classified as held-for-sale as of June 30, 2017.

Table of Contents

Note 11 Debt Obligations

Credit Facilities and Repurchase Agreements

The following table outlines borrowings under our credit facilities and repurchase agreements:

				June 30, 2017			December 31, 2016		
	Current Maturity	Extended Maturity	Note Rate	Debt Carrying Value (1)	Collateral Carrying Value	Wtd. Avg. Note Rate	Debt Carrying Value (1)	Collateral Carrying Value	Wtd. Avg. Note Rate
Structured Business									
$150 million repurchase facility	Oct. 2018	N/A	L + 2.25% to 3.50%	$ 51,497,436	$ 100,078,033	3.54%	$ 106,051,080	$ 183,827,574	3.12%
$100 million repurchase facility	June 2019	N/A	L + 2.00%	2,330,769	6,600,000	3.27%	21,598,322	34,850,000	2.96%
$75 million credit facility	Dec. 2017	N/A	L + 2.125% to 2.50%	12,014,159	28,088,500	3.40%	38,703,886	63,158,500	2.94%
$75 million credit facility	June 2018	N/A	L + 2.00%	10,000,000	32,600,000	3.27%	23,276,773	31,725,000	2.81%
$50 million credit facility	Feb. 2018	Feb. 2019	L + 2.00%	25,000,000	31,250,000	3.27%	46,373,641	58,000,000	2.81%
$50 million credit facility	Sept. 2019	N/A	L + 2.50% to 3.25%	11,464,000	14,360,000	3.78%	7,956,000	9,885,000	4.08%
$10 million credit facility	Mar. 2018	N/A	L + 2.50%	10,000,000		3.78%			
$3 million master security agreement	Oct. 2020	N/A	2.96% to 3.42%	2,159,902		3.21%	2,532,966		3.21%
Total				$ 124,466,266	$ 212,976,533	3.48%	$ 246,492,668	$ 381,446,074	3.02%
Agency Business									
$500 million ASAP agreement	N/A	N/A	L + 1.05%	$ 66,816,225	$ 66,816,225	2.11%	$ 142,556,962	$ 142,556,962	1.65%
$150 million credit facility (2)	Jan. 2018	N/A	L + 1.40%	162,054,775	162,202,811	2.43%	268,530,211	268,571,797	2.05%
$150 million credit facility (3)	Aug. 2017	N/A	L + 1.35%	95,891,187	95,899,000	2.45%	210,009,449	210,138,900	2.05%
$100 million credit facility	June 2018	N/A	L + 1.30%	56,587,000	56,587,000	2.36%	39,047,500	39,047,500	1.95%
Total				$ 381,349,187	$ 381,505,036	2.37%	$ 660,144,122	$ 660,315,159	1.96%
Consolidated total				$ 505,815,453	$ 594,481,569	2.64%	$ 906,636,790	$ 1,041,761,233	2.25%

(1) The debt carrying value for the Structured Business at June 30, 2017 and December 31, 2016 was net of unamortized deferred finance costs of $1.6 million and $1.9 million, respectively. The debt carrying value for the Agency Business at June 30, 2017 and December 31, 2016 was net of unamortized deferred finance costs of $0.2 million and $0.3 million, respectively.

(2) The committed amount under the facility was temporarily increased to $200.0 million, which expired in April 2017, and again to $225.0 million, which expires in August 2017.

(3) The committed amount under the facility was temporarily increased to $350.0 million, which expired in February 2017.

Structured Business. We utilize credit facilities and repurchase agreements with various financial institutions to finance our Structured Business loans and investments as noted in the table above.

At June 30, 2017 and December 31, 2016, the weighted average interest rate for the credit facilities and repurchase agreements of our Structured Business, noted in the above table, was 3.48% and 3.02%, respectively. Including certain fees and costs, such as structuring, commitment, non-use and warehousing fees, the weighted average interest rate was 4.34% and 3.42% at June 30, 2017 and December 31, 2016, respectively. The leverage on our loans and investment portfolio financed through our credit facilities and repurchase agreements, excluding the $10.0 million working capital line of credit and the $3.0 million master security agreement used to finance leasehold improvements at our corporate office, was 53% and 64% at June 30, 2017 and December 31, 2016, respectively.

In June 2017, we replaced a $100.0 million credit facility with a $100.0 million repurchase facility with the same institution which matures in June 2019 and bears interest at 200 basis points over LIBOR, representing a 15 basis point rate decrease. The facility has a maximum advance rate of 75%.

In June 2017, we extended the maturity date of our $75.0 million credit facility that bears interest at a rate of 200 basis points over LIBOR to June 2018.

Table of Contents

In March 2017, we entered into a $10.0 million unsecured working capital line of credit that bears interest at a rate of 250 basis points over LIBOR. This line of credit is scheduled to mature in March 2018 and is renewable annually.

Agency Business. Our Agency Business utilizes credit facilities to finance its loans held-for-sale as noted in the table above.

We have a $500.0 million Multifamily As Soon as Pooled ® Plus (ASAP) agreement with Fannie Mae, which, in March 2017, was increased from $400.0 million. The ASAP agreement has no commitment amount or expiration date and bears interest at a rate of 105 basis points over LIBOR (with a LIBOR Floor of 0.35%). ASAP provides us with a warehousing credit facility for mortgage loans that are to be sold to Fannie Mae and serviced under the Fannie Mae DUS program.

In July 2017, we amended one of our $150.0 million credit facilities to provide a short term extension of the maturity date to August 2017 and reduce the interest rate 5 basis points to 135 basis points over LIBOR. We are currently in negotiations to renew this facility.

In June 2017, we amended our $100.0 million credit facility to extend the maturity date to June 2018 and reduced the interest rate 5 basis points to 130 basis points over LIBOR. The amended agreement also provided us with the option of temporarily increasing the committed amount to $250.0 million subject to prior written notice. In July 2017, we exercised our option and increased the committed amount to $250.0 million, which expires in February 2018.

We have a $30.0 million letter of credit facility pursuant to which letters of credit have been issued to secure obligations under the Fannie Mae DUS program and the Freddie Mac SBL Program. The letter of credit facility bears interest at a fixed rate of 3.00%, matures in October 2018 and is primarily collateralized by our servicing revenue as approved by Fannie Mae and Freddie Mac. The letter of credit facility includes a sublimit of $5.0 million pertaining to a letter of credit securing an obligation under the Freddie Mac SBL Program. At June 30, 2017, the letters of credit outstanding include $25.0 million for the Fannie Mae DUS program and $5.0 million for the Freddie Mac SBL Program.

Collateralized Loan Obligations (CLOs)

The following table outlines borrowings and the corresponding collateral under our CLOs:

			Collateral (2)		
	Debt		Loans		Cash
June 30, 2017	**Face Value**	**Carrying Value (1)**	**Unpaid Principal**	**Carrying Value**	**Restricted Cash (3)**
CLO VII	$ 279,000,000	$ 274,743,432	$ 359,997,643	$ 358,381,034	$ 2,358
CLO VI	250,250,000	246,947,055	238,990,000	238,245,453	86,010,000

CLO V	267,750,000	265,410,307	296,242,921	295,440,178	53,757,079
CLO IV	219,000,000	217,715,107	266,570,125	265,481,346	29,462,875
Total CLOs	$ 1,016,000,000	$ 1,004,815,901	$ 1,161,800,689	$ 1,157,548,011	$ 169,232,312
December 31, 2016					
CLO VI	$ 250,250,000	$ 246,442,883	$ 324,569,105	$ 323,350,928	$ 430,895
CLO V	267,750,000	264,864,114	344,679,286	343,747,570	5,320,715
CLO IV	219,000,000	217,134,112	291,319,123	290,429,019	8,680,878
Total CLOs	$ 737,000,000	$ 728,441,109	$ 960,567,514	$ 957,527,517	$ 14,432,488

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

---

(1) Debt carrying value is net of $11.2 million and $8.6 million of deferred financing fees at June 30, 2017 and December 31, 2016, respectively.

(2) As of June 30, 2017 and December 31, 2016, there was no collateral at risk of default or deemed to be a credit risk as defined by the CLO indenture.

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

CLO VII In April 2017, we completed a collateralized securitization vehicle (CLO VII), issuing to third party investors three tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries totaling $279.0 million. As of the CLO closing date, the notes were secured by a portfolio of loan obligations with a face value of $296.2 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has a three year replacement period that allows the principal proceeds and sale proceeds (if any) of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Initially, the proceeds of the issuance of the securities also included $63.8 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the closing date of the CLO, which were subsequently utilized prior to the end of the second quarter of 2017 resulting in the issuer owning loan obligations with a face value of $360.0 million. We retained a residual interest in the portfolio with a notional amount of $81.0 million. The notes had an initial weighted average interest rate of 1.99% plus one-month LIBOR and interest payments on the notes are payable monthly. The weighted average note rate was 3.26% at June 30, 2017.

CLO VI Issued three investment grade tranches in August 2016 with a replacement period through September 2019 and a stated maturity date in September 2026. Interest is variable based on one-month LIBOR; the weighted average note rate was 3.76% and 3.30% at June 30, 2017 and December 31, 2016, respectively.

CLO V Issued three investment grade tranches in August 2015 with a replacement period through September 2018 and a stated maturity date in September 2025. Interest is variable based on one-month LIBOR; the weighted average note rate was 3.71% and 3.26% at June 30, 2017 and December 31, 2016, respectively.

CLO IV Issued three investment grade tranches in February 2015 with a replacement period through September 2017 and a stated maturity date in March 2025. Interest is variable based on one-month LIBOR; the weighted average note rate was 3.52% and 3.06% at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017 and December 31, 2016, the aggregate weighted average note rate for our CLOs was 3.56% and 3.21%, respectively. Including certain fees and costs, the weighted average note rate was 4.08% and 3.71% at June 30, 2017 and December 31, 2016, respectively.

We account for our CLO transactions on our consolidated balance sheet as financing facilities. Our CLOs are VIEs for which we are the primary beneficiary and are consolidated in our financial statements. The investment grade tranches are treated as secured financings, and are non-recourse to us.

Senior Unsecured Notes

The debt carrying value of our senior unsecured notes at June 30, 2017 and December 31, 2016 were $94.9 million and $94.5 million, respectively, which were net of $3.0 million and $3.3 million, respectively, of deferred financing fees. The notes are due in 2021; however, they became eligible for redemption by us on May 16, 2017. Including certain fees and costs, the weighted average note rate was 8.15% and 8.15% at June 30, 2017 and December 31, 2016, respectively.

Convertible Senior Unsecured Notes

In October 2016, we issued $86.3 million aggregate principal amount of 6.50% convertible senior unsecured notes, including the underwriter s over-allotment option of $11.3 million, and, in January 2017, we issued an additional $13.8 million, which brought the aggregate outstanding principal amount of the notes to $100.0 million. The additional issuance in January 2017 is fully fungible with, and ranks equally in right of payment with, the initial issuance. The notes pay interest semiannually in arrears. We received total proceeds of $95.8 million from the offerings, net of deferred financing fees, which are being amortized through interest expense over the life of the notes. The notes mature on October 1, 2019, unless earlier converted or repurchased by the holders pursuant to their terms, and are not redeemable by us prior to maturity.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

The notes are convertible into, at our election, cash, shares of our common stock or a combination of both, subject to the satisfaction of certain conditions and during specified periods. The conversion rate is subject to adjustment upon the occurrence of certain specified events and the holders may require us to repurchase all or any portion of their notes for cash equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, if we undergo a fundamental change as specified in the agreement. The initial conversion rate was 119.3033 shares of common stock per $1,000 principal amount of notes and represented a conversion price of $8.38 per share of common stock. At June 30, 3017 and March 31, 2017, the notes had a conversion rate of 119.7493 and 119.4572 shares of common stock, respectively, per $1,000 principal amount of notes, which represented a conversion price of $8.35 and $8.37 per share of common stock, respectively.

Accounting guidance requires that convertible debt instruments with cash settlement features, including partial cash settlement, account for the liability component and equity component (conversion feature) of the instrument separately. The initial value of the liability component reflects the present value of the discounted cash flows using the nonconvertible debt borrowing rate of 7.50% at the time of issuance. The debt discount represents the difference between the proceeds received from the issuance and the initial carrying value of the liability component, which is being accreted back to the notes principal amount through interest expense over the term of the notes, which was 2.25 years and 2.75 years at June 30, 2017 and December 31, 2016, respectively.

The principal balance, unamortized discount and net carrying value of the liability and equity components of the notes were as follows:

	Liability Component				Equity Component
Period	**Principal Balance**	**Unamortized Debt Discount**	**Unamortized Deferred Financing Fees**	**Net Carrying Value**	**Net Carrying Value**
June 30, 2017	$ 100,000,000	$ 2,035,654	$ 3,160,585	$ 94,803,761	$ 2,531,926
December 31, 2016	$ 86,250,000	$ 2,119,436	$ 3,470,526	$ 80,660,038	$ 2,178,647

During the three months ended June 30, 2017, we incurred total interest expense on the notes of $2.2 million, of which $1.6 million, $0.4 million and $0.2 million related to the 6.50% cash coupon, accretion of the deferred financing fees and of the debt discount, respectively. During the six months ended June 30, 2017, we incurred total interest expense on the notes of $4.3 million, of which $3.2 million, $0.7 million and $0.4 million related to the 6.50% cash coupon, accretion of the deferred financing fees and of the debt discount, respectively. Including the amortization of the deferred financing fees and debt discount, our total cost of the notes is 8.64% per annum.

The average price of our common stock during the three months ended June 30, 2017 exceeded the conversion price, as calculated in accordance with the terms of the indenture. Therefore, the notes impacted our diluted earnings per share for the three months ended June 30, 2017. The diluted earnings per share were not impacted for any other periods presented. See Note 18 Equity for further details.

Junior Subordinated Notes

In the first quarter of 2017, we purchased, at a discount, $20.9 million of our junior subordinated notes with a carrying value of $19.8 million and recorded a gain on extinguishment of debt of $7.1 million. As a result, we settled our related equity investment and extinguished $21.5 million of notes. The carrying value of borrowings under our junior subordinated notes was $139.2 million and $157.9 million at June 30, 2017 and December 31, 2016, respectively, which is net of a deferred amount of $12.8 million and $14.9 million, respectively, (which is being amortized into interest expense over the life of the notes) and $2.3 million and $3.1 million, respectively, of deferred financing fees. These notes have maturities ranging from March 2034 through April 2037 and pay interest quarterly at a fixed or floating rate of interest based on three-month LIBOR. The current weighted average note rate was 4.13% and 3.82% at June 30, 2017 and December 31, 2016, respectively. Including certain fees and costs, the weighted average note rate was 4.25% and 3.94% at June 30, 2017 and December 31, 2016, respectively.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Related Party Financing

In connection with the Acquisition, we entered into a $50.0 million preferred equity interest financing agreement with ACM to finance a portion of the aggregate purchase price. The debt has a five year term with a preferred return of 7% through December 31, 2016, increasing by 1% per annum thereafter, with a maximum rate of 12%. In addition, after eighteen months, the principal balance due is scheduled to increase over time with $62.5 million due if the debt remained outstanding until the end of the five-year term. Interest expense associated with this financing is recorded using the effective yield method. At both June 30, 2017 and December 31, 2016, the outstanding principal balance was $50.0 million and, during the three and six months ended June 30, 2017, we recorded interest expense of $1.0 million and $1.9 million, respectively.

Debt Covenants

Credit Facilities and Repurchase Agreements. The credit facilities and repurchase agreements contain various financial covenants, including, but not limited to, minimum liquidity requirements, minimum net worth requirements, as well as certain other debt service coverage ratios, debt to equity ratios and minimum servicing portfolio tests. We were in compliance with all financial covenants and restrictions at June 30, 2017.

CLOs. Our CLO vehicles contain interest coverage and asset overcollateralization covenants that must be met as of the waterfall distribution date in order for us to receive such payments. If we fail these covenants in any of our CLOs, all cash flows from the applicable CLO would be diverted to repay principal and interest on the outstanding CLO bonds and we would not receive any residual payments until that CLO regained compliance with such tests. Our CLOs were in compliance with all such covenants as of June 30, 2017, as well as on the most recent determination dates in July 2017. In the event of a breach of the CLO covenants that could not be cured in the near-term, we would be required to fund our non-CLO expenses, including management fees and employee costs, distributions required to maintain our REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CLO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, or (v) accessing the equity or debt capital markets, if available. We have the right to cure covenant breaches which would resume normal residual payments to us by purchasing non-performing loans out of the CLOs. However, we may not have sufficient liquidity available to do so at such time.

A summary of our CLO compliance tests as of the most recent determination dates in July 2017 is as follows:

Cash Flow Triggers	CLO IV	CLO V	CLO VI	CLO VII
Overcollateralization (1)				
Current	136.99%	130.72%	129.87%	129.03%
Limit	135.99%	129.72%	128.87%	128.03%
Pass / Fail	Pass	Pass	Pass	Pass
Interest Coverage (2)				
Current	231.81%	215.25%	246.61%	246.66%
Limit	120.00%	120.00%	120.00%	120.00%
Pass / Fail	Pass	Pass	Pass	Pass

---

(1) The overcollateralization ratio divides the total principal balance of all collateral in the CLO by the total principal balance of the bonds associated with the applicable ratio. To the extent an asset is considered a defaulted security, the asset s principal balance for purposes of the overcollateralization test is the lesser of the asset s market value or the principal balance of the defaulted asset multiplied by the asset s

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

recovery rate which is determined by the rating agencies. Rating downgrades of CLO collateral will generally not have a direct impact on the principal balance of a CLO asset for purposes of calculating the CLO overcollateralization test unless the rating downgrade is below a significantly low threshold (e.g. CCC-) as defined in each CLO vehicle.

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

A summary of our CLO overcollateralization ratios as of the determination dates subsequent to each quarter is as follows:

Determination (1)	CLO IV	CLO V	CLO VI	CLO VII
July 2017	136.99%	130.72%	129.87%	129.03%
April 2017	136.99%	130.72%	129.87%	
January 2017	136.99%	130.72%	129.87%	
October 2016	136.99%	130.72%	129.87%	
July 2016	136.99%	130.72%		

(1) The table above represents the quarterly trend of our overcollateralization ratio, however, the CLO determination dates are monthly and we were in compliance with this test for all periods presented.

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

Note 12 Allowance for Loss-Sharing Obligations

A summary of our allowance for loss-sharing obligations related to the Fannie Mae DUS program is as follows:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Beginning balance	$ 32,219,490	$ 32,407,554

Provisions for loss sharing		532,185		2,211,570
Charge-offs, net		45,731		(1,821,718)
Ending balance	$	32,797,406	$	32,797,406

When we settle a loss under the DUS loss-sharing model, the net loss is charged-off against the previously recorded loss-sharing obligation. The settled loss is often net of any previously advanced principal and interest payments in accordance with the DUS program, which are reflected as reductions to the proceeds needed to settle losses. At both June 30, 2017 and December 31, 2016, we had outstanding advances of $0.3 million, which were netted against the allowance for loss-sharing obligations.

At June 30, 2017 and December 31, 2016, the maximum quantifiable liability associated with our guarantees under the Fannie Mae DUS agreement was $2.18 billion and $2.04 billion, respectively. The maximum quantifiable liability is not representative of the actual loss we would incur. We would be liable for this amount only if all of the loans we service for Fannie Mae, for which we retain some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Note 13 Derivative Financial Instruments

Structured Business. During the first quarter of 2017, our remaining two qualifying LIBOR cap hedges, with a notional value of $55.6 million, and our remaining two qualifying interest rate swap cash flow hedges, with a notional value of $41.5 million, matured. We entered into the LIBOR cap hedges due to certain CLO agreements requiring a LIBOR cap of 2% and 3% and we entered into the interest rate swaps to hedge the variable cash flows associated with existing variable-rate debt. As of June 30, 2017, the Structured Business did not have any derivative financial instruments. At December 31, 2016, the fair value of our LIBOR cap hedges and interest rate swaps was less than $0.1 million and $(0.2) million, respectively.

The following table presents the effect of our qualifying derivative financial instruments on the statements of income (dollars in thousands):

Derivative	Loss Recognized In Other Comprehensive Income (Loss) (Effective Portion) For the Six Months Ended June 30, 2017	2016	Loss Reclassified from Accumulated Other Comprehensive Income (Loss) into Interest Expense (Effective Portion) For the Six Months Ended June 30, 2017	2016
Interest Rate Swaps/Cap	$	$ 262	$ (237)	$ (2,696)

As of December 31, 2016, the cumulative amount of other comprehensive income (loss) related to net unrealized losses on derivatives designated as qualifying hedges were deminimus.

Agency Business. The following is a summary of our non-qualifying derivative financial instruments held by our Agency Business:

		June 30, 2017			
				Fair Value	
Derivative	Count	Notional Value	Balance Sheet Location	Derivative Assets	Derivative Liabilities

Rate Lock Commitments	7	$	98,720,000	Other Assets/Other Liabilities	$	1,419,530	$	(749,384)
Forward Sale Commitments	83		480,485,811	Other Assets/Other Liabilities		751,499		(2,051,991)
		$	579,205,811		$	2,171,029	$	(2,801,375)

December 31, 2016

Rate Lock Commitments	12	$	156,685,400	Other Assets/Other Liabilities	$	2,816,132	$	(764,429)
Forward Sale Commitments	105		819,033,129	Other Assets/Other Liabilities		2,798,858		(1,535,150)
		$	975,718,529		$	5,614,990	$	(2,299,579)

We enter into contractual commitments to originate and sell mortgage loans at fixed prices with fixed expiration dates. The commitments become effective when the borrower rate locks a specified interest rate within time frames established by us. All potential borrowers are evaluated for creditworthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the rate lock by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

lock commitments to borrowers, we enter into a forward sale commitment with the investor simultaneous with the rate lock commitment with the borrower. The forward sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. Sale commitments with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

These commitments meet the definition of a derivative and are recorded at fair value, including the effects of interest rate movements which are reflected as a component of other income, net in the consolidated statements of income. The estimated fair value of rate lock commitments also includes the fair value of the expected net cash flows associated with the servicing of the loan which is recorded as income from MSRs in the consolidated statements of income. During the three and six months ended June 30, 2017, we recorded $1.6 million and $2.5 million, respectively, of net losses from changes in the fair value of these derivatives in other income, net and $17.3 million and $37.3 million, respectively, of income from MSRs. See Note 14 Fair Value for further details.

Note 14 Fair Value

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The following table summarizes the principal amounts, carrying values and the estimated fair values of our financial instruments:

	June 30, 2017			December 31, 2016		
	Principal / Notional Amount	Carrying Value	Estimated Fair Value	Principal / Notional Amount	Carrying Value	Estimated Fair Value
Financial assets:						
Loans and investments, net	$ 1,892,057,987	$ 1,798,865,292	$ 1,857,113,983	$ 1,790,159,966	$ 1,695,732,351	$ 1,749,130,232
Loans held-for-sale, net	388,038,991	387,354,589	394,071,790	675,493,536	673,367,304	683,833,449
Capitalized mortgage servicing rights, net	n/a	243,083,459	280,963,245	n/a	227,742,986	245,455,881
Available-for-sale securities	58,789	5,102,433	5,102,433	58,789	5,403,463	5,403,463
Securities held-to-maturity	12,062,041	8,083,435	8,262,498			
Derivative financial instuments	112,523,772	2,171,029	2,171,029	550,117,700	5,614,990	5,614,990
Financial liabilities:						
Credit and repurchase facilities	$ 507,575,757	$ 505,815,453	$ 507,128,804	$ 908,680,198	$ 906,636,790	$ 907,882,886
	1,016,000,000	1,004,815,901	1,015,090,600	737,000,000	728,441,109	728,642,500

Collateralized loan obligations						
Senior unsecured notes	97,860,025	94,897,231	99,621,505	97,860,025	94,521,566	99,034,345
Convertible senior unsecured notes, net	100,000,000	94,803,761	106,375,000	86,250,000	80,660,038	86,586,375
Junior subordinated notes	154,336,000	139,248,112	93,459,527	175,858,000	157,858,555	105,649,537
Related party financing	50,000,000	50,000,000	53,228,305	50,000,000	50,000,000	55,119,744
Derivative financial instruments	466,682,039	2,801,375	2,801,375	522,650,829	2,451,422	2,451,422

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

Level 1 Inputs are unadjusted and quoted prices exist in active markets for identical assets or liabilities, such as government, agency and equity securities.

Level 2 Inputs (other than quoted prices included in Level 1) are observable for the asset or liability through correlation with market data. Level 2 inputs may include quoted market prices for a similar asset or liability, interest rates and credit risk. Examples include non-government securities, certain mortgage and asset-backed securities, certain corporate debt and certain derivative instruments.

Level 3 Inputs reflect our best estimate of what market participants would use in pricing the asset or liability and are based on significant unobservable inputs that require a considerable amount of judgment and assumptions. Examples include certain mortgage and asset-backed securities, certain corporate debt and certain derivative instruments.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Determining which category an asset or liability falls within the hierarchy requires significant judgment and we evaluate our hierarchy disclosures each quarter.

The following is a description of the valuation techniques used to measure fair value and the general classification of these instruments pursuant to the fair value hierarchy.

Loans and investments, net. Fair values of loans and investments that are not impaired are estimated using Level 3 inputs based on direct capitalization rate and discounted cash flow methodologies using discount rates, which, in our opinion, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Fair values of impaired loans and investments are estimated using Level 3 inputs that require significant judgments, which include assumptions regarding discount rates, capitalization rates, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan and other factors.

Loans held-for-sale, net. Consists of originated loans that are generally transferred or sold within 60 days from the date that a mortgage loan is funded, and are valued using pricing models that incorporate observable inputs from current market assumptions or a hypothetical securitization model utilizing observable market data from recent securitization spreads and observable pricing of loans with similar characteristics (Level 2). Fair values of loans held-for-sale include the fair value allocated to the associated future MSRs and is calculated pursuant to the valuation techniques described below for capitalized mortgage servicing rights, net (Level 3).

***Capitalized mortgage servicing rights, net*.** Fair values are estimated using Level 3 inputs based on discounted future net cash flow methodology. The fair value of MSRs carried at amortized cost are estimated using a process that involves the use of independent third-party valuation experts, supported by commercially available discounted cash flow models and analysis of current market data. The key inputs used in estimating fair value include the contractually specified servicing fees, prepayment speed of the underlying loans, discount rate, annual per loan cost to service loans, delinquency rates, late charges and other economic factors.

Available-for-sale securities. Fair values are estimated based on current market quotes received from active markets or financial sources that trade such securities. The fair values of available-for-sale equity securities traded in active markets are estimated using Level 1 inputs. The fair values of available-for-sale debt securities are estimated using the recent purchase price and subsequent sales price of the securities, which are deemed Level 2 inputs. The fair value of our Agency IOs were estimated using Level 3 inputs and are derived from third party proprietary models using discounted cash flows based on the underlying contractual cash flows and require significant judgements, including assumptions on discount rates and constant prepayment rates.

Securities held-to-maturity. Fair values are approximated using Level 3 inputs based on current market quotes received from financial sources that trade such securities and are based on prevailing market data and, in some cases, are derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions.

Derivative financial instruments. The fair values of rate lock and forward sale commitments are estimated using valuation techniques, which include internally-developed models developed based on changes in the U.S. Treasury rate and other observable market data (Level 2). The fair value of rate lock commitments includes the fair value of the expected net cash flows associated with the servicing of the loans, see capitalized mortgage servicing rights, net above for further details on the applicable valuation technique (Level 3). We also consider the impact of counterparty non-performance risk when measuring the fair value of these derivatives. Given the credit quality of our counterparties, the short duration of interest rate lock commitments and forward sale contracts, and our historical experience, the risk of nonperformance by our counterparties is not significant.

Credit facilities and repurchase agreements. The fair values of credit facilities and repurchase agreements for the Structured Business are estimated at Level 3 using discounted cash flow methodology, using discount rates, which, in our opinion, best reflect current market interest rates for financing with similar characteristics and credit quality. The majority of our credit facilities for the Agency Business bear interest at rates that are similar to those available in the market currently and the fair values are estimated using Level 2 inputs. For these facilities, the fair values approximate the carrying values reported in the balance sheets.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

Collateralized loan obligations, junior subordinated notes and related party financing. Fair values are estimated at Level 3 based on broker quotations, representing the discounted expected future cash flows at a yield that reflects current market interest rates and credit spreads.

Senior unsecured notes. Fair values are estimated at Level 1 based on current market quotes received from active markets.

Convertible senior unsecured notes, net. Fair values are estimated at Level 2 based on current market quotes received from inactive markets.

We measure certain financial assets and financial liabilities at fair value on a recurring basis. The fair value of these financial assets and liabilities was determined using the following input levels as of June 30, 2017:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy Level 1	Level 2	Level 3
Financial assets:					
Available-for-sale securities	$ 5,102,433	$ 5,102,433	$ 499,711	$	$ 4,602,722
Derivative financial instruments	2,171,029	2,171,029		751,499	1,419,530
Financial liabilities:					
Derivative financial instruments	$ 2,801,375	$ 2,801,375	$	$ 2,801,375	$

See Note 8 Securities for a roll-forward of our available-for-sale securities fair valued using Level 3 inputs.

We measure certain financial and non-financial assets at fair value on a nonrecurring basis. The fair values of these financial and non-financial assets were determined using the following input levels as of June 30, 2017:

	Net Carrying	Fair Value Measurements Using Fair Value Hierarchy

		Value		Fair Value		Level 1		Level 2		Level 3
Financial assets:										
Impaired loans, net (1)	$	103,515,085	$	103,515,085	$		$		$	103,515,085
Non-financial assets:										
Long-lived assets (2)	$	11,615,208	$	11,615,208	$		$		$	11,615,208

(1) We had an allowance for loan losses of $81.3 million relating to six loans with an aggregate carrying value, before loan loss reserves, of $184.8 million at June 30, 2017.

(2) During the second quarter of 2016, we determined that a real estate owned hotel property exhibited indicators of impairment and an impairment analysis was performed, which resulted in an impairment loss of $11.2 million. During the first half of 2017, we received additional market analyses which resulted in a further impairment loss of $2.7 million, of which $1.5 million was recorded in the second quarter of 2017.

Loan impairment assessments**.** Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses, when such loan or investment is deemed to be impaired. We consider a loan impaired when, based upon current information, 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. We perform evaluations of our loans to determine if the value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, which may result in an allowance and corresponding charge to the provision for loan losses. These valuations

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

require significant judgments, which include assumptions regarding capitalization and discount rates, revenue growth rates, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan and other factors. The table above and below includes all impaired loans, regardless of the period in which the impairment was recognized.

Long-lived assets: We review our real estate owned assets when events or circumstances change indicating that the carrying amount of an asset may not be recoverable. In the evaluation of a real estate owned asset for impairment, many factors are considered, including estimated current and expected operating cash flows from the asset during the projected holding period, costs necessary to extend the life or improve the asset, expected capitalization rates, projected stabilized net operating income, selling costs, and the ability to hold and dispose of the asset in the ordinary course of business. We first compare the undiscounted cash flows to be generated by the asset to the carrying value of such asset. If the undiscounted cash flows are less than the carrying value, we recognize impairment based on discounted cash flows.

Quantitative information about Level 3 fair value measurements at June 30, 2017 were as follows:

	Fair Value	Valuation Techniques	Significant Unobservable Inputs	
Financial assets:				
Impaired loans (1):				
			Discount rate	11.00%
Office	$ 797,000	Discounted cash flows	Capitalization rate	8.10%
			Revenue growth rate	2.50%
			Discount rate	15.00%
Land	71,668,085	Discounted cash flows	Capitalization rate	7.25%
			Revenue growth rate	3.00%
			Discount rate	9.00%
Hotel	31,050,000	Discounted cash flows	Capitalization rate	7.00%
			Revenue growth rate	3.30%
Derivative financial instruments:				
Rate lock commitments	1,419,530	Discounted cash flows	W/A discount rate	12.95%
Non-financial assets:				
Long-lived assets:				
			Discount rate	11.75%
Hotel	11,615,208	Discounted cash flows	Capitalization rate	9.75%

Revenue growth rate	3.50%
Hold period	3 years

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

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2017

The derivative financial instruments using Level 3 inputs are outstanding for short periods of time (generally less than 60 days). A roll-forward of Level 3 derivative instruments were as follows:

	Fair Value Measurements Using Significant Unobservable Inputs	
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Derivative assets and liabilities, net		
Balance at beginning of period	$ 381,473	$ 2,816,132
Settlements	(16,216,002)	(35,864,869)
Realized gains recorded in earnings	15,834,529	33,048,737
Unrealized gains recorded in earnings	1,419,530	1,419,530
Balance at end of period	$ 1,419,530	$ 1,419,530

The following table presents the components of fair value and other relevant information associated with our rate lock commitments, forward sales commitments and the estimated fair value of cash flows from servicing on loans held-for-sale.

	Notional/ Principal Amount	Fair Value of Servicing Rights	Interest Rate Movement Effect	Total Fair Value Adjustment
June 30, 2017				
Rate lock commitments	$ 98,720,000	$ 1,419,530	$ (749,384)	$ 670,146
Forward sale commitments	480,485,811		749,384	749,384
Loans held-for-sale, net (1)	381,765,811	6,273,180		6,273,180
Total		$ 7,692,710	$	$ 7,692,710

(1) Loans held-for-sale, net are recorded at the lower of cost or market on an aggregate basis and includes fair value adjustments related to estimated cash flows from mortgage servicing rights.

We measure certain assets and liabilities for which fair value is only disclosed. The fair value of these assets and liabilities was determined using the following input levels as of June 30, 2017:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Loans and investments, net	$ 1,798,865,292	$ 1,857,113,983	$	$	$ 1,857,113,983

Loans held-for-sale, net	387,354,589	394,071,790	387,798,610	6,273,180
Capitalized mortgage servicing rights, net	243,083,459	280,963,245		