

ARBOR REALTY TRUST INC
Form 10-Q
August 03, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2018

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

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(State or other jurisdiction of
incorporation)

(I.R.S. Employer
Identification No.)

333 Earle Ovington Boulevard, Suite 900
Uniondale, NY
(Address of principal executive offices)

11553
(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 ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☐ Accelerated filer ☒ Smaller reporting company ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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: 75,390,813 outstanding as of July 27, 2018.

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Forward-Looking Statements

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

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. We use words such as anticipate, expect, believe, intend, should, will, may and similar expressions to identify forward-looking statements, although not all 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 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 our 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, 2017 (the 2017 Annual Report) filed with the Securities and Exchange Commission (SEC) on February 23, 2018 and in our other reports and filings with the SEC.

Although we believe 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**

(\$ in thousands, except share and per share data)

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|--|---------------------------------|----------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 106,968 | \$ 104,374 |
| Restricted cash | 173,686 | 139,398 |
| Loans and investments, net | 3,064,798 | 2,579,127 |
| Loans held-for-sale, net | 311,487 | 297,443 |
| Capitalized mortgage servicing rights, net | 257,021 | 252,608 |
| Securities held-to-maturity, net | 50,342 | 27,837 |
| Investments in equity affiliates | 24,144 | 23,653 |
| Real estate owned, net | 14,650 | 16,787 |
| Due from related party | 10,162 | 688 |
| Goodwill and other intangible assets | 118,965 | 121,766 |
| Other assets | 72,097 | 62,264 |
| Total assets | \$ 4,204,320 | \$ 3,625,945 |
| Liabilities and Equity: | | |
| Credit facilities and repurchase agreements | \$ 910,504 | \$ 528,573 |
| Collateralized loan obligations | 1,590,644 | 1,418,422 |
| Debt fund | 68,270 | 68,084 |
| Senior unsecured notes | 122,343 | 95,280 |
| Convertible senior unsecured notes, net | 235,431 | 231,287 |
| Junior subordinated notes to subsidiary trust issuing preferred securities | 139,909 | 139,590 |
| Related party financing | | 50,000 |
| Due to related party | 335 | |
| Due to borrowers | 78,159 | 99,829 |
| Allowance for loss-sharing obligations | 31,402 | 30,511 |
| Other liabilities | 83,811 | 99,813 |
| Total liabilities | 3,260,808 | 2,761,389 |
| Commitments and contingencies (Note 14) | | |
| 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, \$38,788 aggregate liquidation preference; 1,551,500 shares issued and outstanding; 7.75% Series B, \$31,500 aggregate liquidation preference; 1,260,000 shares issued and outstanding; 8.50% | 89,508 | 89,508 |

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| | | | |
|--|----|-----------|--------------|
| Series C, \$22,500 aggregate liquidation preference; 900,000 shares issued and outstanding | | | |
| Common stock, \$0.01 par value: 500,000,000 shares authorized; 68,570,617 and 61,723,387 | | | |
| shares issued and outstanding, respectively | | 686 | 617 |
| Additional paid-in capital | | 766,933 | 707,450 |
| Accumulated deficit | | (87,128) | (101,926) |
| Accumulated other comprehensive income | | | 176 |
| Total Arbor Realty Trust, Inc. stockholders' equity | | 769,999 | 695,825 |
| Noncontrolling interest | | 173,513 | 168,731 |
| Total equity | | 943,512 | 864,556 |
| Total liabilities and equity | \$ | 4,204,320 | \$ 3,625,945 |

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(\$ in thousands, except share and per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|------------|---------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest income | \$ 59,295 | \$ 34,468 | \$ 110,908 | \$ 67,993 |
| Interest expense | 37,884 | 20,411 | 71,271 | 39,848 |
| Net interest income | 21,411 | 14,057 | 39,637 | 28,145 |
| Other revenue: | | | | |
| Gain on sales, including fee-based services, net | 15,622 | 18,830 | 33,815 | 38,001 |
| Mortgage servicing rights | 17,936 | 17,254 | 37,571 | 37,284 |
| Servicing revenue, net | 10,871 | 6,609 | 20,418 | 11,403 |
| Property operating income | 2,964 | 2,863 | 5,874 | 6,086 |
| Other income, net | (470) | (821) | 2,408 | (1,707) |
| Total other revenue | 46,923 | 44,735 | 100,086 | 91,067 |
| Other expenses: | | | | |
| Employee compensation and benefits | 26,815 | 21,825 | 56,309 | 41,666 |
| Selling and administrative | 8,873 | 7,835 | 17,789 | 15,529 |
| Property operating expenses | 2,856 | 2,622 | 5,652 | 5,260 |
| Depreciation and amortization | 1,845 | 1,816 | 3,691 | 3,713 |
| Impairment loss on real estate owned | 2,000 | 1,500 | 2,000 | 2,700 |
| Provision for loss sharing (net of recoveries) | 348 | 532 | 821 | 2,212 |
| Provision for loan losses (net of recoveries) | (2,127) | (1,760) | (1,802) | (2,456) |
| Management fee - related party | | 2,673 | | 6,673 |
| Total other expenses | 40,610 | 37,043 | 84,460 | 75,297 |
| Income before gain on extinguishment of debt, income (loss) from equity affiliates and income taxes | 27,724 | 21,749 | 55,263 | 43,915 |
| Gain on extinguishment of debt | | | | 7,116 |
| Income (loss) from equity affiliates | 1,387 | (3) | 2,132 | 760 |
| (Provision for) benefit from income taxes | (4,499) | (3,435) | 4,285 | (9,536) |
| Net income | 24,612 | 18,311 | 61,680 | 42,255 |
| Preferred stock dividends | 1,888 | 1,888 | 3,777 | 3,777 |
| Net income attributable to noncontrolling interest | 5,557 | 4,494 | 14,547 | 10,935 |
| Net income attributable to common stockholders | \$ 17,167 | \$ 11,929 | \$ 43,356 | \$ 27,543 |
| Basic earnings per common share | \$ 0.26 | \$ 0.21 | \$ 0.68 | \$ 0.51 |
| Diluted earnings per common share | \$ 0.25 | \$ 0.21 | \$ 0.66 | \$ 0.50 |
| Weighted average shares outstanding: | | | | |
| Basic | 65,683,057 | 56,652,334 | 63,773,306 | 54,071,085 |
| Diluted | 90,055,170 | 79,064,503 | 87,420,543 | 76,365,118 |
| Dividends declared per common share | \$ 0.25 | \$ 0.18 | \$ 0.46 | \$ 0.35 |

See Notes to Consolidated Financial Statements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)****(in thousands)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$ 24,612 | \$ 18,311 | \$ 61,680 | \$ 42,255 |
| Unrealized loss on securities available-for-sale, at fair value | | (147) | | (118) |
| Reclassification of net unrealized gains on available-for-sale securities into accumulated deficit (Note 2) | | | (176) | |
| Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings | | | | 238 |
| Comprehensive income | 24,612 | 18,164 | 61,504 | 42,375 |
| Less: | | | | |
| Comprehensive income attributable to noncontrolling interest | 5,557 | 4,453 | 14,504 | 10,972 |
| Preferred stock dividends | 1,888 | 1,888 | 3,777 | 3,777 |
| Comprehensive income attributable to common stockholders | \$ 17,167 | \$ 11,823 | \$ 43,223 | \$ 27,626 |

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

(\$ in thousands, except shares)

Six Months Ended June 30, 2018

| | | Preferred Stock Shares | Preferred Value | Common Stock Shares | Common Stock Value | Additional Paid in Capital | Accumulated Deficit | Accumulated Comprehensive Income | Total Arbor Other Realty Trust, Inc. Stockholders Equity | Noncontrolling Interest | Total Equity |
|--|----------------------|---------------------------|--------------------|------------------------|-----------------------|-------------------------------|------------------------|--|---|----------------------------|--------------|
| Balance | December 31, 2017 | 24,942,269 | \$ 89,508 | 61,723,387 | \$ 617 | \$ 707,450 | \$ (101,926) | \$ 176 | \$ 695,825 | \$ 168,731 | \$ 864,556 |
| Issuance of common stock, net | | | | 6,452,700 | 65 | 55,842 | | | 55,907 | | 55,907 |
| Stock-based compensation | | | | 396,030 | 4 | 3,641 | | | 3,645 | | 3,645 |
| Forfeiture of unvested restricted stock | | | | (1,500) | | | | | | | |
| Distributions - common stock | | | | | | | (28,727) | | (28,727) | | (28,727) |
| Distributions - preferred stock | | | | | | | (3,777) | | (3,777) | | (3,777) |
| Distributions - preferred stock of private REIT | | | | | | | (7) | | (7) | | (7) |
| Distributions - noncontrolling interest | | | | | | | | | | (9,765) | (9,765) |
| Net income | | | | | | | 47,133 | | 47,133 | 14,547 | 61,680 |
| Reclassification of net unrealized gains on available-for-sale securities into accumulated deficit | | | | | | | 176 | (176) | | | |
| Balance | June 30, 2018 | 24,942,269 | \$ 89,508 | 68,570,617 | \$ 686 | \$ 766,933 | \$ (87,128) | \$ | \$ 769,999 | \$ 173,513 | \$ 943,512 |

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

| | Six Months Ended June 30, | |
|--|---------------------------|-------------|
| | 2018 | 2017 |
| Operating activities: | | |
| Net income | \$ 61,680 | \$ 42,255 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,691 | 3,713 |
| Stock-based compensation | 3,645 | 2,986 |
| Amortization and accretion of interest and fees, net | 7,658 | 1,842 |
| Amortization of capitalized mortgage servicing rights | 23,802 | 23,716 |
| Originations of loans held-for-sale | (2,080,393) | (2,288,694) |
| Proceeds from sales of loans held-for-sale, net of gain on sale | 2,064,486 | 2,569,203 |
| Payoffs and paydowns of loans held-for-sale | 22 | 73 |
| Mortgage servicing rights | (37,571) | (37,284) |
| Write-off of capitalized mortgage servicing rights from payoffs | 10,078 | 6,497 |
| Impairment loss on real estate owned | 2,000 | 2,700 |
| Provision for loan losses (net of recoveries) | (1,802) | (2,456) |
| Provision for loss sharing (net of recoveries) | 821 | 2,212 |
| Net charge-offs for loss sharing obligations | 70 | (1,822) |
| Deferred tax (benefit) provision | (13,135) | 937 |
| Income from equity affiliates | (2,132) | (760) |
| Gain on extinguishment of debt | | (7,116) |
| Changes in operating assets and liabilities | (24,307) | (11,240) |
| Net cash provided by operating activities | 18,613 | 306,762 |
| Investing Activities: | | |
| Loans and investments funded and originated, net | (875,212) | (551,468) |
| Payoffs and paydowns of loans and investments | 429,133 | 456,251 |
| Internalization of management team | | (25,000) |
| Deferred fees | 6,309 | 3,015 |
| Investments in real estate, net | (220) | (433) |
| Contributions to equity affiliates | (2,460) | (650) |
| Distributions from equity affiliates | 2,807 | 374 |
| Purchase of securities held-to-maturity, net | (21,637) | (7,838) |
| Payoffs and paydowns of securities held-to-maturity | 519 | 8 |
| Proceeds from insurance settlements, net | 1,294 | 1,014 |
| Due to borrowers and reserves | (58,585) | (753) |
| Net cash used in investing activities | (518,052) | (125,480) |
| Financing activities: | | |
| Proceeds from repurchase agreements, loan participations and credit facilities | 3,971,279 | 4,343,816 |
| Payoffs and paydowns of repurchase agreements, loan participations and credit facilities | (3,588,443) | (4,744,921) |
| Payoffs and paydowns of collateralized loan obligations | (267,750) | |
| Payoffs of senior unsecured notes | (97,860) | |
| Payoff of related party financing | (50,000) | |
| Payoffs of junior subordinated notes to subsidiary trust issuing preferred securities | | (12,691) |
| Proceeds from issuance of collateralized loan obligations | 441,000 | 279,000 |

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| | | |
|---|------------|------------|
| Proceeds from issuance of senior unsecured notes | 125,000 | |
| Proceeds from issuance of convertible senior unsecured notes | | 13,750 |
| Proceeds from issuance of common stock, net | 55,907 | 76,225 |
| Receipts on swaps and returns of margin calls from counterparties | | 431 |
| Distributions paid on common stock | (28,727) | (19,781) |
| Distributions paid on noncontrolling interest | (9,765) | (7,431) |
| Distributions paid on preferred stock | (3,777) | (3,777) |
| Distributions paid on preferred stock of private REIT | (7) | (7) |
| Payment of deferred financing costs | (10,536) | (5,857) |
| Net cash provided by (used in) financing activities | 536,321 | (81,243) |
| Net increase in cash, cash equivalents and restricted cash | 36,882 | 100,039 |
| Cash, cash equivalents and restricted cash at beginning of period | 243,772 | 167,960 |
| Cash, cash equivalents and restricted cash at end of period | \$ 280,654 | \$ 267,999 |

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

(in thousands)

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2018 | 2017 |
| Supplemental cash flow information: | | |
| Cash used to pay interest | \$ 58,675 | \$ 35,142 |
| Cash used to pay taxes | \$ 10,698 | \$ 13,452 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Distributions accrued on 8.25% Series A preferred stock | \$ 267 | \$ 267 |
| Distributions accrued on 7.75% Series B preferred stock | \$ 203 | \$ 203 |
| Distributions accrued on 8.50% Series C preferred stock | \$ 159 | \$ 159 |

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Note 1 Description of Business

Arbor Realty Trust, Inc. (we, us, or our) is a Maryland corporation formed in 2003. We operate through two business segments: our Structured Loan Origination and Investment Business (Structured Business) and our Agency Loan Origination and Servicing Business (Agency Business). Through our 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 Business, 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 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. We are an approved Fannie Mae Delegated Underwriting and Servicing (DUS) lender nationally, a Freddie Mac Multifamily Conventional Loan lender, seller/servicer, in New York, New Jersey and Connecticut, a Freddie Mac affordable, manufactured housing, senior housing and small balance loan (SBL) lender, seller/servicer, nationally and a HUD MAP and LEAN senior housing/healthcare lender nationally.

We have operated the Agency Business since July 2016 when we acquired it from Arbor Commercial Mortgage, LLC (ACM or our Former Manager). We were externally managed and advised by ACM and, effective May 31, 2017, terminated the existing management agreement with ACM to fully internalize our management team. Refer to our 2017 Annual Report for details of our acquisition of the Agency Business (the Acquisition) and termination of the management agreement.

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 17 Income Taxes for details.

Note 2 Basis of Presentation and Significant Accounting Policies

Basis of Presentation

Our interim 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. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements prepared under GAAP have been condensed or omitted. In our opinion, 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 financial statements should be read in conjunction with our financial statements and notes thereto included in our 2017 Annual Report.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation. See the following Recently Adopted Accounting Pronouncements section for the cash flows impact of the retrospective adoption of Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows: Restricted Cash and ASU 2016-15, Statement of Cash Flows.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Principles of Consolidation

These 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 15 Variable Interest Entities for information about our VIEs. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us 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 2017 Annual Report. There have been no significant changes in our significant accounting policies since December 31, 2017.

Recently Adopted Accounting Pronouncements

| Description | Adoption Date | Effect on Financial Statements |
|---|------------------------|---|
| Since 2014, the Financial Accounting Standards Board (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 | First quarter of 2018. | The adoption of this guidance did not have a material impact on our consolidated financial statements. This standard may impact the timing of gains on certain future sales of real estate. |

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.

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows: Restricted Cash. This ASU requires changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents to be shown in the statement of cash flows. Previous guidance required the change in cash and cash equivalents be shown on the statement of cash flows, with cash used to fund restricted cash and restricted cash equivalents shown as a component of operating, investing, or financing activities. Entities are now also required to reconcile the total of cash, cash equivalents, restricted cash, and restricted cash equivalents as presented in the statement of cash flows to the related captions in the balance sheet when these balances are presented separately in the balance sheet.

First quarter of 2018.

This guidance required retrospective adoption, therefore, we adjusted the cash flow statement for the comparable prior period. The following table shows the impact of the adoption of this guidance, as well as the adoption of ASU 2016-15 described below.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****June 30, 2018**

| Description | Adoption Date | Effect on Financial Statements |
|--|------------------------|---|
| In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows. This ASU provides eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. | First quarter of 2018. | This guidance required retrospective adoption, therefore, we reclassified \$1.0 million of proceeds from insurance settlements from net cash provided by operating activities to net cash used in investing activities for the six months ended June 30, 2017. In addition, we chose the cumulative earnings approach for distributions received from equity method investees, which did not result in any changes in the way we account for such distributions. The following table shows the impact of the adoption of this guidance, as well as the adoption of ASU 2016-18 described above. |

| (in thousands) | Six Months Ended June 30, 2017 |
|--|---|
| <i>As previously reported under GAAP applicable at the time</i> | |
| Cash and cash equivalents at beginning of period | \$ 138,645 |
| Net decrease in cash and cash equivalents | (57,886) |
| Cash and cash equivalents at end of period | 80,759 |
| Net cash provided by operating activities: changes in operating assets and liabilities | (10,270) |
| Net cash used in investing activities | (126,494) |
| Net cash used in financing activities | (239,307) |
| <i>As currently reported under ASU 2016-18 and ASU 2016-15</i> | |
| Cash, cash equivalents and restricted cash at beginning of period | \$ 167,960 |
| Net increase in cash, cash equivalents and restricted cash | 100,039 |
| Cash, cash equivalents and restricted cash at end of period | 267,999 |
| Net cash provided by operating activities: changes in operating assets and liabilities | (11,240) |
| Net cash used in investing activities | (125,480) |
| Net cash provided by (used in) financing activities | (81,243) |

| | | |
|--|------------------------|--|
| In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Consensus of the FASB Emerging Issues Task Force. This ASU requires that unconsolidated equity investments not accounted for under the equity method be recorded at fair value, with changes in fair value recorded through net income. The accounting principles that permitted available-for-sale classification with unrealized holding gains and losses recorded in other comprehensive income for equity securities will no longer be applicable. In addition, financial liabilities measured using the fair value option will need to | First quarter of 2018. | The adoption of this guidance did not have a material impact on our consolidated financial statements. In connection with the adoption of this ASU, we reclassified \$0.2 million of unrealized gains on available-for-sale securities from accumulated other comprehensive income to accumulated deficit. |
|--|------------------------|--|

present any change in fair value caused by a change in instrument-specific credit risk separately in other comprehensive income.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

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 2017 Annual Report.

| Description | Effective Date | Effect on Financial Statements |
|---|------------------------|---|
| In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation to expand the scope of ASC Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. | First quarter of 2019. | We have evaluated ASU 2018-07 and determined the adoption of this standard will not have a significant impact on our consolidated financial statements. |

Note 3 Loans and Investments

Our Structured Business loan and investment portfolio consists of (\$ in thousands):

| | June 30, 2018 | 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 | \$ 2,891,974 | 92% | 167 | 6.58% | 20.3 | 0% | 73% |
| Preferred equity investments | 151,604 | 5% | 10 | 8.18% | 73.7 | 60% | 85% |
| Mezzanine loans | 91,301 | 3% | 10 | 10.28% | 19.8 | 21% | 68% |
| | 3,134,879 | 100% | 187 | 6.76% | 22.8 | 4% | 74% |
| Allowance for loan losses | (58,733) | | | | | | |
| Unearned revenue | (11,348) | | | | | | |
| Loans and investments, net | \$ 3,064,798 | | | | | | |

December 31, 2017

| | | | | | | | |
|--------------|--------------|-----|-----|-------|------|----|-----|
| Bridge loans | \$ 2,422,105 | 91% | 150 | 6.10% | 20.9 | 0% | 72% |
|--------------|--------------|-----|-----|-------|------|----|-----|

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| | | | | | | | |
|------------------------------|--------------|------|-----|--------|------|-----|-----|
| Preferred equity investments | 142,892 | 6% | 12 | 6.47% | 68.7 | 64% | 90% |
| Mezzanine loans | 87,541 | 3% | 8 | 10.78% | 24.8 | 20% | 63% |
| | 2,652,538 | 100% | 170 | 6.28% | 23.6 | 4% | 73% |
| Allowance for loan losses | (62,783) | | | | | | |
| Unearned revenue | (10,628) | | | | | | |
| Loans and investments, net | \$ 2,579,127 | | | | | | |

(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, 2018, the UPB related to 49 loans with five different borrowers represented 25% of total assets. At December 31, 2017, the UPB related to 42 loans with five different borrowers represented 24% of total assets. During both the six months ended June 30, 2018 and the year ended December 31, 2017, no single loan or investment represented more than 10% of our total assets and no single investor group generated over 10% of our revenue.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****June 30, 2018**

We assign a credit risk rating of pass, pass/watch, special mention, substandard or doubtful to each loan and investment, with a pass rating being the lowest risk and a doubtful rating being the highest risk. 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. All portfolio assets are subject to, at a minimum, a thorough quarterly financial evaluation in which historical operating performance and forward-looking projections are reviewed, however, we maintain a higher level of scrutiny and focus on loans that we consider high risk and that possess deteriorating credit quality.

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, 2018 and December 31, 2017, we identified eight loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of \$128.2 million and \$126.5 million, respectively, and a weighted average last dollar LTV ratio of 92% and 93%, respectively.

A summary of the loan portfolio's weighted average internal risk ratings and LTV ratios by asset class is as follows (\$ in thousands):

| Asset Class | UPB | Percentage of Portfolio | June 30, 2018 Wtd. Avg. Internal Risk Rating | Wtd. Avg. First Dollar LTV Ratio | Wtd. Avg. Last Dollar LTV Ratio |
|--------------|--------------|-------------------------|---|--|---------------------------------------|
| Multifamily | \$ 2,389,630 | 76% | pass/watch | 4% | 73% |
| Self Storage | 301,830 | 10% | pass/watch | 0% | 72% |
| Land | 133,811 | 4% | substandard | 0% | 90% |
| Office | 123,060 | 4% | special mention | 0% | 64% |
| Healthcare | 92,465 | 3% | pass | 0% | 81% |
| Hotel | 55,975 | 2% | pass/watch | 23% | 74% |
| Retail | 36,408 | 1% | pass/watch | 8% | 76% |
| Commercial | 1,700 | <1% | doubtful | 63% | 63% |
| Total | \$ 3,134,879 | 100% | pass/watch | 4% | 74% |

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December 31, 2017

| | | | | | | |
|--------------|----|-----------|------|-----------------|-----|-----|
| Multifamily | \$ | 1,925,529 | 73% | pass/watch | 4% | 72% |
| Self Storage | | 301,830 | 11% | pass | 0% | 71% |
| Land | | 132,828 | 5% | substandard | 0% | 90% |
| Office | | 107,853 | 4% | pass/watch | 1% | 64% |
| Healthcare | | 55,615 | 2% | pass/watch | 0% | 74% |
| Hotel | | 90,725 | 3% | special mention | 37% | 81% |
| Retail | | 36,458 | 1% | pass/watch | 8% | 66% |
| Commercial | | 1,700 | <1% | doubtful | 63% | 63% |
| Total | \$ | 2,652,538 | 100% | pass/watch | 4% | 73% |

Geographic Concentration Risk

As of June 30, 2018, 20%, 19% and 10% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Texas and California, respectively. As of December 31, 2017, 23%, 21% and 11% of the outstanding balance of our loan and investment portfolio had underlying properties in Texas, New York and California, respectively.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****June 30, 2018*****Impaired Loans and Allowance for Loan Losses***

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Allowance at beginning of period | \$ 63,108 | \$ 83,016 | \$ 62,783 | \$ 83,712 |
| Provision for loan losses | 1,325 | | 1,650 | |
| Charge-offs | (3,173) | | (3,173) | |
| Recoveries of reserves | (2,527) | (1,760) | (2,527) | (2,456) |
| Allowance at end of period | \$ 58,733 | \$ 81,256 | \$ 58,733 | \$ 81,256 |

During the three and six months ended June 30, 2018, we determined that the fair value of the underlying collateral (land development project) securing six loans with a carrying value of \$120.9 million was less than the net carrying value of the loans, which resulted in a provision for loan losses of \$1.3 million and \$1.7 million, respectively.

During the three and six months ended June 30, 2018, we settled, for \$31.6 million, a non-performing preferred equity investment in a hotel property with a net carrying value of \$29.1 million, resulting in a reserve recovery of \$2.5 million and a charge-off of \$3.2 million. In addition, we received a payment and recorded a recovery of \$0.9 million related to a written-off junior participation interest in an office building.

During the three and six months ended June 30, 2017, a fully reserved multifamily 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.

The ratio of net recoveries to the average loans and investments outstanding were de minimus for all periods presented.

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, 2018 and 2017.

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We have six loans with a carrying value totaling \$120.9 million at June 30, 2018, which mature in September 2018, that are collateralized by a land development project. The loans do not carry a current pay rate of interest, but five of the loans with a carrying value totaling \$111.5 million entitle us to a weighted average accrual rate of interest of 8.89%. 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. At June 30, 2018 and December 31, 2017, we had cumulative allowances for loan losses of \$50.7 million and \$49.1 million, respectively, related to these loans. The loans are subject to certain risks associated with a development project including, but not limited to, availability of construction financing, increases in projected construction costs, demand for the development's outputs upon completion of the project, and litigation risk. Additionally, these loans were not classified as non-performing as the borrower is in compliance with all of the terms and conditions of the loans.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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June 30, 2018

A summary of our impaired loans by asset class is as follows (in thousands):

| Asset Class | UPB | June 30, 2018 | | Allowance for Loan Losses | Three Months Ended June 30, 2018 | | Interest Income Recognized | Six Months Ended June 30, 2018 | | Interest Income Recognized |
|-------------|-----|--------------------|----|------------------------------|------------------------------------|--------|-------------------------------|------------------------------------|----|-------------------------------|
| | | Carrying Value (1) | | | Average Recorded Investment (2) | | | Average Recorded Investment (2) | | |
| Land | \$ | 132,559 | \$ | 125,693 | \$ | 55,533 | \$ | 131,985 | \$ | 17,375 |
| Hotel | | | | | | | | | | 17,375 |
| Office | | 2,279 | | 2,279 | | 1,500 | | 2,281 | | 31 |
| Commercial | | 1,700 | | 1,700 | | 1,700 | | 1,700 | | 1,700 |
| Total | \$ | 136,538 | \$ | 129,672 | \$ | 58,733 | \$ | 153,341 | \$ | 31 |
| | | | | | | | | | | 153,181 |
| | | | | | | | | | | 60 |

| Asset Class | UPB | December 31, 2017 | | Allowance for Loan Losses | Three Months Ended June 30, 2017 | | Interest Income Recognized | Six Months Ended June 30, 2017 | | Interest Income Recognized |
|-------------|-----|--------------------|----|------------------------------|------------------------------------|--------|-------------------------------|------------------------------------|----|-------------------------------|
| | | Carrying Value (1) | | | Average Recorded Investment (2) | | | Average Recorded Investment (2) | | |
| Land | \$ | 131,086 | \$ | 124,812 | \$ | 53,883 | \$ | 131,086 | \$ | 131,086 |
| Hotel | | 34,750 | | 34,750 | | 5,700 | | 34,750 | | 371 |
| Office | | 2,288 | | 2,288 | | 1,500 | | 27,556 | | 27 |
| Commercial | | 1,700 | | 1,700 | | 1,700 | | 1,700 | | 1,700 |
| Multifamily | | | | | | 880 | | 1,271 | | 22 |
| Total | \$ | 169,824 | \$ | 163,550 | \$ | 62,783 | \$ | 195,972 | \$ | 87 |
| | | | | | | | | | | 196,365 |
| | | | | | | | | | | 444 |

(1) Represents the UPB of four impaired loans (less unearned revenue and other holdbacks and adjustments) by asset class at both June 30, 2018 and December 31, 2017.

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

At June 30, 2018, two loans with an aggregate net carrying value of \$0.8 million, net of related loan loss reserves of \$1.7 million, were classified as non-performing. At December 31, 2017, two loans with an aggregate net carrying value of \$29.1 million, net of related loan loss reserves of \$7.4 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 (in thousands):

| Asset Class | Carrying Value | June 30, 2018 | | Carrying Value | December 31, 2017 | |
|-------------|----------------|-------------------------------|-------------------------------------|----------------|-------------------------------|-------------------------------------|
| | | Less Than 90 Days Past Due | Greater Than 90 Days Past Due | | Less Than 90 Days Past Due | Greater Than 90 Days Past Due |

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| | | | | | | | | | | |
|------------|----|-------|----|----|-------|--------|--------|----|----|--------|
| Commercial | \$ | 1,700 | \$ | \$ | 1,700 | \$ | 1,700 | \$ | \$ | 1,700 |
| Hotel | | | | | | 34,750 | | | | 34,750 |
| Office | | 831 | | | 831 | | | | | |
| Total | \$ | 2,531 | \$ | \$ | 2,531 | \$ | 36,450 | \$ | \$ | 36,450 |

At both June 30, 2018 and December 31, 2017, there were no loans contractually past due 90 days or more that were still accruing interest.

There were no loan modifications, refinancings and/or extensions during the six months ended June 30, 2018 that were considered troubled debt restructurings. During the six months ended June 30, 2017, there was a \$34.8 million loan to a hotel property that was modified and considered a troubled debt restructuring as a result of a forbearance agreement entered into with the borrower in the second quarter of 2017. This loan was subsequently classified as non-performing. This loan was modified to increase the total recovery of the combined principal and interest. There were no other loans in which we considered the modifications to be troubled debt restructurings and no additional loans considered to be impaired as a result of our troubled debt restructuring analysis performed during the six months ended June 30, 2018 and 2017.

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. At June 30, 2018, we had total interest reserves of \$47.6 million on 92 loans with an aggregate UPB of \$1.89 billion. At December 31, 2017, we had total interest reserves of \$52.5 million on 81 loans with an aggregate UPB of \$1.57 billion.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****June 30, 2018****Note 4 Loans Held-for-Sale, Net**

Loans held-for-sale, net consists of the following (in thousands):

| | June 30, 2018 | December 31, 2017 |
|--------------------------|----------------------|--------------------------|
| Fannie Mae | \$ 204,658 | \$ 243,717 |
| Freddie Mac | 102,357 | 47,545 |
| FHA | 1,119 | 987 |
| | 308,134 | 292,249 |
| Fair value of future MSR | 4,754 | 5,806 |
| Unearned discount | (1,401) | (612) |
| Loans held-for-sale, net | \$ 311,487 | \$ 297,443 |

Our loans held-for-sale, net are typically sold within 60 days of loan origination and the gain on sales are included in gain on sales, including fee-based services, net in the consolidated statements of income. During the three and six months ended June 30, 2018, we sold \$1.02 billion and \$2.08 billion, respectively, of loans held-for-sale and recorded gain on sales of \$14.8 million and \$32.2 million, respectively. 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. At June 30, 2018 and December 31, 2017, 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.

Note 5 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 12%) based on our best estimate of market discount rates. The weighted average estimated life remaining of our MSRs was 7.3 years and 7.2 years at June 30, 2018 and December 31, 2017, respectively.

A summary of our capitalized MSR activity is as follows (in thousands):

| | Three Months Ended June 30, 2018 | | | Six Months Ended June 30, 2018 | | |
|---------------------------------------|----------------------------------|------------|------------|--------------------------------|------------|------------|
| | Acquired | Originated | Total | Acquired | Originated | Total |
| Balance at beginning of period | \$ 131,934 | \$ 123,798 | \$ 255,732 | \$ 143,270 | \$ 109,338 | \$ 252,608 |
| Additions | | 18,493 | 18,493 | | 38,293 | 38,293 |
| Amortization | (7,517) | (4,420) | (11,937) | (15,512) | (8,290) | (23,802) |
| Write-downs and payoffs | (4,400) | (867) | (5,267) | (7,741) | (2,337) | (10,078) |
| Balance at end of period | \$ 120,017 | \$ 137,004 | \$ 257,021 | \$ 120,017 | \$ 137,004 | \$ 257,021 |

| | 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 | \$ 57,986 | \$ 238,931 | \$ 194,801 | \$ 32,942 | \$ 227,743 |
| Additions | | 19,083 | 19,083 | | 45,553 | 45,553 |
| Amortization | (9,660) | (2,168) | (11,828) | (20,122) | (3,594) | (23,716) |
| Write-downs and payoffs | (3,096) | (7) | (3,103) | (6,490) | (7) | (6,497) |
| Balance at end of period | \$ 168,189 | \$ 74,894 | \$ 243,083 | \$ 168,189 | \$ 74,894 | \$ 243,083 |

We collected prepayment fees of \$4.9 million and \$8.7 million during the three and six months ended June 30, 2018, respectively, which are included as a component of servicing revenue, net on the consolidated statements of income. During the three and six months ended June 30, 2017, we collected prepayment fees totaling \$2.1 million and \$4.1 million, respectively. As of June 30, 2018 and December 31, 2017, we had no valuation allowance recorded on any of our MSRs.

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The expected amortization of capitalized MSRs recorded as of June 30, 2018 is shown in the table below. Actual amortization may vary from these estimates (in thousands).

| Year | Amortization |
|-------------------------------------|---------------------|
| 2018 (six months ending 12/31/2018) | \$ 23,934 |
| 2019 | 45,327 |
| 2020 | 40,340 |
| 2021 | 33,259 |
| 2022 | 26,708 |
| 2023 | 22,303 |
| Thereafter | 65,150 |
| Total | \$ 257,021 |

Note 6 Mortgage Servicing

Product and geographic concentrations that impact our servicing revenue are as follows (\$ in thousands):

| June 30, 2018 | | | |
|-------------------------------|---------------|-------------------------|----------------------------------|
| Product Concentrations | | | Geographic Concentrations |
| Product | UPB | Percent of Total | State |
| Fannie Mae | \$ 12,794,277 | 75% | Texas |
| Freddie Mac | 3,730,980 | 22% | North Carolina |
| FHA | 585,017 | 3% | California |
| Total | \$ 17,110,274 | 100% | New York |
| | | | Georgia |
| | | | Florida |
| | | | Other (1) |
| | | | Total |

| December 31, 2017 | | | |
|-------------------------------|---------------|-------------------------|----------------------------------|
| Product Concentrations | | | Geographic Concentrations |
| Product | UPB | Percent of Total | State |
| Fannie Mae | \$ 12,502,699 | 77% | Texas |
| Freddie Mac | 3,166,134 | 20% | North Carolina |
| FHA | 537,482 | 3% | California |

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| | | | | | |
|-------|----|------------|------|-----------|------|
| Total | \$ | 16,206,315 | 100% | New York | 8% |
| | | | | Georgia | 6% |
| | | | | Florida | 6% |
| | | | | Other (1) | 40% |
| | | | | Total | 100% |

(1) No other individual state represented 4% or more of the total.

At June 30, 2018 and December 31, 2017, our weighted average servicing fee was 46.9 basis points and 47.7 basis points, respectively. We held cash in escrow for these loans totaling \$482.8 million and \$477.9 million at June 30, 2018 and December 31, 2017, respectively, which is not reflected in our consolidated balance sheets. These escrows are maintained in separate accounts at several federally insured depository institutions, which may exceed FDIC insured limits. We earn interest income on these escrow deposits, generally based on a market rate of interest negotiated with the financial institutions that hold the escrow deposits. Interest earned on escrows, net of interest paid to the borrower, was \$2.7 million and \$4.9 million during the three and six months ended June 30, 2018, respectively, and \$1.1 million and \$1.8 million during the three and six months ended June 30, 2017, respectively, and is a component of servicing revenue, net in the consolidated statements of income.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****June 30, 2018****Note 7 Securities Held-to-Maturity**

Freddie Mac may choose to hold, sell or securitize loans we sell to them under the Freddie Mac SBL program. As part of the securitizations under the SBL program, we have the option to purchase the bottom tranche bond, generally referred to as the B Piece, that represents the bottom 10%, or highest risk, of the securitization. During the six months ended June 30, 2018, we purchased two B Piece bonds with an initial face value of \$31.2 million, at a discount, for \$21.6 million. As of June 30, 2018, we retained 49%, or \$72.2 million initial face value, of five B Piece bonds, which were purchased at a discount for \$48.8 million, and sold the remaining 51% to a 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 3.63% and have an estimated weighted average maturity of 5.7 years. The weighted average effective interest rate was 11.42% and 12.97% at June 30, 2018 and December 31, 2017, respectively, including the accretion of discount. Approximately \$10.8 million is estimated to mature within one year, \$31.0 million is estimated to mature after one year through five years, \$20.4 million is estimated to mature after five years through ten years and \$9.2 million is estimated to mature after ten years.

The following is a summary of the held-to-maturity securities we held (in thousands):

| June 30, 2018 | | | | | |
|----------------------|-------------------|----|-----------------------|-----------------------------------|---------------------------------|
| | Face Value | | Carrying Value | Unrealized (Loss) Gain | Estimated Fair Value |
| B Piece bonds | \$ 71,222 | \$ | 50,342 | \$ (189) | \$ 50,153 |

| December 31, 2017 | | | | | |
|--------------------------|-----------|----|--------|--------|-----------|
| B Piece bonds | \$ 40,566 | \$ | 27,837 | \$ 602 | \$ 28,439 |

As of June 30, 2018, no impairment was recorded on these held-to-maturity securities. During the three and six months ended June 30, 2018, we recorded interest income of \$0.5 million and \$1.1 million, respectively, and, 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 these investments.

Note 8 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 (in thousands):

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| Equity Affiliates | Investments in Equity Affiliates at | | UPB of Loans to | |
|--------------------------------|-------------------------------------|-------------------|----------------------|---------------|
| | June 30, 2018 | December 31, 2017 | Equity Affiliates at | June 30, 2018 |
| Arbor Residential Investor LLC | \$ 19,631 | \$ 19,193 | \$ | |
| West Shore Café | 2,193 | 2,140 | | 1,688 |
| Lightstone Value Plus REIT L.P | 1,895 | 1,895 | | |
| JT Prime | 425 | 425 | | |
| East River Portfolio | | | | |
| Lexford Portfolio | | | | 280,500 |
| Total | \$ 24,144 | \$ 23,653 | \$ | 282,188 |

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June 30, 2018

Arbor Residential Investor LLC (ARI). During the three and six months ended June 30, 2018, we recorded income of \$0.7 million and \$0.8 million, respectively, and, during both the three and six months ended June 30, 2017, we recorded a loss of \$0.7 million to income (loss) from equity affiliates in our consolidated statements of income related to our investment in this residential mortgage banking business. In addition, during the first quarter of 2018, we made a \$2.4 million payment for our proportionate share of a litigation settlement related to this investment, which was distributed back to us by our equity affiliate.

During both the six months ended June 30, 2018 and 2017, we received cash distributions totaling \$0.4 million (which were classified as returns of capital) in connection with a joint venture that invests in non-qualified residential mortgages purchased from ARI's origination platform. During all periods presented, we recorded income of less than \$0.1 million to income (loss) from equity affiliates in our consolidated statements of income related to this investment.

Lexford Portfolio. During the three and six months ended June 30, 2018, we received distributions of \$0.6 million and \$1.2 million, respectively, and, during the three and six months ended June 30, 2017, we received distributions of \$0.6 million and \$1.3 million, respectively, from this equity investment, which was recognized as income. See Note 18 Agreements and Transactions with Related Parties for details.

Note 9 Real Estate Owned

Our real estate assets at both June 30, 2018 and December 31, 2017 were comprised of a hotel property and an office building.

Real Estate Owned

| (in thousands) | June 30, 2018 | | | December 31, 2017 | | |
|--------------------------------|-------------------|--------------------|----------|-------------------|--------------------|----------|
| | Hotel Property | Office Building | Total | Hotel Property | Office Building | Total |
| Land | \$ 3,294 | \$ 4,509 | \$ 7,803 | \$ 3,294 | \$ 4,509 | \$ 7,803 |
| Building and intangible assets | 30,918 | 2,010 | 32,928 | 30,699 | 2,010 | 32,709 |
| <u>Less: Impairment loss</u> | (13,307) | (2,500) | (15,807) | (13,307) | (500) | (13,807) |
| | (9,505) | (769) | (10,274) | (9,228) | (690) | (9,918) |

Less: Accumulated
depreciation and
amortization

| | | | | | | | | | | | | |
|------------------------|----|--------|----|-------|----|--------|----|--------|----|-------|----|--------|
| Real estate owned, net | \$ | 11,400 | \$ | 3,250 | \$ | 14,650 | \$ | 11,458 | \$ | 5,329 | \$ | 16,787 |
|------------------------|----|--------|----|-------|----|--------|----|--------|----|-------|----|--------|

For the six months ended June 30, 2018 and 2017, our hotel property had a weighted average occupancy rate of 58% and 57%, respectively, a weighted average daily rate of \$116 and \$117, respectively, and weighted average revenue per available room of \$67 for both periods. The operation of a hotel property is seasonal with the majority of revenues earned in the first two quarters of the calendar year. Of the total impairment losses recorded on our hotel property of \$13.3 million, \$1.5 million and \$2.7 million were recorded during the three and six months ended June 30, 2017, respectively.

Our office building was fully occupied by a single tenant until April 2017 when the lease expired. The building is currently vacant. During the three months ended June 30, 2018, based on discussions with market participants, we determined that the office building exhibited indicators of impairment and performed an impairment analysis. As a result of this impairment analysis, we recorded an impairment loss of \$2.0 million.

Our real estate owned assets had restricted cash balances totaling \$0.8 million and \$0.7 million at June 30, 2018 and December 31, 2017, respectively, due to escrow requirements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****June 30, 2018****Note 10 Debt Obligations***Credit Facilities and Repurchase Agreements*

The following table outlines borrowings under our credit facilities and repurchase agreements (\$ in thousands):

| | June 30, 2018 | | | | | December 31, 2017 | | | | |
|-----------------------------------|------------------|-------------------|--------------------|-------------------------|---------------------------|---------------------|-------------------------|---------------------------|---------------------|-------|
| | 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 | |
| <u>Structured Business</u> | | | | | | | | | | |
| | | | | | | | | | | |
| \$375 million repurchase facility | Mar. 2020 | Mar. 2021 | L + 1.75% to 3.50% | \$ 258,712 | \$ 354,500 | 4.39% | \$ 102,350 | \$ 145,850 | | 3.90% |
| \$100 million repurchase facility | June 2019 | June 2020 | L + 1.75% to 2.00% | 79,764 | 111,317 | 3.92% | 2,445 | 6,600 | | 3.61% |
| \$75 million credit facility | Dec. 2018 | N/A | L + 1.75% to 2.50% | 24,901 | 36,799 | 3.89% | | | | |
| \$75 million credit facility | June 2019 | N/A | L + 2.00% | 2,894 | 4,700 | 4.15% | 8,999 | 16,000 | | 3.61% |
| \$50 million credit facility | Feb. 2019 | N/A | L + 2.00% | 28,555 | 35,700 | 4.15% | 32,538 | 40,700 | | 3.61% |
| \$50 million credit facility | Sept. 2019 | Sept. 2021 | L + 2.50% to 3.25% | | | | 3,581 | 4,625 | | 4.88% |