

ARBOR REALTY TRUST INC
Form 10-K
February 13, 2015

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-K

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

For the fiscal year ended December 31, 2014

or

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

**For the transition period from to
Commission file number: 001-32136**

Arbor Realty Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation)

20-0057959
(I.R.S. Employer
Identification No.)

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

11553
(Zip Code)

(516) 506-4200

(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	New York Stock Exchange
Preferred Stock, 8.25% Series A Cumulative Redeemable, par value \$0.01 per share	New York Stock Exchange
Preferred Stock, 7.75% Series B Cumulative Redeemable, par value \$0.01 per share	New York Stock Exchange
Preferred Stock, 8.50% Series C Cumulative Redeemable, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

The aggregate market value of the registrant's common stock, all of which is voting, held by non-affiliates of the registrant as of June 30, 2014 (computed based on the closing price on such date as reported on the NYSE) was \$298.0 million. As of February 13, 2015, the registrant had 50,477,308 shares of common stock outstanding (excluding 2,650,767 shares held in treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant's 2015 Annual Meeting of Stockholders (the "2015 Proxy Statement"), to be filed within 120 days after the end of the registrant's fiscal year ended December 31, 2014 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORWARD LOOKING STATEMENTS

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "seek," "anticipate," "estimate," "believe," "could," "project," "predict," "continue" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically; adverse changes in the financing markets we access affecting our ability to finance our loan and investment portfolio; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; legislative/regulatory changes; the availability and cost of capital for future investments; competition; and other risks detailed from time to time in our reports filed with the Securities and Exchange Commission ("SEC"). Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect management's views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Significant Accounting Estimates and Critical Accounting Policies" under Item 7 of this report.

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

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PART I

ITEM 1. BUSINESS

In this Annual Report on Form 10-K we refer to Arbor Realty Trust, Inc. and subsidiaries as "we," "us," "the Company," or "our" unless we specifically state otherwise or the context indicates otherwise.

Overview

Arbor Realty Trust, Inc., a Maryland corporation formed in June 2003, is a specialized real estate finance company that invests in a diversified portfolio of structured finance assets in the multifamily and commercial real estate markets. We invest primarily in real estate-related 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. Our principal business objective is to maximize the difference between the yield on our investments and the cost of financing these investments to generate cash available for distribution, facilitate capital appreciation and maximize total return to our stockholders.

We commenced operations in July 2003 and conduct substantially all of our operations and investing activities through our operating partnership, Arbor Realty Limited Partnership, and its subsidiaries. We serve as the general partner of our operating partnership, and own a 100% partnership interest in our operating partnership as of December 31, 2014.

We are organized to qualify as a real estate investment trust ("REIT") for federal income tax purposes. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income that is distributed to its stockholders, provided that at least 90% of taxable income is distributed and provided that certain other requirements are met. Certain of our assets that produce non-qualifying income are held in taxable REIT subsidiaries. Unlike other subsidiaries of a REIT, the income of a taxable REIT subsidiary is subject to federal and state income taxes.

We are externally managed and advised by Arbor Commercial Mortgage, LLC ("Manager"), a national commercial real estate finance company that specializes in debt and equity financing for multifamily and commercial real estate, pursuant to the terms of a management agreement described below. Our Manager provides us with all of the services vital to our operations other than asset management, securitization and certain credit functions, and certain of our executive officers and other staff are employed by our Manager pursuant to the management agreement. The management agreement requires our Manager to manage our business affairs in conformity with policies and investment guidelines that are approved and monitored by our Board of Directors.

We believe our Manager's experience and reputation positions it to originate attractive investment opportunities for us. Our management agreement with our Manager was developed to capitalize on synergies with our Manager's origination infrastructure, existing business relationships and management expertise. Our Manager has granted us a right of first refusal to pursue all structured finance investment opportunities in the multifamily or commercial real estate markets that are identified by our Manager or its affiliates. Our Manager continues to originate and service multifamily and commercial mortgage loans under Fannie Mae, Freddie Mac (beginning in 2014), Federal Housing Administration and conduit commercial lending programs. We believe that the customer relationships established from these lines of business may generate additional real estate investment opportunities for our business.

Our Investment Strategy

We invest in bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity, mortgage-backed securities and other real estate-related assets predominantly in the multifamily and commercial real estate markets and actively manage our investment portfolio. We believe the financing of multifamily and commercial real estate offers

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opportunities that demand customized financing solutions. We believe we can achieve our primary business objectives through the following investment strategies:

Provide Customized Financing. We provide financing customized to the needs of our borrowers. We target borrowers who have demonstrated a history of enhancing the value of the properties they operate, but whose options may be limited by conventional bank financing and who may benefit from the sophisticated structured finance products we offer.

Execute Transactions Rapidly. We act quickly and decisively on proposals, provide commitments and close transactions within a few weeks and sometimes days, if required. We believe that rapid execution attracts opportunities from both borrowers and other lenders that would not otherwise be available. We believe our ability to structure flexible terms and close loans in a timely manner gives us a competitive advantage.

Manage Credit Quality. A critical component of our strategy is our ability to manage the real estate risk that is underwritten by our Manager and us. We actively manage the credit quality of our portfolio by using the expertise of our asset management group, which has a proven track record of structuring and repositioning structured finance investments to improve credit quality and yield.

Use Our Manager's Relationships with Existing Borrowers. We capitalize on our Manager's reputation in the commercial real estate finance industry. Our Manager has relationships with a large borrower base nationwide. Since our Manager's originators offer senior mortgage loans as well as our structured finance products, we are able to benefit from its existing customer base and use its senior lending business as a potential refinance vehicle for our structured finance assets.

Offer Broader Products and Expand Customer Base. We have the ability to offer a larger number of financing alternatives than our Manager has been able to offer to its customers in the past. Our potential borrowers are able to choose from products offering various lengths of maturity, rate types and larger principal amounts than our Manager could offer.

Leverage the Experience of Executive Officers, Our Manager and Our Employees. Our executive officers and employees, and those of our Manager, have extensive experience originating and managing structured commercial real estate investments. Our senior management team has, on average, over 20 years of experience in the financial services industry.

Our Targeted Investments

We pursue lending and investment opportunities with property owners and developers who need interim financing until permanent financing can be obtained. We primarily target transactions where we believe we have competitive advantages, particularly our lower cost structure and in-house underwriting capabilities. Our structured finance investments generally have maturities of two to five years depending on type, have extension options when appropriate, and generally require a balloon payment of principal at maturity. Borrowers in the market for these types of loans include, but are not limited to, owners or developers seeking either to acquire or refurbish real estate or to pay down debt and reposition a property for permanent financing.

Our investment program emphasizes the following general categories of real estate-related activities:

Bridge Financing. We offer bridge financing products to borrowers who are typically seeking short-term capital to be used in an acquisition of property. The borrower has usually identified an undervalued asset that has been under managed and/or is located in a recovering market. From the borrower's perspective, shorter term bridge financing is advantageous because it allows for time to

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improve the property value through repositioning the property without encumbering it with restrictive long-term debt that may not reflect optimal leverage for a non-stabilized property.

The bridge loans we currently make typically range in size from \$5 million to \$30 million, have terms of up to five years, and are predominantly secured by first mortgage liens on the property. At December 31, 2014 our target interest rate range is generally 5% to 6% over 30-day LIBOR. Additional yield enhancements may include origination fees, deferred interest, yield look-backs, and participating interests, which are equity interests in the borrower that share in a percentage of the underlying cash flows of the property. Borrowers generally use the proceeds of a conventional mortgage to repay a bridge loan.

Mezzanine Financing. We offer mezzanine financing in the form of loans that are subordinate to a conventional first mortgage loan and senior to the borrower's equity in a transaction. Mezzanine financing may take the form of loans secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property. We may also require additional security such as personal guarantees, letters of credit and/or additional collateral unrelated to the property.

The mezzanine loans we currently make typically range in size from \$1 million to \$10 million and have terms of up to ten years. At December 31, 2014 our target interest rate is generally 12% to 14%. As in the case with our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests. We hold a majority of our mezzanine loans through subsidiaries of our operating partnership that are pass-through entities for tax purposes.

Junior Participation Financing. We offer junior participation financing in the form of a junior participating interest in the senior debt. Junior participation financings have the same obligations, collateral and borrower as the senior debt. The junior participation interest is subordinated to the senior debt by virtue of a contractual agreement between the senior debt lender and the junior participating interest lender.

The junior participation loans we currently make typically range in size from \$1 million to \$10 million and have terms of up to ten years. At December 31, 2014 our target interest rate is generally 12% to 14%. As in the case with our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests.

Preferred Equity Investments. We provide financing by making preferred equity investments in entities that directly or indirectly own real property. In cases where the terms of a first mortgage prohibit additional liens on the ownership entity, investments structured as preferred equity in the entity owning the property serve as viable financing substitutes. With preferred equity investments, we typically become a member in the ownership entity.

The preferred equity investments we currently make typically range in size from \$1 million to \$10 million and have terms up to ten years. At December 31, 2014 our target return is generally 12% to 14%.

Other Investment Opportunities

Real Property. We have, and may in the future, obtain real estate by foreclosure or through partial or full settlement of mortgage debt related to our loans. Our management team may identify such assets and initiate an asset-specific plan to maximize the value of the collateral, which can include appointing a third party property manager, completing the construction or renovation of the property, leasing or increasing the occupancy of the property, or selling the entire asset or a partial interest to a third party. As such, these transactions may require the use of additional capital prior to the

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completion of the specific plan. Additionally, we may identify real estate investment opportunities such as domestic real estate for repositioning and/or renovation and then disposition at an anticipated significant return. In these situations, we may act solely on our own behalf or in partnership with other investors. Typically, these transactions are analyzed with the expectation that we will have the ability to sell the property within a one to three year time period, achieving a significant return on invested capital. In connection with these transactions, speed of execution is often the most critical component to success. We may seek to finance a portion of the acquisition price through short-term financing, if available. Repayment of the short-term financing will either come from the sale of the property or conventional permanent debt.

Note Acquisitions. We may acquire real estate notes from lenders in situations where the borrower wishes to restructure and reposition its short-term debt and the lender wishes, for a variety of reasons (such as risk mitigation, portfolio diversification or other strategic reasons), to divest certain assets from its portfolio. These notes may be acquired at a discount. In such cases, we intend to use our management resources to resolve any disputes concerning the note or the property securing it and to identify and resolve any existing operational or any other problems at the property. We will then either restructure the debt obligation for immediate resale or sale at a later date, or reposition it for permanent financing. In some instances, we may take title to the property underlying the real estate note.

Equity Securities. We have, and may in the future, invest in equity securities such as the common stock of a company. Investments in these securities have the risk of stock market fluctuations which may result in the loss of our principal investment.

Residential Mortgage-Backed Securities. We have, and may in the future, invest in residential mortgage-backed securities ("RMBS"). These securities may be purchased at a premium or discount to their face value, which is amortized or accreted into interest income on an effective yield adjusted for actual prepayment activity over the expected remaining life of the related security as a yield adjustment. These securities may have underlying credit ratings assigned by the three leading nationally recognized rating agencies (Moody's Investor Service, Standard & Poor's and Fitch Ratings) and are generally not insured or otherwise guaranteed.

Commercial Real Estate Collateralized Debt Obligation Bonds. We have, and may in the future, invest in securities such as commercial real estate collateralized debt obligation ("CDO") bonds. These certificates are usually purchased at a discount to their face value, which is accreted into interest income, if deemed to be collectable, on an effective yield adjusted for actual prepayment activity over the expected remaining life of the related security as a yield adjustment. These securities may have underlying credit ratings assigned by the three leading nationally recognized rating agencies and are generally not insured or otherwise guaranteed.

Commercial Mortgage-Backed Securities. We have, and may in the future, invest in commercial mortgage-backed securities ("CMBS"). These securities are usually purchased at a discount to their face value which is accreted into interest income, if deemed to be collectable, on an effective yield adjusted for actual prepayment activity over the expected remaining life of the related security as a yield adjustment. These securities may have underlying credit ratings assigned by the three leading nationally recognized rating agencies and are generally not insured or otherwise guaranteed.

Our Structured Finance Investments

We own a diversified portfolio of structured finance investments consisting primarily of real estate-related bridge and mezzanine loans, junior participation interests in first mortgages and preferred equity investments.

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At December 31, 2014, we had 139 loans and investments in our portfolio, totaling \$1.6 billion. We have an allowance for loan losses of \$115.5 million at December 31, 2014 related to 10 loans in our portfolio with an aggregate carrying value, before loan loss reserves, of \$221.6 million. The loan loss reserves were determined during our quarterly risk rating review process, which is based on several factors including current market conditions, values and the operating status of these properties. We continue to actively manage all loans and investments in the portfolio in a manner consistent with our underwriting and asset management policy and procedures with the goal of maintaining the credit quality of our portfolio and limiting potential losses.

The overall yield on our loan and investments portfolio in 2014 was 6.47% on average assets of \$1.6 billion. This yield was computed by dividing the interest income earned during the year by the average assets during the year. Our cost of funds in 2014 was 3.99% on average borrowings of \$1.2 billion. This cost of funds was computed by dividing the interest expense incurred during the year by the average borrowings during the year.

Our average net investment (average assets less average borrowings) in 2014 was \$443.1 million, resulting in average leverage (average borrowings divided by average assets) of 73.0%. Including average junior subordinated notes of \$175.9 million as equity, our average leverage was 62.4%. The net interest income earned in 2014 yielded a 13.2% return on our average net investment during the year. This yield was computed by dividing net interest (interest income less interest expense) earned in 2014 by average equity (computed as average assets minus average borrowings) invested during the year.

Our business plan contemplates that our leverage ratio, including our junior subordinated notes as equity, will be approximately 70% to 80% of our assets in the aggregate. However, including our junior subordinated notes as equity, our leverage is generally not to exceed 80% of the value of our portfolio assets, before loan loss reserves, when considering additional financing sources unless approval to exceed the 80% limit is obtained from our Board of Directors. See "Operating Policies and Strategies" below for further details.

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The following table sets forth information regarding our loan and investment portfolio as of December 31, 2014:

Type	Asset Class	Number	Unpaid Principal (in thousands)	Weighted Average Pay Rate(1)	Weighted Average Remaining Maturity (months)
Bridge Loans	Multi Family	84	\$ 980,928	5.58%	18.7
	Office	7	146,976	6.10%	19.5
	Land	9	114,035	0.16%	31.2
	Hotel	1	31,500	7.50%	14.0
			101	1,273,439	5.19%
Mezzanine Loans	Multi Family	14	54,482	11.40%	39.5
	Office	1	9,419	9.39%	3.0
	Land	1	9,333		32.0
	Retail	1	3,158	12.00%	113.0
			17	76,392	9.78%
Junior Participations	Office	3	72,092	6.67%	17.7
	Multi Family	1	32,000		
		4	104,092	4.62%	12.3
Preferred Equity	Multi Family	13	90,052	6.86%	42.8
	Hotel	1	34,750	2.96%	55.0
	Land	1	5,000	11.00%	6.0
	Office	1	2,004	15.00%	113.0
	Commercial	1	1,700	6.00%	31.0
		17	133,506	6.11%	45.5
Total		139	\$ 1,587,429	5.45%	22.3

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

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The following table sets forth geographic and asset class information regarding our loan and investment portfolio as of December 31, 2014:

Geographic Location	Unpaid Principal (in thousands)	Percentage	Asset Class	Unpaid Principal (in thousands)	Percentage
New York	\$ 442,175	27.9%	Multi Family	\$ 1,157,462	72.9%
Florida	226,942	14.3%	Office	230,491	14.5%
Texas	153,080	9.6%	Land	128,368	8.1%
Maryland	145,245	9.1%	Hotel	66,250	4.2%
California	135,187	8.5%	Retail	3,158	0.2%
North Carolina	58,755	3.7%	Commercial	1,700	0.1%
Georgia	49,010	3.1%			
Illinois	34,750	2.2%			
Alabama	34,536	2.2%			
Tennessee	33,861	2.1%			
Ohio	33,300	2.1%			
Missouri	32,007	2.0%			
Kentucky	31,100	2.0%			
Diversified	66,809	4.2%			
Other(1)	110,672	7.0%			
Total	\$ 1,587,429	100.0%	Total	\$ 1,587,429	100.0%

(1) No other individual state makes up more than 2% of the total.

Regulatory Aspects of Our Investment Strategy

Real Estate Exemption from Investment Company Act. We believe that we conduct, and we intend to conduct, our business at all times in a manner that avoids registration as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. Entities that are primarily engaged in the business of purchasing or otherwise acquiring "mortgages and other liens on and interests in real estate," are currently exempt from registration under the Investment Company Act if they maintain at least 55% of their assets directly in qualifying real estate assets and meet certain other requirements. Assets that qualify for purposes of this 55% test include, among other things, direct investments in real estate and mortgage loans. Our bridge loans, which are secured by first mortgage liens on the underlying properties, and our loans that are secured by second mortgage liens on the underlying properties generally qualify for purposes of this 55% test. These two types of loans constituted more than 55% of our assets as of December 31, 2014. Our investment guidelines provide that no more than 15% of our assets may consist of any type of mortgage-related securities and that the percentage of our investments in mortgage-related securities as compared to our structured finance investments be monitored on a regular basis. The regulatory authorities may from time to time review the interpretive guidance under the above exemption. Refer to Item 1A "Risk Factors Risks Related to Our Business" for more information.

Investment Advisors Act. Our Manager is required to register under the Investment Advisors Act of 1940, or the Investment Advisors Act, and is thereby subject to the regulation prescribed by the statute. In addition, our subsidiary, Arbor Realty Collateral Management, LLC, the collateral manager for our CDOs and collateralized loan obligations ("CLOs"), is also registered under this Act.

Management Agreement

Pursuant to the terms of the management agreement, our Manager has agreed to service and manage our investments and to provide us with multifamily and commercial real estate-related

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structured finance investment opportunities, finance and other services necessary to operate our business. Our Manager is required to provide a dedicated management team to provide these services to us, the members of which will devote as much of their time to our management as our independent directors reasonably deem necessary and appropriate, commensurate with our level of activity from time to time. We rely to a significant extent on the facilities and resources of our Manager to conduct our operations. For performing services under the management agreement, our Manager is eligible to receive a base management fee, incentive compensation and "success-based" compensation as described in Note 14 "Agreements and Transactions with Related Parties" of this report.

Operations

Our Manager's Investment Services. Under the management agreement, our Manager is responsible for sourcing originations, providing underwriting services and processing approvals for all loans and other investments in our portfolio. Our Manager also provides us with certain administrative loan servicing functions. We are able to capitalize on our Manager's well established operations and services in each area described below.

Origination. Our Manager originates most of our investments. Our Manager has a network of sales offices in Los Angeles and San Francisco, CA; Baltimore, MD; Boston, MA; Bloomfield Hills, MI; New York and Uniondale, NY; Englewood Cliffs, NJ; Cleveland, OH; and Dallas and Plano, TX. These offices are staffed by approximately 20 loan originators who solicit property owners, developers and mortgage loan brokers. In some instances, the originators accept loan applications meeting our underwriting criteria from a select group of mortgage loan brokers. While a large portion of our Manager's marketing effort occurs at the branch level, our Manager also markets its products in national industry publications and targeted direct mailings. Our Manager markets its own loan offerings and our product offerings using the same methods. Once potential borrowers have been identified, our Manager determines which financing products best meet the borrower's needs. Loan originators in every branch office are able to offer borrowers the full array of our Manager's loan offerings and our structured finance products. After identifying a suitable product, our Manager works with the borrower to prepare a loan application. Upon completion by the borrower, the application is forwarded to our Manager's underwriters for due diligence.

Underwriting. Our Manager's underwriters perform due diligence on all proposed transactions prior to loan approval and commitment. The underwriters analyze each loan application in accordance with the guidelines set forth below in order to determine the loan's conformity with respect to such guidelines. In general, our Manager's underwriting guidelines require it to evaluate the following: the historic and current property revenues and expenses; the potential for near-term revenue growth and opportunity for expense reduction and increased operating efficiencies; the property's location, its attributes and competitive position within its market; the proposed ownership structure, financial strength and real estate experience of the borrower and property management; third party appraisal, environmental and engineering studies; market assessment, including property inspection, review of tenant lease files, surveys of property comparables and an analysis of area economic and demographic trends; review of an acceptable mortgagee's title policy and an "as built" survey; construction quality of the property to determine future maintenance and capital expenditure requirements; and the requirements for any reserves, including those for immediate repairs or rehabilitation, replacement reserves, tenant improvement and leasing commission costs, real estate taxes and property casualty and liability insurance. Key factors considered in credit decisions include, but are not limited to, debt service coverage, loan to value ratios and property, financial and operating performance. Consideration is also given to other factors, such as the experience and financial strength of the borrower's principals, additional forms of security and identifying likely strategies to affect repayment. Our Manager continuously refines its underwriting criteria based upon actual loan portfolio experience and as market conditions and investor requirements evolve.

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Investment Approval Process. Our Manager applies its established investment approval process to all loans and other investments proposed for our portfolio before submitting each proposal to us for final approval. A written report is generated for every loan or other investment that is submitted to our Manager's credit committee for approval. The report includes a description of the prospective borrower and any guarantors, the collateral and the proposed use of investment proceeds, as well as borrower and property consolidated financial statements and analysis. In addition, the report includes an analysis of borrower liquidity, net worth, cash investment, income, credit history and operating experience. If the transaction is approved by a majority of our Manager's credit committee, it is presented for approval to our credit committee, which consists of our chief executive officer, chief credit officer, and executive vice president of structured finance. All transactions require the approval of a majority of the members of our credit committee. Following the approval of any such transaction, our Manager's underwriting and servicing departments, together with our asset management group, assure that all loan approval terms have been satisfied and conform with lending requirements established for that particular transaction. If our credit committee rejects the loan and our independent directors allow our Manager or one of its affiliates to pursue it, our Manager will have the opportunity to execute the transaction.

Servicing. Our Manager services our loans and investments through its internal servicing operations. Our Manager currently services an expanding portfolio, consisting of 2,314 loans with outstanding balances of approximately \$11.1 billion through its loan administration department in Buffalo, New York. Our Manager's loan servicing operations are designed to provide prompt customer service and accurate and timely information for account follow up, financial reporting and management review. Following the funding of an approved loan, all pertinent loan data is entered into our Manager's data processing system, which provides monthly billing statements, tracks payment performance and processes contractual interest rate adjustments on variable rate loans. Our Manager works closely with our asset management group to ensure the appropriate level of customer service and monitoring of our loans.

Our Asset Management Operations. Our asset management group is comprised of 30 employees. Effective asset and portfolio management is essential to maximize the performance and value of a real estate investment. The asset management group customizes an asset management plan with the loan originators and underwriters to track each investment from origination through disposition. This group monitors each investment's operating history, local economic trends and rental and occupancy rates and evaluates the underlying property's competitiveness within its market. This group assesses ongoing and potential operational and financial performance of each investment in order to evaluate and ultimately improve its operations and financial viability. The asset management group performs frequent onsite inspections, conducts meetings with borrowers and evaluates and participates in the budgeting process, financial and operational review and renovation plans of each underlying property. The asset management group also focuses on increasing the productivity of onsite property managers and leasing brokers. This group communicates the status of each transaction against its established asset management plan to senior management, in order to enhance and preserve capital, as well as to avoid litigation and potential exposure.

Timely and accurate identification of an investment's operational and financial issues and each borrower's objectives is essential to implementing an executable loan workout and restructuring process, if required. Since existing property management may not have the requisite expertise to manage the workout process effectively, our internal asset management group determines the current operating and financial status of an asset or portfolio and performs a liquidity analysis of the property and ownership entity and then, if appropriate, identifies and evaluates alternatives in order to maximize the value of an investment.

Our asset management group continues to provide its services to our Manager on a limited basis pursuant to the management agreement. In the event the services provided by our asset management

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group, pursuant to this agreement, exceed more than 15% of the group's cost per quarter, the level anticipated by our Board of Directors, we will negotiate in good faith with our Manager to adjust the base management fee under the management agreement and/or to reduce the time required to be devoted by our asset management group.

Operating Policies and Strategies

Investment Guidelines. Our Board of Directors has adopted general guidelines for our investments and borrowings to the effect that: (1) no investment will be made that would cause us to fail to qualify as a REIT; (2) no investment will be made that would cause us to be regulated as an investment company under the Investment Company Act; (3) no more than 25% of our equity (including junior subordinated notes as equity), determined as of the date of such investment, will be invested in any single asset; (4) no single mezzanine loan or preferred equity investment will exceed \$75 million; (5) our leverage (including junior subordinated notes as equity) will generally not exceed 80% of the unpaid principal balance of our assets, in the aggregate; (6) we will not co-invest with our Manager or any of its affiliates unless such co-investment is otherwise in accordance with these guidelines and its terms are at least as favorable to us as to our Manager or the affiliate making such co-investment; and (7) no more than 15% of our gross assets may consist of mortgage-related securities. Any exceptions to the above general guidelines require the approval of our Board of Directors.

Financing Policies. We finance the acquisition of our structured finance investments primarily by borrowing against or "leveraging" our existing portfolio and using the proceeds to acquire additional mortgage assets. We expect to incur debt such that we will maintain an equity to assets ratio no less than 20% (including junior subordinated notes as equity), although the actual ratio may be lower from time to time depending on market conditions and other factors deemed relevant by our Manager. Our charter and bylaws do not limit the amount of indebtedness we can incur, and the Board of Directors has discretion to deviate from or change our indebtedness policy at any time, provided that we are in compliance with our bank covenants. However, we intend to maintain an adequate capital base to protect against various business environments in which our financing and hedging costs might exceed the interest income from our investments.

Our investments are financed primarily by CDOs, CLOs, junior subordinated notes, senior unsecured notes, and through other financing facilities with institutional lenders. Although we expect that these will be the principal means of leveraging our investments, we may issue common stock, preferred stock or secured or unsecured notes of any maturity if it appears advantageous to do so.

Credit Risk Management Policy. We are exposed to various levels of credit risk depending on the nature of our underlying assets and the nature and level of credit enhancements supporting our assets. We originate or purchase mortgage loans that meet our minimum debt service coverage standards. Our Manager, our chief credit officer, and our asset management group, reviews and monitors credit risk and other risks of loss associated with each investment. In addition, our Manager seeks to diversify our portfolio of assets to avoid undue geographic, issuer, industry and certain other types of concentrations. Our Board of Directors monitors the overall portfolio risk and reviews levels of provision for loss.

Interest Rate Risk Management Policy. To the extent that it is consistent with our election to qualify as a REIT, we generally follow an interest rate risk management policy intended to mitigate the negative effects of major interest rate changes. We minimize our interest rate risk from borrowings by attempting to structure the key terms of our borrowings to generally correspond to the interest rate terms of our assets.

We may enter into hedging transactions to protect our investment portfolio from interest rate fluctuations and other changes in market conditions. These transactions may include interest rate

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swaps, the purchase or sale of interest rate collars, caps or floors, options, mortgage derivatives and other hedging instruments. These instruments may be used to hedge as much of the interest rate risk as our Manager determines is in the best interest of our stockholders, given the cost of such hedges and the need to maintain our status as a REIT. In general, income from hedging transactions does not constitute qualifying income for purposes of the REIT gross income requirements. To the extent, however, that a hedging contract reduces interest rate risk on indebtedness incurred to acquire or carry real estate assets, any income that is derived from the hedging contract, would not give rise to non-qualifying income for purposes of the 75% or 95% gross income tests. Our Manager may elect to have us bear a level of interest rate risk that could otherwise be hedged when it believes, based on all relevant facts, that bearing such risk is advisable.

To date, we have entered into various interest rate swaps in connection with the issuance of floating rate secured notes, the issuance of variable rate junior subordinated notes and to hedge the interest risk on forecasted outstanding LIBOR based debt. The notional amount of each interest rate swap agreement and the related terms have been designed to protect our investment portfolio from interest rate risk and to match the payment and receipts of interest on the underlying debt instruments, where applicable.

Disposition Policies. Our Manager evaluates our asset portfolio on a regular basis to determine if it continues to satisfy our investment criteria. Subject to certain restrictions applicable to REITs, our Manager may cause us to sell our investments opportunistically and use the proceeds for debt reduction, additional acquisitions, or working capital purposes.

Equity Capital Policies. Subject to applicable law, our Board of Directors has the authority, without further stockholder approval, to issue additional authorized common stock and preferred stock or otherwise raise capital, including through the issuance of senior securities, in any manner and on the terms and for the consideration it deems appropriate, including in exchange for property. We may in the future issue common stock in connection with acquisitions. We also may issue units of partnership interest in our operating partnership in connection with acquisitions of property. We may, under certain circumstances, repurchase our common stock in private transactions with our stockholders, if those purchases are approved by our Board of Directors.

Conflicts of Interest Policies. We, our executive officers, and our Manager face conflicts of interests because of our relationships with each other. Our Manager has approximately 11% of the voting interest in our common stock as of December 31, 2014. Mr. Kaufman, our chairman and chief executive officer, is the chief executive officer of our Manager and beneficially owns approximately 92% of the outstanding membership interests of our Manager. Mr. Martello, one of our directors, is the chief operating officer of Arbor Management, LLC (the managing member of our Manager) and a trustee of two trusts that own minority membership interests in our Manager. Mr. Bishar, our secretary, is general counsel to our Manager. Mr. Elenio, our chief financial officer and treasurer, is the chief financial officer of our Manager. Each of Messrs. Kaufman, Martello, Bishar, and Elenio, as well as Mr. Weber, our executive vice president of structured finance, Mr. Kilgore, our executive vice president of structured securitization and Mr. Guzewicz, our chief credit officer, are members of our Manager's executive committee and, excluding Mr. Kaufman, own minority membership interests in our Manager.

We have implemented several policies, through board action and through the terms of our charter and our agreements with our Manager, to help address these conflicts of interest, including the following:

Our charter requires that a majority of our Board of Directors be independent directors and that only our independent directors make any determination on our behalf with respect to the relationships or transactions that present a conflict of interest for our directors or officers.

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Our Board of Directors adopted a policy that decisions concerning our management agreement with our Manager, including termination, renewal and enforcement thereof or our participation in any transactions with our Manager or its affiliates outside of the management agreement, including our ability to purchase securities and mortgages or other assets from our Manager, or our ability to sell securities and assets to our Manager, must be reviewed and approved by a majority of our independent directors.

Our management agreement provides that our determination to terminate the management agreement for cause, because the management fees are unfair to us, or because of a change in control of our Manager, will be made by a majority vote of our independent directors.

Our independent directors will periodically review the general investment standards established by our Manager under the management agreement.

Our management agreement provides that our Manager may not assign duties under the management agreement, except to certain affiliates of our Manager, without the approval of a majority of our independent directors.

Our management agreement provides that decisions to approve or reject investment opportunities rejected by our credit committee that our Manager or Mr. Kaufman wish to pursue will be made by a majority of our independent directors.

Our Board of Directors has approved the operating policies and the strategies set forth above. Our Board of Directors has the power to modify or waive these policies and strategies, or amend our agreements with our Manager, without the consent of our stockholders to the extent that the Board of Directors determines that such modification or waiver is in the best interest of our stockholders. Among other factors, developments in the market that either affect the policies and strategies mentioned herein or that change our assessment of the market may cause our Board of Directors to revise its policies and strategies. However, if such modification or waiver involves the relationship of, or a transaction between us, and our Manager, the approval of a majority of our independent directors is also required. We may not, however, amend our charter to change the requirement that a majority of our board consists of independent directors or the requirement that our independent directors approve related party transactions without the approval of two thirds of the votes entitled to be cast by our stockholders.

Compliance with Federal, State and Local Environmental Laws

Properties that we may acquire directly or indirectly through partnerships, and the properties underlying our structured finance investments and mortgage-related securities, are subject to various federal, state and local environmental laws, ordinances and regulations. Under these laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that acquires ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances or petroleum product releases at, on, under or in its property. These laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of the hazardous or toxic substances. The costs of investigation, remediation or removal of these substances may be substantial and could exceed the value of the property. An owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to materials containing asbestos. These laws allow third parties to seek recovery from owners of real properties for personal injuries associated with materials containing asbestos. Our operating costs and the values of these assets may be adversely affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation, and our income and ability to make

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distributions to our stockholders could be affected adversely by the existence of an environmental liability with respect to properties we may acquire. We will endeavor to ensure that these properties are in compliance in all material respects with all federal, state and local laws, ordinances and regulations regarding hazardous or toxic substances or petroleum products.

Competition

Our net income depends, in large part, on our Manager's ability to originate structured finance investments with spreads over our borrowing costs. In originating these investments, our Manager competes with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities, some of which may have greater financial resources and lower costs of capital available to them. In addition, there are numerous mortgage REITs with asset acquisition objectives similar to ours, and others may be organized in the future. The existence of additional REITs may increase competition for the available supply of structured finance assets suitable for purchase by us. Competitive variables include market presence and visibility, size of loans offered and underwriting standards. To the extent that a competitor is willing to risk larger amounts of capital in a particular transaction or to employ more liberal underwriting standards when evaluating potential loans, our origination volume and profit margins for our investment portfolio could be impacted. Our competitors may also be willing to accept lower returns on their investments and may succeed in buying the assets that we have targeted for acquisition. Although management believes that we are well positioned to continue to compete effectively in each facet of our business, there can be no assurance that we will do so or that we will not encounter further increased competition in the future that could limit our ability to compete effectively.

Employees

We have 37 employees, including Messrs. Kaufman, Weber, Kilgore and Guziewicz, and including a 30 person asset management group. Mr. Elenio is a full time employee of our Manager and is not directly compensated by us (other than an annual bonus and pursuant to our equity incentive plans), however, a portion of his compensation is reimbursed by the management fee that we pay to our Manager. Beginning January 1, 2014, Mr. Ivan Kaufman is compensated directly as our employee.

Corporate Governance and Internet Address

We have adopted corporate governance guidelines and a code of business conduct and ethics, which delineate our standards for our directors, officers and employees, and the employees of our Manager who provide services to us. We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives.

Our internet address is www.arborrealtytrust.com. We make available, free of charge through a link on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports, if any, as filed with the SEC as soon as reasonably practicable after such filing. Our website also contains our code of business conduct and ethics, code of ethics for chief executive and senior financial officers, corporate governance guidelines, stockholder communications with the Board of Directors, and the charters of the audit committee, nominating/corporate governance committee, and compensation committee of our Board of Directors. No information contained in or linked to our website is incorporated by reference in this report.

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ITEM 1A. RISK FACTORS

Our business is subject to various risks, including the risks listed below. If any of these risks actually occur, our business, financial condition and results of operations could be materially adversely affected and the value of our common stock could decline.

Risks Related to Our Business

An economic slowdown, a lengthy or severe recession, or declining real estate values could harm our operations.

We believe the risks associated with our business are more severe during periods of economic downturn if these periods are accompanied by declining real estate values. Declining real estate values would likely limit our new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase or investment in additional properties. Borrowers may also be less able to pay principal and interest on our loans if the real estate economy weakens. Declining real estate values also significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as well as our ability to originate, sell and securitize loans, which would significantly harm our revenues, results of operations, financial condition, business prospects and our ability to make distributions to the stockholders.

Prolonged disruptions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on us and the market price of our common stock.

Commercial real estate is particularly adversely affected by a prolonged economic downturn and liquidity crisis. These circumstances materially impacted liquidity in the financial markets and resulted in the scarcity of certain types of financing, and, in certain cases, made certain financing terms less attractive. Although macroeconomic and market conditions have improved recently, there is still significant uncertainty in the national and global economic and credit markets. If economic or market conditions deteriorate, and these adverse conditions return, lending institutions may be forced to exit markets such as repurchase lending, become insolvent, further tighten their lending standards or increase the amount of equity capital required to obtain financing, and in such event, could make it more difficult for us to obtain financing on favorable terms or at all. Our profitability will be adversely affected if we are unable to obtain cost-effective financing for our investments. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for our borrowers to repay our loans as they may experience difficulties in selling assets, increased costs of financing or obtaining financing at all. These events in the stock and credit markets may also make it more difficult or unlikely for us to raise capital through the issuance of our common stock or preferred stock. These disruptions in the financial markets also may have a material adverse effect on the market value of our common stock and other adverse effects on us or the economy in general.

Increases in loan loss reserves and other impairments are likely if economic conditions deteriorate.

A decline in economic conditions could negatively impact the credit quality of our loans and investments portfolio. If we do not see a continued stabilization of the financial markets and such market conditions decline, we will likely experience increases in loan loss reserves, potential defaults and other asset impairment charges.

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Loan loss reserves are particularly difficult to estimate in a turbulent economic environment.

We perform an evaluation of our loans on a quarterly basis to determine whether an impairment is necessary and adequate to absorb probable losses. The valuation process for our loans and investments portfolio requires us to make certain estimates and judgments, which are particularly difficult to determine during a period in which the availability of commercial real estate credit is limited and commercial real estate transactions have decreased. Our estimates and judgments are based on a number of factors, including projected cash flows from the collateral securing our commercial real estate loans, loan structure, including the availability of reserves and recourse guarantees, likelihood of repayment in full at the maturity of a loan, potential for a refinancing market coming back to commercial real estate in the future and expected market discount rates for varying property types. If our estimates and judgments are not correct, our results of operations and financial condition could be severely impacted.

Loan repayments are less likely in a volatile market environment.

In a market in which liquidity is essential to our business, loan repayments have been a significant source of liquidity for us. If borrowers are not able to refinance loans at their maturity, the loans could go into default and the liquidity that we would receive from such repayments will not be available. Furthermore, in the event that the commercial real estate finance market deteriorates, borrowers that are performing on their loans will most likely extend such loans if they have that right, which will further delay our ability to access liquidity through repayments.

We may not be able to access the debt or equity capital markets on favorable terms, or at all, for additional liquidity, which could adversely affect our business, financial condition and operating results.

Additional liquidity, future equity or debt financing may not be available on terms that are favorable to us, or at all. Our ability to access additional debt and equity capital depends on various conditions in these markets, which are beyond our control. If we are able to complete future equity offerings, they could be dilutive to our existing stockholders or could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. Our inability to obtain adequate capital could have a material adverse effect on our business, financial condition, liquidity and operating results.

We may be unable to invest excess equity capital on acceptable terms or at all, which would adversely affect our operating results.

We may not be able to identify investments that meet our investment criteria and we may not be successful in closing the investments that we identify. In addition, the investments that we acquire with our equity capital may not produce a return on capital. There can be no assurance that we will be able to identify attractive opportunities to invest our equity capital, which would adversely affect our results of operations.

Changes in market conditions could adversely affect the market price of our stock.

As with other publicly traded equity securities, the value of our stock depends on various market conditions which may change from time to time. Among the market conditions that may affect the value of our stock are the following:

the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;

our financial performance; and

general stock and bond market conditions.

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The market value of our stock is based primarily upon the market's perception of our growth potential and our current and potential future earnings and dividends. Consequently, our stock may trade at prices that are higher or lower than our book value per share of stock. If our future earnings or dividends are less than expected, it is likely that the market price of our stock will diminish.

A declining portfolio could adversely affect the returns from our investments.

Dislocations in the market could lead to a reduction in our loans and investments portfolio. If we do not have the opportunity to originate quality investments to replace the reductions in our portfolio, this reduction will likely result in reduced returns from our investments.

Rising interest rates could have an adverse effect on a borrower's ability to make interest payments.

A significant portion of our loans and borrowings are variable-rate instruments based on LIBOR. However, a portion of our loan portfolio is fixed-rate or is subject to interest rate floors that limit the impact of a decrease in interest rates. In addition, certain of our borrowings are also fixed rate or are subject to interest rate swaps that hedge our exposure to interest rate risk on fixed rate loans financed with variable rate debt. As a result, the impact of a change in interest rates may be different on our interest income than it is on our interest expense. In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

We depend on key personnel with long standing business relationships, the loss of whom could threaten our ability to operate our business successfully.

Our future success depends, to a significant extent, upon the continued services of our Manager and our Manager's officers and employees. In particular, the mortgage lending experience of Mr. Kaufman and Mr. Weber and the extent and nature of the relationships they have developed with developers and owners of multifamily and commercial properties and other financial institutions are critical to the success of our business. We cannot assure their continued employment with our Manager or service as our officers. The loss of services of one or more members of our or our Manager's management team could harm our business and our prospects.

The real estate investment business is highly competitive. Our success depends on our ability to compete with other providers of capital for real estate investments.

Our business is highly competitive. Competition may cause us to accept economic or structural features in our investments that we would not have otherwise accepted and it may cause us to search for investments in markets outside of our traditional product expertise. We compete for attractive investments with traditional lending sources, such as insurance companies and banks, as well as other REITs, specialty finance companies and private equity vehicles with similar investment objectives, which may make it more difficult for us to consummate our target investments. Many of our competitors have greater financial resources and lower costs of capital than we do, which provides them with greater operating flexibility and a competitive advantage relative to us.

We may not achieve our targeted rate of return on our investments.

We originate or acquire investments based on our estimates or projections of overall rates of return on such investments, which in turn are based upon, among other considerations, assumptions regarding the performance of assets, the amount and terms of available financing to obtain desired leverage and the manner and timing of dispositions, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that we

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have not anticipated may occur and may have a significant effect on the actual rate of return received on an investment.

As we acquire or originate investments, whether as new additions or as replacements for maturing investments, there can be no assurance that we will be able to originate or acquire investments that produce rates of return comparable to returns on our previous or existing investments.

Our due diligence may not reveal all of a borrower's liabilities and may not reveal other weaknesses in its business.

Before investing in a company or making a loan to a borrower, we will assess the strength and skills of such entity's management and other factors that we believe are material to the performance of the investment. In making the assessment and conducting customary due diligence, we will rely on the resources available to us and, in some cases, an investigation by third parties. This process is particularly important and subjective with respect to newly organized entities because there may be little or no information publicly available about the entities. There can be no assurance that our due diligence processes will uncover all relevant facts or that any investment will be successful.

We invest in junior participation loans which may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to us.

We invest in junior participation loans which are mortgage loans typically (i) secured by a first mortgage on a single commercial property or group of related properties and (ii) subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for the junior participation loan after payment is made to the senior note holder. Since each transaction is privately negotiated, junior participation loans can vary in their structural characteristics and risks. For example, the rights of holders of junior participation loans to control the process following a borrower default may be limited in certain investments. We cannot predict the terms of each junior participation investment. A junior participation may not be liquid and, consequently, we may be unable to dispose of underperforming or non-performing investments. The higher risks associated with a subordinate position in any investments we make could subject us to increased risk of losses.

We invest in mezzanine loans which are subject to a greater risk of loss than loans with a first priority lien on the underlying real estate.

We invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of investments involve a higher degree of risk than long-term senior mortgage lending secured by income producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

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Preferred equity investments involve a greater risk of loss than traditional debt financing.

We invest in preferred equity investments, which involve a higher degree of risk than traditional debt financing due to a variety of factors, including that such investments are subordinate to other loans and are not secured by property underlying the investment. Furthermore, should the issuer default on our investment, we would only be able to proceed against the partnership in which we have an interest, and not the property underlying our investment. As a result, we may not recover some or all of our investment.

We invest in multifamily and commercial real estate loans, which may involve a greater risk of loss than single family real estate loans.

Our investments include multifamily and commercial real estate loans that involve a higher degree of risk than single family residential lending because of a variety of factors, including generally larger loan balances, dependency for repayment on successful operation of the mortgaged property and tenant businesses operating therein, and loan terms that include amortization schedules longer than the stated maturity and provide for balloon payments at stated maturity rather than periodic principal payments. In addition, the value of commercial real estate can be affected significantly by the supply and demand in the market for that type of property.

Volatility of values of multifamily and commercial properties may adversely affect our loans and investments.

Multifamily and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, events such as natural disasters, including hurricanes and earthquakes, acts of war and/or terrorism and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investment; national, regional and local economic conditions, such as what we have experienced in recent years (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction cost, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event a property's net operating income decreases, a borrower may have difficulty repaying our loan, which could result in losses to us. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses.

Many of our commercial real estate loans are funded with interest reserves and our borrowers may be unable to replenish those interest reserves once they run out.

Given the transitional nature of many of our commercial real estate loans, we often require borrowers to post reserves to cover interest and operating expenses until the property cash flows are projected to increase sufficiently to cover debt service costs. We also generally require the borrower to replenish reserves if they become depleted due to underperformance or if the borrower wants to exercise extension options under the loan. Despite low interest rates, revenues on the properties underlying any commercial real estate loan investments would decrease in an economic downturn, making it more difficult for borrowers to meet their payment obligations to us. In the future, some borrowers may continue to have difficulty servicing our debt and will not have sufficient capital to replenish reserves, which could have a significant impact on our operating results and cash flows.

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We may not have control over certain of our loans and investments.

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may acquire investments subject to rights of senior classes and servicers under inter-creditor or servicing agreements; acquire only a participation in an underlying investment; co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or rely on independent third party management or strategic partners with respect to the management of an asset. Therefore, we may not be able to exercise control over the loan or investment. Such financial assets may involve risks not present in investments where senior creditors, servicers or third party controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior creditors or servicers whose interests may not be aligned with ours. A third party partner may have financial difficulties resulting in a negative impact on such assets and may have economic or business interests or goals which are inconsistent with ours. In addition, we may, in certain circumstances, be liable for the actions of our third party partners.

Real estate property may fail to perform as expected.

We may obtain new real estate properties through foreclosure proceedings or investment. Such newly obtained properties may not perform as expected and may subject us to unknown liabilities relating to such properties for clean-up of undisclosed environmental contamination or claims by tenants, vendors or other persons against the former owners of the properties. Inaccurate assumptions regarding future rental or occupancy rates could result in overly optimistic estimates of future revenues. In addition, future operating expenses or the costs necessary to bring an obtained property up to standards established for its intended market position may be underestimated.

The adverse resolution of a lawsuit could have a material adverse effect on our financial condition and results of operations.

The adverse resolution of litigation for which we have been named as a defendant could have a material adverse effect on our financial condition and results of operations. See Note 11 "Commitments and Contingencies Litigation" of this report for information on our current litigation.

The impact of any future terrorist attacks and the availability of terrorism insurance expose us to certain risks.

Any future terrorist attacks, the anticipation of any such attacks, and the consequences of any military or other response by the United States ("U.S.") and its allies may have an adverse impact on the U.S. financial markets and the economy in general. We cannot predict the severity of the effect that any such future events would have on the U.S. financial markets, including the real estate capital markets, the economy or our business. Any future terrorist attacks could adversely affect the credit quality of some of our loans and investments. Some of our loans and investments will be more susceptible to such adverse effects than others. We may suffer losses as a result of the adverse impact of any future terrorist attacks and these losses may adversely impact our results of operations.

In addition, the enactment of the Terrorism Risk Insurance Act of 2002, or the TRIA, and the subsequent enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, which extended TRIA through the end of 2014, requires insurers to make terrorism insurance available under their property and casualty insurance policies in order to receive federal compensation under TRIA for insured losses. However, this legislation does not regulate the pricing of such insurance. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market's overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties

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that we invest in are unable to obtain affordable insurance coverage, the value of those investments could decline and in the event of an uninsured loss, we could lose all or a portion of our investment. A further extension of TRIA through December 31, 2020 has been signed into law.

Failure to maintain an exemption from regulation as an investment company under the Investment Company Act would adversely affect our results of operations.

We believe that we conduct, and we intend to conduct our business in a manner that allows us to avoid being regulated as an investment company under the Investment Company Act. Pursuant to Section 3(c)(5)(C) of the Investment Company Act, entities that are primarily engaged in the business of purchasing or otherwise acquiring "mortgages and other liens on and interests in real estate" are currently exempted from regulation thereunder. The staff of the SEC has provided guidance on the availability of this exemption. Specifically, the staff's position generally requires a company to maintain at least 55% of its assets directly in "qualifying real estate interests." To constitute as a qualifying real estate interest under this 55% test, an interest in real estate must meet various criteria. Loans that are secured by equity interests in entities that directly or indirectly own the underlying real property, rather than a mortgage on the underlying property itself, and ownership of equity interests in real property owners may not qualify for purposes of the 55% test depending on the type of entity. Mortgage-related securities that do not represent all of the certificates issued with respect to an underlying pool of mortgages may also not qualify for purposes of the 55% test. Therefore, our ownership of these types of loans and equity interests may be limited by the provisions of the Investment Company Act. There can be no assurance that the laws and regulations governing the Investment Company Act status of REITs, including the guidance of the Division of Investment Management of the SEC regarding this exemption, will not change in a manner that adversely affects our operations. To the extent that we do not comply with the 55% test, another exemption or exclusion from registration as an investment company under that Act or other interpretations under the Investment Company Act, or if the SEC no longer permits our exemption, we may be deemed to be an investment company. If we fail to maintain an exemption or other exclusion from registration as an investment company we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have an adverse effect on us and the market price of our common stock. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration and other matters.

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Our Manager and one of our subsidiaries are required to register under the Investment Advisers Act, and are subject to regulation under that Act.

Following registration under the Investment Advisers Act, our Manager and one of our subsidiaries are subject to the extensive regulation prescribed by that statute and the regulations thereunder. The SEC will oversee activities as a registered investment adviser under this regulatory regime. A failure to comply with the obligations imposed by the Investment Advisers Act, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, could result in fines, censure, suspensions of personnel or investing activities or other sanctions, including revocation of our registration as an investment adviser. The regulations under the Investment Advisers Act are designed primarily to protect investors in our funds and other clients, and are not designed to protect holders of our publicly traded stock. Even if a sanction imposed against our Manager or its personnel involves a small monetary amount, the adverse publicity related to such sanction could harm our reputation and our relationship with our fund investors and impede our ability to raise additional capital. In addition, compliance with the Investment Advisers Act may require us to incur additional costs, and these costs may be material.

The impact of any future laws, as well as amendments to current laws, may place restrictions on our business.

Future legislation could impose additional financial obligations or restrictions with respect to our business. The past economic environment has placed an increased level of scrutiny on the financial services sector, which led to the signing of the Dodd-Frank Act in 2010. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us and, more generally, the financial services and mortgage industries. It is difficult to predict the exact nature of any future legislation and the extent to which such legislation, if any, will impact our business, financial condition, or results of operations.

The effects of government regulation could negatively impact the market value of loans related to development projects.

Loans related to development projects bear additional risk in that government regulation could impact the value of the project by limiting the development of the property. If the proper approvals for the completion of the project are not granted, the value of the collateral may be adversely affected which may negatively impact the value of the loan.

Risks Related to Our Financing and Hedging Activities

We may not be able to access financing sources on favorable terms, or at all, which could adversely affect our ability to execute our business plan.

We generally finance our assets through a variety of means, including credit facilities, senior unsecured notes, junior subordinated notes, CDOs, CLOs and other structured financings. Our ability to execute this strategy depends on various conditions in the markets for financing in this manner that are beyond our control, including lack of liquidity and wider credit spreads, which we have seen over the past several years. If conditions deteriorate, we cannot assure that these sources are feasible as a means of financing our assets, as there can be no assurance that any existing agreements will be renewed or extended at expiration. If our strategy is not viable, we will have to find alternative forms of long-term financing for our assets, as credit facilities and repurchase facilities may not accommodate long-term financing. This could subject us to more recourse indebtedness and the risk that debt service on less efficient forms of financing would require a larger portion of our cash flows, thereby reducing cash available for distribution to our stockholders, funds available for operations as well as for future business opportunities.

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Credit facilities may contain restrictive covenants relating to our operations.

Credit facilities may contain various financial covenants and restrictions, including minimum net worth, minimum liquidity and debt-to-equity ratios. Other restrictive covenants contained in credit facility agreements may include covenants that prohibit affecting a change in control, disposing of or encumbering assets being financed, maximum debt balance requirements, and restrictions from making material amendments to underwriting guidelines without approval of the lender. While we remain focused on actively managing our loans and investments portfolio, a weak environment will make maintaining compliance with future credit facilities' covenants more difficult. If we are not in compliance with any of these covenants, there can be no assurance that our lenders would waive or amend such non-compliance in the future and any such non-compliance could have a material adverse effect on us.

We may not be able to obtain the level of leverage necessary to optimize our return on investment.

Our return on investment depends, in part, upon our ability to grow our portfolio of invested assets through the use of leverage at a cost of debt that is lower than the yield earned on our investments. We typically obtain leverage through the issuance of CDOs, CLOs, credit agreements and other borrowings. Our future ability to obtain the necessary leverage on beneficial terms ultimately depends upon the quality of the portfolio assets that collateralize our indebtedness. Our failure to obtain and/or maintain leverage at desired levels or on attractive terms would have a material adverse effect on our performance. Moreover, we may be dependent upon a few lenders to provide financing under credit agreements for our origination or acquisition of loans and investments and there can be no assurance that these agreements will be renewed or extended at expiration. Our ability to obtain financing through CDOs and CLOs is subject to conditions in the debt capital markets which are impacted by factors beyond our control that may at times be adverse and reduce the level of investor demand for such securities.

The credit facilities that we may use to finance our investments may require us to provide additional collateral.

We may use credit facilities to finance investments in the future. If the market value of the loans or investments pledged or sold by us to a funding source decline in value, we may be required by the lending institution to provide additional collateral or pay down a portion of the funds advanced. We may not have the funds available to pay down such future debt, which could result in defaults. Posting additional collateral to support these potential credit facilities would reduce our liquidity and limit our ability to leverage our assets. In the event we do not have sufficient liquidity to meet such requirements, lending institutions can accelerate the indebtedness, increase interest rates and terminate our ability to borrow. Further, facility providers may require us to maintain a certain amount of uninvested cash or set aside unlevered assets sufficient to maintain a specified liquidity position which would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on assets. In the event that we are unable to meet these collateral obligations, our financial condition could deteriorate rapidly.

Our use of leverage may create a mismatch with the duration and index of the investments that we are financing.

We attempt to structure our leverage such that we minimize the difference between the term of our investments and the leverage we use to finance such an investment. In the event our leverage is for a shorter term than the financed investment, we may not be able to extend or find appropriate replacement leverage and that would have an adverse impact on our liquidity and our returns. In the event our leverage is for a longer term than the financed investment, we may not be able to repay such

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leverage or replace the financed investment with an optimal substitute or at all, which will negatively impact our desired leveraged returns.

We attempt to structure our leverage such that we minimize the difference between the index of our investments and the index of our leverage financing floating rate investments with floating rate leverage and fixed rate investments with fixed rate leverage. If such a product is not available to us from our lenders on reasonable terms, we may use hedging instruments to effectively create such a match. For example, in the case of fixed rate investments, we may finance such an investment with floating rate leverage, but effectively convert all or a portion of the attendant leverage to fixed rate using hedging strategies.

Our attempts to mitigate such risk are subject to factors outside of our control, such as the availability to us of favorable financing and hedging options, which is subject to a variety of factors, of which duration and term matching are only two such factors.

We utilize a significant amount of debt to finance our portfolio, which may subject us to an increased risk of loss, adversely affecting the return on our investments and reducing cash available for distribution.

We utilize a significant amount of debt to finance our operations, which may compound losses and reduce the cash available for distributions to our stockholders. We generally leverage our portfolio through the use of securitizations, including the issuance of CDOs, CLOs, bank credit facilities, and other borrowings. The leverage we employ varies depending on our availability of funds, ability to obtain credit facilities, the loan-to-value and debt service coverage ratios of our assets, the yield on our assets, the targeted leveraged return we expect from our portfolio and our ability to meet ongoing covenants related to our asset mix and financial performance. Substantially all of our assets are pledged as collateral for our borrowings. In addition, we may acquire real estate property subject to debt obligations. The return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that we can derive from the assets we acquire.

Our debt service payments, including payments in connection with any CDOs and CLOs, reduce the net income available for distributions. Moreover, we may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to foreclosure or sale to satisfy our debt obligations. Currently, neither our charter nor our bylaws impose any limitations on the extent to which we may leverage our assets.

We may guarantee some of our leverage and contingent obligations.

We may guarantee the performance of some of our obligations in the future, including but not limited to any repurchase agreements, derivative agreements, and unsecured indebtedness. Non-performance on such obligations may cause losses to us in excess of the capital we initially may invest/commit to under such obligations and there is no assurance that we will have sufficient capital to cover any such losses.

We may not be able to acquire suitable investments for a CDO or CLO issuance, or we may not be able to issue CDOs or CLOs on attractive terms, or at all, which may require us to utilize more costly financing for our investments.

We have financed, and, if the opportunities exist in the future, we may continue to finance certain of our investments through the issuance of CDOs and CLOs. During the period that we are acquiring investments for eventual long-term financing through CDOs and CLOs, we have typically financed these investments through repurchase and credit agreements. We use these agreements to finance our acquisition of investments until we have accumulated a sufficient quantity of investments, at which time we may refinance them through a CDO or CLO securitization. As a result, we are subject to the risk

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that we will not be able to acquire a sufficient amount of eligible investments to maximize the efficiency of a CDO or CLO issuance. In addition, conditions in the debt capital markets may make the issuance of CDOs and CLOs less attractive to us even when we do have a sufficient pool of collateral, or we may not be able to execute a CDO or CLO transaction on terms favorable to us or at all. If we are unable to issue a CDO or CLO to finance these investments, we may be required to utilize other forms of potentially less attractive financing.

The use of CDO and CLO financings with over-collateralization and interest coverage requirements may have a negative impact on our cash flows.

The terms of CDOs and CLOs will generally provide that the principal amount of investments must exceed the principal balance of the related bonds by a certain amount and that interest income exceeds interest expense by a certain amount. Generally, CDO and CLO terms provide that, if certain delinquencies and/or losses or other factors cause a decline in collateral or cash flow levels, the cash flow otherwise payable on subordinated classes may be redirected to repay senior classes of CDOs and CLOs until the issuer or the collateral is in compliance with the terms of the governing documents. Other tests (based on delinquency levels or other criteria) may restrict our ability to receive interest payments from assets pledged to secure CDOs and CLOs. We cannot assure that the performance tests will be satisfied. If our investments fail to perform as anticipated, our over-collateralization, interest coverage or other credit enhancement expense associated with our CDO and CLO financings will increase. With respect to future CDOs and CLOs we may issue, we cannot assure, in advance of completing negotiations with the rating agencies or other key transaction parties as to the actual terms of the delinquency tests, over-collateralization and interest coverage terms, cash flow release mechanisms or other significant factors upon which net income to us will be calculated. Failure to obtain favorable terms with regard to these matters may adversely affect the availability of net income to us.

We may not be able to find suitable replacement investments for CLO reinvestment periods.

CLOs have periods where principal proceeds received from assets securing the CLO can be reinvested for a defined period of time, commonly referred to as a reinvestment period. Our ability to find suitable investments during the reinvestment period that meet the criteria set forth in the CLO governing documents and by rating agencies may determine the success of our CLO investments. Our potential inability to find suitable investments may cause, among other things, lower returns, interest deficiencies, hyper-amortization of the senior CLO liabilities and may cause us to reduce the life of the CLO and accelerate the amortization of certain fees and expenses.

We may be required to repurchase loans that we have sold or to indemnify holders of our CDOs and CLOs.

If any of the loans we originate or acquire and sell or securitize through CDOs and CLOs do not comply with representations and warranties we make about certain characteristics of the loans, the borrowers and the underlying properties, we may be required to repurchase those loans or replace them with substitute loans. In addition, in the case of loans that we have sold instead of retained, we may be required to indemnify persons for losses or expenses incurred as a result of a breach of a representation or warranty. Repurchased loans typically require a significant allocation of working capital to carry on our books, and our ability to borrow against such assets is limited. Any significant repurchases or indemnification payments could adversely affect our financial condition and operating results.

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Our loans and investments may be subject to fluctuations in interest rates which may not be adequately protected, or protected at all, by our hedging strategies.

Our current investment program emphasizes loans with both floating and fixed interest rates. Floating rate investments earn interest at rates that adjust from time to time (typically monthly) based upon an index (typically LIBOR), allowing this portion of our portfolio to be insulated from changes in value due specifically to changes in interest rates. Fixed rate investments, however, do not have adjusting interest rates and, as prevailing interest rates change, the relative value of the fixed cash flows from these investments will cause potentially significant changes in value. The majority of our interest-earning assets and interest-bearing liabilities have floating rates of interest. However, depending on market conditions, fixed rate assets may become a greater portion of our new loan originations. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. No strategy can completely insulate us from the risks associated with interest rate changes and there is a risk that they may provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot make assurances that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us against the foregoing risks. In addition, cash flow hedges which are not perfectly correlated (and appropriately designated and documented as such) with a variable rate financing will impact our reported income as gains and losses on the ineffective portion of such hedges will be recorded on our statement of income.

Hedging instruments often are not guaranteed by an exchange or its clearing house and involve risks and costs.

The cost of using hedging instruments increases as the period covered by the instrument lengthens and during periods of rising and volatile interest rates. We may increase our hedging activity and thus increase our hedging costs during periods when interest rates are volatile or rising and hedging costs have increased.

In addition, hedging instruments involve risk since they currently are often not guaranteed by an exchange or its clearing house. The enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory, commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our resale commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract to cover our risk. We cannot assure that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in losses.

We may enter into derivative contracts that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, part of our investment strategy involves entering into derivative contracts that could require us to fund cash payments in the future under certain circumstances (e.g., the early termination of the derivative agreement caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the derivative contract). The amount due would be equal to

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the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our financial results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition.

Changes in values of our derivative contracts could adversely affect our liquidity and financial condition.

Certain of our derivative contracts, which are designed to hedge interest rate risk associated with a portion of our loans and investments, could require the funding of additional cash collateral for changes in the market value of these contracts. Due to the continued volatility in the financial markets, the values of these contracts have declined substantially. As a result, as of December 31, 2014, we funded approximately \$9.6 million in cash related to these contracts. If we continue to experience significant changes in the outlook of interest rates, these contracts could continue to decline in value, which would require additional cash to be funded. However, at maturity, the values of these contracts return to par and all cash will be recovered. We may not have available cash to meet these requirements, which could result in the early termination of these derivatives, leaving us exposed to interest rate risk associated with these loans and investments, which could adversely impact our financial condition.

We are subject to certain counterparty risks related to our derivative contracts.

We periodically hedge a portion of our interest rate risk by entering into derivative financial instrument contracts. In a global credit crisis, there is a risk that counterparties could fail, shut down, file for bankruptcy or be unable to pay out contracts. The failure of a counterparty that holds collateral we post in connection with certain interest rate swap agreements could result in the loss of such collateral.

Risks Related to Our Corporate and Ownership Structure

We are substantially controlled by our Manager and Mr. Kaufman.

Mr. Ivan Kaufman, our chairman, chief executive officer and president and the chief executive officer of our Manager, beneficially owns approximately 92% of the outstanding membership interests of our Manager. Our Manager has approximately 11% of the voting power of our outstanding stock as of December 31, 2014. As a result of Mr. Kaufman's beneficial ownership of stock held by our Manager as well as his beneficial ownership of additional shares of our common stock, Mr. Kaufman has approximately 11% of the voting power of our outstanding stock as of December 31, 2014. Because of his position with us and our Manager and his ability to effectively vote a substantial minority of our outstanding stock, Mr. Kaufman has significant influence over our policies and strategy.

Our charter generally does not permit ownership in excess of 5% of our capital stock, and attempts to acquire our capital stock in excess of this limit are ineffective without prior approval from our Board of Directors.

For the purpose of preserving our REIT qualification, our charter generally prohibits a beneficial or constructive ownership by any person of more than 5% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock or 5% (by value) of our outstanding shares of stock of all classes or series, unless an exemption is granted by the Board of Directors. Our charter's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than these percentages of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of these percentages of the outstanding stock and thus be subject to our charter's ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without

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the consent of the Board of Directors will result in the shares being automatically transferred to a charitable trust or otherwise voided. Our Board of Directors have approved resolutions under our charter allowing Ivan Kaufman and our Manager, in relation to Mr. Kaufman's controlling equity interest, C. Michael Kojaian, a former director, as well as two outside investors to own more than the ownership interest limit of our common stock stated in our charter.

Our staggered board and other provisions of our charter and bylaws may prevent a change in our control.

Our Board of Directors is divided into three classes of directors. The current terms of the Class III, Class I and Class II directors will expire in 2015, 2016 and 2017, respectively. Directors of each class are chosen for three year terms upon the expiration of their current terms, and each year one class of directors is elected by the stockholders. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our stockholders. In addition, our charter and bylaws also contain other provisions that may delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Risks Related to Conflicts of Interest with Our Manager

We are dependent on our Manager with whom we have conflicts of interest.

We have only 37 employees, including Messrs. Kaufman, Weber, Kilgore, and Guzewicz, and are dependent upon our Manager to provide services to us that are vital to our operations. Our Manager has approximately 11% of the voting power of the outstanding shares of our capital stock as of December 31, 2014 and Mr. Kaufman, our chairman and chief executive officer and the chief executive officer of our Manager, beneficially owns these shares. Mr. Martello, one of our directors, is the chief operating officer of Arbor Management, LLC (the managing member of our Manager) and a trustee of two trusts which own minority membership interests in our Manager. Mr. Bishar, our secretary, is general counsel to our Manager. Mr. Elenio, our chief financial officer and treasurer, is the chief financial officer of our Manager. Each of Messrs. Kaufman, Martello, Bishar, Elenio, Weber, Kilgore and Guzewicz are members of our Manager's executive committee and all, but excluding Mr. Kaufman, own minority membership interests in our Manager.

We may enter into transactions with our Manager outside the terms of the management agreement with the approval of a majority vote of the independent members of our Board of Directors. Transactions required to be approved by a majority of our independent directors include, but are not limited to, our ability to purchase securities, mortgages and other assets from our Manager or to sell securities and assets to our Manager. Our Manager may from time to time provide permanent mortgage loan financing to clients of ours, which will be used to refinance bridge financing provided by us. We and our Manager may also make loans to the same borrower or to borrowers that are under common control. Additionally, our policies and those of our Manager may require us to enter into intercreditor agreements in situations where loans are made by us and our Manager to the same borrower.

We have entered into a management agreement with our Manager under which our Manager provides us with all of the services vital to our operations other than asset management and securitization services. Certain matters relating to our organization were not approved at arm's length and the terms of the contribution of assets to us may not be as favorable to us as if the contribution was with an unaffiliated third party.

The results of our operations are dependent upon the availability of, and our Manager's ability to identify and capitalize on, investment opportunities. Our Manager's officers and employees are also responsible for providing the same services for our Manager's investment portfolio. As a result, they may not be able to devote sufficient time to the management of our business operations.

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Our directors have approved very broad investment guidelines for our Manager and do not approve each investment decision made by our Manager.

Our Manager is authorized to follow very broad investment guidelines. Our directors will periodically review our investment guidelines and our investment portfolio. However, our board does not review each proposed investment. In addition, in conducting periodic reviews, the directors rely primarily on information provided to them by our Manager. Furthermore, transactions entered into by our Manager may be difficult or impossible to unwind by the time they are reviewed by the directors. Our Manager has great latitude within the broad investment guidelines in determining the types of assets it may decide are proper investments for us.

Our Manager has broad discretion to invest funds and may acquire structured finance assets where the investment returns are substantially below expectations or that result in net operating losses.

Our Manager has broad discretion, within the general investment criteria established by our Board of Directors, to allocate our capital and to determine the timing of investment of such capital. Such discretion could result in allocation of capital to assets where the investment returns are substantially below expectations or that result in net operating losses, which would materially and adversely affect our business, operations and results.

The management compensation structure that we have agreed to with our Manager may cause our Manager to invest in high risk investments. Our Manager is entitled to a base management fee, which is based on an agreed upon budget that represents the actual cost of managing the business. Our Manager is also entitled to receive incentive compensation based in part upon our achievement of targeted levels of funds from operations. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on funds from operations may lead our Manager to place undue emphasis on the maximization of funds from operations at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our invested portfolio.

Risks Related to Our Status as a REIT

If we fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability.

We conduct our operations to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent mistake could jeopardize our REIT status. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

we would be taxed as a regular domestic corporation, which, among other things, means we would be unable to deduct distributions to stockholders in computing taxable income and would be subject to federal income tax on our taxable income at regular corporate rates;

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any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders; and

unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification, and thus, our cash available for distribution to stockholders would be reduced for each of the years during which we did not qualify as a REIT.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease cash available for distribution to our stockholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through taxable subsidiary corporations, the income of which would be subject to federal and state income tax.

The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Certain of our securitizations have resulted in the creation of taxable mortgage pools for federal income tax purposes. So long as 100% of the equity interests in a taxable mortgage pool are owned by an entity that qualifies as a REIT, including our subsidiary Arbor Realty SR, Inc., we would generally not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other tax benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities that are not subject to tax on unrelated business income, we could incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we could be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

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Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT we must ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities generally cannot comprise more than 10% of the outstanding voting securities, or more than 10% of the total value of the outstanding securities, of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than assets which qualify for purposes of the 75% asset test) may consist of the securities of any one issuer, and no more than 25% of the value of our total assets may be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

Liquidation of collateral may jeopardize our REIT status.

To continue to qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate investments to satisfy our obligations to future lenders, we may be unable to comply with these requirements, ultimately jeopardizing our status as a REIT.

We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay dividends to our stockholders.

As a REIT, we are generally required to distribute at least 90% of our taxable income each year to our stockholders. In order to qualify for the tax benefits afforded to REITs, we intend to declare quarterly dividends and to make distributions to our stockholders in amounts such that we distribute all or substantially all of our REIT taxable income each year, subject to certain adjustments. However, our ability to make distributions may be adversely affected by the risk factors described in this report. In the event of future investment opportunities, a downturn in our operating results and financial performance or unanticipated declines in the value of our asset portfolio, we may be unable to declare or pay quarterly dividends or make distributions to our stockholders. The timing and amount of dividends are in the sole discretion of our Board of Directors, which considers, among other factors, our earnings, financial condition, debt service obligations and applicable debt covenants, REIT qualification requirements and other tax considerations and capital expenditure requirements as our board may deem relevant from time to time.

Among the factors that could adversely affect our results of operations and impair our ability to make distributions to our stockholders are:

use of funds and our ability to make profitable structured finance investments;

defaults in our asset portfolio or decreases in the value of our portfolio;

anticipated operating expense levels may not prove accurate, as actual results may vary from estimates; and

increased debt service requirements, including those resulting from higher interest rates on variable rate indebtedness.

A change in any one of these factors could affect our ability to make distributions. If we are not able to comply with the restrictive covenants and financial ratios contained in future credit facilities, our ability to make distributions to our stockholders may also be impaired. We cannot assure that we will be able to make distributions to our stockholders in the future or that the level of any distributions we make will increase over time.

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We may need to borrow funds in order to satisfy our REIT distribution requirements, and a portion of our distributions may constitute a return of capital. Debt service on any borrowings for this purpose will reduce our cash available for distribution.

In order to qualify as a REIT, we must generally, among other requirements, distribute at least 90% of our REIT taxable income, subject to certain adjustments, to our stockholders each year. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws.

From time to time, we may generate taxable income greater than our net income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to our stockholders. If we do not have other funds available in these situations we could be required to borrow funds, issue stock or sell investments and our equity securities at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

Recently enacted legislation resulted in an increase in the highest marginal tax rates applicable to individuals and other non-corporate taxpayers. Capital gain income (including capital gain dividends that we pay) and ordinary income (including dividends that we pay which are not capital gain dividends) are generally taxable at top marginal rates of 20% and 39.6%, respectively. Certain U.S. stockholders who are individuals, trusts or estates and whose income exceeds certain thresholds are required to pay a 3.8% Medicare tax on our dividends and gain from the sale of our stock. The top tax rate on "qualified dividend income" received by U.S. stockholders taxed at individual rates is now 20% but, with limited exceptions, our dividends are generally not eligible for taxation at such preferential rate. At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may change. Any such changes may have a retroactive effect, and could adversely affect us or our stockholders.

Restrictions on share accumulation in REITs could discourage a change of control of us.

In order for us to qualify as a REIT, not more than 50% of the value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of a taxable year.

In order to prevent five or fewer individuals from acquiring more than 50% of our outstanding shares and a resulting failure to qualify as a REIT, our charter provides that, subject to certain exceptions, no person, including entities, may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 5% of the aggregate value or number of shares (whichever is more restrictive) of our outstanding common stock, or more than 5%, by value, of our outstanding shares of stock of all classes or series, in the aggregate.

Shares of our stock that would otherwise be directly or indirectly acquired or held by a person in violation of the ownership limitations are, in general, automatically transferred to a trust for the benefit of a charitable beneficiary, and the purported owner's interest in such shares is void. In addition, any person who acquires shares in excess of these limits is obliged to immediately give written notice to us and provide us with any information we may request in order to determine the effect of the acquisition on our status as a REIT.

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While these restrictions are designed to prevent any five individuals from owning more than 50% of our shares, they could also discourage a change in control of our company. These restrictions may also deter tender offers that may be attractive to stockholders or limit the opportunity for stockholders to receive a premium for their shares if an investor makes purchases of shares to acquire a block of shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our Manager leases our shared principal executive and administrative offices, located at 333 Earle Ovington Boulevard in Uniondale, New York, 11553.

ITEM 3. LEGAL PROCEEDINGS

We are not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us other than the litigation described in Note 11 "Commitments and Contingencies Litigation" of this report. We have not made a loss accrual for this litigation because we believe that it is not probable that a loss has been incurred and an amount cannot be reasonably estimated.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "ABR." The following table sets forth for the indicated periods the high and low sales prices for our common stock, as reported on the NYSE, and the dividends declared and paid with respect to such periods.

	High	Low	Dividends Declared		High	Low	Dividends Declared
2014				2013			
Fourth Quarter(1)	\$ 7.18	\$ 6.32	\$ 0.13	Fourth Quarter	\$ 7.05	\$ 6.26	\$ 0.13
Third Quarter	\$ 7.30	\$ 6.60	\$ 0.13	Third Quarter	\$ 7.74	\$ 6.11	\$ 0.13
Second Quarter	\$ 7.36	\$ 6.77	\$ 0.13	Second Quarter	\$ 8.08	\$ 5.78	\$ 0.13
First Quarter	\$ 7.26	\$ 6.61	\$ 0.13	First Quarter	\$ 8.60	\$ 5.97	\$ 0.12

(1) On February 11, 2015, our Board of Directors declared a dividend of \$0.13 per common share for the fourth quarter of 2014.

We are organized and conduct our operations to qualify as a REIT, which requires that we distribute at least 90% of taxable income. No assurance, however, can be given as to the amounts or timing of future distributions as such distributions are subject to our taxable earnings, financial condition, capital requirements and such other factors as our Board of Directors deems relevant.

On February 11, 2015, the closing sale price for our common stock, as reported on the NYSE, was \$7.40 and there were 8,164 record holders of our common stock, including persons holding shares in broker accounts under street names.

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Equity Compensation Plan Information

The following table presents information as of December 31, 2014 regarding the 2014 Omnibus Stock Incentive Plan (the "2014 Plan") and the incentive compensation provisions of our management agreement with our Manager, which are our only equity compensation plans:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders:			
2014 Omnibus Stock Incentive Plan(1)	0	N/A	1,659,000
Incentive compensation pursuant to management agreement(2)	0	N/A	See Note 3
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	0	N/A	1,659,000

(1) On May 20, 2014, the shareholders approved the 2014 Plan.

(2) Pursuant to the terms of our management agreement with our Manager, at least 25% of the incentive compensation earned by our Manager is payable in shares of our common stock having a value equal to the average closing price per share for the last twenty days of the fiscal quarter for which the incentive compensation is being paid. Our Manager has the right to elect to receive 100% of the incentive compensation in shares of our common stock. See Note 14 "Agreements and Transactions with Related Parties Management Agreement" of this report for information regarding the terms of our management agreement and the incentive compensation payable to our Manager thereunder.

(3) The number of securities remaining available for future issuance to our Manager as incentive compensation pursuant to the management agreement depends on the amount of incentive compensation earned by our Manager in the future and therefore is not yet determinable.

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Performance Graph

The graph below compares the cumulative total stockholder return on shares of our common stock with the cumulative total return of the NAREIT All REIT Index and the Russell 2000 Index for the five year period from December 31, 2009 to December 31, 2014. The graph assumes an investment of \$100 on January 1, 2010 and the reinvestment of any dividends. This graph is not necessarily indicative of future price performance. The information included in the graph and table below was obtained from SNL Financial LC, Charlottesville, VA ©2015.

Total Return Performance

Index	Period Ended					
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Arbor Realty Trust, Inc.	100.00	299.50	176.88	317.03	377.32	413.21
Russell 2000	100.00	126.86	121.56	141.43	196.34	205.95
NAREIT All REIT Index	100.00	127.58	136.86	164.44	169.71	215.78

In accordance with SEC rules, this section entitled "Performance Graph" shall not be incorporated by reference into any of our future filings under the Securities Act or the Exchange Act, and shall not be deemed to be soliciting material or to be filed under the Securities Act or the Exchange Act.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

The following tables present selected historical consolidated financial information and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements, including the related notes, included elsewhere in this report. Prior period amounts have been reclassified to conform to current period presentation.

	Year ended December 31,				
	2014	2013	2012	2011	2010
Operating Data					
Interest income	\$ 106,716,344	\$ 99,031,623	\$ 79,998,762	\$ 73,867,556	\$ 95,487,325
Interest expense	47,903,458	42,065,151	40,866,832	51,651,933	62,979,036
Net interest income	58,812,886	56,966,472	39,131,930	22,215,623	32,508,289
Total other revenue	34,286,714	32,417,974	31,454,043	22,125,735	1,069,454
Provision for loan losses (net of recoveries)	(308,511)	4,287,652	22,946,396	38,542,888	82,811,753
Management fee related party	9,900,000	10,900,000	10,000,000	8,300,000	26,365,448
Gain on sale of equity interests, net	66,745,517				
Gain on extinguishment of debt		4,930,772	30,459,023	10,878,218	229,321,130
Income (loss) from continuing operations	93,048,490	21,298,737	16,388,417	(37,096,165)	113,637,487
Net income (loss)	93,048,490	21,298,737	21,716,455	(40,096,057)	113,125,954
Preferred stock dividends	7,256,255	4,506,583			
Net income (loss) attributable to Arbor Realty Trust, Inc. common stockholders	85,792,235	16,667,955	21,500,888	(40,311,713)	112,910,211

Share Data

Income (loss) from continuing operations per share, basic(1)	1.71	0.39	0.60	(1.49)	4.46
Income (loss) per share, basic(1)	1.71	0.39	0.80	(1.61)	4.44
Income (loss) from continuing operations per share, diluted(1)(2)	1.70	0.39	0.59	(1.49)	4.41
Income (loss) per share, diluted(1)(2)	1.70	0.39	0.79	(1.61)	4.39
Dividends declared per common share	0.52	0.50	0.285		

	At December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data					
Loans and investments, net	\$ 1,459,475,650	\$ 1,523,699,653	\$ 1,325,667,053	\$ 1,302,440,660	\$ 1,414,225,388
Total assets	1,880,422,590	1,877,472,482	1,701,881,280	1,776,714,330	1,731,207,928
Total debt	1,260,008,968	1,278,790,435	1,294,590,321	1,438,380,573	1,343,297,498
Redeemable preferred stock	89,295,905	67,654,655			
Total equity	535,455,471	437,596,282	231,261,122	173,060,533	206,415,243

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	Year ended December 31,				
	2014	2013	2012	2011	2010
Other Data					
New loan originations	\$ 900,666,405	\$ 591,537,200	\$ 274,516,550	\$ 206,477,919	\$ 24,749,342
Loan payoffs / paydowns	972,311,886	402,162,170	269,904,723	189,521,473	422,526,107
Funds from operations(3)	92,078,433	25,008,952	23,541,918	(32,578,644)	112,148,929
Adjusted funds from operations(3)	95,421,635	25,609,094	28,073,563	(32,620,944)	113,790,865
Funds from operations per share, diluted(3)	1.83	0.58	0.87	(1.30)	4.36
Adjusted funds from operations per share, diluted(3)	1.89	0.60	1.03	(1.31)	4.42

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- (1) Excluding the impact of a \$58.1 million non-cash net gain on the sale of an equity interest in 2014, basic and diluted income per share for the year ended December 31, 2014 would have each been \$0.55.
- (2) In 2009, we issued one million warrants as part of a debt restructuring which had a dilutive effect for the years ended December 31, 2013, 2012 and 2010. In 2014, we acquired and canceled all of the warrants.
- (3) See Non-GAAP Financial Measures below for definitions and calculations of funds from operations and adjusted funds from operations.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the sections of this report entitled "Risk Factors," "Forward Looking Statements," and "Selected Consolidated Financial Information of Arbor Realty Trust, Inc. and Subsidiaries" and the historical consolidated financial statements of Arbor Realty Trust, Inc. and Subsidiaries, including related notes, included elsewhere in this report.

Overview

We invest in multifamily and commercial real estate-related bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity, and, in limited cases, discounted mortgage notes and other real estate-related assets, which we refer to collectively as structured finance investments. We are organized and conduct our operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on its REIT taxable income that is distributed to its stockholders, provided that at least 90% of its REIT taxable income is distributed and provided that certain other requirements are met. We have also invested in mortgage-related securities. We conduct substantially all of our operations through our operating partnership and its wholly-owned subsidiaries.

Our operating performance is primarily driven by the following factors:

Net interest income earned on our investments Net interest income represents the amount by which the interest income earned on our assets exceeds the interest expense incurred on our borrowings. If the yield earned on our assets increases or the cost of borrowings decreases, this will have a positive impact on earnings. However, if the yield earned on our assets decreases or the cost of borrowings increases, this will have a negative impact on earnings. Net interest income is also directly impacted by the size and performance of our asset portfolio.

Credit quality of our assets Effective asset and portfolio management is essential to maximize the performance and value of a real estate/mortgage investment. Maintaining the credit quality of our loans and investments is of critical importance. Loans that do not perform in accordance with their terms may have a negative impact on earnings and liquidity.

Cost control We seek to minimize our operating costs, which consist primarily of employee compensation and related costs, management fees and other general and administrative expenses. If there are increases in foreclosures and non-performing loans and investments, certain of these expenses, particularly employee compensation expenses and asset management related expenses, may increase.

Significant Developments During 2014

Loan and Investment Activity We originated 80 loans totaling \$900.7 million with a weighted average interest rate of 7.03%. We received full satisfaction of 81 loans totaling \$931.0 million with a weighted average interest rate of 6.05% and partial paydowns on four loans totaling \$41.3 million with a weighted average interest rate of 4.17%. We recorded \$9.3 million of cash recoveries of previously recorded loan loss reserves and recognized provision for loan losses totaling \$9.0 million, resulting in net recoveries of \$0.3 million during 2014.

Capital Raising Activities We raised \$121.0 million of capital through several offerings in 2014, including:

\$92.9 million raised through the issuance of 7.375% senior unsecured notes due in 2021 through two offerings in May and August 2014;

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\$21.6 million raised from the issuance of 8.50% Series C cumulative redeemable preferred stock in February 2014; and

\$6.5 million raised through an "At-The-Market" ("ATM") common stock offering in the first quarter of 2014.

Financing Activities In April 2014, we closed our third CLO totaling \$375.0 million of real estate related assets and cash. We issued \$281.3 million of investment grade notes in this CLO and we used a portion of the funds raised in this CLO issuance and the senior unsecured notes offering to substantially pay down three credit facilities and to fully pay off two facilities totaling \$53.0 million. During 2014, we also increased the capacity on three financing facilities by an aggregate of \$70.0 million and added a \$15.0 million term debt facility. In December 2014, we utilized the capacity in our warehouse lines to redeem the \$87.5 million in outstanding CLO I bonds and exit this CLO vehicle.

Equity Investment Transactions Significant equity investment transactions during 2014 included:

In May 2014, our interest in two commercial properties was sold. In connection with this transaction, we received \$7.9 million in cash and recorded a gain on sale of equity interest of \$7.9 million.

In July 2014, we recognized a \$77.1 million deferred gain as well as a \$19.0 million prepaid incentive management fee for a non-cash net gain of \$58.1 million related to the 450 West 33rd Street investment.

In December 2014, we sold our remaining interest in the 450 West 33rd Street investment and recognized a gain on sale of \$0.8 million.

Real Estate Owned Assets We sold three Multifamily Portfolio properties during 2014:

In July 2014, we sold a property for \$3.1 million and recognized a loss of \$0.2 million on the sale.

During the fourth quarter of 2014, we sold two properties for a total of \$19.0 million and recognized a total gain of \$1.8 million on these sales.

Other Transactions

During the first quarter of 2014, we sold the majority of our RMBS securities available-for-sale for \$33.9 million and recognized a net gain of \$0.5 million.

In July 2014, we acquired and canceled 1,000,000 outstanding warrants for \$2.6 million.

Subsequent Events The following events have occurred during the first quarter of 2015:

We completed the unwind of two legacy CDO's, CDO I and CDO II, redeeming \$167.9 million of the outstanding notes primarily with a new \$150.0 million warehouse facility, our existing financing facilities, as well as with CDO cash, generating approximately \$30.0 million of cash equity that was previously held in these CDO vehicles. We also terminated the related basis and interest rate swaps and expect to incur a loss of \$4.3 million and reduced the balance of estimated interest by \$11.0 million, recording a gain in the first quarter of 2015. See Note 7 "Debt Obligations Collateralized Debt Obligations" of this report.

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We sold two real estate properties classified as held-for-sale for approximately \$18.8 million and expect to recognize a total gain of approximately \$4.1 million.

We acquired 50% of our Manager's indirect interest in a residential mortgage banking company for approximately \$9.6 million. As a result of this transaction, we will own a 22.5% indirect interest in this entity and expect to account for our interest under the equity method of accounting.

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Current Market Conditions, Risks and Recent Trends

Our ability to execute our business strategy, particularly the growth of our portfolio of loans and investments, is dependent on many factors, including our ability to access capital and financing on favorable terms. Although U.S. economic and market conditions have generally improved over the past two years, the overall market recovery remains uncertain. The impact of the previous economic downturn had a significant negative impact on both us and our borrowers. If economic conditions weaken in the future, it may limit our options for raising capital and obtaining financing on favorable terms and may also adversely impact the creditworthiness of our borrowers which could result in their inability to repay their loans.

The capital markets began to substantially open up in 2012 and access to the equity and debt markets continued to improve in 2014. We rely on these markets to generate capital for financing the growth of our business. During 2014, we raised over \$120.0 million of capital through several offerings. We also closed a third CLO offering, whereby we issued \$281.3 million of investment grade notes. While there can be no assurance that we will continue to have access to the equity and debt markets, we will continue to pursue these and other available market opportunities as means to increase our liquidity and capital base. If we were to experience another prolonged downturn in the stock or credit markets, it could cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly.

The commercial real estate markets continue to improve, but uncertainty remains as a result of global market instability, the current political climate and other matters and their potential impact on the U.S. economy. If real estate values decline again, it may limit our new mortgage loan originations since borrowers often use increases in the value of their existing properties to support the purchase or investment in additional properties. Declining real estate values may also significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans as well as our ability to originate, sell and securitize loans, which would significantly impact our revenues, results of operations, financial condition, business prospects and our ability to make distributions to our stockholders.

During 2014, we recorded \$9.0 million of new provisions for loan losses, primarily due to declining collateral values, and \$9.3 million in net recoveries of reserves. During 2013, we recorded \$6.5 million of new provisions for loan losses, due to declining collateral values, and \$2.2 million in net recoveries of reserves. In addition, during 2014 and 2013, we recorded impairment losses on a real estate owned asset of \$0.3 million and \$1.0 million, respectively. We have made, and continue to make modifications and extensions to loans when it is economically feasible to do so. In some cases, a modification is a more viable alternative to foreclosure proceedings when a borrower cannot comply with loan terms. In doing so, lower borrower interest rates, combined with non-performing loans, would lower our net interest margins when comparing interest income to our costs of financing. However, since 2013, the levels of modifications and extensions have declined and repayments of loans increased as borrowers' access to financing improved. If these trends were to continue to deteriorate and another prolonged economic downturn was to occur, we believe there could be additional loan modifications and delinquencies which may result in reduced net interest margins and additional losses throughout our sector. Refer to Item 1A of this Annual Report for additional risk factors.

Primary Sources of Operating Revenues

We derive our operating revenues primarily through interest received from making real estate-related bridge, mezzanine and junior participation loans and preferred equity investments. Interest

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income earned on these loans and investments represented approximately 76%, 75% and 72% of our total revenues in 2014, 2013 and 2012, respectively.

Property operating income is derived from our hotel and multifamily real estate owned assets. Property operating income represented approximately 23%, 23% and 27% of our total revenues in 2014, 2013 and 2012, respectively. The operation of a portfolio of hotel properties that we own is seasonal with the majority of revenues earned in the first two quarters of the calendar year.

Changes in Financial Condition

Assets Comparison of balances at December 31, 2014 to December 31, 2013:

Cash and cash equivalents decreased \$10.0 million primarily due to funding new loan originations and investments and payment of distributions to our stockholders, net of proceeds received from our debt and equity offerings in 2014, as well as loan payoffs and interest from our investments.

Restricted cash increased \$163.1 million primarily due to the timing of loan payoffs received in the fourth quarter of 2014 in our CDOs and CLOs. Restricted cash is kept on deposit with the trustees for our CDOs and CLOs, and primarily represents proceeds received from loan payoffs and paydowns that have not yet been disbursed to bondholders or redeployed into new assets, as well as unfunded loan commitments and interest payments received from loans.

Our loan and investment portfolio balance, including our available-for-sale securities was \$1.59 billion and \$1.70 billion at December 31, 2014 and 2013, respectively. The decline in our portfolio balance was primarily due to loan payoffs exceeding loan originations by \$78.9 million and selling our available-for-sale RMBS securities totaling \$33.4 million during 2014.

Our portfolio had a weighted average current interest pay rate of 5.44% and 5.21% at December 31, 2014 and 2013, respectively. Including certain fees and costs associated with the loan and investment portfolio, the weighted average current interest rate was 6.16% and 5.69%, respectively. Advances on our financing facilities totaled \$1.23 billion and \$1.22 billion at December 31, 2014 and 2013, respectively, with a weighted average funding cost of 3.65% and 3.03%, respectively, which excludes changes in the market value of certain interest rate swaps and financing costs. Including the financing costs, the weighted average funding rate was 4.07% and 3.34%, respectively.

Loan and investment activity during 2014 was primarily comprised of:

Originated 80 loans totaling \$900.7 million with a weighted average interest rate of 7.03%.

Received full satisfaction of 81 loans totaling \$931.0 million that had a weighted average interest rate of 6.05%.

Received partial pay downs on four loans totaling \$41.3 million that had a weighted average interest rate of 4.17%.

Modified and extended a loan for \$35.0 million resulting in an increase in the interest rate from 1.95% to 2.95%.

Extended 45 loans totaling \$596.5 million.

Our allowance for loan losses was \$115.5 million at December 31, 2014, a decrease of \$6.8 million from December 31, 2013. The reduction was the result of \$9.3 million in recoveries received and \$6.5 million in charge-offs recorded, partially offset by a \$9.0 million increase to the provision.

Since December 31, 2014, we have originated six new loans for a total of \$112.0 million and received a total of \$83.6 million for the repayment in full of five loans.

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Real estate owned and held-for-sale We sold three real estate properties with a combined carrying value of \$19.7 million and paid down the related mortgage note payable by \$18.8 million in 2014. We recognized a net gain of \$1.6 million on these sales.

Prepaid management fee related party decreased \$19.0 million. In July 2014, we recognized a non-cash gain as a result of our debt guarantee on the 450 West 33rd Street property being terminated in connection with a refinancing of the existing debt on this property. As a result, we also recorded a \$19.0 million incentive management fee that had been prepaid in 2007 in relation to the transaction.

Liabilities Comparison of balances at December 31, 2014 to December 31, 2013:

Credit facilities and repurchase agreements increased \$21.3 million. During 2014, we utilized the capacity in our warehouse lines to redeem the \$87.5 million in outstanding CLO I notes and added a new \$15.0 million term debt facility. These increases were partially offset by the repayment of \$53.0 million in short-term credit facilities with proceeds from our third CLO and debt offering in the second quarter, as well as the payoff of our repurchase agreements totaling \$26.9 million due to the sale of the RMBS available-for-sale securities.

Collateralized debt obligations decreased \$308.2 million primarily due to proceeds received from CDO loan runoff used to repay CDO bond investors.

Collateralized loan obligations increased \$193.8 million primarily due to the completion of our third CLO in April 2014 in which we issued \$281.3 million of investment grade notes, partially offset by the redemption of the \$87.5 million in outstanding CLO I notes in December 2014.

Senior unsecured notes we issued \$97.9 million aggregate principal amount of 7.375% senior unsecured notes due in 2021, raising net proceeds of \$92.9 million after deducting the underwriting discount and offering expenses.

Deferred revenue decreased \$77.1 million. In July 2014, we recognized a non-cash gain of \$77.1 million as a result of our debt guarantee on the 450 West 33rd Street investment being terminated.

Equity

In February 2014, we completed an underwritten public offering of 900,000 shares of 8.50% Series C cumulative redeemable preferred stock with a liquidation preference of \$25.00 per share, generating net proceeds of \$21.6 million after deducting the underwriting discount and other offering expenses.

In February 2014, we entered into an ATM equity offering sales agreement with JMP whereby, in accordance with the terms of the agreement, from time to time we may issue and sell through JMP up to 7,500,000 shares of our common stock. Sales of the shares are made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. As of December 31, 2014, we sold 1,000,000 shares for net proceeds of \$6.5 million.

We used the net proceeds from these offerings to make investments, to repurchase or pay liabilities and for general corporate purposes.

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In May 2014, we issued 278,000 shares of restricted common stock under the 2014 Plan to certain employees of ours and our Manager and recorded \$0.3 million to employee compensation and benefits and \$0.3 million to selling and administrative expense in our consolidated statements of income. One third of the shares vested as of the date of grant, one third will vest in May 2015, and the remaining third will vest in May 2016. Also in May 2014, we issued 63,000 shares of fully vested common stock to the independent members of the Board of Directors under the 2014 Plan and recorded \$0.4 million to selling and administrative expense.

As of February 13, 2015, we have \$330.4 million available under our \$500.0 million shelf registration statement that was declared effective by the SEC in August 2013.

In connection with a debt restructuring with Wachovia Bank in 2009, we issued Wachovia 1,000,000 warrants at an average strike price of \$4.00 and an expiration date in July 2015. On July 1, 2014, we acquired and canceled all of the warrants in return for the payment of \$2.6 million, recorded to additional paid in capital, which reflects a 5% discount to the prior day closing price of our common stock of \$6.95.

The following table presents dividends declared (on a per share basis) for the year ended December 31, 2014:

Common Stock		Preferred Stock			
Declaration Date	Dividend	Declaration Date	Dividend(1)		
			Series A	Series B	Series C
February 12, 2014	\$ 0.13	February 3, 2014	\$ 0.515625	\$ 0.484375	N/A
April 29, 2014	\$ 0.13	April 29, 2014	\$ 0.515625	\$ 0.484375	\$ 0.5549
July 30, 2014	\$ 0.13	July 30, 2014	\$ 0.515625	\$ 0.484375	\$ 0.53125
November 5, 2014	\$ 0.13	November 3, 2014	\$ 0.515625	\$ 0.484375	\$ 0.53125

(1) The dividend declared on February 3, 2014 for the Series A and B preferred stock was for the period December 1, 2013 through February 28, 2014. The dividend declared on April 29, 2014 for the Series A, B and C preferred stock was for the period March 1, 2014 through May 31, 2014. The dividend declared on July 30, 2014 for the Series A, B and C preferred stock was for the period June 1, 2014 through August 31, 2014. The dividend declared on November 3, 2014 for the Series A, B and C preferred stock was for the period September 1, 2014 through November 30, 2014.

Common Stock On February 11, 2015, the Board of Directors declared a cash dividend of \$0.13 per share of common stock. The dividend is payable on March 2, 2015 to common stockholders of record as the close of business on February 25, 2015.

Preferred Stock On February 2, 2015, the Board of Directors declared a cash dividend of \$0.515625 per share of 8.25% Series A preferred stock; a cash dividend of \$0.484375 per share of 7.75% Series B preferred stock; and a cash dividend of \$0.53125 per share of 8.50% Series C preferred stock. These amounts reflect dividends from December 1, 2014 through February 28, 2015 and are payable on March 2, 2015 to preferred stockholders of record on February 15, 2015.

Table of Contents**Comparison of Results of Operations for Years Ended 2014 and 2013**

The following table sets forth our results of operations for the years ended December 31, 2014 and 2013:

	Year Ended December 31,		Increase/(Decrease)	
	2014	2013	Amount	Percent
Interest income	\$ 106,716,344	\$ 99,031,623	\$ 7,684,721	8%
Interest expense	47,903,458	42,065,151	5,838,307	14%
Net interest income	58,812,886	56,966,472	1,846,414	3%
Other revenue:				
Property operating income	32,641,249	30,127,260	2,513,989	8%
Other income	1,645,465	2,290,714	(645,249)	(28)%
Total other revenue	34,286,714	32,417,974	1,868,740	6%
Other expenses:				
Employee compensation and benefits	13,978,223	12,042,332	1,935,891	16%
Selling and administrative	9,600,139	10,603,247	(1,003,108)	(9)%
Property operating expenses	27,857,460	26,728,174	1,129,286	4%
Depreciation and amortization	7,371,737	7,250,601	121,136	2%
Impairment loss on real estate owned	250,000	1,000,000	(750,000)	(75)%
Provision for loan losses (net of recoveries)	(308,511)	4,287,652	(4,596,163)	nm
Management fee related party	9,900,000	10,900,000	(1,000,000)	(9)%
Total other expenses	68,649,048	72,812,006	(4,162,958)	(6)%
Income before gain on sale of equity interests, incentive management fee, gain on extinguishment of debt, gain on sale of real estate, net and income (loss) from equity affiliates	24,450,552	16,572,440	7,878,112	48%
Gain on sale of equity interests	85,793,466		85,793,466	nm
Incentive management fee equity interest related party	(19,047,949)		(19,047,949)	nm
Gain on extinguishment of debt		4,930,772	(4,930,772)	(100)%
Gain on sale of real estate, net	1,603,763		1,603,763	nm
Income (loss) from equity affiliates	248,658	(204,475)	453,133	nm
Net income	93,048,490	21,298,737	71,749,753	nm
Preferred stock dividends	7,256,255	4,506,583	2,749,672	61%
Net income attributable to noncontrolling interest		124,199	(124,199)	(100)%
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 85,792,235	\$ 16,667,955	\$ 69,124,280	nm

nm not meaningful

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The following table presents the average balance of interest-earning assets and related interest-bearing liabilities, associated interest income and expense and the corresponding weighted average yields (dollars in thousands):

	Year Ended December 31,					
	2014			2013		
	Average Carrying Value(1)	Interest Income/ Expense	W/A Yield/ Financing Cost(2)	Average Carrying Value(1)	Interest Income/ Expense	W/A Yield/ Financing Cost(2)
<i>Interest-earning assets:</i>						
Bridge loans	\$ 1,200,160	\$ 75,583	6.30%	\$ 1,189,782	\$ 67,110	5.64%
Mezzanine / junior participation loans	327,171	22,734	6.95%	353,955	19,901	5.62%
Preferred equity investments	112,683	8,024	7.12%	106,408	7,492	7.04%
Securities	3,891	70	1.80%	57,829	2,479	4.29%
Other investments				41,730	1,789	4.29%
Core interest-earning assets	1,643,905	106,411	6.47%	1,749,704	98,771	5.65%
Cash equivalents	170,681	305	0.18%	97,370	261	0.27%
Total interest-earning assets	\$ 1,814,586	106,716	5.88%	\$ 1,847,074	99,032	5.36%
<i>Interest-bearing liabilities:</i>						
Warehouse lines	\$ 90,396	3,519	3.89%	\$ 60,714	2,544	4.19%
CDO	413,196	17,409	4.21%	726,045	21,375	2.94%
CLO	450,519	15,755	3.50%	251,404	8,793	3.50%
Other non-recourse	4,048	211	5.21%	38,407	1,342	3.49%
Trust preferred	175,858	5,604	3.19%	175,858	5,830	3.32%
Unsecured debt	65,648	5,383	8.20%	14,552	1,495	10.27%
Securities financing	1,185	22	1.86%	37,946	686	1.81%
Total interest-bearing liabilities	\$ 1,200,850	47,903	3.99%	\$ 1,304,926	42,065	3.22%
Net interest income		\$ 58,813			\$ 56,967	

(1) Based on unpaid principal balance for loans, amortized cost for securities and principal amount for debt.

(2) Weighted average yield calculated based on annualized interest income or expense divided by average carrying value.

Net Interest Income

Interest income increased \$7.7 million, or 8%, in 2014 as compared to 2013. This increase was primarily due to a 15% increase in the average yield on core interest-earning assets from 5.65% for 2013 to 6.47% for 2014, primarily from \$4.3 million of fee income from accelerated runoff as well as from higher interest rates on our portfolio during 2014. The increase was partially offset by a 6% decrease in our average core interest-earning assets from \$1.75 billion for 2013 to \$1.64 billion for 2014, due to loan payoffs exceeding loan originations by \$78.9 million and selling our available-for-sale RMBS securities totaling \$33.4 million during 2014.

Interest expense increased \$5.8 million, or 14%, for 2014 as compared to 2013. The increase was primarily due to a 24% increase in the average cost of these interest-bearing liabilities from 3.22% for 2013 to 3.99% for 2014, primarily due to an overall increase in our CDO debt cost as a result of runoff in these vehicles, the proceeds of which are used to paydown low cost debt within these CDO's, \$1.0 million in

accelerated fees related to the redemption of CLO I in December 2014 and the issuance

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of \$97.9 million of 7.375% senior unsecured notes during 2014. The increase was partially offset by an 8% decrease in the average balance of our interest-bearing liabilities from \$1.30 billion for 2013 to \$1.20 billion for 2014. The decrease in the average balance was primarily due to a decrease in CDO debt due to runoff and decreases in our securities and other non-recourse financing, partially offset by the issuance of \$281.3 million in CLO III notes in April 2014 and the issuance of \$97.9 million of senior unsecured notes during 2014.

Other Revenue

Property operating results (income less expenses) are comprised of our Multifamily and Hotel Portfolios. Property operating results increased \$1.4 million, or 41%, for 2014 as compared to 2013, primarily due to higher occupancy and increased ancillary income (food and beverage, parking, fees) at our Hotel Portfolio, partially offset by increased operating costs at our Hotel Portfolio and the sale of three properties in our Multifamily Portfolio during 2014.

Other income, net decreased \$0.6 million, or 28%, for 2014 as compared to 2013, primarily due to a reduction of miscellaneous asset management and other fees.

Other Expenses

Employee compensation and benefits expense increased \$1.9 million, or 16%, for 2014 as compared to 2013. Compensation increased \$1.5 million as a result of our CEO's base salary being directly compensated by us effective January 1, 2014, as well as an increase in staffing resulting from higher loan origination volume from 2013 to 2014. Additionally, stock-based compensation increased \$0.3 million related to restricted common stock grants that were awarded to certain employees in 2014.

Selling and administrative expense decreased \$1.0 million, or 9%, for 2014 as compared to 2013. These costs include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, travel and placement fees, director's fees, licensing fees and stock-based compensation relating to our directors and certain employees of our Manager. This decrease was primarily due to \$1.4 million in costs and fees incurred in 2013 in connection with the exploration and evaluation of a potential transaction with our Manager. No similar costs were incurred in 2014.

Provision for loan losses (net of recoveries) totaled \$(0.3) million for 2014 and \$4.3 million for 2013. During 2014, we recognized a \$9.0 million provision for loan losses related to four loans and recorded net recoveries of previously recorded loan losses of \$9.3 million, resulting in a net recovery position of \$(0.3) million. During 2013, we recognized a \$6.5 million provision for loan losses related to five loans and recorded net recoveries of previously recorded loan losses of \$2.2 million, resulting in a provision for loan losses, net of recoveries of \$4.3 million.

Management fees decreased \$1.0 million, or 9%, for 2014 as compared to 2013, primarily due to recording a portion of the management fee as employee compensation and benefits in connection with our CEO's base salary being directly compensated by us effective January 1, 2014.

Gain on Sale of Equity Interest / Incentive Management Fee

In July 2014, we recognized a non-cash gain of approximately \$77.1 million as a result of our debt guarantee on the 450 West 33rd Street property being terminated in connection with a refinancing of the existing debt on this property, net of a \$19.0 million incentive management fee that was prepaid in 2007 in relation to the transaction. In December 2014, we sold our remaining interest in the 450 West 33rd Street property and recognized a gain on sale of \$0.8 million. We also recognized a gain on sale of equity interest of \$7.9 million in the second quarter of 2014 due to the sale of an interest in properties held by one of our equity affiliates. See Note 5 "Investments in Equity Affiliates" for further details. There were no such gains in 2013.

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Gain on Extinguishment of Debt

During 2013, we purchased, at a discount, a \$9.9 million investment grade rated Class H note originally issued by our CDO II and CDO III issuing entity from third party investors and recorded a net gain on early extinguishment of debt of \$4.9 million. There was no gain on extinguishment of debt in 2014.

Gain on Sale of Real Estate

During 2014, we sold three real estate properties in our Multifamily Portfolio for \$21.3 million and recognized a net gain of \$1.6 million on these sales.

Preferred Stock Dividends

Preferred stock dividends increased \$2.7 million, or 61%, for 2014 as compared to 2013. Dividends on our 8.50% Series C preferred stock that were issued in February 2014 contributed \$1.6 million of this increase, while the full year impact of dividends on our 7.75% Series B preferred stock and our 8.25% Series A preferred stock that were issued during 2013 contributed an additional \$1.1 million.

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Comparison of Results of Operations for Years Ended 2013 and 2012

The following table sets forth our results of operations for the years ended December 31, 2013 and 2012:

	Year Ended December 31,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Interest income	\$ 99,031,623	\$ 79,998,762	\$ 19,032,861	24%
Interest expense	42,065,151	40,866,832	1,198,319	3%
Net interest income	56,966,472	39,131,930	17,834,542	46%
Other revenue:				
Property operating income	30,127,260	30,173,754	(46,494)	nm
Other income	2,290,714	1,280,289	1,010,425	79%
Total other revenue	32,417,974	31,454,043	963,931	3%
Other expenses:				
Employee compensation and benefits	12,042,332	10,173,572	1,868,760	18%
Selling and administrative	10,603,247	7,882,914	2,720,333	35%
Property operating expenses	26,728,174	27,963,386	(1,235,212)	(4)%
Depreciation and amortization	7,250,601	5,794,013	1,456,588	25%
Impairment loss on real estate owned	1,000,000		1,000,000	100%
Provision for loan losses (net of recoveries)	4,287,652	22,946,396	(18,658,744)	(81)%
Management fee related party	10,900,000	10,000,000	900,000	9%
Total other expenses	72,812,006	84,760,281	(11,948,275)	(14)%
Income (loss) from continuing operations before gain on extinguishment of debt, loss from equity affiliates and benefit from income taxes	16,572,440	(14,174,308)	30,746,748	nm
Gain on extinguishment of debt	4,930,772	30,459,023	(25,528,251)	(84)%
Loss from equity affiliates	(204,475)	(697,856)	493,381	(71)%
Income before benefit from income taxes	21,298,737	15,586,859	5,711,878	37%
Benefit from income taxes		801,558	(801,558)	(100)%
Income from continuing operations	21,298,737	16,388,417	4,910,320	30%
Gain on sale of real estate held-for-sale		3,953,455	(3,953,455)	(100)%
Income from operations of real estate held-for-sale		1,374,583	(1,374,583)	(100)%
Income from discontinued operations		5,328,038	(5,328,038)	(100)%
Net income	21,298,737	21,716,455	(417,718)	(2)%
Preferred stock dividends	4,506,583		4,506,583	nm
Net income attributable to noncontrolling interest	124,199	215,567	(91,368)	(42)%
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 16,667,955	\$ 21,500,888	\$ (4,832,933)	(22)%

nm not meaningful

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The following table presents the average balance of interest-earning assets and related interest-bearing liabilities, associated interest income and expense and the corresponding weighted average yields (dollars in thousands):

	Year Ended December 31,					
	2013			2012		
	Average Carrying Value(1)	Interest Income/ Expense	W/A Yield/ Financing Cost(2)	Average Carrying Value(1)	Interest Income/ Expense	W/A Yield/ Financing Cost(2)
<i>Interest-earning assets:</i>						
Bridge loans	\$ 1,189,782	\$ 67,110	5.64%	\$ 1,051,690	\$ 55,896	5.31%
Mezzanine / junior participation loans	353,955	19,901	5.62%	343,187	14,438	4.21%
Preferred equity investments	106,408	7,492	7.04%	87,284	3,766	4.31%
Securities	57,829	2,479	4.29%	65,547	2,955	4.51%
Other investments	41,730	1,789	4.29%	56,141	2,660	4.74%
Core interest-earning assets	1,749,704	98,771	5.65%	1,603,849	79,715	4.97%
Cash equivalents	97,370	261	0.27%	78,245	284	0.36%
Total interest-earning assets	\$ 1,847,074	99,032	5.36%	\$ 1,682,094	79,999	4.76%
<i>Interest-bearing liabilities:</i>						
Warehouse lines	\$ 75,266	4,039	5.37%	\$ 58,323	2,773	4.75%
CDO	726,045	21,375	2.94%	897,360	26,700	2.98%
CLO	251,404	8,793	3.50%	23,733	1,043	4.39%
Other non-recourse	38,407	1,342	3.49%	63,402	2,543	4.01%
Trust preferred	175,858	5,830	3.32%	176,340	7,095	4.02%
Securities financing	37,946	686	1.81%	44,341	713	1.61%
Total interest-bearing liabilities	\$ 1,304,926	42,065	3.22%	\$ 1,263,499	40,867	3.23%
Net interest income		\$ 56,967			\$ 39,132	

(1) Based on unpaid principal balance for loans, amortized cost for securities and principal amount for debt.

(2) Weighted average yield calculated based on annualized interest income or expense divided by average carrying value.

Net Interest Income

Interest income increased \$19.0 million, or 24%, in 2013 as compared to 2012. This increase was primarily due to a 14% increase in the average yield on core interest-earning assets from 4.97% for 2012 to 5.65% for 2013, due to higher interest rates on our net originations. The increase was also due to a 9% increase in our average core interest-earning assets from \$1.60 billion for 2012 to \$1.75 billion for 2013, due to originations, net of payoffs.

Interest expense increased \$1.2 million, or 3%, for 2013 as compared to 2012. The increase was primarily due to a 3% increase in the average balance of our interest-bearing liabilities from \$1.26 billion for 2012 to \$1.30 billion for 2013. The increase in the average balance was primarily due to the addition of a new CLO financing facility, net of a reduction in our CDO debt due to runoff and amortization and the repurchase of three CDO notes.

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Other Revenue

Other income, net increased \$1.0 million, or 79%, for 2013 as compared to 2012, primarily due to a \$1.1 million gain on the sale of a CDO bond investment in the second quarter of 2013, an increase in net interest income of \$1.0 million on our linked transactions as well as an increase of \$0.7 million in miscellaneous asset management fees on our loan and investment portfolio, and is net of a \$1.8 million decrease in the fair value of our linked transactions.

Other Expenses

Employee compensation and benefits expense increased \$1.9 million, or 18%, for 2013 as compared to 2012. An increase in staffing resulting from higher loan origination volume from 2012 to 2013 contributed \$1.5 million of this increase, while stock-based compensation recorded for the issuance of restricted common stock to certain employees in 2013 contributed an additional \$0.4 million.

Selling and administrative expense increased \$2.7 million, or 35%, for 2013 as compared to 2012. The increase was primarily due to \$1.4 million of legal, consulting and director's fees incurred in connection with the exploration and evaluation of a potential transaction with our Manager. The increase was also due to \$0.6 million of stock-based compensation recorded for the issuance of restricted common stock to certain employees of our Manager in 2013 as well as a \$0.4 million increase in professional fees.

Depreciation and amortization expense increased \$1.5 million, or 25%, for 2013 as compared to 2012, primarily due to an increase in capital expenditures associated with two real estate investments.

Impairment loss on real estate owned of \$1.0 million for 2013 resulted from our determination of impairment based on the analysis of one of the properties in our Multifamily Portfolio in the fourth quarter of 2013.

Provision for loan losses (net of recoveries) totaled \$4.3 million for 2013 and \$22.9 million for 2012. During 2013, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing five impaired loans with an aggregate carrying value of \$31.5 million was less than the net carrying value of the loans, resulting in us recording an additional \$6.5 million provision for loan losses. We also recorded \$2.2 million of recoveries of previously recorded loan loss reserves in 2013, netting the provision to \$4.3 million for 2013. During 2012, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing eight impaired loans with an aggregate carrying value of \$94.6 million was less than the net carrying value of the loans, resulting in us recording an additional \$23.8 million provision for loan losses. We also recorded \$0.9 million of net recoveries of previously recorded loan loss reserves in 2012, netting the provision to \$22.9 million for 2012.

Management fees increased \$0.9 million, or 9%, for 2013 as compared to 2012. These amounts represent compensation in the form of base management fees, on a cost reimbursement basis. The increase in management fees was due to an increase in allocable costs incurred by our Manager in managing our business from 2012 to 2013.

Gain on Extinguishment of Debt

Gain on extinguishment of debt totaled \$4.9 million for 2013 and \$30.5 million for 2012. During 2013, we purchased, at a discount, \$9.9 million of investment grade rated Class H notes originally issued by our CDO II and CDO III issuing entities from third party investors and recorded a net gain on early extinguishment of debt of \$4.9 million. During 2012, we purchased, at a discount, \$66.2 million of investment grade rated Class B, C, D, E, F, G and H notes originally issued by our CDO II and

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CDO III issuing entities from third party investors and recorded a net gain on early extinguishment of debt of \$30.5 million.

Income Taxes

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As a REIT, we are generally not subject to federal income tax on our REIT taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT taxable income and meet certain other requirements. As of December 31, 2013 and 2012, we were in compliance with all REIT requirements and, therefore, have not recorded a provision for income taxes on our REIT taxable income for the years ended December 31, 2013 and 2012. The tax benefit recognized in 2012 primarily reflects a refund received in 2012 of federal income taxes paid by a taxable REIT subsidiary in a prior year.

Income from Discontinued Operations

We recorded income from discontinued operations of \$5.3 million in 2012 primarily from gains recognized on the sale of two properties totaling \$4.0 million. In addition, we recognized \$1.2 million of income related to the reversal of accrued liabilities that were not incurred in connection with the surrender of a property to the first mortgage lender in full satisfaction of the mortgage note payable.

Preferred Stock Dividends

During 2013 we incurred expenses totaling \$4.5 million related to dividends declared on preferred stock. Of this total, \$2.9 million relates to our 8.25% Series A cumulative redeemable preferred stock and \$1.6 million relates to our 7.75% Series B cumulative redeemable preferred stock.

Liquidity and Capital Resources

Sources of Liquidity

Liquidity is a measurement of the ability to meet potential cash requirements. Our short-term and long-term liquidity needs include ongoing commitments to repay borrowings, fund future loans and investments, fund additional cash collateral from potential declines in the value of a portion of our interest rate swaps, fund operating costs and distributions to our stockholders as well as other general business needs. Our primary sources of funds for liquidity consist of proceeds from equity and debt offerings, debt facilities and cash flows from our operations. Our equity sources, depending on market conditions, consist of proceeds from capital market transactions including the issuance of common, convertible and/or preferred equity securities. Our debt facilities include the issuance of floating rate notes resulting from our CDOs and CLOs, the issuance of senior unsecured notes and junior subordinated notes and borrowings under warehousing facilities. Net cash flows from operations include interest income from our loan and investment portfolio reduced by interest expense on our debt facilities, cash generated from our real estate operations, cash from other investments reduced by expenses, repayments of outstanding loans and investments and funds from junior loan participation arrangements.

We believe our existing sources of funds will be adequate for meeting our short-term and long-term liquidity needs. A majority of our loans and investments are financed under existing debt obligations and their credit status is continuously monitored; therefore, these loans and investments are expected to generate a generally stable return. Our ability to meet our long-term liquidity and capital resource requirements is subject to obtaining additional debt and equity financing. Any decision by our lenders and investors to enter into such transactions with us will depend upon a number of factors, such as our financial performance, compliance with the terms of our existing credit arrangements, industry or market trends, the general availability of and rates applicable to financing transactions, such

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lenders' and investors' resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

While we have been successful in obtaining proceeds from debt and equity offerings, CLOs and certain financing facilities, current conditions in the capital and credit markets have and may continue to make certain forms of financing less attractive and, in certain cases, less available. Therefore we will continue to rely, in part, on cash flows provided by operating and investing activities for working capital.

To maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our REIT taxable income. These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. However, we believe that our capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements.

Cash Flows

Our cash flows from operating activities increased by \$8.3 million during 2014 as compared to 2013, primarily due to increases in the net cash interest income generated on our investments and net operating income earned on our real estate owned assets.

Cash provided by investing activities totaled \$145.0 million during 2014. We originated 80 new loans during 2014 totaling \$900.7 million; the majority of these loans were multifamily bridge loans. Including net amounts for additional funding on existing loans, holdbacks, etc., total loan volume was \$908.8 million. Loan originations during 2014 were outpaced by payoffs and paydowns on loans and investments totaling \$987.7 million resulting in net cash inflow of approximately \$78.9 million related to our loan and investment portfolio. Other significant cash inflows during 2014 included the proceeds of \$33.9 million from the sale of our available-for-sale RMBS securities and proceeds of \$21.9 million from the sales of three real estate properties in our Multifamily Portfolio. We generated a net gain on the sales of our RMBS securities and real estate properties totaling \$2.1 million. We also received \$9.1 million in distributions from equity affiliates, the majority of which totaled \$7.9 million related to the sale of our equity interest in two commercial properties.

Cash flows used in financing activities totaled \$185.7 million during 2014. Significant cash outflows in 2014 included \$382.0 million in payoffs and paydowns on our debt facilities, \$307.5 million in payoffs on our three CDO vehicles, all of which are past their replenishment period, \$87.5 million in CLO payoffs as a result of redeeming our CLO I notes and \$33.1 million in dividend payments to common and preferred stockholders. We also incurred an increase in restricted cash of \$162.4 million as a result of timing of loan payoffs received in the fourth quarter of 2014 in our CDOs and CLOs, and repaid \$22.8 million of mortgage notes payable in connection with the sale of three real estate properties in our Multifamily Portfolio. Significant cash inflows in 2014 included \$402.1 million of proceeds from the utilization of our debt facilities, including increasing the capacity on three facilities by a total of \$70.0 million and adding a new \$15.0 million term facility, \$281.3 million of proceeds from the issuance of CLO III and \$97.9 million from the issuance of senior unsecured notes. We also received \$28.2 million of net proceeds from issuing common and preferred stock during 2014.

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Debt Facilities

We maintain various forms of short-term and long-term financing arrangements. Borrowings underlying these arrangements are primarily secured by a significant amount of our loans and investments. The following is a summary of our debt facilities as of December 31, 2014:

Debt Facilities	December 31, 2014			
	Commitment	Debt Carrying Value	Available	Maturity Dates
Credit facilities	\$ 250,000,000	\$ 180,386,200	\$ 69,613,800	2015
Collateralized debt obligations(1)(2)	331,395,126	331,395,126		2015 - 2017
Collateralized loan obligations(2)	458,250,000	458,250,000		2016 - 2017
Senior unsecured notes	97,860,025	97,860,025		2021
Junior subordinated notes(3)	159,833,260	159,833,260		2034 - 2037
Note payable	1,300,000	1,300,000		2015
	\$ 1,298,638,411	\$ 1,229,024,611	\$ 69,613,800	

-
- (1) In the first quarter of 2015, we completed the unwind of our CDO I and CDO II vehicles, redeeming \$167.9 million of our outstanding notes primarily with a new \$150.0 million warehouse repurchase facility and CDO cash.
- (2) Maturity dates represent the weighted average remaining maturity based on the underlying collateral as of December 31, 2014.
- (3) Represents a total face amount of \$175.9 million less a total deferred amount of \$16.0 million.

We also have a first lien mortgage in connection with real estate owned and held-for-sale in our Multifamily Portfolio. At December 31, 2014, the outstanding balance of this mortgage note payable was \$31.0 million.

These debt facilities, including their restrictive covenants, are described in further detail in Note 7 "Debt Obligations."

Our CDO and CLO vehicles contain interest coverage and asset over collateralization 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 CDOs or CLOs, all cash flows from the applicable CDO or CLO would be diverted to repay principal and interest on the outstanding CDO or CLO bonds and we would not receive any residual payments until that CDO or CLO regained compliance with such tests. Our CDOs and CLOs were in compliance with all such covenants as of December 31, 2014 as well as on the most recent determination dates in January 2015. In the event of a breach of the CDO or CLO covenants that could not be cured in the near-term, we would be required to fund our non-CDO or non-CLO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO or CLO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, 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 CDOs or CLOs. However, we may not have sufficient liquidity available to do so at such time.

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Contractual Commitments

As of December 31, 2014, we had the following material contractual obligations (in thousands):

Contractual Obligations	Payments Due by Period(1)						Total
	2015	2016	2017	2018	2019	Thereafter	
Credit facilities	\$ 180,386	\$	\$	\$	\$	\$	\$ 180,386
Collateralized debt obligations(2)	109,564	91,783	66,479		17,375	46,194	331,395
Collateralized loan obligations(3)	25,090	162,094	244,465	26,601			458,250
Senior unsecured notes						97,860	97,860
Junior subordinated notes(4)						175,858	175,858
Notes payable	1,300						1,300
Mortgage note payable real estate owned and held-for-sale	30,984						30,984
Outstanding unfunded commitments(5)	7,646	4,210	2,671				14,527
Totals	\$ 354,970	\$ 258,087	\$ 313,615	\$ 26,601	\$ 17,375	\$ 319,912	\$ 1,290,560

-
- (1) Represents principal amounts due based on contractual maturities. Does not include total projected interest payments on our debt obligations of \$36.0 million in 2015, \$28.4 million in 2016, \$20.7 million in 2017, \$13.7 million in 2018, \$13.0 million in 2019 and \$98.3 million thereafter based on current LIBOR rates.
- (2) Comprised of \$75.4 million of CDO I debt, \$103.5 million of CDO II debt and \$152.5 million of CDO III debt with a weighted average contractual maturity of 0.56, 0.90 and 2.89 years, respectively, as of December 31, 2014. The balance of estimated interest due through maturity on CDO bonds reissued in 2010, which is included in the carrying values of the CDOs, totaled \$19.3 million at December 31, 2014. In the first quarter of 2015, we unwound our CDO I and CDO II vehicles and reduced the balance of estimated interest by \$11.0 million, recording a gain.
- (3) Represents \$177.0 million of CLO II debt and \$281.3 million of CLO III debt with a weighted average contractual maturity of 2.01 and 2.52 years, respectively, as of December 31, 2014.
- (4) Represents the face amount due upon maturity. The carrying value is \$159.8 million, which is net of a deferred amount of \$16.0 million at December 31, 2014.
- (5) In accordance with certain loans and investments, we have outstanding unfunded commitments of \$14.5 million as of December 31, 2014, that we are obligated to fund as the borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements. Our restricted cash balance contained approximately \$5.3 million which was available to fund the portion of the unfunded commitments for loans financed by our CDO and CLO vehicles.

Off-Balance-Sheet Arrangements

At December 31, 2014, we did not have any off-balance-sheet arrangements.

Inflation

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Changes in the general level of interest rates prevailing in the economy in response to changes in the rate of inflation generally have little effect on our income because the majority of our interest-earning assets and interest-bearing liabilities have floating rates of interest. However, the significant

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decline in interest rates in the past triggered LIBOR floors on certain of our variable rate interest-earning assets. This resulted in an increase in interest rate spreads on certain assets as the rates we pay on variable rate interest-bearing liabilities declined at a greater pace than the rates we earned on our variable rate interest-earning assets. The number of loans impacted by LIBOR floors have significantly decreased over this time as a majority of the loans with such floors were paid off, monetized, modified or restructured. Additionally, we have various fixed rate loans in our portfolio which are financed with variable rate LIBOR borrowings. In connection with these loans, we have entered into various interest swaps to hedge our exposure to the interest rate risk on our variable rate LIBOR borrowings as it relates to certain fixed rate loans in our portfolio. However, the value of our interest-earning assets, our ability to realize gains from the sale of assets, and the average life of our interest-earning assets, among other things, may be affected. See "Quantitative and Qualitative Disclosures about Market Risk" below.

Agreements and Transactions with Related Parties

We have a management agreement with our Manager, pursuant to which our Manager provides certain services and we pay our Manager a base management fee and under certain circumstances, an annual incentive fee. We incurred \$9.9 million, \$10.9 million and \$10.0 million of base management fees for services rendered in 2014, 2013 and 2012, respectively.

The base management fee is an arrangement whereby we reimburse our Manager for its actual costs incurred in managing our business based on the parties' agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. All origination fees on investments are retained by us.

In addition, we have conducted many transactions with our Manager and other parties that are deemed related party transactions. The details of the management agreement and related party transactions are described in Note 14 "Agreements and Transactions with Related Parties" of this report.

In June 2013, our Board of Directors formed a special committee consisting of independent directors in connection with the exploration and evaluation of a potential transaction with our Manager involving the acquisition of the Manager's Fannie Mae, DUS, FHA and CMBS platforms, as well as the internalization of the management of our current business. There were preliminary discussions between the special committee and representatives of our Manager regarding a potential transaction during 2013. In connection therewith, the special committee engaged legal, financial and accounting advisors resulting in approximately \$1.4 million of advisory fees during 2013. In late June of 2014, preliminary discussions regarding a possible transaction resumed but we cannot provide any assurance whether any transaction between us and our Manager will occur, or if a transaction did occur, any information on the timing, terms or form of any such transaction, including the amount or type of consideration (including the issuance of common stock) or related financing. No advisory fees or other related fees were incurred during 2014.

Significant Accounting Estimates and Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification, the authoritative reference for accounting principles generally accepted in the U.S. ("GAAP"). The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts in our consolidated financial statements. Actual results could differ from these estimates. A summary of our significant accounting policies is presented in Note 2 "Summary of

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Significant Accounting Policies." Set forth below are the accounting policies that management believes are critical to the preparation of the consolidated financial statements included in this report:

Loans, Investments and Securities

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

Real Estate Owned and Held-For-Sale

Revenue Recognition

Income Taxes

Hedging Activities and Derivatives

Variable Interest Entities

Certain of the accounting policies used in the preparation of these consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical consolidated financial statements included in this report and require the application of significant judgment by management and, as a result, are subject to a degree of uncertainty.

Non-GAAP Financial Measures

Funds from Operations and Adjusted Funds from Operations

We present funds from operations ("FFO") and adjusted funds from operations ("AFFO") because we believe they are important supplemental measures of our operating performance in that they are frequently used by analysts, investors and other parties in the evaluation of REITs. The National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income (loss) attributable to common stockholders (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated real properties, plus impairments of depreciated properties and real estate related depreciation and amortization, and after adjustments for unconsolidated ventures. Income (losses) from discontinued operations is not excluded when calculating FFO.

We define AFFO as funds from operations adjusted for accounting items such as non-cash stock-based compensation expense, as well as the add-back of impairment losses on real estate and gains/losses on sales of real estate. We are generally not in the business of operating real estate owned property and have obtained real estate by foreclosure or through partial or full settlement of mortgage debt related to our loans to maximize the value of the collateral and minimize our exposure. Therefore, we deem such impairment and gains/losses on real estate as an extension of the asset management of our loans, thus a recovery of principal or additional loss on our initial investment.

FFO and AFFO are not intended to be an indication of our cash flow from operating activities (determined in accordance with GAAP) or a measure of our liquidity, nor is it entirely indicative of funding our cash needs, including our ability to make cash distributions. Our calculation of FFO and AFFO may be different from the calculations used by other companies and, therefore, comparability may be limited.

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FFO for the years ended December 31, 2014, 2013 and 2012 are as follows:

	Year Ended December 31,		
	2014	2013	2012
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 85,792,235	\$ 16,667,955	\$ 21,500,888
Subtract:			
Gain on sale of real estate, net	(1,603,763)		(3,953,455)
Add:			
Impairment loss on real estate owned	250,000	1,000,000	
Depreciation real estate owned and held-for-sale	7,371,737	7,250,601	5,904,089
Depreciation investments in equity affiliates	268,224	90,396	90,396
FFO	\$ 92,078,433	\$ 25,008,952	\$ 23,541,918
Subtract:			
Impairment loss on real estate owned	(250,000)	(1,000,000)	
Add:			
Gain on sale of real estate, net	1,603,763		3,953,455
Stock-based compensation	1,989,439	1,600,142	578,190
AFFO	\$ 95,421,635	\$ 25,609,094	\$ 28,073,563
Diluted FFO per common share	\$ 1.83	\$ 0.58	\$ 0.87
Diluted AFFO per common share	\$ 1.89	\$ 0.60	\$ 1.03
Diluted weighted average shares outstanding	50,368,344	42,835,144	27,211,287

Excluding the impact of a \$58.1 million non-cash net gain related to the 450 West 33rd Street transaction (see Note 14 "Agreements and Transactions with Related Parties" for further details), FFO for 2014 was \$34.0 million, or \$0.68 per diluted common share and AFFO for 2014 was \$37.3 million, or \$0.74 per diluted common share.

Adjusted Book Value per Common Share

We believe adjusted book value per common share is an additional appropriate measure given the significance of the unrealized gain/loss position of our qualifying derivative instruments as well as the historical deferral structure of the 450 West 33rd Street transaction from 2007. We recognized the deferred gain on the 450 West 33rd Street transaction during the third quarter of 2014 (see Note 14 "Agreements and Transactions with Related Parties" for further details) so this transaction will no longer be a component of adjusted book value per common share. As of December 31, 2014, adjusted book value per common share currently reflects the impact of the removal of the temporary nature of unrealized gains/losses as a component of equity from qualifying interest rate swaps on our financial position. Over time, as these qualifying interest rate swaps reach their maturity, the fair value of these swaps will return to their original par value. We consider this non-GAAP financial measure to be an effective indicator of our financial condition. We do not advocate that investors consider this non-GAAP financial measure in isolation from, or as a substitute for, financial measures prepared in accordance with GAAP.

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GAAP book value per share and adjusted book value per share as of December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
GAAP Arbor Realty Trust, Inc. Stockholders' Equity	\$ 535,455,471	\$ 437,596,282	\$ 229,329,349
Subtract: Cumulative redeemable preferred stock	(89,295,905)	(67,654,655)	
GAAP Arbor Realty Trust, Inc. Common Stockholders' Equity	446,159,566	369,941,627	229,329,349
Add: 450 West 33 rd Street transaction deferred revenue		77,123,133	77,123,133
Unrealized loss on derivative instruments	13,908,163	24,794,051	37,754,775
Subtract: 450 West 33 rd Street transaction prepaid management fee		(19,047,949)	(19,047,949)
Adjusted Arbor Realty Trust, Inc. Common Stockholders' Equity	\$ 460,067,729	\$ 452,810,862	\$ 325,159,308
Adjusted book value per common share	\$ 9.11	\$ 9.22	\$ 10.41
GAAP book value per common share	\$ 8.84	\$ 7.53	\$ 7.34
Common shares outstanding	50,477,308	49,136,308	31,249,225

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and real estate values. The primary market risks that we are exposed to are real estate risk and interest rate risk.

Market Conditions

We are subject to market changes in the debt and secondary mortgage markets. These markets have experienced disruptions in the past, which have and may in the future have an adverse impact on our earnings and financial condition.

In general, credit markets have experienced difficulty over the past several years. However, of late, we have been able to access equity and debt markets through equity and debt offerings and the issuance of CLOs. While there can be no assurance that we will continue to have access to the equity and debt markets, we will continue to pursue these and other available market opportunities as means to increase our liquidity and capital base.

Real Estate Risk

Commercial mortgage assets may be viewed as exposing an investor to greater risk of loss than residential mortgage assets since such assets are typically secured by larger loans to fewer obligors than residential mortgage assets. Multifamily and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, events such as natural disasters including hurricanes and earthquakes, acts of war and/or terrorism and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investment; national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction delays, construction cost, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as

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energy costs). In the event net operating income decreases, a borrower may have difficulty repaying our loans, which could result in losses to us. In addition, decreases in property values reducing the value of collateral, and a lack of liquidity in the market, could reduce the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses. Even when the net operating income is sufficient to cover the related property's debt service, there can be no assurance that this will continue to be the case in the future.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Our operating results depend in large part on differences between the income from our loans and our borrowing costs. Most of our loans and borrowings are variable-rate instruments, based on LIBOR. The objective of this strategy is to minimize the impact of interest rate changes on our net interest income. In addition, we have various fixed rate loans in our portfolio, which are financed with variable rate LIBOR borrowings. We have entered into various interest swaps (as discussed below) to hedge our exposure to interest rate risk on our variable rate LIBOR borrowings as it relates to our fixed rate loans. Certain of these swaps are scheduled to mature on the original maturity dates of their corresponding loans. However, loans are sometimes extended and, consequently, do not pay off on their original maturity dates. If a loan is extended, whether it is through an existing extension option or a modification, our exposure to interest rate risk may be increased. In these instances, we could have a fixed rate loan in our portfolio financed with variable debt and, since the corresponding interest swap already matured, a portion of our debt is no longer protected against interest rate risk. Some of our loans and borrowings are subject to various interest rate floors. As a result, the impact of a change in interest rates may be different on our interest income than it is on our interest expense.

We have utilized interest rate swaps to limit interest rate risk. Derivatives are used for hedging purposes rather than speculation. We do not enter into financial instruments for trading purposes.

The following table projects the potential impact on interest income and interest expense for a 12-month period, and the potential change in fair value of our derivative financial instruments as of December 31, 2014, assuming an instantaneous increase or decrease of both 25 and 50 basis points in LIBOR and forward interest rate curves, adjusted for the effects of our interest rate hedging activities.

	Assets (Liabilities)					
	Subject to	25 Basis	25 Basis	50 Basis	50 Basis	
	Interest Rate	Point	Point	Point	Point	
	Sensitivity(1)	Increase	Decrease(2)	Increase	Decrease(2)	
Interest income from loans and investments	\$ 1,593,584,588	\$ 2,248,690	\$ (555,558)	\$ 4,895,815	\$ (555,558)	
Interest expense from debt obligations	(1,225,725,280)	2,145,610	(1,469,743)	4,291,220	(1,469,743)	
Total net interest income		\$ 103,080	\$ 914,185	\$ 604,595	\$ 914,185	
Fair value of derivative financial instruments	\$ (13,906,168)	\$ 849,605	\$ (852,643)	\$ 1,694,346	\$ (1,613,037)	

(1) Represents the unpaid principal balance of our loan portfolio and the net fair value of our derivative financial instruments, which includes interest rate swaps, basis swaps and LIBOR caps.

(2) Assumes the LIBOR rate will not decrease below zero. The quoted one-month LIBOR rate was 0.17% as December 31, 2014.

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In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

In connection with our CDOs described in "Management's Discussion and Analysis of Financial Condition and Results of Operations," we entered into interest rate swap agreements to hedge the exposure to the risk of changes in the difference between three-month LIBOR and one-month LIBOR interest rates. These interest rate swaps became necessary due to the investors' return being paid based on a three-month LIBOR index while the assets contributed to the CDOs are yielding interest based on a one-month LIBOR index.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>61</u>
<u>Consolidated Balance Sheets at December 31, 2014 and 2013</u>	<u>62</u>
<u>Consolidated Statements of Income for the Years Ended December 31, 2014, 2013 and 2012</u>	<u>63</u>
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2014, 2013 and 2012</u>	<u>64</u>
<u>Consolidated Statements of Changes in Equity for the Years Ended December 31, 2014, 2013 and 2012</u>	<u>65</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012</u>	<u>67</u>
<u>Notes to Consolidated Financial Statements</u>	<u>69</u>
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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.	

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Arbor Realty Trust, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Arbor Realty Trust, Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for reporting discontinued operations effective January 1, 2014.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 13, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 13, 2015

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	December 31, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	\$ 50,417,745	\$ 60,389,552
Restricted cash (includes \$216,405,894 and \$54,051,439 from consolidated VIEs, respectively)	218,100,529	54,962,316
Loans and investments, net (includes \$968,600,472 and \$1,196,434,032 from consolidated VIEs, respectively)	1,459,475,650	1,523,699,653
Available-for-sale securities, at fair value	2,499,709	37,315,652
Investments in equity affiliates	4,869,066	4,680,306
Real estate owned, net (includes \$80,732,144 and \$80,787,215 from consolidated VIEs, respectively)	84,925,641	111,718,177
Real estate held-for-sale, net	14,381,733	11,477,676
Due from related party (includes \$0 and \$91,988 from consolidated VIEs, respectively)	36,515	98,058
Prepaid management fee related party		19,047,949
Other assets (includes \$14,949,956 and \$19,861,310 from consolidated VIEs, respectively)	45,716,002	54,083,143
Total assets	\$ 1,880,422,590	\$ 1,877,472,482
Liabilities and Equity:		
Credit facilities and repurchase agreements	\$ 180,386,200	\$ 159,125,023
Collateralized debt obligations (includes \$331,395,126 and \$639,622,981 from consolidated VIEs, respectively)	331,395,126	639,622,981
Collateralized loan obligations (includes \$458,250,000 and \$264,500,000 from consolidated VIEs, respectively)	458,250,000	264,500,000
Senior unsecured notes	97,860,025	
Junior subordinated notes to subsidiary trust issuing preferred securities	159,833,260	159,291,427
Notes payable	1,300,000	2,500,000
Mortgage note payable real estate owned	21,865,136	42,745,650
Mortgage note payable real estate held-for-sale	9,119,221	11,005,354
Due to related party	2,653,333	2,794,087
Due to borrowers	32,972,606	20,326,030
Deferred revenue		77,123,133
Other liabilities (includes \$7,385,474 and \$13,944,737 from consolidated VIEs, respectively)	49,332,212	60,842,515
Total liabilities	1,344,967,119	1,439,876,200
Commitments and contingencies		
Equity:		
Preferred stock, cumulative, redeemable, \$0.01 par value: 100,000,000 shares authorized; 8.25% Series A, \$38,787,500 aggregate liquidation preference; 1,551,500 shares issued and outstanding at December 31, 2014 and 2013; 7.75% Series B, \$31,500,000 aggregate liquidation preference; 1,260,000 shares issued and outstanding at December 31, 2014 and 2013; 8.50% Series C, \$22,500,000 aggregate liquidation preference; 900,000 shares issued and outstanding at December 31, 2014, no shares issued and outstanding at December 31, 2013	89,295,905	67,654,655
Common stock, \$0.01 par value: 500,000,000 shares authorized; 53,128,075 shares issued, 50,477,308 shares outstanding at December 31, 2014 and 51,787,075 shares issued, 49,136,308 shares outstanding at December 31, 2013	531,280	517,870
Additional paid-in capital	629,880,774	623,993,245
Treasury stock, at cost 2,650,767 shares at December 31, 2014 and 2013	(17,100,916)	(17,100,916)
Accumulated deficit	(152,483,322)	(212,231,319)
Accumulated other comprehensive loss	(14,668,250)	(25,237,253)
Total equity	535,455,471	437,596,282
Total liabilities and equity	\$ 1,880,422,590	\$ 1,877,472,482

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Interest income	\$ 106,716,344	\$ 99,031,623	\$ 79,998,762
Interest expense	47,903,458	42,065,151	40,866,832
Net interest income	58,812,886	56,966,472	39,131,930
Other revenue:			
Property operating income	32,641,249	30,127,260	30,173,754
Other income, net	1,645,465	2,290,714	1,280,289
Total other revenue	34,286,714	32,417,974	31,454,043
Other expenses:			
Employee compensation and benefits	13,978,223	12,042,332	10,173,572
Selling and administrative	9,600,139	10,603,247	7,882,914
Property operating expenses	27,857,460	26,728,174	27,963,386
Depreciation and amortization	7,371,737	7,250,601	5,794,013
Impairment loss on real estate owned	250,000	1,000,000	
Provision for loan losses (net of recoveries)	(308,511)	4,287,652	22,946,396
Management fee related party	9,900,000	10,900,000	10,000,000
Total other expenses	68,649,048	72,812,006	84,760,281
Income from continuing operations before gain on sale of equity interests, incentive management fee, gain on extinguishment of debt, gain on sale of real estate, net, income (loss) from equity affiliates and benefit from income taxes	24,450,552	16,572,440	(14,174,308)
Gain on sale of equity interests	85,793,466		
Incentive management fee equity interest related party	(19,047,949)		
Gain on extinguishment of debt		4,930,772	30,459,023
Gain on sale of real estate, net	1,603,763		
Income (loss) from equity affiliates	248,658	(204,475)	(697,856)
Income before benefit from income taxes	93,048,490	21,298,737	15,586,859
Benefit from income taxes			801,558
Income from continuing operations	93,048,490	21,298,737	16,388,417
Gain on sale of real estate held-for-sale			3,953,455
Income from operations of real estate held-for-sale			1,374,583
Income from discontinued operations			5,328,038
Net income	93,048,490	21,298,737	21,716,455
Preferred stock dividends	7,256,255	4,506,583	
Net income attributable to noncontrolling interest		124,199	215,567
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 85,792,235	\$ 16,667,955	\$ 21,500,888

Basic earnings per common share:

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Income from continuing operations, net of noncontrolling interest and preferred stock dividends	\$	1.71	\$	0.39	\$	0.60
Income from discontinued operations						0.20
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$	1.71	\$	0.39	\$	0.80

Diluted earnings per common share:

Income from continuing operations, net of noncontrolling interest and preferred stock dividends	\$	1.70	\$	0.39	\$	0.59
Income from discontinued operations						0.20
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$	1.70	\$	0.39	\$	0.79

Weighted average number of shares of common stock outstanding:

Basic	50,143,648	42,399,872	26,956,938
Diluted	50,368,344	42,835,144	27,211,287

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Net income	\$ 93,048,490	\$ 21,298,737	\$ 21,716,455
Unrealized (loss) gain on securities available-for-sale, net	(335,157)	382,130	(723,632)
Net unrealized gain on securities transferred to available- for-sale from held-to-maturity		431,476	
Reclassification of unrealized gain on securities available-for-sale realized into earnings	(431,476)	(100,000)	
Unrealized loss on derivative financial instruments, net	(1,318,318)	(520,195)	(7,698,630)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	12,653,954	14,131,036	16,564,607
Comprehensive income	103,617,493	35,623,184	29,858,800
Less:			
Preferred stock dividends	7,256,255	4,506,583	
Comprehensive income attributable to noncontrolling interest		124,199	215,567
Comprehensive income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 96,361,238	\$ 30,992,402	\$ 29,643,233

See notes to consolidated financial statements.

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ARBOR REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Arbor Realty Trust, Inc. Stockholders' Equity	Non- controlling Interest	Total
December 31,		\$	26,778,737	\$ 267,787	\$ 455,994,695	(2,480,597)	\$ (16,416,152)	\$ (221,015,880)	\$ (47,704,045)	\$ 171,126,405	\$ 1,934,128	\$ 173,060,533
Issuance of common			7,000,000	70,000	36,575,500					36,645,500		36,645,500
Issuance of treasury						(170,170)	(684,764)			(684,764)		(684,934)
Share-based retirement			121,255	1,213	641,027					642,240		643,453
Contributions common								(8,031,029)		(8,031,029)		(8,031,029)
Contributions preferred								(12,236)		(12,236)		(12,236)
Income of private REIT								21,500,888		21,500,888	215,567	21,716,455
Contribution to noncontrolling											(217,922)	(217,922)
Realized loss on sales									(723,632)	(723,632)		(723,632)
Realized loss on available-for-sale financial instruments, net									(7,698,630)	(7,698,630)		(7,698,630)
Reclassification of realized loss on investments												
Dividends paid as cash dividends									16,564,607	16,564,607		16,564,607
December 31,		\$	33,899,992	\$ 339,000	\$ 493,211,222	(2,650,767)	\$ (17,100,916)	\$ (207,558,257)	\$ (39,561,700)	\$ 229,329,349	\$ 1,931,773	\$ 231,261,122
Issuance of common			17,625,000	176,250	129,184,501					129,360,751		129,360,751
Issuance of 8.25% A preferred	1,551,500	37,315,694								37,315,694		37,315,694
Issuance of 7.75% B preferred	1,260,000	30,338,961								30,338,961		30,338,961
Share-based retirement			262,750	2,627	1,597,515					1,600,142		1,600,142
Issuance of unvested shares			(667)	(7)	7							
Contributions common								(21,326,517)		(21,326,517)		(21,326,517)
Contributions preferred								(4,506,583)		(4,506,583)		(4,506,583)
Contributions preferred of private REIT								(14,500)		(14,500)		(14,500)
Income								21,174,538		21,174,538	124,199	21,298,737
Change in noncontrolling											(2,055,972)	(2,055,972)
									382,130	382,130		382,130

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zed gain on es				
le-for-sale, net				
realized gain rities				
red to le-for-sale				
eld-to-maturity	431,476	431,476		43
ification of zed gain on es				
le-for-sale				
l into earnings	(100,000)	(100,000)		(10
zed loss on ive financial ents, net	(520,195)	(520,195)		(52
ification of ized loss on ives				
ted as cash dges into s	14,131,036	14,131,036		14,13

December 31,
 2,811,500 \$ 67,654,655 51,787,075 \$ 517,870 \$ 623,993,245 (2,650,767)\$ (17,100,916)\$ (212,231,319)\$ (25,237,253)\$ 437,596,282 \$ 437,596,282
 See notes to consolidated financial statements.

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ARBOR REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Arbor Realty Trust, Inc. Non- controlling Equity	Interest	Total
Issuance of common stock			1,000,000	10,000	6,504,000					6,514,000		6,514,000
Cancellation of warrants					(2,602,500)					(2,602,500)		(2,602,500)
Issuance of 8.50% Series C preferred stock	900,000	21,641,250								21,641,250		21,641,250
Stock-based compensation			341,000	3,410	1,986,029					1,989,439		1,989,439
Distributions common stock								(26,029,540)		(26,029,540)		(26,029,540)
Distributions preferred stock								(7,256,255)		(7,256,255)		(7,256,255)
Distributions preferred stock of private REIT								(14,698)		(14,698)		(14,698)
Net income								93,048,490		93,048,490		93,048,490
Unrealized loss on securities available-for-sale									(335,157)	(335,157)		(335,157)
Reclassification of unrealized gain on securities available-for-sale realized into earnings									(431,476)	(431,476)		(431,476)
Unrealized loss on derivative financial instruments, net									(1,318,318)	(1,318,318)		(1,318,318)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings									12,653,954	12,653,954		12,653,954
Balance December 31, 2014	3,711,500	\$ 89,295,905	53,128,075	\$ 531,280	\$ 629,880,774	(2,650,767)	\$ (17,100,916)	\$ (152,483,322)	\$ (14,668,250)	\$ 535,455,471	\$	\$ 535,455,471

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Operating activities:			
Net income	\$ 93,048,490	\$ 21,298,737	\$ 21,716,455
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,371,737	7,250,601	5,904,089
Stock-based compensation	1,989,439	1,600,142	578,190
Gain on sale of securities	(518,640)	(1,100,000)	
Gain on sale of real estate, net	(1,603,763)		(3,953,455)
Reversal of liabilities related to discontinued operations			(1,175,120)
Gain on extinguishment of debt		(4,930,772)	(30,459,023)
Provision for loan losses (net of recoveries)	(308,511)	4,287,652	22,946,396
Impairment loss on real estate owned	250,000	1,000,000	
Amortization and accretion of interest, fees and intangible asset, net	(185,461)	(3,127,093)	1,634,410
Gain on sale of equity interests	(85,793,466)		
Incentive management fee equity interest related party	19,047,949		
Change in fair value of non-qualifying swaps and linked transactions	(41,022)	1,798,161	1,334,189
(Income) loss from equity affiliates	(248,658)	204,475	697,856
Changes in operating assets and liabilities	(2,212,738)	(5,759,559)	942,064
Net cash provided by operating activities	30,795,356	22,522,344	20,166,051
Investing activities:			
Loans and investments funded, originated and purchased, net	(908,769,736)	(594,127,146)	(261,875,190)
Payoffs and paydowns of loans and investments	987,700,535	378,738,674	185,675,195
Proceeds from sale of loans		4,424,097	17,945,000
Due to borrowers and reserves		(585,143)	(505,093)
Deferred fees, net	5,687,545	5,305,848	3,062,425
Purchases of securities, net		(29,024,327)	(69,041,570)
Principal collection on securities, net	663,684	38,614,122	55,895,146
Investment in real estate, net	(4,714,838)	(8,004,139)	(4,206,576)
Proceeds from sale of real estate, net	21,912,729		26,443,882
Proceeds from sale of available-for-sale securities	33,904,172	2,100,000	
Contributions to equity affiliates	(526,499)		(257,505)
Distributions from equity affiliates	9,094,313	62,500	330,608
Redemption of investment in preferred shares, net		2,418,528	
Net cash provided by / (used in) investing activities	144,951,905	(200,076,986)	(46,533,678)
Financing activities:			
Proceeds from repurchase agreements, loan participations, credit facilities and notes payable	402,080,235	235,145,560	162,922,840
Payoffs and paydowns of repurchase agreements, loan participations and credit facilities	(382,019,058)	(205,482,156)	(108,366,221)
Payoff and paydown of mortgage notes payable	(22,766,647)		(20,750,000)
Proceeds from senior unsecured notes	97,860,025		
Proceeds from collateralized loan obligations	281,250,000	177,000,000	87,500,000
Payoffs and paydowns of collateralized debt obligations	(307,482,803)	(167,154,040)	(158,956,432)
Payoffs and paydowns of collateralized loan obligations	(87,500,000)		
Change in restricted cash	(162,354,455)	(12,514,227)	23,820,781
Payments on financial instruments underlying linked transactions	(59,613,649)	(165,385,926)	(91,346,499)
Receipts on financial instruments underlying linked transactions	66,027,912	175,181,262	80,645,124
Payments on swaps and margin calls to counterparties	(2,032,106)	(75,139,934)	(61,541,697)
Receipts on swaps and margin calls to counterparties	8,993,010	80,653,523	61,478,418
Purchases of treasury stock			(684,764)
Distributions paid to noncontrolling interest		(175,559)	(217,922)
Proceeds from issuance of common stock	6,800,000	134,176,328	39,200,000
Expenses paid on issuance of common stock	(285,919)	(4,788,877)	(2,520,616)
Proceeds from issuance of preferred stock	22,500,000	70,287,500	

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Expenses paid on issuance of preferred stock	(858,750)	(2,632,845)	
Distributions paid on common stock	(26,029,540)	(21,326,517)	(8,031,029)
Distributions paid on preferred stock	(7,096,880)	(4,036,481)	
Distributions paid on preferred stock of private REIT	(14,698)	(14,500)	(12,236)
Cancellation of warrants	(2,602,500)		
Payment of deferred financing costs	(10,573,245)	(5,037,806)	(2,819,710)
Net cash (used in) / provided by financing activities	(185,719,068)	208,755,305	320,037
Net (decrease) increase in cash and cash equivalents	(9,971,807)	31,200,663	(26,047,590)
Cash and cash equivalents at beginning of period	60,389,552	29,188,889	55,236,479
Cash and cash equivalents at end of period	\$ 50,417,745	\$ 60,389,552	\$ 29,188,889

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Supplemental cash flow information:			
Cash used to pay interest	\$ 42,756,229	\$ 46,717,669	\$ 38,566,933
Cash used for taxes	\$ 80,101	\$ 462,356	\$ 1,159,076
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	\$	\$
Accrued and unpaid expenses on common stock offerings	\$	\$ 26,700	\$
Investment transferred from real estate owned, net to real estate held-for-sale, net	\$ 2,904,057	\$ 11,540,649	\$
Mortgage note payable real estate owned, net transferred to real estate held-for-sale, net	\$	\$ 11,005,354	\$
Mortgage note payable real estate held-for-sale, net transferred to real estate owned, net	\$ 1,886,133	\$	\$
Accrued and unpaid expenses on CLO offerings	\$	\$ 500,000	\$
Transfer of held to maturity securities, net to available for sale, net	\$	\$ 34,049,310	\$

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Satisfaction of notes payable from real estate partnership	\$	\$ 33,438,472	\$
Redemption of preferred investment from real estate partnership	\$	\$ 33,438,472	\$
Deconsolidation of assets from real estate partnership	\$	\$ 18,662,363	\$
Deconsolidation of liabilities from real estate partnership	\$	\$ 16,781,950	\$
Deconsolidation of noncontrolling interest from real estate partnership	\$	\$ 1,880,413	\$
Loan converted to other assets	\$	\$ 6,000,000	\$
Transfer of real estate held-for-sale to first lien holder	\$	\$	\$ 41,440,000
Release of mortgage note payable held-for-sale	\$	\$	\$ 41,440,000
Satisfaction of participation loans	\$	\$	\$ 34,000,000
Retirement of participation liabilities	\$	\$	\$ 34,000,000

See notes to consolidated financial statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

Note 1 Description of Business

Arbor Realty Trust, Inc. is a Maryland corporation that was formed in June 2003 to invest in a diversified portfolio of multifamily and commercial real estate related assets, primarily consisting of bridge and mezzanine loans, including junior participating interests in first mortgage loans, preferred and direct equity. We may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. We conduct substantially all of our operations through our operating partnership, Arbor Realty Limited Partnership ("ARLP"), and ARLP's wholly-owned subsidiaries.

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

On July 1, 2003, Arbor Commercial Mortgage, LLC (our "Manager") contributed \$213.1 million of structured finance assets and \$169.2 million of borrowings supported by \$43.9 million of equity in exchange for a commensurate equity ownership in ARLP. In addition, certain employees of our Manager were transferred to ARLP. At that time, these assets, liabilities and employees represented a substantial portion of our Manager's structured finance business. We are externally managed and advised by our Manager and pay our Manager a management fee in accordance with a management agreement. Our Manager also sources originations, provides underwriting services, and services all structured finance assets on behalf of ARLP and its wholly owned subsidiaries.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 2 Summary of Significant Accounting Policies (Continued)

have been included. All significant inter-company transactions and balances have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with accounting principles generally acceptable in the U.S. ("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. Further, in connection with preparation of the consolidated financial statements, we evaluated events subsequent to the balance sheet date of December 31, 2014 through the issuance of the consolidated financial statements.

Certain prior year amounts have been reclassified to conform to current period presentation. In the second quarter of 2014, we reclassified a property from real estate held-for-sale to real estate owned when it was determined that a sale of the property would not take place, resulting in reclassifications of the property's operating activity and related depreciation for all prior periods presented from discontinued operations to property operating income and property operating expenses.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. We place our cash and cash equivalents in high quality financial institutions. The consolidated account balances at each institution periodically exceed Federal Deposit Insurance Corporation (FDIC) insurance coverage and we believe that this risk is not significant.

Restricted Cash

Restricted cash primarily represents proceeds from loan repayments on deposit with the trustees for our CDOs and CLOs which will be used for principal repayments, unfunded loan commitments and interest payments received from loans. See Note 7 "Debt Obligations." Restricted cash is also held by our real estate owned assets due to escrow requirements.

Loans, Investments and Securities

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 invest in preferred equity interests that, in some cases, allow us to participate in a percentage of the underlying property's cash flows from operations and proceeds from a sale or refinancing. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, equity interest or as real estate. To date, management has determined that all such investments are properly accounted for and reported as loans.

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

At the time of purchase, we designate a security as available-for-sale, held-to-maturity, or trading depending on our ability and intent to hold it to maturity. We do not have any securities designated as

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 2 Summary of Significant Accounting Policies (Continued)

held-to-maturity or trading as of December 31, 2014. Securities available-for-sale are reported at fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss. Unrealized losses that are determined to be other-than-temporary are recognized in earnings up to their credit component. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions and is not necessarily intended to indicate a permanent decline in value. The process may include, but is not limited to, assessment of recent market events and prospects for near-term recovery, assessment of cash flows, internal review of the underlying assets securing the investments, credit of the issuer and the rating of the security, as well as our ability and intent to hold the investment to maturity. Management closely monitors market conditions on which it bases such decisions.

We also assess certain of our securities, other than those of high credit quality, to determine whether significant changes in estimated cash flows or unrealized losses on these securities, if any, reflect a decline in value that is other-than-temporary and, accordingly, should be written down to their fair value against earnings. On a quarterly basis, we review these changes in estimated cash flows, which could occur due to actual prepayment and credit loss experience, to determine if an other-than-temporary impairment is deemed to have occurred. We calculate a revised yield based on the current amortized cost of the investment, including any other-than-temporary impairments recognized to date, and the revised yield is then applied prospectively to recognize interest income.

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

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

We consider a loan impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. We evaluate each loan in our portfolio on a quarterly basis. Our loans are individually specific and unique as it relates to product type, geographic location, and collateral type, as well as to the rights and remedies and the position in the capital structure our loans and investments have in relation to the underlying collateral. We evaluate all of this information as well as general market trends related to specific classes of assets, collateral type and geographic locations, when determining the appropriate assumptions such as capitalization and market discount rates, as well as the borrower's operating income and cash flows, in estimating the value of the underlying collateral when determining if a loan is impaired. We utilize internally developed valuation models and techniques primarily consisting of discounted cash flow and direct capitalization models in determining the fair value of the underlying collateral on an individual loan. We may also obtain a third party appraisal, which may value the collateral through an "as-is" or "stabilized value" methodology. Such appraisals may be used as an additional source of valuation information only and no adjustments are made to appraisals.

If upon completion of the valuation, the fair value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, an allowance is created with a

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 2 Summary of Significant Accounting Policies (Continued)

corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level that we believe to be adequate to absorb probable losses.

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

Loss on restructured loans is recorded when we have granted a concession to the borrower in the form of principal forgiveness related to the payoff or the substitution or addition of a new debtor for the original borrower or when we incur costs on behalf of the borrower related to the modification, payoff or the substitution or addition of a new debtor for the original borrower. When a loan is restructured, we record our investment at net realizable value, taking into account the cost of all concessions at the date of restructuring. The reduction in the recorded investment is recorded as a separate line on the consolidated statements of income in the period in which the loan is restructured. In addition, a gain or loss may be recorded upon the sale of a loan to a third party in the consolidated statements of income in the period in which the loan was sold.

Charge-offs to the allowance for loan losses occur when losses are confirmed through the receipt of cash or other consideration from the completion of a sale; when a modification or restructuring takes place in which we grant a concession to a borrower or agree to a discount in full or partial satisfaction of the loan; when we take ownership and control of the underlying collateral in full satisfaction of the loan; when loans are reclassified as other investments; or when significant collection efforts have ceased and it is highly likely that a loss has been realized.

Real Estate Owned and Held-For-Sale

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

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 2 Summary of Significant Accounting Policies (Continued)

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

Real estate assets are depreciated using the straight-line method over their estimated useful lives. Ordinary repairs and maintenance which are not reimbursed by the tenants are expensed as incurred. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their estimated useful life.

Our properties are individually reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. We recognize impairment if the undiscounted estimated cash flows to be generated by the assets are less than the carrying amount of those assets. Measurement of impairment is based upon the estimated fair value of the asset. In the evaluation of a property for impairment, many factors are considered, including estimated current and expected operating cash flows from the property during the projected holding period, costs necessary to extend the life or improve the asset, expected capitalization rates, projected stabilized net operating income, selling costs, and the ability to hold and dispose of such real estate owned in the ordinary course of business. Impairment charges may be necessary in the event discount rates, capitalization rates, lease-up periods, future economic conditions, and other relevant factors vary significantly from those assumed in valuing the property.

Real estate is classified as held-for-sale when management commits to a plan of sale, the asset is available for immediate sale, there is an active program to locate a buyer, and it is probable the sale will be completed within one year. Real estate assets that are expected to be disposed of are valued, on an individual asset basis, at the lower of their carrying amount or their fair value less costs to sell.

We recognize sales of real estate properties upon closing. Payments received from purchasers prior to closing are recorded as deposits. Gain on real estate sold is recognized using the full accrual method when the collectability of the sale price is reasonably assured and we are not obligated to perform significant activities after the sale. Gain may be deferred in whole or in part until collectability of the sales price is reasonably assured and the earnings process is complete.

Revenue Recognition

Interest income Interest income is recognized on the accrual basis as it is earned from loans, investments and securities. In certain instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, a prepayment fee and/or deferred interest upon maturity. In some cases, interest income may also include the amortization or accretion of premiums and discounts arising from the purchase or origination of the loan or security. This additional income, net of any direct loan origination costs incurred, is deferred and accreted into interest income on an effective yield or "interest" method adjusted for actual prepayment activity over the life of the related loan or security as a yield adjustment. Income recognition is suspended for loans when, in the opinion of management, a full recovery of all contractual principal is not probable. Income recognition is

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 2 Summary of Significant Accounting Policies (Continued)

resumed when the loan becomes contractually current and performance is resumed. We record interest income on certain impaired loans to the extent cash is received, as the borrower continues to make interest payments. We record loan loss reserves related to these loans when it is deemed that full recovery of principal and interest is not probable.

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

Given the transitional nature of some of our real estate loans, we may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. We will analyze these interest reserves on a periodic basis and determine if any additional interest reserves are needed. Recognition of income on loans with funded interest reserves are accounted for in the same manner as loans without funded interest reserves. We will not recognize any interest income on loans in which the borrower has failed to make the contractual interest payment due or has not replenished the interest reserve account. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

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

Property operating income Property operating income represents income associated with the operations of commercial real estate properties classified as real estate owned. We recognize revenue for these activities when the fees are fixed or determinable, or are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided.

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

Investments in Equity Affiliates

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 2 Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

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

Income Taxes

We organize and conduct our operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on taxable income that is distributed to its stockholders, provided that it distributes at least 90% of its REIT taxable income and meets certain other requirements. Certain REIT income may be subject to state and local income taxes. Our assets or operations that would not otherwise comply with the REIT requirements are owned or conducted by our taxable REIT subsidiaries, the income of which is subject to federal and state income tax.

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

Other Comprehensive Income

We divide comprehensive income or loss into net income and other comprehensive income (loss), which includes unrealized gains and losses on available-for-sale securities. In addition, to the extent our derivative instruments qualify as hedges, net unrealized gains or losses are reported as a component of accumulated other comprehensive income (loss).

Earnings Per Share

We present both basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 2 Summary of Significant Accounting Policies (Continued)

Hedging Activities and Derivatives

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

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. The ineffective portion of a derivative's change in fair value is recognized immediately in earnings.

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

In the normal course of business, we may use a variety of derivative financial instruments to manage, or hedge, interest rate risk. We do not use derivatives for trading or speculative purposes. These derivative financial instruments must be effective in reducing our interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 2 Summary of Significant Accounting Policies (Continued)

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

In certain circumstances, we have financed the purchase of Residential Mortgage Backed Securities ("RMBS") investments through a repurchase agreement with the same counterparty, which qualified as a linked transaction. If both transactions were entered into contemporaneously or in contemplation of each other, the transactions were presumed to be linked transactions unless certain criteria were met, and we accounted for the purchase of such securities and the repurchase agreement on a combined basis as a forward contract derivative at fair value which was reported in other assets on the consolidated balance sheets with changes in the fair value of the assets and liabilities underlying linked transactions and associated interest income and expense reported in other income on the consolidated statements of income. The analysis of transactions under these rules required management's judgment and experience. The fair value of linked transactions reflected the value of the underlying RMBS, linked repurchase agreement borrowings and accrued interest receivable/payable on such instruments. Linked transactions are not designated as hedging instruments and, as a result, the change in the fair value and net interest income from linked transactions was reported in other income on the consolidated statements of income.

We have no master netting or similar arrangements and do not offset derivatives.

Variable Interest Entities

We have evaluated our loans and investments, mortgage related securities, investments in equity affiliates, junior subordinated notes, CDOs and CLOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in our determining that our bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CDOs, CLOs, and investments in debt securities were potential VIEs or variable interests in VIEs. See Note 9 "Variable Interest Entities" for our evaluation.

Recently Issued Accounting Pronouncements

In January 2015, the Financial Accounting Standards Board ("FASB") eliminated the concept of extraordinary items and thus the requirement to assess whether an event or transaction require extraordinary classification on the financial statements. The guidance is effective for the first quarter of 2016. We expect to early adopt this new guidance in the first quarter of 2015 and we do not expect it to have a material effect on our consolidated financial statements.

In June 2014, the FASB issued updated guidance that changes how repurchase agreements determined to be linked transactions are recorded. Under the new guidance, the repurchase agreement is to be accounted for separately from the initial transfer of the financial asset and not as a forward contract derivative. The guidance is effective for transactions outstanding as of the first quarter of 2015. We do not expect this guidance to have a material effect on our consolidated financial statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 2 Summary of Significant Accounting Policies (Continued)

In May 2014, the FASB issued updated guidance on the recognition of revenue relating to the transfer of goods, services and non-financial assets. This guidance does not pertain to financial instrument contracts and thus does not have a material effect on our consolidated financial statements.

In April 2014, the FASB issued updated guidance that changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. As a result of this new guidance, future dispositions of real estate owned assets may no longer meet the criteria to be considered as discontinued operations. The guidance is effective prospectively as of the first quarter of 2015, with early adoption permitted for new disposals or new classifications as held-for-sale. We early adopted this new guidance in the first quarter of 2014 and it did not have a material effect on our consolidated financial statements.

Note 3 Loans and Investments

The following table sets forth the composition of our loan and investment portfolio at December 31, 2014 and 2013:

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 3 Loans and Investments (Continued)

	December 31, 2013	Percent of Total	Loan Count	Wtd. Avg. Pay Rate(1)	Wtd. Avg. Remaining Months to Maturity	First Dollar LTV Ratio(2)	Last Dollar LTV Ratio(3)
Bridge loans	\$ 1,171,783,914	71%	95	5.11%	18.5	0%	76%
Mezzanine loans	118,550,172	7%	27	7.02%	58.2	56%	83%
Junior participation loans	248,337,542	15%	7	4.21%	19.6	60%	81%
Preferred equity investments	121,523,673	7%	15	7.20%	45.5	58%	79%
	1,660,195,301	100%	144	5.26%	23.5	17%	77%
Unearned revenue	(14,218,237)						
Allowance for loan losses	(122,277,411)						
Loans and investments, net	\$ 1,523,699,653						

- (1) "Weighted Average Pay Rate" is a weighted average, based on the unpaid principal balances of each loan in our portfolio, of the interest rate that is required to be paid monthly as stated in the individual loan agreements. Certain loans and investments that require an additional rate of interest "Accrual Rate" to be paid at the maturity are not included in the weighted average pay rate as shown in the table.
- (2) The "First Dollar LTV Ratio" is calculated by comparing the total of our senior most dollar and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will absorb a total loss of our position.
- (3) The "Last Dollar LTV Ratio" is calculated by comparing the total of the carrying value of our loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will initially absorb a loss.

Bridge loans are loans to borrowers who are typically seeking short-term capital to be used in an acquisition of a property and are predominantly secured by first mortgage liens on the property.

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Mezzanine loans and junior participating interests in senior debt are loans that are subordinate to a conventional first mortgage loan and senior to the borrower's equity in a transaction. Mezzanine financing may take the form of loans secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property.

A preferred equity investment is another method of financing in which preferred equity investments in entities that directly or indirectly own real property are formed. In cases where the terms of a first mortgage prohibit additional liens on the ownership entity, investments structured as preferred equity in the entity owning the property serve as viable financing substitutes. With preferred equity investments, we typically become a member in the ownership entity.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 3 Loans and Investments (Continued)

Concentration of Credit Risk

We operate in one portfolio segment, commercial mortgage loans and investments. Commercial mortgage loans and investments can potentially subject us to concentrations of credit risk. We are subject to concentration risk in that, as of December 31, 2014, the unpaid principal balance related to 31 loans with five different borrowers represented approximately 23% of total assets. At December 31, 2013, the unpaid principal balance related to 28 loans with five different borrowers represented approximately 30% of total assets. In addition, in 2014 and 2013, no single loan or investment represented 10% of our total assets. In 2013, we generated approximately 11% of revenue from the Chetrit Group L.L.C.

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

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

As a result of the loan review process at December 31, 2014 and 2013, we identified loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 3 Loans and Investments (Continued)**

approximately \$189.4 million and \$187.5 million, respectively, and a weighted average last dollar LTV ratio of 94% and 93%, respectively.

A summary of the loan portfolio's weighted average internal risk ratings and LTV ratios by asset class as of December 31, 2014 and 2013 is as follows:

Asset Class	December 31, 2014					
	Unpaid Principal Balance	Percentage of Portfolio	Wtd. Avg. Internal Risk Rating	First Dollar LTV Ratio	Last Dollar LTV Ratio	
Multifamily	\$ 1,157,462,400	72.9%	2.9	10%	73%	
Office	230,491,164	14.5%	3.3	29%	79%	
Land	128,367,601	8.1%	3.9	6%	88%	
Hotel	66,250,000	4.2%	3.5	32%	83%	
Retail	3,158,333	0.2%	2.5	72%	80%	
Commercial	1,700,000	0.1%	3.5	63%	67%	
Total	\$ 1,587,429,498	100.0%	3.1	13%	76%	

Asset Class	December 31, 2013					
	Unpaid Principal Balance	Percentage of Portfolio	Wtd. Avg. Internal Risk Rating	First Dollar LTV Ratio	Last Dollar LTV Ratio	
Multifamily	\$ 1,068,529,815	64.4%	3.3	14%	75%	
Office	358,832,526	21.6%	3.2	32%	82%	
Land	116,751,563	7.0%	4.0	3%	88%	
Hotel	69,181,252	4.2%	3.8	26%	84%	
Commercial	24,900,145	1.5%	3.0	3%	49%	
Condo	15,250,000	0.9%	3.7	41%	65%	
Retail	6,750,000	0.4%	2.5	0%	63%	
Total	\$ 1,660,195,301	100.0%	3.3	17%	77%	

Geographic Concentration Risk

As of December 31, 2014, 28%, 14% and 10% of the outstanding balance of our loans and investments portfolio had underlying properties in New York, Florida and Texas, respectively. As of December 31, 2013, 36%, 10% and 8% of the outstanding balance of our loans and investments portfolio had underlying properties in New York, Texas and Florida, respectively.

Impaired Loans and Allowance for Loan Losses

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

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During the year ended December 31, 2014, we determined that the fair value of the underlying collateral securing four impaired loans with an aggregate carrying value of \$151.9 million was less than the net carrying value of the loans, resulting in a \$9.0 million provision for loan losses. In addition, during 2014, we recorded \$9.3 million of net recoveries of previously recorded loan loss reserves resulting in a \$(0.3) million net recovery provision. These recoveries were recorded in provision for loan losses on the consolidated statements of income. Of the \$9.0 million of loan loss reserves recorded during 2014, \$3.8 million was attributable to loans on which we had previously recorded reserves, while \$5.2 million of reserves related to other loans in our portfolio.

During the year ended December 31, 2013, we determined that the fair value of the underlying collateral securing five impaired loans with an aggregate carrying value of \$31.5 million was less than the net carrying value of the loans, resulting in a \$6.5 million provision for loan losses. In addition, during 2013, we recorded \$2.2 million of net recoveries of previously recorded loan loss reserves resulting in a net \$4.3 million provision for loan losses. Of the \$6.5 million of loan loss reserves recorded during 2013, \$1.0 million was attributable to loans on which we had previously recorded reserves, while \$5.5 million of reserves related to other loans in our portfolio.

During the year ended December 31, 2012 we determined that the fair value of the underlying collateral securing eight impaired loans with an aggregate carrying value of \$94.6 million was less than the net carrying value of the loans, resulting in a \$23.8 million provision for loan losses. In addition, during 2012, we recorded \$0.9 million of net recoveries of previously recorded loan loss reserves resulting in a net provision for loan losses of \$22.9 million. Of the \$23.8 million of loan loss reserves recorded during 2012, \$18.9 million was attributable to loans on which we had previously recorded reserves, while \$4.9 million of reserves related to other loans in our portfolio.

At December 31, 2014, we had a total of ten loans with an aggregate carrying value, before loan loss reserves, of \$221.6 million for which impairment reserves have been recorded. At December 31, 2013, we had a total of 15 loans with an aggregate carrying value, before loan loss reserves, of \$207.5 million for which impairment reserves have been recorded. At December 31, 2012, we had a total of 20 loans with an aggregate carrying value, before loan loss reserves, of \$240.2 million for which impairment reserves have been recorded.

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

	Year Ended		
	December 31, 2014	December 31, 2013	December 31, 2012
Allowance at beginning of the period	\$ 122,277,411	\$ 161,706,313	\$ 185,381,855
Provision for loan losses	9,026,712	6,500,000	23,828,224
Charge-offs	(6,501,079)	(24,713,459)	(46,585,800)
Charge-off on loan converted to other assets		(19,000,000)	
Recoveries of reserves	(9,315,724)	(2,215,443)	(917,966)
Allowance at end of the period	\$ 115,487,320	\$ 122,277,411	\$ 161,706,313

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 3 Loans and Investments (Continued)

Fiscal 2014 charge-off activity was comprised of a \$6.5 million charge-off to previously recorded reserves from the write-off of a mezzanine loan and a bridge loan that had an aggregate carrying value of \$11.9 million.

Fiscal 2013 charge-off activity was comprised of a \$23.2 million charge-off to previously recorded reserves from the write-off of several loans that had an aggregate carrying value of \$23.2 million; a \$19.0 million charge-off in connection with the transfer of land that was held as collateral for a \$25.0 million loan to other assets at a fair value of \$6.0 million; and a \$1.5 million charge-off in connection with receiving proceeds of \$4.4 million from the sale of a \$5.9 million bridge loan. The land transferred to other assets is 20.5 acres of usable land and 2.3 acres of submerged land located on the banks of the St. John's River in downtown Jacksonville, Florida and is currently zoned for the development of up to 60 dwellings per acre. This land was held as collateral by a joint venture that we assumed full ownership of and the related loan was consolidated.

Fiscal 2012 charge-off activity was comprised of a \$42.8 million charge-off to previously recorded reserves from the write-off of several loans that had an aggregate carrying value of \$43.4 million; and a \$3.8 million charge-off to previously recorded reserves as a result of us receiving principal payoffs of \$1.6 million on two loans with a total carrying value of \$5.5 million.

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

	Year Ended		
	December 31, 2014	December 31, 2013	December 31, 2012
<i>Charge-offs:</i>			
Multifamily	\$ (6,501,079)	\$ (4,789,815)	\$ (10,773,141)
Office		(6,252,129)	(5,812,659)
Land		(19,000,000)	
Hotel		(3,671,515)	(30,000,000)
Condo		(10,000,000)	
Total	\$ (6,501,079)	\$ (43,713,459)	\$ (46,585,800)
<i>Recoveries:</i>			
Multifamily	\$ (7,815,724)	\$ (1,510,949)	\$ (121,898)
Office	(1,500,000)	(704,494)	(796,068)
Total	\$ (9,315,724)	\$ (2,215,443)	\$ (917,966)
Net Recoveries (Charge-offs)	\$ 2,814,645	\$ (41,498,016)	\$ (45,667,834)
Ratio of net charge-offs during the period to average loans and investments outstanding during the period	0.2%	(2.6)%	(3.0)%

There were no loans for which 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 December 31, 2014, 2013 and 2012.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 3 Loans and Investments (Continued)**

We have six loans with an unpaid principal balance totaling approximately \$117.0 million at December 31, 2014, which mature in September 2017, that are collateralized by a land development project. The loans do not carry a pay rate of interest, but four of the loans with an unpaid principal balance totaling approximately \$101.9 million entitle us to a weighted average accrual rate of interest of approximately 9.60%. We suspended the recording of the accrual rate of interest on these loans, as these loans were impaired and management deemed the collection of this interest to be doubtful. We have recorded cumulative allowances for loan losses of \$46.5 million related to these loans as of December 31, 2014. The loans are subject to certain risks associated with a development project including, but not limited to, availability of construction financing, increases in projected construction costs, demand for the development's outputs upon completion of the project, and litigation risk. Additionally, these loans were not classified as non-performing as the borrower is in compliance with all of the terms and conditions of the loans.

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

Asset Class	Year Ended December 31, 2014				
	Unpaid Principal Balance	Carrying Value(1)	Allowance for Loan Losses	Average Recorded Investment(2)	Interest Income Recognized
Multifamily	\$ 39,239,894	\$ 39,232,710	\$ 36,469,894	\$ 52,487,834	\$ 763,208
Office	36,086,582	30,498,273	23,972,444	36,086,582	1,788,152
Land	121,810,400	117,621,457	51,344,982	118,948,175	
Hotel	34,750,000	34,249,959	3,700,000	17,375,000	664,678
Total	\$ 231,886,876	\$ 221,602,399	\$ 115,487,320	\$ 224,897,591	\$ 3,216,038

Asset Class	Year Ended December 31, 2013				
	Unpaid Principal Balance	Carrying Value(1)	Allowance for Loan Losses	Average Recorded Investment(2)	Interest Income Recognized
Multifamily	\$ 65,735,773	\$ 65,186,623	\$ 50,786,697	\$ 62,602,118	\$ 2,566,914
Office	36,086,582	29,474,065	23,972,444	37,224,695	1,585,520
Land	116,085,950	112,810,558	47,518,270	127,561,228	
Total	\$ 217,908,305	\$ 207,471,246	\$ 122,277,411	\$ 227,388,042	\$ 4,152,434

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

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

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As of December 31, 2014, three loans with an aggregate net carrying value of approximately \$7.0 million, net of related loan loss reserves on two of the loans of \$34.0 million, were classified as non-performing. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced. As of December 31, 2013, five loans with an aggregate net carrying value of approximately \$10.7 million, net of related loan loss reserves of \$39.6 million, were

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 3 Loans and Investments (Continued)**

classified as non-performing, of which one loan with a carrying value of \$0.6 million did not have a loan loss reserve.

A summary of our non-performing loans by asset class as of December 31, 2014 and 2013 is as follows:

Asset Class	December 31, 2014			December 31, 2013		
	Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due	Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due
Multifamily	\$ 32,765,799	\$ 765,799	\$ 32,000,000	\$ 42,054,539	\$ 32,000,000	\$ 10,054,539
Office	8,277,757		8,277,757	8,277,844		8,277,844
Total	\$ 41,043,556	\$ 765,799	\$ 40,277,757	\$ 50,332,383	\$ 32,000,000	\$ 18,332,383

At December 31, 2014, we did not have any loans contractually past due 90 days or more that are still accruing interest.

During the year ended December 31, 2014, we refinanced and/or modified one loan with an aggregate unpaid principal balance of \$35.0 million which was considered by us to be a troubled debt restructuring. During the year ended December 31, 2013, we refinanced and/or modified four loans with an aggregate unpaid principal balance of \$52.5 million, which were not considered by us to be troubled debt restructurings; however, two loans with a combined unpaid principal balance of \$14.6 million that were extended during 2013 were considered to be trouble debt restructurings. We had no unfunded commitments on the modified and extended loans which were considered troubled debt restructurings as of December 31, 2014 and 2013.

A summary of loan modifications and extensions by asset class that we considered to be troubled debt restructurings during the year ended December 31, 2014 and 2013 were as follows:

Asset Class	Number of Loans	Year Ended December 31, 2014			
		Original Unpaid Principal Balance	Original Weighted Average Rate of Interest	Modified Unpaid Principal Balance	Modified Weighted Average Rate of Interest
Hotel	1	\$ 35,000,000	1.95%	\$ 34,750,000	2.95%

Asset Class	Number of Loans	Year Ended December 31, 2013			
		Original Unpaid Principal Balance	Original Weighted Average Rate of Interest	Modified Unpaid Principal Balance	Modified Weighted Average Rate of Interest
Multifamily	1	\$ 6,192,666	5.96%	\$ 6,192,666	5.96%
Office	1	8,400,000	8.24%	8,400,000	8.24%

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Total	2	\$ 14,592,666	7.27%	\$ 14,592,666	7.27%
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Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 3 Loans and Investments (Continued)**

There were no loans in which we considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of December 31, 2014 and 2013 and no additional loans were considered to be impaired due to our troubled debt restructuring analysis for the years ended December 31, 2014 and 2013. These loans were modified to increase the total recovery of the combined principal and interest from the loan.

As of December 31, 2014, we had total interest reserves of \$14.1 million on 55 loans with an aggregate unpaid principal balance of \$734.0 million.

Note 4 Securities

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

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

The following is a summary of our securities classified as available-for-sale at December 31, 2013:

	Face Value	Amortized Cost	Cumulative Unrealized Gain	Cumulative Unrealized Loss	Carrying Value / Estimated Fair Value
Residential mortgage-backed security (RMBS)	\$ 39,013,690	\$ 34,049,310	\$ 437,774	\$ (6,298)	\$ 34,480,786
Commercial mortgage-backed security (CMBS)	2,100,000	2,100,000			2,100,000
Common equity securities		58,789	676,077		734,866
Total available-for-sale securities	\$ 41,113,690	\$ 36,208,099	\$ 1,113,851	\$ (6,298)	\$ 37,315,652

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 4 Securities (Continued)**

The following is a summary of the underlying credit rating of our available-for-sale debt securities at December 31, 2014 and 2013:

Rating(1)	#	December 31, 2014		#	December 31, 2013		
		Amortized Cost	Percent of Total		Amortized Cost	Percent of Total	
AA+		\$		1	\$	93,715	
CCC				1		18,417,402	
CCC	1	2,100,000	100%	2		2,100,000	
NR				7		15,538,193	
	1	\$	2,100,000	100%	11	\$	36,149,310

(1)

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

In the first quarter of 2014, we sold all of our RMBS investments, which had an aggregate carrying value of \$33.4 million, for approximately \$33.9 million and recorded a net gain of \$0.5 million to other income, net on our consolidated statement of income, which includes the reclassification of a net unrealized gain of \$0.4 million from accumulated other comprehensive loss on our consolidated balance sheet. Included in these sales were two RMBS investments with deteriorated credit quality that had an aggregate carrying value of \$25.8 million and that were sold for \$25.9 million. The RMBS investments were financed with two repurchase agreements totaling \$25.3 million which were repaid with the proceeds. See Note 7 "Debt Obligations" for further details.

During the fourth quarter of 2013, our RMBS investments were reclassified as available-for-sale from held-to-maturity as a result of a change in intent to hold the securities to maturity due to management's decision to redeploy capital into the core lending business. Accordingly, we reclassified RMBS investments with a carrying amount of \$34.0 million, to available-for-sale at their estimated fair value of \$34.4 million, with a net unrealized gain of \$0.4 million recorded in accumulated other comprehensive loss on our consolidated balance sheet.

We own a CMBS investment, purchased at a premium in 2010 for \$2.1 million, which is collateralized by a portfolio of hotel properties. The CMBS investment bears interest at a spread of 89 basis points over LIBOR, has a stated maturity of six years, but has an estimated life of approximately one year based on the extended maturity of the underlying asset and a fair value of \$2.0 million and \$2.1 million at December 31, 2014 and 2013, respectively.

We own 2,939,465 shares of common stock of CV Holdings, Inc., formerly Realty Finance Corporation, a commercial real estate specialty finance company, which had a fair value of approximately \$0.5 million and \$0.7 million at December 31, 2014 and 2013, respectively.

Available-for-sale securities are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive loss. We evaluate these securities periodically to determine whether a decline in their value is other-than-temporary, though such a determination is not intended to indicate a permanent decline in value. Our evaluation is based on our assessment of cash flows, which is supplemented by third-party research reports, internal review of the underlying assets

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 4 Securities (Continued)

securing the investments, levels of subordination and the ratings of the securities and the underlying collateral. No other-than-temporary impairment was recorded on our available-for-sale securities for the years ended December 31, 2014, 2013 and 2012.

The weighted average yield on our CMBS and RMBS investments based on their face values was 1.80% and 4.29%, including the amortization of premium and the accretion of discount, for the years ended December 31, 2014 and 2013, respectively.

Note 5 Investments in Equity Affiliates

The following is a summary of our investments in equity affiliates at December 31, 2014 and 2013:

Equity Affiliates	Investments in Equity Affiliates at		Unpaid Principal Balance of Loans to Equity Affiliates at December 31, 2014
	December 31, 2014	December 31, 2013	
Lightstone Value Plus REIT L.P	\$ 1,894,727	\$ 1,894,727	\$
West Shore Café	1,872,661	1,690,280	1,687,500
Issuers of Junior Subordinated Notes	578,000	578,000	
JT Prime	425,000	425,000	
East River Portfolio	98,578		4,994,166
Lexford Portfolio	100	100	112,740,000
930 Flushing & 80 Evergreen		92,199	
450 West 33 rd Street			
Ritz-Carlton Club			
Total	\$ 4,869,066	\$ 4,680,306	\$ 119,421,666

We account for the 450 West 33rd Street investment under the cost method of accounting and the remaining investments under the equity method.

Lightstone Value Plus REIT L.P. / JT Prime We owned approximately \$56.0 million of preferred and common operating partnership units of Lightstone through a consolidated entity in which we have a two thirds interest. In addition, the consolidated entity had debt of approximately \$50.2 million, which was secured by these operating partnership units. In September 2013, our portion of the preferred operating partnership units were redeemed by Lightstone for cash, at par, and the note related to our portion was repaid in full. As a result, we received cash of \$2.0 million, reflecting our equity in the preferred operating partnership units redeemed. In the fourth quarter of 2013, the entity's operating agreement was amended to provide joint control to the members of the entity, and therefore, the entity was deconsolidated. The investment balance of approximately \$1.9 million reflects the carrying value of the remaining common operating partnership units of Lightstone. At the time of deconsolidation, the \$1.9 million carrying value of our remaining interest approximated its fair value. The fair value was determined by the latest issued tender offer by Lightstone for its common stock.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 5 Investments in Equity Affiliates (Continued)

We own a 50% non-controlling interest in an unconsolidated joint venture, JT Prime, which holds preferred and common operating partnership units of Lightstone as well as a promissory note secured by these operating partnership units. In September 2013, our portion of the preferred operating partnership units were redeemed by Lightstone for cash, at par, and the note related to our portion was repaid in full. As a result, we received cash of \$0.4 million and the carrying value of our investment in JT Prime was reduced to \$0.4 million, reflecting our remaining interest in the common operating partnership units.

The preferred operating partnership units yielded 4.63% and the loan bore interest at a rate of 4.00%. During the years ended December 31, 2013 and 2012, we recorded \$1.8 million and \$2.7 million, respectively, of dividends from the preferred and common operating partnership units which were reflected in interest income, and \$1.3 million and \$2.0 million, respectively, of interest expense in our consolidated statements of income.

West Shore Café We own a 50% noncontrolling interest in the West Shore Lake Café, a restaurant/inn lakefront property in Lake Tahoe, California. During the second quarter of 2014, we provided a \$1.7 million first mortgage loan to acquire property adjacent to the original property, which matures in May 2017 and bears interest at a yield of LIBOR plus 4.00%.

Issuers of Junior Subordinated Notes We have invested a total of \$0.6 million for 100% of the common shares of two affiliated entities of ours. These entities pay dividends on both the common shares and preferred securities on a quarterly basis at variable rates based on three-month LIBOR. See Note 7 "Debt Obligations" for further details.

East River Portfolio In August 2014, we invested \$0.1 million for a 5% interest in a joint venture that owns two multifamily properties. The joint venture consists of a consortium of investors consisting of certain of our officers, including Mr. Ivan Kaufman, and other related parties, who together own an interest of 95%. In August 2014, we originated two bridge loans totaling \$5.0 million with an interest rate of 5.5% over one-month LIBOR and a maturity date of August 2015. See Note 14 "Agreements and Transactions with Related Parties" for further details.

Lexford Portfolio We, along with third party investors, made a \$0.1 million equity investment into Lexford, a portfolio of multifamily assets. Our portion of this investment is a \$44,000 noncontrolling interest. We also had a \$10.5 million interest in a \$25.0 million preferred equity investment in Lexford with the same third party investors that was repaid during 2013. See Note 14 "Agreements and Transactions with Related Parties" for further details.

930 Flushing & 80 Evergreen We had a 12.5% preferred interest in a joint venture that owns and operates two commercial properties. We also had a \$22.4 million bridge loan and a \$0.5 million mezzanine loan outstanding to affiliated entities of the joint venture.

In May 2014, our interest in the properties was sold for \$7.9 million. As a result, we recorded a gain on sale of equity interest in our consolidated statements of income of approximately \$7.9 million and reduced our investment to \$0. We no longer have an interest in this investment. In July 2014, our outstanding loans totaling \$22.9 million to this joint venture were repaid in full.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 5 Investments in Equity Affiliates (Continued)

450 West 33rd Street We were a participant in an investor group that owns a non-controlling interest in an office building at 450 West 33rd Street in Manhattan, New York. The investor group as a whole has a 1.44% retained ownership interest in the property and 50% of the property's air rights. We had a 29% interest in the 1.44% retained ownership interest and 50% air rights.

In 2007, we, as part of the investor group, transferred control of the property and recorded deferred revenue of approximately \$77.1 million. The gain was deferred as a result of the agreement of the joint venture members to guarantee a portion of the debt outstanding on the property. The guarantee was allocated to the members in accordance with their ownership percentages. Our portion of the guarantee was \$76.3 million. In July 2014, the existing debt on the property was refinanced and our portion of the guarantee was terminated, resulting in the recognition of the \$77.1 million deferred gain as well as a \$19.0 million prepaid incentive management fee for a non-cash net gain of \$58.1 million. See Note 14 "Agreements and Transactions with Related Parties" for details of the prepaid incentive fee recorded in 2007 related to this investment. In the third quarter of 2014, we made an additional investment of \$0.3 million. In the fourth quarter of 2014, we sold our remaining interest in this property for \$1.1 million and recorded a gain on sale of \$0.8 million. We no longer have an interest in this investment.

Ritz-Carlton Club We own a 19.09% non-controlling interest with a 10% return subject to certain conditions in the Ritz-Carlton Club, a condominium project in Lake Tahoe, California. During 2012, we recorded \$0.8 million of losses from the entity against the equity investment reducing the balance of our investment to \$0.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 5 Investments in Equity Affiliates (Continued)****Summarized Financial Information**

The condensed combined balance sheets for our unconsolidated investments in equity affiliates accounted for under the equity method at December 31, 2014 and 2013 are as follows (in thousands):

Condensed Combined Balance Sheets	December 31,	
	2014	2013
Assets:		
Cash and cash equivalents	\$ 22,552	\$ 13,101
Real estate assets	639,813	697,484
Other assets	19,169	19,618
Total assets	\$ 681,534	\$ 730,203
Liabilities:		
Notes payable	\$ 691,488	\$ 734,693
Other liabilities	22,653	19,607
Total liabilities	714,141	754,300
Stockholders' equity Arbor(1)	4,291	4,102
Stockholders' deficit	(36,898)	(28,199)
Total stockholders' deficit	(32,607)	(24,097)
Total liabilities and deficit	\$ 681,534	\$ 730,203

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- (1) Combined with \$0.6 million of equity relating to the issuance of junior subordinated notes, equals \$4.9 million of investments in equity affiliates, at December 31, 2014. Combined with \$0.6 million of equity relating to the issuance of junior subordinated notes, equals \$4.7 million of investments in equity affiliates, at December 31, 2013.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 5 Investments in Equity Affiliates (Continued)

The condensed combined statements of operations for our unconsolidated investments in equity affiliates accounted for under the equity method for the years ended December 31, 2014, 2013 and 2012, are as follows (in thousands):

Statements of Operations:	Year Ended		
	2014	2013	2012
Revenue:			
Rental income	\$ 89,192	\$ 85,551	\$ 80,472
Interest income	259	478	813
Operating income	4,168	5,709	8,619
Reimbursement income	6,501	6,653	5,427
Other income	7,993	6,686	6,436
Total revenues	108,113	105,077	101,767
Expenses:			
Operating expenses	59,266	58,265	60,257
Interest expense	33,033	36,061	36,315
Depreciation and amortization	26,793	23,345	22,283
Other expenses	621	493	27
Total expenses	119,713	118,164	118,882
Net loss	\$ (11,600)	\$ (13,087)	\$ (17,115)
Arbor's Share of income (loss)	\$ 249	\$ (204)	\$ (698)

Note 6 Real Estate Owned and Held-For-Sale*Real Estate Owned*

	December 31, 2014			December 31, 2013		
	Multifamily Portfolio	Hotel Portfolio	Total	Multifamily Portfolio	Hotel Portfolio	Total
Land	\$ 5,538,844	\$ 9,393,651	\$ 14,932,495	\$ 11,382,579	\$ 10,893,651	\$ 22,276,230
Building and intangible assets	31,249,869	58,818,891	90,068,760	46,115,430	61,632,645	107,748,075
Less:						
Accumulated depreciation and amortization	(7,414,267)	(12,661,347)	(20,075,614)	(8,598,915)	(9,707,213)	(18,306,128)
Real estate owned, net	\$ 29,374,446	\$ 55,551,195	\$ 84,925,641	\$ 48,899,094	\$ 62,819,083	\$ 111,718,177

Our real estate owned assets were comprised of three multifamily properties (the "Multifamily Portfolio") and four hotel properties (the "Hotel Portfolio") at December 31, 2014, and six multifamily properties and five hotel properties at December 31, 2013.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 6 Real Estate Owned and Held-For-Sale (Continued)**

In July 2014, a property in the Multifamily Portfolio was sold to a third party for \$3.1 million. In connection with this sale, we recorded a loss on sale of \$0.2 million and a reduction of the mortgage note payable of \$3.4 million. During the first quarter of 2014, we recorded an impairment loss of \$0.3 million related to this property as a result of an impairment analysis based on the indicators of value from the market participants. In the third quarter of 2014, three properties in the Multifamily Portfolio were classified as held-for sale with a total carrying value of \$26.4 million and a first lien mortgage of \$23.8 million and in the fourth quarter of 2014, a property in the Hotel Portfolio was classified as held-for-sale with a carrying value of \$5.0 million.

In the second quarter of 2014, a property in the Multifamily Portfolio with a carrying value of \$11.4 million and a first lien mortgage of \$11.0 million was reclassified from real estate held-for-sale to real estate owned, net as a proposed sale for this property failed to close and the property no longer met the requirements for classification as discontinued operations or real estate held-for-sale. In connection with this reclassification, we recorded depreciation of \$0.3 million in the second quarter of 2014.

As of December 31, 2014 and 2013, the Multifamily Portfolio had a mortgage note payable of \$21.9 million and \$42.7 million, respectively.

Real Estate Held-For-Sale

As described above, during the third quarter of 2014, three properties in the Multifamily Portfolio were classified as held-for sale with a carrying value of \$26.4 million and a first lien mortgage of \$23.8 million and during the fourth quarter of 2014, a property in the Hotel Portfolio was classified as held-for sale with a carrying value of \$5.0 million. In the fourth quarter of 2014, two Multifamily Portfolio properties classified as held-for-sale with a combined carrying value of \$16.5 million were sold for a net gain of approximately \$1.8 million. In the first quarter of 2015, we sold the remaining held-for-sale property in our Multifamily Portfolio and the property in the Hotel Portfolio for a total of approximately \$18.8 million and expect to recognize a gain of approximately \$4.1 million.

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

	Year Ended December 31,		
	2014	2013	2012
Revenue:			
Property operating income	\$ 7,530,400	\$ 7,292,340	\$ 6,717,530
Expenses:			
Property operating expense	6,053,586	6,256,997	6,014,230
Depreciation	1,604,030	1,683,253	1,418,355
Net Loss	\$ (127,216)	\$ (647,910)	\$ (715,055)

During the year ended December 31, 2012, we sold an apartment building in Tucson, Arizona and a hotel in St. Louis, Missouri and recorded a net gain on sale of real estate held-for-sale of \$3.5 million in our consolidated statements of income. Additionally, one of the properties in the Hotel Portfolio was sold to a third party and we recorded a gain on sale of \$0.5 million, and we surrendered an office

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building in Indianapolis, Indiana to the first mortgage lender in full satisfaction of the mortgage note payable and recorded income from discontinued operations of \$1.2 million related to the reversal of accrued liabilities which were not incurred.

As of December 31, 2014, 2013 and 2012, our Multifamily Portfolio had a weighted average occupancy rate of approximately 90%, 85% and 85%, respectively. As of December 31, 2014, 2013 and 2012, our Hotel Portfolio had a weighted average occupancy rate of approximately 51%, 48% and 48%, respectively. For the years ended December 31, 2014, 2013 and 2012, our Hotel Portfolio had a weighted average daily rate of approximately \$76, \$79 and \$86, respectively, and a weighted average revenue per available room of approximately \$39, \$38 and \$41, respectively.

Our real estate assets had restricted cash balances totaling \$1.7 million and \$0.9 million as of December 31, 2014 and 2013, respectively, due to escrow requirements.

Note 7 Debt Obligations

We utilize various forms of short-term and long-term financing agreements to finance certain of our loans and investments. Borrowings underlying these arrangements are primarily secured by a significant amount of our loans and investments.

Credit Facilities and Repurchase Agreements

The following table outlines borrowings under our credit facilities and repurchase agreements as of December 31, 2014 and 2013:

	December 31, 2014			December 31, 2013		
	Debt Carrying Value	Collateral Carrying Value	Weighted Average Note Rate	Debt Carrying Value	Collateral Carrying Value	Weighted Average Note Rate
\$100 million warehousing credit facility	\$ 92,520,637	\$ 128,593,000	2.45%	\$ 33,300,540	\$ 45,705,813	2.46%
\$75 million warehousing credit facility	42,975,000	58,000,000	2.45%	30,838,180	46,774,000	2.70%
\$60 million warehousing credit facility	29,890,563	45,422,236	2.20%	15,063,750	21,800,000	2.20%
\$33 million warehousing credit facility				33,000,000	55,000,000	2.45%
\$20 million revolving credit facility				20,000,000		8.50%
\$15 million term credit facility	15,000,000		7.50%			
Repurchase agreement				12,497,000	15,536,049	1.75%
Repurchase agreement				14,425,553	18,944,735	2.00%
Total credit facilities and repurchase agreements	\$ 180,386,200	\$ 232,015,236	2.84%	\$ 159,125,023	\$ 203,760,597	3.16%

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 7 Debt Obligations (Continued)

At December 31, 2014 and 2013, the weighted average interest rate for our credit facilities and repurchase agreements was 2.84% and 3.16%, respectively. Including certain fees and costs, the weighted average interest rate was 3.06% and 3.57% at December 31, 2014 and 2013, respectively. There were no interest rate swaps on these facilities at December 31, 2014 and 2013.

In July 2011, we entered into a two year, \$50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. In 2013, we amended the facility, increasing the committed amount to \$75.0 million, decreased the rate of interest from 275 basis points over LIBOR to 225 basis points over LIBOR, decreased certain commitment, warehousing and non-use fees and extended the maturity to April 2015. In March 2014, the facility's committed amount was increased to \$110.0 million, which included a temporary increase of \$10.0 million that was repaid in April 2014 as part of the issuance of our third CLO, and required a 0.13% commitment fee, which was increased to 0.35% upon an amendment in August 2014 that included the elimination of advance fees. The facility has a maximum advance rate of 75% and contains several restrictions including full repayment of an advance if a loan becomes 60 days past due, is in default or is written down by us. The facility has various financial covenants including a minimum liquidity requirement of \$20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of \$150.0 million, maximum total liabilities less subordinate debt of \$2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. The facility has a compensating balance requirement of \$50.0 million to be maintained by us and our affiliates.

In February 2013, we entered into a one year, \$50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. In April 2014, we amended the facility, increasing the committed amount to \$75.0 million. The facility bears interest at a rate of 225 basis points over LIBOR which was originally 250 basis points over LIBOR, upon closing, requires a 35 basis point commitment fee, which was originally 12.5 basis points, upon closing, matures in March 2015, has warehousing and non-use fees and allows for an original warehousing period of up to 24 months from the initial advance on an asset. The facility has a maximum advance rate of 75% and contains certain restrictions including partial prepayment of an advance if a loan becomes 90 days past due or in the process of foreclosure, subject to certain conditions. The facility has various financial covenants including a minimum liquidity requirement of \$20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of \$150.0 million, maximum total liabilities less subordinate debt of \$2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios.

In June 2013, we entered into a one year, \$40.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties, including a \$10.0 million sublimit to finance retail and office properties. In February 2014, we amended the facility, increasing the committed amount to \$45.0 million, and in April 2014 the committed amount was increased to \$60.0 million. The facility bears interest at a rate of 200 basis points over LIBOR, matures in April 2015, has warehousing fees and allows for an original warehousing period of up to 24 months from the initial advance on an asset. The facility also has a maximum advance rate of 70% or 75%, depending on the property type, and contains certain restrictions including prepayment of an advance if a loan becomes 60 days past due or is in the process of foreclosure, subject to certain conditions. The facility

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 7 Debt Obligations (Continued)

also includes various financial covenants including a minimum liquidity requirement of \$20.0 million, minimum tangible net worth of \$150.0 million, as well as a minimum debt service coverage ratio.

In December 2013, we entered into a \$33.0 million warehouse facility with a financial institution to finance the first mortgage loan on a multifamily property. The facility bore interest at a rate of 225 basis points over LIBOR which increased to 250 basis points over LIBOR in February 2014, required up to a 45 basis point commitment fee and was to mature in November 2015 with a one year extension option. In April 2014, the facility was repaid in full as part of the issuance of our third CLO.

In May 2012, we entered into a \$15.0 million committed revolving line of credit with a one year term, which was secured by a portion of the bonds originally issued by our CDO entities that have been repurchased by us. This facility had a 1% commitment fee, a 1% non-use fee and paid interest at a fixed rate of 8% on any drawn portion of the line. In January 2013, we amended the facility, increasing the committed amount to \$20.0 million and a fixed rate of interest of 8.5% on any drawn portion of the \$20.0 million commitment. The amendment also required a 1% commitment fee and a 1% non-use fee. In May 2013, we extended the facility to a maturity in May 2014 with a one year extension option and a 1% extension fee, as well as amended the facility to have an 8.5% non-use fee on the first \$5.0 million not borrowed and a 1% non-use fee on the remaining funds not borrowed. In May 2014, the facility was repaid in full from proceeds received from the issuance of senior unsecured notes.

In August 2014, we entered into a \$15.0 million term facility with a maturity in August 2015, a fixed interest rate of 7.5% and no commitment or non-use fees. The facility is secured by a portion of the bonds originally issued by our CDO III entity that have been repurchased by us.

In July 2011, we entered into a repurchase agreement with a financial institution to finance the purchase of RMBS investments. During the first quarter of 2014, we paid off the remaining balance of \$12.5 million due to the sale of our RMBS investments as well as principal paydowns received. See Note 4 "Securities" for further details. The facility bore interest at a rate of 125 to 200 basis points over LIBOR.

In June 2012, we entered into a repurchase agreement with a financial institution to finance the purchase of RMBS investments. During the first quarter of 2014, we paid off the remaining balance of \$14.4 million due to the sale of our RMBS investments as well as principal paydowns received. The facility bore interest at a rate of 180 to 185 basis points over LIBOR.

In January 2015, we entered into a \$150.0 million warehouse repurchase facility with a financial institution to finance a significant portion of the unwind of our CDO I and CDO II vehicles. The facility bears interest at a rate of 212.5 basis points over LIBOR on senior mortgage loans, 350.0 basis points over LIBOR on junior mortgage loans and has a two year term with a one year extension option. The facility also has a structuring fee of 50 basis points and contains certain financial covenants and restrictions. See "Collateralized Debt Obligations" below.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 7 Debt Obligations (Continued)***Collateralized Debt Obligations (CDOs)*

The following table outlines borrowings and the corresponding collateral under our CDOs as of December 31, 2014:

	Debt		Loans		Collateral	
	Face Value	Carrying Value	Unpaid Principal(1)	Carrying Value(1)	Cash Restricted Cash(2)	Collateral At-Risk(3)
CDO I	\$ 69,972,159	\$ 75,402,789	\$ 222,903,486	\$ 174,460,160	\$ 5,232,226	\$ 180,691,292
CDO II	97,906,092	103,484,624	192,522,685	143,824,571	69,412,808	106,139,494
CDO III	144,192,804	152,507,713	202,758,120	171,457,394	64,771,797	147,049,346
Total CDOs	\$ 312,071,055	\$ 331,395,126	\$ 618,184,291	\$ 489,742,125	\$ 139,416,831	\$ 433,880,132

The following table outlines borrowings and the corresponding collateral under our CDOs as of December 31, 2013:

	Debt		Loans		Collateral	
	Face Value	Carrying Value	Unpaid Principal(1)	Carrying Value(1)	Cash Restricted Cash(2)	Collateral At-Risk(3)
CDO I	\$ 126,753,077	\$ 132,399,560	\$ 284,758,473	\$ 237,194,618	\$ 79,986	\$ 179,466,954
CDO II	196,046,587	201,847,417	362,150,693	312,859,875	1,719,760	187,213,841
CDO III	296,754,194	305,376,004	395,783,494	365,236,505	23,607,813	240,503,823
Total CDOs	\$ 619,553,858	\$ 639,622,981	\$ 1,042,692,660	\$ 915,290,998	\$ 25,407,559	\$ 607,184,618

CDO I Issued four investment grade tranches in January 2005 with a reinvestment period through April 2009 and a stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.23% and 3.12% at December 31, 2014 and 2013, respectively.

CDO II Issued nine investment grade tranches in January 2006 with a reinvestment period through April 2011 and a stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 6.22% and 3.74% at December 31, 2014 and 2013, respectively.

CDO III Issued ten investment grade tranches in December 2006 with a reinvestment period through January 2012 and a stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 0.98% and 0.75% at December 31, 2014 and 2013, respectively.

(1)

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Amounts include loans to real estate assets consolidated by us that were reclassified to real estate owned and held-for-sale, net on the consolidated financial statements.

(2)

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 7 Debt Obligations (Continued)

(3)

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

At December 31, 2014 and 2013, the aggregate weighted average note rate for our CDOs, including the cost of interest rate swaps on assets financed in these facilities, was 3.13% and 2.18%, respectively. Excluding the effect of swaps, the weighted average note rate at December 31, 2014 and 2013 was 1.07% and 0.83%, respectively. Including certain fees and costs, the weighted average note rate was 5.26% and 3.26% at December 31, 2014 and 2013, respectively.

In January 2005, we completed our first CDO vehicle, issuing to third party investors four tranches of investment grade collateralized debt obligations ("CDO I") through a newly-formed wholly-owned subsidiary, Arbor Realty Mortgage Securities Series 2004-1, Ltd. ("the Issuer"). At inception, the Issuer held assets, consisting primarily of bridge loans, mezzanine loans and cash totaling approximately \$469.0 million, which serve as collateral for CDO I. The Issuer issued investment grade notes with an initial principal amount of approximately \$305.0 million and a wholly-owned subsidiary of ours purchased the preferred equity interests of the Issuer. The four investment grade tranches were issued with floating rate coupons with an initial combined weighted average rate of three-month LIBOR plus 0.77%. The outstanding debt balance is reduced as loans are repaid. We incurred approximately \$7.2 million of issuance costs which is amortized on a level yield basis over the average estimated life of CDO I. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability. Proceeds of \$56.8 million and \$7.2 million were distributed in 2014 and 2013, respectively. The CDO liability is also reduced as the notes are purchased by us see below.

In January 2006, we completed our second CDO vehicle, issuing to third party investors nine tranches of investment grade collateralized debt obligations ("CDO II") through a newly-formed wholly-owned subsidiary, Arbor Realty Mortgage Securities Series 2005-1, Ltd. ("the Issuer II"). At inception, the Issuer II held assets, consisting primarily of bridge loans, mezzanine loans and cash totaling approximately \$475.0 million, which serve as collateral for CDO II. The Issuer II issued investment grade notes with an initial principal amount of approximately \$356.0 million and a wholly-owned subsidiary of ours purchased the preferred equity interests of the Issuer II. The nine investment grade tranches were issued with floating rate coupons with an initial combined weighted average rate of three-month LIBOR plus 0.74%. The outstanding debt balance is reduced as loans are repaid. We incurred approximately \$6.2 million of issuance costs which is being amortized on a level yield basis over the average estimated life of CDO II. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability. Proceeds of \$98.1 million and \$34.1 million were distributed and recorded as a reduction of the CDO II liability during 2014 and 2013, respectively. The CDO liability is also reduced as the notes are purchased by us see below.

In December 2006, we completed our third CDO vehicle, issuing to third party investors ten tranches of investment grade collateralized debt obligations ("CDO III") through a newly-formed wholly-owned subsidiary, Arbor Realty Mortgage Securities Series 2006-1, Ltd. ("the Issuer III"). At

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 7 Debt Obligations (Continued)

inception, the Issuer III held assets, consisting primarily of bridge loans, mezzanine loans, junior participation loans, preferred equity investments and cash totaling approximately \$500.0 million, which serve as collateral for CDO III. The Issuer III issued investment grade notes with an initial principal amount of approximately \$547.5 million, including a \$100.0 million revolving note class that provides a revolving note facility and a wholly-owned subsidiary of ours purchased the preferred equity interests of the Issuer III. The ten investment grade tranches were issued with floating rate coupons with an initial combined weighted average rate of three-month LIBOR plus 0.44% and the revolving note facility has a commitment fee of 0.22% per annum on the undrawn portion of the facility. The outstanding debt balance will be reduced as loans are repaid. Investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability. Proceeds of \$152.6 million and \$120.8 million were distributed and recorded as a reduction of the CDO III liability during both 2014 and 2013, respectively. The CDO liability is also reduced as the investment grade notes are purchased by us see below. We incurred approximately \$9.7 million of issuance costs which is being amortized on a level yield basis over the average estimated life of CDO III. The outstanding note balance for CDO III was \$152.5 million and \$257.4 million at December 31, 2014 and 2013, respectively. CDO III has \$100.0 million revolving note class that provides a revolving note facility. The outstanding revolving note facility for CDO III was \$1.8 million and \$48.0 million at December 31, 2014 and 2013, respectively.

Proceeds from the sale of the 23 investment grade tranches issued in CDO I, CDO II and CDO III were used to repay outstanding debt under our repurchase agreements and notes payable. The assets pledged as collateral were contributed from our existing portfolio of assets. Each CDO has reached the end of its replenishment period.

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

In January 2015, we completed the unwinding of CDO I and CDO II, redeeming \$167.9 million of our outstanding notes. The notes were repaid primarily from proceeds received from the refinancing of CDO I and II's remaining assets within a new \$150.0 million warehouse repurchase facility and our existing financing facilities, as well as with cash held by each CDO. As a result of this transaction, we generated approximately \$30.0 million in cash equity and expect to expense \$0.1 million of deferred fees in the first quarter of 2015. We also terminated the related basis and interest rate swaps and expect to incur a loss of \$4.3 million in the first quarter of 2015. See Note 8 "Derivative Financial Instruments" for additional details.

In 2010, we re-issued our own CDO bonds we had acquired throughout 2009 with an aggregate face amount of approximately \$42.8 million as part of an exchange for the retirement of \$114.1 million of our junior subordinated notes. This transaction resulted in the recording of \$65.2 million of additional CDO debt, of which \$42.3 million represents the portion of our CDO bonds that were exchanged and \$22.9 million represents the estimated interest due on the reissued bonds through their maturity, of which \$19.3 million remains at December 31, 2014. In the first quarter of 2015, we unwound our CDO I and CDO II vehicles and reduced the balance of estimated interest by \$11.0 million, recording a gain.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 7 Debt Obligations (Continued)**

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

Class:	Year Ended December 31,					
	2014		2013		2012	
	Face Amount	Gain	Face Amount	Gain	Face Amount	Gain
B	\$	\$	\$	\$	\$ 13,000,000	\$ 4,615,000
C					3,329,509	1,200,182
D					13,350,000	5,819,066
E					13,765,276	6,445,033
F					9,708,556	5,048,417
G					8,672,039	4,777,138
H			9,935,088	4,930,772	4,403,771	2,554,187
Total	\$	\$	\$ 9,935,088	\$ 4,930,772	\$ 66,229,151	\$ 30,459,023

Collateralized Loan Obligations (CLOs)

The following table outlines borrowings and the corresponding collateral under our CLOs as of December 31, 2014:

	Debt			Collateral		Cash Restricted Cash(1)	Collateral At-Risk(2)
	Face Value	Carrying Value	Unpaid Principal	Loans Carrying Value			
CLO II	\$ 177,000,000	\$ 177,000,000	\$ 252,353,210	\$ 251,658,406	\$ 7,284,919	\$	
CLO III	281,250,000	281,250,000	315,390,280	313,932,084	59,245,183		
Total CLOs	\$ 458,250,000	\$ 458,250,000	\$ 567,743,490	\$ 565,590,490	\$ 66,530,102	\$	

CLO II Issued two investment grade tranches in January 2013 with a replacement period through February 2015 and a stated maturity date of February 2023. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.56%.

CLO III Issued three investment grade tranches in April 2014 with a replacement period through October 2016 and a stated maturity date of May 2024. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.60%.

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The following table outlines borrowings and the corresponding collateral under our CLOs as of December 31, 2013:

	Debt		Collateral		Cash Restricted Cash(1)	Collateral At-Risk(2)
	Face Value	Carrying Value	Unpaid Principal	Loans Carrying Value		
CLO I	\$ 87,500,000	\$ 87,500,000	\$ 114,414,154	\$ 113,940,857	\$ 10,672,496	\$
CLO II	177,000,000	177,000,000	255,016,564	253,989,391	4,621,675	
Total CLOs	\$ 264,500,000	\$ 264,500,000	\$ 369,430,718	\$ 367,930,248	\$ 15,294,171	\$

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

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

In September 2012, we completed our first CLO ("CLO I"), issuing to third party investors two tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries. Initially, the notes are secured by a portfolio of loan obligations with a face value of approximately \$125.1 million, consisting primarily of bridge loans and a senior participation interest in a first mortgage loan that were contributed from our existing loan portfolio. The financing had a two-year replacement period that allowed 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. As of October 9, 2014, CLO I has past the reinvestment period and investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CLO. The aggregate principal amounts of the two classes of notes are \$75.0 million of Class A senior secured floating rate notes and \$12.5 million of Class B secured floating rate notes. We retained a residual interest in the portfolio with a notional amount of \$37.6 million. The notes have an initial weighted average interest rate of approximately 3.39% plus one-month LIBOR and interest payments on the notes are payable monthly. We incurred approximately \$2.4 million of issuance costs which is being amortized on a level yield basis over the average estimated life of the CLO. Including certain fees and costs, the initial weighted average note rate was 4.35%. In the fourth quarter of 2014, we completed the unwind of CLO I redeeming \$87.5 million of outstanding notes which were repaid with proceeds received from the refinancing of the remaining assets within our existing financing facilities and cash held by CLO I and expensed approximately \$1.0 million of deferred fees in the fourth quarter of 2014 into interest expense on the consolidated statement of income.

In January 2013, we completed our second CLO ("CLO II"), issuing to third party investors two tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries. As of the CLO closing date, the notes are secured by a portfolio of loan obligations with a face value of approximately \$210.0 million, consisting primarily of bridge loans and a senior participation interest in

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 7 Debt Obligations (Continued)

a first mortgage loan that were contributed from our existing loan portfolio. The financing has a two-year replacement period that allows the principal proceeds and sale proceeds (if any) of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. As of February 10, 2015, CLO II has past the reinvestment period and investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CLO. Initially, the proceeds of the issuance of the securities also included \$50.0 million for the purpose of acquiring additional loan obligations for a period of up to 90 days from the closing date of the CLO. Subsequently, the issuer owns loan obligations with a face value of approximately \$260.0 million. The aggregate principal amounts of the two classes of notes were \$156.0 million of Class A senior secured floating rate notes and \$21.0 million of Class B secured floating rate notes. We retained a residual interest in the portfolio with a notional amount of approximately \$83.0 million. The notes have an initial weighted average interest rate of approximately 2.36% plus one-month LIBOR and interest payments on the notes are payable monthly, beginning on March 15, 2013, to and including February 15, 2023, the stated maturity date of the notes. We incurred approximately \$3.2 million of issuance costs which is being amortized on a level yield basis over the average estimated life of the CLO. Including certain fees and costs, the initial weighted average note rate was 3.00%.

In April 2014, we completed our third CLO ("CLO III"), issuing to third party investors three tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries. As of the CLO closing date, the notes are secured by a portfolio of loan obligations with a face value of approximately \$307.3 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has an approximate 2.5 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 \$67.7 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 was fully utilized in July 2014. Subsequently, the issuer owns loan obligations with a face value of approximately \$375.0 million. The aggregate principal amounts of the three classes of notes are \$221.3 million of Class A senior secured floating rate notes, \$24.3 million of Class B secured floating rate notes and \$35.8 million of Class C secured floating rate notes. We retained a residual interest in the portfolio with a notional amount of approximately \$93.8 million. The notes have an initial weighted average interest rate of approximately 2.39% plus one-month LIBOR and interest payments on the notes are payable monthly. Including certain fees and costs, the initial weighted average note rate was 3.07%.

We account for these 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.

At December 31, 2014 and 2013, the aggregate weighted average note rate for our CLOs was 2.59% and 2.91%, respectively. Including certain fees and costs, the weighted average note rate was 3.14% and 3.49% at December 31, 2014 and 2013, respectively.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 7 Debt Obligations (Continued)

Senior Unsecured Notes

In May 2014, we issued \$55.0 million aggregate principal amount of 7.375% senior unsecured notes due in 2021 in an underwritten public offering, generating net proceeds of approximately \$52.9 million after deducting the underwriting discount and offering expenses. Also in May 2014, the underwriters exercised a portion of their over-allotment option for a \$3.6 million aggregate principal amount providing additional net proceeds of \$3.5 million.

In August 2014, we issued an additional \$35.0 million of the senior unsecured notes for net proceeds of approximately \$32.5 million after deducting the issuance and underwriting discounts and offering expenses. Additionally, the underwriters exercised a portion of their over-allotment option for a \$4.2 million aggregate principal amount providing additional net proceeds of \$3.9 million. The notes can be redeemed by us after May 15, 2017. The interest is paid quarterly in February, May, August, and November starting in August 2014. Including certain fees and costs, the weighted average note rate was 8.06% at December 31, 2014. We used the net proceeds to make investments, to repurchase or pay liabilities and for general corporate purposes.

Junior Subordinated Notes

The carrying value of borrowings under our junior subordinated notes was \$159.8 million and \$159.3 million at December 31, 2014 and 2013, respectively, which is net of a deferred amount of \$16.0 million and \$16.6 million, respectively. These notes have maturities ranging from March 2034 through April 2037, pay interest quarterly at a fixed or floating rate of interest based on three-month LIBOR and were not redeemable for the first two years. The current weighted average note rate was 3.01% at December 31, 2014 and 2013, however, based upon the accounting treatment for the restructuring mentioned below, the effective rate was 3.07% and 3.06%, at December 31, 2014 and 2013, respectively. Including certain fees and costs, the weighted average note rate was 3.18% for both periods. The entities that issued the junior subordinated notes have been deemed VIEs. The impact of these VIEs with respect to consolidation is discussed in Note 9 "Variable Interest Entities."

In 2009, we retired \$265.8 million of our then outstanding trust preferred securities, primarily consisting of \$258.4 million of junior subordinated notes issued to third party investors and \$7.4 million of common equity issued to us in exchange for \$289.4 million of newly issued unsecured junior subordinated notes, representing 112% of the original face amount. The notes bear interest equal to three month LIBOR plus a weighted average spread of 2.77%. The 12% increase to the face amount due upon maturity, which had a balance of \$16.0 million at December 31, 2014, is being amortized into interest expense over the life of the notes. We also paid transaction fees of approximately \$1.3 million to the issuers of the junior subordinated notes related to this restructuring which is being amortized into interest expense over the life of the notes.

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The following table outlines borrowings under our notes payable as of December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Junior loan participation, secured by our interest in a first mortgage loan with a principal balance of \$1.3 million, participation interest was based on a portion of the interest received from the loan which has a fixed rate of 9.57%	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000
Junior loan participation, maturity of October 2018, secured by our interest in a mezzanine loan with a principal balance of \$3.0 million, participation interest is a fixed rate of 13.00%			750,000	750,000
Junior loan participation, maturity of September 2014, secured by our interest in a mezzanine loan with a principal balance of \$3.0 million, participation interest is a fixed rate of 15.00%			450,000	450,000
Total notes payable	\$ 1,300,000	\$ 1,300,000	\$ 2,500,000	\$ 2,500,000

At December 31, 2014 and 2013, the aggregate weighted average note rate for our notes payable was 0% and 4.26%, respectively. There were no interest rate swaps on the notes payable at December 31, 2014 and 2013.

Our obligation to pay interest on the junior loan participations is based on the performance of the related loan. Interest expense is based on the portion of the interest received from the loan that is paid to the junior participant. In the third quarter of 2014, we paid off our \$0.8 million and \$0.5 million junior loan participations. In March 2014, we entered into non-recourse junior loan participations with our Manager totaling \$15.0 million on a \$70.1 million bridge loan, with a weighted average variable interest rate of 7.20%. In May 2014, the junior loan participations with our Manager were paid off.

Mortgage Note Payable Real Estate Owned and Held-For-Sale

We have a first lien mortgage in connection with the acquisition of real property pursuant to bankruptcy proceedings for an entity in which we had a loan secured by the Multifamily Portfolio. At December 31, 2014 and 2013, the outstanding balance of this loan was \$31.0 million and \$53.8 million, respectively. The mortgage bears interest at a variable rate of one-month LIBOR plus 1.23% and in July 2014, the maturity date was extended to July 2015.

In 2013, a property in the Multifamily Portfolio was classified as held-for-sale and accordingly, \$11.0 million of the first lien mortgage related to this property was classified as held-for-sale. In the second quarter of 2014, it was determined that a sale of this property would not take place and the entire first lien mortgage was reclassified as real estate owned. In the third quarter of 2014, a property in the Multifamily Portfolio was sold and accordingly, we repaid the \$3.4 million first mortgage related to this property. Additionally, in the third quarter of 2014, three properties in the Multifamily Portfolio were classified as held-for-sale and accordingly, \$23.8 million of the first lien mortgage was classified as held-for-sale. In the fourth quarter of 2014, two of the properties classified as held-for-sale were sold

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 7 Debt Obligations (Continued)

and the first lien mortgage was paid down \$15.4 million. In the first quarter of 2015, we repaid the existing mortgage of \$20.7 million and replaced it with a new \$27.2 million mortgage.

We made required paydowns of \$4.0 million related to the Multifamily Portfolio first lien mortgage during 2014.

Debt Covenants

Our debt facilities contain various financial covenants and restrictions, including minimum net worth, minimum liquidity and maximum debt balance requirements, as well as certain other debt service coverage ratios and debt to equity ratios. We were in compliance with all financial covenants and restrictions at December 31, 2014.

Our CDO and 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 CDOs or CLOs, all cash flows from the applicable CDO or CLO would be diverted to repay principal and interest on the outstanding CDO or CLO bonds and we would not receive any residual payments until that CDO or CLO regained compliance with such tests. Our CDOs and CLOs were in compliance with all such covenants as of December 31, 2014, as well as on the most recent determination dates in January 2015. In the event of a breach of the CDO or CLO covenants that could not be cured in the near-term, we would be required to fund our non-CDO or non-CLO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO or CLO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, or (v) or 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 CDOs or CLOs. However, we may not have sufficient liquidity available to do so at such time.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 7 Debt Obligations (Continued)**

The chart below is a summary of our CDO and CLO compliance tests as of the most recent determination dates in January 2015:

Cash Flow Triggers	CDO III	CLO II	CLO III
Overcollateralization(1)			
Current	111.34%	146.89%	133.33%
Limit	105.60%	144.25%	132.33%
Pass / Fail	Pass	Pass	Pass
Interest Coverage(2)			
Current	349.38%	313.35%	274.85%
Limit	105.60%	120.00%	120.00%
Pass / Fail	Pass	Pass	Pass

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

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

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

Determination Date	CDO I	CDO II	CDO III	CLO II	CLO III
January 2015(1)			111.34%	146.89%	133.33%
October 2014	173.33%	161.20%	110.65%	146.89%	133.33%
July 2014	171.01%	153.44%	109.20%	146.89%	133.33%
April 2014	184.35%	138.15%	108.74%	146.89%	
January 2014	167.15%	137.87%	107.80%	146.89%	

(1) CLO I was redeemed in December 2014 and CDO I and CDO II were redeemed in January 2015.

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

Note 8 Derivative Financial Instruments

The following is a summary of the derivative financial instruments held by us as of December 31, 2014 and 2013 (dollars in thousands):

Designation\Cash Flow	Derivative	Count	Notional Value			Expiration Date	Balance Sheet Location	Fair Value	
			December 31, 2014	Count	December 31, 2013			December 31, 2014	December 31, 2013
Non-Qualifying	Basis Swaps	1	\$ 3,000	1	\$ 11,600	2015	Other Assets	\$ 2	\$ 5
Non-Qualifying	LIBOR Cap	1	\$ 71,701		\$	2015	Other Assets	\$	\$
Qualifying	Interest Rate Swaps	12	\$ 250,321	14	\$ 297,532	2015 - 2017	Other Liabilities	\$ (13,908)	\$ (24,794)
Non-Qualifying	Forward Contracts		\$	8	\$		Other Assets	\$	\$ 6,397

The non-qualifying basis swaps hedges are used to manage our exposure to interest rate movements and other identified risks but do not meet hedge accounting requirements. We are exposed to changes in the fair value of certain of our fixed rate obligations due to changes in benchmark interest rates and uses interest rate swaps to manage our exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. These interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. During the year ended December 31, 2014, the notional value on a basis swap decreased by approximately \$8.6 million pursuant to the contractual terms of the respective swap agreement. During the year ended December 31, 2013, seven basis swaps matured with a combined notional value of approximately \$499.4 million and the notional value of one basis swap decreased by approximately \$92.6 million pursuant to the contractual terms of the respective swap agreement. We entered into a non-qualifying LIBOR cap hedge in the first quarter of 2014 due to a loan agreement requiring a LIBOR cap of 6%. A non-qualifying LIBOR cap hedge with a notional value of approximately \$6.0 million also matured during 2013. For the years ended December 31, 2014, 2013 and 2012, the change in fair value of the non-qualifying swaps was less than \$(0.1) million, \$(0.1) million and \$(1.4) million, respectively, and was recorded in interest expense on the consolidated statements of income.

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The change in the fair value of qualifying interest rate swap cash flow hedges was recorded in accumulated other comprehensive loss on the consolidated balance sheets. These interest rate swaps are used to hedge the variable cash flows associated with existing variable-rate debt, and amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 8 Derivative Financial Instruments (Continued)**

expense as interest payments are made on our variable-rate debt. During the year ended December 31, 2014, two interest rate swaps matured with a combined notional value of approximately \$32.0 million and the notional value on an interest rate swap decreased by approximately \$15.0 million pursuant to the contractual terms of the respective swap agreement. During the year ended December 31, 2013, the notional value on an interest rate swap decreased by approximately \$14.5 million pursuant to the contractual terms of the respective swap agreement. A qualifying LIBOR cap Hedge with a notional value of approximately \$73.3 million also matured during 2013. As of December 31, 2014, we expect to reclassify approximately \$(9.4) million of other comprehensive loss from qualifying cash flow hedges to interest expense over the next twelve months assuming interest rates on that date are held constant. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. Gains and losses on terminated swaps are being deferred and recognized in earnings over the original life of the hedged item. As of December 31, 2014 and 2013, we had a net deferred loss of \$1.1 million and \$1.6 million, respectively, in accumulated other comprehensive loss related to these terminated swap agreements. We recorded \$0.7 million, \$0.9 million and \$0.9 million as additional interest expense related to the amortization of the loss for the years ended December 31, 2014, 2013 and 2012, respectively, and \$0.2 million as a reduction to interest expense related to the accretion of the net gains for each of the years ended December 31, 2014, 2013 and 2012. We expect to record approximately \$0.5 million of net deferred loss to interest expense over the next twelve months.

The fair value of non-qualifying forward contracts was \$6.4 million as of December 31, 2013 and was recorded in other assets on the consolidated balance sheets and consisted of \$66.0 million of RMBS investments, which is net of \$1.5 million of net unrealized losses in fair value, and \$59.6 million of repurchase financing. The RMBS investments were financed with repurchase agreements and were accounted for as linked transactions which are considered forward contracts. The repurchase agreements generally financed 80% - 90% of the purchase and bore interest at a rate of 125 to 175 basis points over LIBOR. During the year ended December 31, 2014, we sold the eight remaining RMBS investments, which were accounted for as linked transactions, with an aggregate carrying value of \$65.7 million for approximately \$65.8 million and recorded a net gain of \$0.1 million related to the settlement of these linked transactions. During 2014, we received total principal paydowns on the RMBS of \$2.7 million and paid down the associated repurchase agreements by \$4.2 million, which includes a decrease in the amount financed on the repurchase agreements of \$1.7 million. The eight RMBS investments were financed with repurchase agreements totaling \$55.4 million which were repaid with the proceeds. For the years ended December 31, 2014 and 2013, we recorded \$0.3 million and \$1.9 million of net interest income, respectively, and a less than \$0.1 million and \$1.7 million decrease in fair value, respectively, to other income in the consolidated statements of income.

In January 2015, CDO I and CDO II were unwound and the related basis and interest rate swaps with an aggregate notional value of \$137.6 million and an aggregate fair value of \$(4.3) million were terminated and recorded as a loss in the first quarter of 2015. See Note 7 "Debt Obligations Collateralized Debt Obligations" for further details.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 8 Derivative Financial Instruments (Continued)

The following table presents the effect of our derivative financial instruments on the statements of income as of December 31, 2014, 2013 and 2012 (in thousands):

Designation\Cash Flow	Derivative	Amount of Loss Recognized in Other Comprehensive Loss (Effective Portion) For the Year Ended December 31,			Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Year Ended December 31,			Amount of Loss Recognized in Interest Expense (Ineffective Portion) For the Year Ended December 31,			Amount of (Loss) Gain Recognized in Other Income For the Year Ended December 31,		
		2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
Non-Qualifying	Basis Swaps / Caps	\$	\$	\$	\$	\$	\$	\$ (1)	\$ (12)	\$ (22)	\$	\$	\$
Qualifying	Interest Rate Swaps / Cap	\$ 1,318	\$ 520	\$ 7,699	\$ (12,654)	\$ (14,131)	\$ (16,565)	\$	\$	\$	\$	\$	\$
Non-Qualifying	Forward Contracts	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ (45)	\$ (1,676)	\$ 167

The cumulative amount of other comprehensive loss related to net unrealized losses on derivatives designated as qualifying hedges as of December 31, 2014 and 2013 of approximately \$(15.0) million and \$(26.3) million, respectively, is a combination of the fair value of qualifying cash flow hedges of \$(13.9) million and \$(24.8) million, respectively, deferred losses on terminated interest swaps of \$(1.2) million and \$(1.9) million, respectively, and deferred net gains on termination of interest swaps of \$0.1 million and \$0.3 million, respectively.

We have agreements with certain of our derivative counterparties that contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. As of December 31, 2014 and 2013, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was \$(9.2) million and \$(13.8) million, respectively. As of December 31, 2014 and 2013, we had minimum collateral posting thresholds with certain of our derivative counterparties and had posted collateral of \$9.6 million and \$14.2 million, respectively, which is recorded in other assets in our consolidated balance sheets.

Note 9 Variable Interest Entities

We have evaluated our loans and investments, mortgage related securities, investments in equity affiliates, senior unsecured notes, junior subordinated notes, CDOs and CLOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in determining that our bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CDOs, CLOs and investments in mortgage related securities are potential VIEs.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 9 Variable Interest Entities (Continued)

Our involvement with VIEs primarily affects our financial performance and cash flows through amounts recorded in interest income, interest expense, provision for loan losses and through activity associated with our derivative instruments.

Consolidated VIEs

We consolidate our CDO and CLO subsidiaries, which qualify as VIEs, of which we are the primary beneficiary. These CDOs and CLOs invest in real estate and real estate-related securities and are financed by the issuance of CDO and CLO debt securities. We, or one of our affiliates, is named collateral manager, servicer, and special servicer for all CDO and CLO collateral assets which we believe gives us the power to direct the most significant economic activities of the entity. We also have exposure to CDO and CLO losses to the extent of our equity interests and also have rights to waterfall payments in excess of required payments to CDO and CLO bond investors. As a result of consolidation, equity interests in these CDOs and CLOs have been eliminated, and the consolidated balance sheets reflect both the assets held and debt issued by the CDOs and CLOs to third parties. Our operating results and cash flows include the gross amounts related to CDO and CLO assets and liabilities as opposed to our net economic interests in the CDO and CLO entities.

Assets held by the CDOs and CLOs are restricted and can be used only to settle obligations of the CDOs and CLOs. The liabilities of the CDOs and CLOs are non-recourse to us and can only be satisfied from each CDOs and CLOs respective asset pool. Assets and liabilities related to the CDOs and CLOs are disclosed parenthetically, in the aggregate, in our consolidated balance sheets. See Note 7 "Debt Obligations" for further details.

We are not obligated to provide, have not provided, and do not intend to provide financial support to any of the consolidated CDOs and CLOs.

Unconsolidated VIEs

We have determined that we are not the primary beneficiary of 20 VIEs in which we have a variable interest as of December 31, 2014 because we do not have the ability to direct the activities of the VIEs that most significantly impact each entity's economic performance. VIEs, of which we are not the primary beneficiary, have an aggregate carrying amount of \$520.4 million and exposure to real estate debt of approximately \$2.3 billion at December 31, 2014.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 9 Variable Interest Entities (Continued)**

The following is a summary of our variable interests in identified VIEs, of which we are not the primary beneficiary, as of December 31, 2014:

Type	Carrying Amount(1)	Maximum Exposure to Loss(2)
Loans	\$ 410,698,756	\$ 410,698,756
Loans and equity investments	107,071,875	107,071,875
CMBS	2,100,000	2,100,000
Junior subordinated notes(3)	578,000	578,000
Total	\$ 520,448,631	\$ 520,448,631

-
- (1) Represents the carrying amount of loans and investments before reserves. At December 31, 2014, \$186.7 million of loans to VIEs had corresponding loan loss reserves of approximately \$111.1 million and \$40.3 million of loans to VIEs were related to loans classified as non-performing. See Note 3 "Loans and Investments" for further details.
- (2) Our maximum exposure to loss as of December 31, 2014 would not exceed the carrying amount of our investment.
- (3) It is not appropriate to consolidate these entities as equity interests are variable interests only to the extent that the investment is considered to be at risk. Since our investments were funded by the entities that issued the junior subordinated notes, it is not considered to be at risk.

Note 10 Fair Value***Fair Value of Financial Instruments***

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The following table

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 10 Fair Value (Continued)

summarizes the carrying values and the estimated fair values of our financial instruments as of December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Loans and investments, net	\$ 1,459,475,650	\$ 1,478,778,674	\$ 1,523,699,653	\$ 1,550,248,793
Available-for-sale securities	2,499,709	2,499,709	37,315,652	37,315,652
Derivative financial instruments	1,995	1,995	6,402,336	6,402,336
Financial liabilities:				
Credit facilities and repurchase agreements	\$ 180,386,200	\$ 179,964,341	\$ 159,125,023	\$ 158,735,570
Collateralized debt obligations	331,395,126	240,541,397	639,622,981	521,938,885
Collateralized loan obligations	458,250,000	459,673,750	264,500,000	266,436,250
Senior unsecured notes	97,860,025	95,902,825		
Junior subordinated notes	159,833,260	102,600,561	159,291,427	101,240,185
Notes payable	1,300,000	1,292,461	2,500,000	2,487,287
Mortgage note payable real estate owned and held-for-sale	30,984,357	29,962,066	53,751,004	52,943,305
Derivative financial instruments	13,908,163	13,908,163	24,794,051	24,794,051

Fair Value Measurement

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

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

Level 1 Inputs are unadjusted and quoted prices exist in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 10 Fair Value (Continued)

date and for the duration of the instrument's anticipated life. Level 2 inputs include quoted market prices in markets that are not active for an identical or similar asset or liability, and quoted market prices in active markets for a similar asset or liability. Fair valued assets and liabilities that are generally included in this category are non-government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset-backed securities, certain corporate debt, certain commitments and guarantees, certain private equity investments and certain derivatives.

Level 3 Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. These valuations are based on significant unobservable inputs that require a considerable amount of judgment and assumptions. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed securities, certain corporate debt, certain private equity investments, certain municipal bonds, certain commitments and guarantees and certain derivatives.

Determining which category an asset or liability falls within the hierarchy requires significant judgment and 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 discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Fair values of loans and investments that are impaired are estimated using Level 3 inputs by us that require significant judgments, which include assumptions regarding discount rates, capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management.

Available-for-sale securities: Fair values are approximated based on current market quotes received from active markets or financial sources that trade such securities. The fair values of available-for-sale equity securities traded in active markets are approximated using Level 1 inputs, while the fair values of available-for-sale debt securities that are approximated using current, non-binding market quotes received from financial sources that trade such investments are valued using Level 3 inputs. The fair values of RMBS investments at December 31, 2013 were approximated using Level 3 inputs that required significant judgments, and were used in internally developed valuation models, which were compared to current non-binding market quotes received from financial sources that trade such securities. The fair value of a CMBS security is estimated by us using Level 3 inputs that require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 10 Fair Value (Continued)

Derivative financial instruments: Fair values of interest rate swap derivatives are approximated using Level 2 inputs based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles including counterparty risks, credit spreads and interest rate projections, as well as reasonable estimates about relevant future market conditions. These items are included in other assets and other liabilities on the consolidated balance sheets. We incorporate credit valuation adjustments in the fair values of our derivative financial instruments to reflect counterparty nonperformance risk. The fair values of RMBS underlying linked transactions at December 31, 2013 were estimated using Level 3 inputs based on internally developed valuation models, which are compared to broker quotations. The value of the underlying RMBS was then netted against the carrying amount (which approximates fair value) of the repurchase agreement borrowing at the valuation date. The fair value of linked transactions also included accrued interest receivable on the RMBS and accrued interest payable on the underlying repurchase agreement borrowings.

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

Collateralized debt obligations and collateralized loan obligations: 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.

Junior subordinated notes: 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.

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 inputs as of December 31, 2014:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Available-for-sale securities(1)	\$ 2,499,709	\$ 2,499,709	\$ 499,709		\$ 2,000,000
Derivative financial instruments	1,995	1,995		1,995	
Financial liabilities:					
Derivative financial instruments	\$ 13,908,163	\$ 13,908,163		\$ 13,908,163	

(1) Our equity securities were measured using Level 1 inputs and our CMBS investment was measured using Level 3 inputs.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 10 Fair Value (Continued)

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

	Available-for-sale Securities	Derivative Financial Instruments
Balance as of December 31, 2013	\$ 36,580,786	\$ 6,396,853
Adjustments to fair value:		
Paydowns, net(1)	(663,684)	1,483,387
Net changes in fair value(2)	(100,000)	511,012
Sales and settlements(3)	(33,817,102)	(8,391,252)
Balance as of December 31, 2014	\$ 2,000,000	\$

- (1) Includes an addition of \$1.7 million to the derivative financial instruments as a result of a decrease in the amount financed under the respective repurchase agreement.
- (2) Represents the net change in fair value recorded to other income during the year ended December 31, 2014.
- (3) Represents the sale of RMBS investments and the settlement of forward contract derivatives for which we recorded a gain of \$0.5 million and \$0.1 million, respectively, to other income during the year ended December 31, 2014.

We measure certain financial and non-financial assets at fair value on a nonrecurring basis. The fair value of these financial assets was determined using the following inputs as of December 31, 2014:

	Net Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Impaired loans, net(1)	\$ 106,115,079	\$ 106,115,079	\$	\$	\$ 106,115,079

- (1) We had an allowance for loan losses of \$115.5 million relating to 10 loans with an aggregate carrying value, before loan loss reserves, of approximately \$221.6 million at December 31, 2014.

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 and events, it is probable that we will be unable to

collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. 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 require significant judgments, which include assumptions regarding capitalization and discount rates, revenue growth rates, leasing, creditworthiness of major tenants, occupancy rates,

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 10 Fair Value (Continued)

availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. The table above includes all impaired loans, regardless of the period in which an impairment was recognized.

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

			December 31, 2014	
	Fair Value	Valuation Technique(s)	Significant Unobservable Inputs	Rate/Range (Weighted Average)
Financial assets:				
Impaired loans(1):				
Multifamily	\$ 2,762,816	Direct capitalization analysis and discounted cash flows	Discount rate Capitalization rate Revenue growth rate	8.00% 6.50% to 7.75% (7.06%) 2.00%
Office	6,525,829	Discounted cash flows	Discount rate Capitalization rate Revenue growth rate	9.25% to 10.75% (9.72%) 8.00% to 9.00% (8.29%) 2.50% to 3.00% (2.96%)
Land	66,276,475	Discounted cash flows	Discount rate Capitalization rate Revenue growth rate	15.00% 7.25% 3.00%
Hotel	30,549,959	Discounted cash flows	Discount rate Capitalization rate Revenue growth rate	9.25% 7.25% 3.00%
CMBS	2,000,000	Discounted cash flows	Discount rate	14.16%

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 10 Fair Value (Continued)

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 inputs as of December 31, 2014:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Loans and investments, net	\$ 1,459,475,650	\$ 1,478,778,674	\$	\$	\$ 1,478,778,674
Financial liabilities:					
Credit facilities	\$ 180,386,200	\$ 179,964,341	\$	\$	\$ 179,964,341
Collateralized debt obligations	331,395,126	240,541,397			240,541,397
Collateralized loan obligation	458,250,000	459,673,750			459,673,750
Senior unsecured notes	97,860,025	95,902,825	95,902,825		
Junior subordinated notes	159,833,260	102,600,561			102,600,561
Notes payable	1,300,000	1,292,461			1,292,461
Mortgage note payable real estate owned and held-for-sale	30,984,357	29,962,066			29,962,066

Note 11 Commitments and Contingencies*Contractual Commitments*

Our debt facilities which include credit facilities, CDOs, CLOs, senior unsecured notes, junior subordinated notes, notes payable and mortgage notes payable have approximate maturities of \$347.3 million in 2015, \$253.9 million in 2016, \$310.9 million in 2017, \$26.6 million in 2018, \$17.4 million in 2019 and \$319.9 million thereafter.

In accordance with certain loans and investments, we have outstanding unfunded commitments of \$14.5 million as of December 31, 2014 that we are obligated to fund as the borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements. Our restricted cash balance at December 31, 2014 contained approximately \$5.3 million which was available to fund all of the unfunded commitments for loans financed by our CDO and CLO vehicles.

Litigation

We currently are neither subject to any material litigation nor, to management's knowledge, is any material litigation currently threatened against us other than the following:

On June 15, 2011, three related lawsuits were filed by the Extended Stay Litigation Trust (the "Trust"), a post-bankruptcy litigation trust alleged to have standing to pursue claims that previously had been held by Extended Stay, Inc. and the Homestead Village L.L.C. family of companies (together "ESI") (formerly Chapter 11 debtors, together the "Debtors") that have emerged from bankruptcy. Two of the lawsuits were filed in the U.S. Bankruptcy Court for the Southern District of New York, and the third in the Supreme Court of the State of New York, New York County. There were 73

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 11 Commitments and Contingencies (Continued)

defendants in the three lawsuits, including 55 corporate and partnership entities and 18 individuals. A subsidiary of ours and certain other entities that are affiliates of ours are included as defendants. The New York State Court action has been removed to the Bankruptcy Court. Our affiliates filed a motion to dismiss the three lawsuits.

The lawsuits all allege, as a factual basis and background certain facts surrounding the June 2007 leveraged buyout of ESI from affiliates of Blackstone Capital. Our subsidiary, Arbor ESH II, LLC, had a \$115.0 million investment in the Series A1 Preferred Units of a holding company of Extended Stay, Inc. The New York State Court action and one of the two federal court actions name as defendants, Arbor ESH II, LLC, Arbor Commercial Mortgage, LLC and ABT-ESI LLC, an entity in which we have a membership interest, among the broad group of defendants. These two actions were commenced by substantially identical complaints. The defendants are alleged in these complaints, among other things, to have breached fiduciary and contractual duties by causing or allowing the Debtors to pay illegal dividends or other improper distributions of value at a time when the Debtors were insolvent. These two complaints also allege that the defendants aided and abetted, induced, or participated in breaches of fiduciary duty, waste, and unjust enrichment ("Fiduciary Duty Claims") and name a director of ours, and a former general counsel of Arbor Commercial Mortgage, LLC, each of whom had served on the Board of Directors of ESI for a period of time. We are defending these two defendants and paying the costs of such defense. On the basis of the foregoing allegations, the Trust has asserted claims under a number of common law theories, seeking the return of assets transferred by the Debtors prior to the Debtors' bankruptcy filing.

In the third action, filed in Bankruptcy Court, the same plaintiff, the Trust, has named Arbor Commercial Mortgage, LLC and ABT-ESI LLC, together with a number of other defendants and asserts claims, including constructive and fraudulent conveyance claims under state and federal statutes, as well as a claim under the Federal Debt Collection Procedure Act.

On June 28, 2013, the Trust filed a motion to amend the lawsuits, to, among other things, (i) consolidate the lawsuits into one lawsuit, (ii) remove 47 defendants, none of whom are related to us, from the lawsuits so that there are 26 remaining defendants, including 16 corporate and partnership entities and 10 individuals, and (iii) reduce the counts within the lawsuits from over 100 down to 17. The remaining counts in the amended complaint against our affiliates are principally state law claims for breach of fiduciary duties, waste, unlawful dividends and unjust enrichment, and claims under the Bankruptcy Code for avoidance and recovery actions, among others. The bankruptcy court granted the motion and the amended complaint has been filed. The amended complaint seeks \$139.0 million in the aggregate from director designees and our affiliates. We have moved to dismiss the referenced actions and intend to vigorously defend against the claims asserted therein. During a status conference held on March 18, 2014, the Court heard oral argument on the motion to dismiss and adjourned the case pending a ruling.

We have not made a loss accrual for this litigation because we believe that it is not probable that a loss has been incurred and an amount cannot be reasonably estimated.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 12 Equity

Preferred Stock

In February 2014, we completed an underwritten public offering of 900,000 shares of 8.50% Series C cumulative redeemable preferred stock with a liquidation preference of \$25.00 per share, generating net proceeds of approximately \$21.6 million after deducting the underwriting discount and other offering expenses.

In May 2013, we completed an underwritten public offering of 1,200,000 shares of 7.75% Series B cumulative redeemable preferred stock with a liquidation preference of \$25.00 per share, generating net proceeds of approximately \$28.9 million after deducting the underwriting discount and other offering expenses. Also in May 2013, the underwriters exercised a portion of their over-allotment option for 60,000 shares providing additional net proceeds of approximately \$1.5 million.

In February 2013, we completed an underwritten public offering of 1,400,000 shares of 8.25% Series A cumulative redeemable preferred stock with a liquidation preference of \$25.00 per share, generating net proceeds of approximately \$33.6 million after deducting the underwriting discount and other offering expenses. Also in February 2013, the underwriters exercised a portion of their over-allotment option for 151,500 shares providing additional net proceeds of approximately \$3.7 million.

Common Stock

In February 2014, we entered into an "At-The-Market" ("ATM") equity offering sales agreement with JMP Securities LLC ("JMP") whereby, in accordance with the terms of the agreement, from time to time we may issue and sell through JMP up to 7,500,000 shares of our common stock. Sales of the shares are made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, or at negotiated prices. As of December 31, 2014, we sold 1,000,000 shares for net proceeds of \$6.5 million.

In September 2013, we completed a public offering in which we sold 6,000,000 shares of our common stock for \$7.08 per share, and received net proceeds of approximately \$40.9 million after deducting the underwriting discount and other offering expenses.

In March 2013, we completed a public offering in which we sold 5,625,000 shares of our common stock for \$8.00 per share, and received net proceeds of approximately \$43.0 million after deducting the underwriting discount and other offering expenses.

In December 2012, we entered into an ATM equity offering sales agreement with JMP whereby, in accordance with the terms of the agreement, from time to time we could issue and sell through JMP up to 6,000,000 shares of our common stock. Sales of the shares were made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, or at negotiated prices. As of the first quarter of 2013, we sold all of the 6,000,000 shares for net proceeds of \$45.6 million.

We used the net proceeds from our preferred and common offerings to make investments, to repurchase or pay liabilities and for general corporate purposes.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 12 Equity (Continued)

As of February 13, 2015, we have \$330.4 million available under our \$500.0 million shelf registration statement that was declared effective by the SEC in August 2013.

Distributions

The following table presents dividends declared (on a per share basis) for the year ended December 31, 2014:

Common Stock		Preferred Stock			
Declaration Date	Dividend	Declaration Date	Series A	Dividend(1) Series B	Series C
February 12, 2014	\$ 0.13	February 3, 2014	\$ 0.515625	\$ 0.484375	N/A
April 29, 2014	\$ 0.13	April 29, 2014	\$ 0.515625	\$ 0.484375	\$ 0.5549
July 30, 2014	\$ 0.13	July 30, 2014	\$ 0.515625	\$ 0.484375	\$ 0.53125
November 5, 2014	\$ 0.13	November 3, 2014	\$ 0.515625	\$ 0.484375	\$ 0.53125

(1)

The dividend declared on February 3, 2014 for the Series A and B preferred stock was for the period December 1, 2013 through February 28, 2014. The dividend declared on April 29, 2014 for the Series A, B and C preferred stock was for the period March 1, 2014 through May 31, 2014. The dividend declared on July 30, 2014 for the Series A, B and C preferred stock was for the period June 1, 2014 through August 31, 2014. The dividend declared on November 3, 2014 for the Series A, B and C preferred stock was for the period September 1, 2014 through November 30, 2014.

Common Stock On February 11, 2015, the Board of Directors declared a cash dividend of \$0.13 per share of common stock. The dividend is payable on March 2, 2015 to common stockholders of record as the close of business on February 25, 2015.

Preferred Stock On February 2, 2015, the Board of Directors declared a cash dividend of \$0.515625 per share of 8.25% Series A preferred stock; a cash dividend of \$0.484375 per share of 7.75% Series B preferred stock; and a cash dividend of \$0.53125 per share of 8.50% Series C preferred stock. These amounts reflect dividends from December 1, 2014 through February 28, 2015 and are payable on March 2, 2015 to preferred stockholders of record on February 15, 2015.

We declared and paid distributions of \$14,698, \$14,500 and \$12,236 for the years ended December 31, 2014, 2013 and 2012, respectively, representing the 12.5% return on the preferred shares issued to third parties by our subsidiary REIT.

We must currently distribute at least 90% of our taxable income in order to qualify as a REIT and must distribute 100% of our taxable income in order not to be subject to corporate federal income taxes on retained income. We anticipate we will distribute all of our taxable income to our stockholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as depreciation or provision for loan losses), in certain circumstances, we may generate operating cash flow in excess of our distributions or, alternatively, may be required to borrow to make sufficient distribution payments. We were in compliance with all REIT requirements as of December 31, 2014, 2013 and 2012.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 12 Equity (Continued)

The following table presents the tax treatment for dividends paid by us on our common and preferred stock for the years ended December 31, 2014, 2013 and 2012:

Year	Total Dividends Paid(1) (in thousands)	Dividend Paid Per Share	Dividend Classified as Ordinary Income Percent	For Tax Purposes		Dividend Classified as Return of Capital Dividend Paid Per Share
				Dividend Paid Per Share	Capital Gain Distribution Dividend Paid Per Share	
Common Stock:						
2014	\$ 26,030	\$ 0.520	100%	\$ 0.520		
2013	\$ 21,327	\$ 0.500	100%	\$ 0.500		
2012	\$ 8,031	\$ 0.285	100%	\$ 0.285		
8.25% Series A Preferred Stock:						
2014	\$ 3,200	\$ 2.063	100%	\$ 2.063		
2013	\$ 2,667	\$ 1.719	100%	\$ 1.719		
7.75% Series B Preferred Stock:						
2014	\$ 2,441	\$ 1.938	100%	\$ 1.938		
2013	\$ 1,370	\$ 1.087	100%	\$ 1.087		
8.50% Series C Preferred Stock:						
2014	\$ 1,456	\$ 1.617	100%	\$ 1.617		

(1) 2013 is the initial year for the Series A and B preferred stock dividends. 2014 is the initial year for the Series C preferred stock dividend.

(2) Qualified dividend income is eligible for reduced dividend rates.

Deferred Compensation

We have a stock incentive plan under which the Board of Directors has the authority to issue shares of stock to certain directors, officers and employees of ours and our Manager.

In May 2014, we issued 278,000 shares of restricted common stock under the 2014 Plan to certain employees of ours and our Manager with a total grant date fair value of \$2.0 million and recorded \$0.3 million to employee compensation and benefits and \$0.3 million to selling and administrative expense in our consolidated statements of income. One third of the shares vested as of the date of grant, one third will vest in May 2015, and the remaining third will vest in May 2016. In May 2014, we also issued 63,000 shares of fully vested common stock to the independent members of the Board of Directors under the 2014 Plan and recorded \$0.4 million to selling and administrative expense in our consolidated statements of income. As of December 31, 2014, unvested restricted stock consisted of 138,584 shares granted to employees of our Manager with a grant date fair value of \$1.0 million, which is subject to remeasurement each reporting period, and 110,666 shares granted to our

employees with a grant date fair value of \$0.8 million. Expense is recognized ratably over the vesting period in our

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 12 Equity (Continued)

consolidated statements of income in selling and administrative expense and employee compensation and benefits expense, respectively. During the year ended December 31, 2014 we recorded the ratable portion of the unvested restricted stock to employees as employee compensation and benefits for \$0.4 million and for non-employees to selling and administrative expense for \$0.5 million in our consolidated statements of income.

In May 2013, we issued 70,000 shares of fully vested common stock to the independent members of the Board of Directors under the 2003 Stock Incentive Plan, as amended and restated in 2009 (the "2003 Plan"), and recorded \$0.5 million to selling and administrative expense in our consolidated statements of income. In February 2013, we issued 192,750 shares of restricted common stock under the 2003 Plan to certain employees of ours and our Manager with a total grant date fair value of \$1.5 million and recorded \$0.2 million to employee compensation and benefits and \$0.4 million to selling and administrative expense in our consolidated statements of income. One third of the shares vested as of the date of grant, one third vested in February 2014, and the remaining third will vest in February 2015. During the third quarter of 2013, a total of 667 shares of unvested restricted stock with a grant date fair value of less than \$0.1 million were forfeited. As of December 31, 2013, unvested restricted stock consisted of 82,500 shares granted to non-employees with a grant date fair value of \$0.7 million, which is subject to remeasurement each reporting period, and 45,333 shares granted to our employees with a grant date fair value of \$0.4 million. Expense is recognized ratably over the vesting period in our consolidated statements of income in selling and administrative expense and employee compensation and benefits expense, respectively. During the year ended December 31, 2013, we recorded the ratable portion of the unvested restricted stock to employee compensation and benefits for \$0.2 million and to selling and administrative expense for \$0.3 million in our consolidated statements of income.

In 2012, we issued an aggregate of 90,000 shares of fully vested common stock to the non-management members of the Board of Directors, 15,000 shares of fully vested common stock to a director who was re-appointed to the Board of Directors in December 2011, 10,000 shares of fully vested common stock to a director who is also an officer of the managing member of our Manager, and 6,255 shares of fully vested common stock to a former director who was also the corporate secretary.

Vesting is dependent on a service requirement. Dividends paid on restricted shares are recorded as dividends on shares of our common stock whether or not they are vested. For accounting purposes, we measure the compensation costs for these shares as of the date of the grant, with subsequent remeasurement for any unvested shares granted to non-employees of ours with such amounts expensed against earnings, at the grant date (for the portion that vest immediately) or ratably over the respective vesting periods.

Warrants

In connection with a debt restructuring with Wachovia Bank in 2009, we issued Wachovia 1,000,000 warrants at an average strike price of \$4.00 and an expiration date in July 2015. On July 1, 2014, we acquired and canceled all of the warrants in return for the payment of \$2.6 million, recorded to additional paid in capital, which reflects a 5% discount to the prior day closing price of our common stock of \$6.95.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 12 Equity (Continued)***Accumulated Other Comprehensive Loss*

At December 31, 2014, accumulated other comprehensive loss was \$14.7 million and consisted of \$13.9 million of net unrealized losses on derivatives designated as cash flow hedges, net deferred losses on terminated interest swaps of \$1.1 million, less a \$0.3 million unrealized gain related to available-for-sale securities. At December 31, 2013, accumulated other comprehensive loss was \$25.2 million and consisted of \$26.3 million of net unrealized losses on derivatives designated as cash flow hedges and a \$1.1 million unrealized gain related to available-for-sale securities.

Reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2014 and 2013 were as follows:

	Year Ended December 31,		Statement of Income Caption
	2014	2013	
Net realized losses on derivatives designated as cash flow hedges:			
Interest Rate Swaps	\$ (10,706,246)	\$ (14,131,036)	Interest expense(1)
Net realized gain on sale of available-for-sale investments:			
RMBS investments	\$ 431,476	\$ 100,000	Other income(2)

(1) See Note 8 "Derivative Financial Instruments" for additional details.

(2) See Note 4 "Securities" for additional details.

Noncontrolling Interest

We had a noncontrolling interest representing a third party's one third interest in the equity of a consolidated subsidiary that owns an investment that carried a note payable related to the exchange of a profits interest transaction. In the fourth quarter of 2013, the entity's operating agreement was amended to provide joint control to the members of the entity, and therefore, the entity was deconsolidated. Upon completion of this transaction, we deconsolidated the entity and noncontrolling interest was reduced to zero. For the years ended December 31, 2013 and 2012, we recorded income of \$0.1 million and \$0.2 million, respectively, as well as distributions of \$2.1 million and \$0.2 million, respectively, attributable to the noncontrolling interest.

Note 13 Earnings Per Share

Basic EPS is calculated by dividing net income attributable to Arbor Realty Trust, Inc. by the weighted average number of shares of common stock outstanding during each period inclusive of unvested restricted stock with full dividend participation rights. Diluted EPS is

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calculated by dividing net income by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period using the treasury stock method. Our

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common stock equivalents include the weighted average dilutive effect of warrants for the period of time that they were outstanding.

The following is a reconciliation of the numerator and denominator of the basic and diluted EPS computations for the years ended December 31, 2014, 2013, and 2012, respectively.

	Year Ended December 31,					
	2014		2013		2012	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Income from continuing operations, net of noncontrolling interest and preferred stock dividends	\$ 85,792,235	\$ 85,792,235	\$ 16,667,955	\$ 16,667,955	\$ 16,172,850	\$ 16,172,850
Income from discontinued operations					5,328,038	5,328,038
Net income attributable to Arbor Realty Trust, Inc. common stockholders(1)	\$ 85,792,235	\$ 85,792,235	\$ 16,667,955	\$ 16,667,955	\$ 21,500,888	\$ 21,500,888
Weighted average number of common shares outstanding	50,143,648	50,143,648	42,399,872	42,399,872	26,956,938	26,956,938
Dilutive effect of warrants(2)		224,696		435,272		254,349
Weighted average number of common shares outstanding	50,143,648	50,368,344	42,399,872	42,835,144	26,956,938	27,211,287
Income from continuing operations, net of noncontrolling interest and preferred stock dividends, per common share	\$ 1.71	\$ 1.70	\$ 0.39	\$ 0.39	\$ 0.60	\$ 0.59
Income from discontinued operations per common share					0.20	0.20
Net income attributable to Arbor Realty Trust, Inc. per common share(1)	\$ 1.71	\$ 1.70	\$ 0.39	\$ 0.39	\$ 0.80	\$ 0.79

(1) Net of noncontrolling interest and preferred stock dividends.

(2) On July 1, 2014, we acquired and canceled all of the warrants. See Note 12 "Equity" for further details.

Note 14 Agreements and Transactions with Related Parties

Management Agreement

We, ARLP and Arbor Realty SR, Inc. have a management agreement with our Manager, pursuant to which our Manager provides certain services and we pay our Manager a base management fee and under certain circumstances, an annual incentive fee.

Our chief executive officer is also our Manager's chief executive officer and controlling equity owner and our chief financial officer and treasurer is also our Manager's chief financial officer. Our Manager has agreed to provide us with structured finance investment opportunities and loan servicing as well as other services necessary to operate our business. We rely to a significant extent on the

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 14 Agreements and Transactions with Related Parties (Continued)

facilities and resources of our Manager to conduct our operations. Our Manager's management of us is under the direction or supervision of our Board of Directors. The management agreement requires our Manager to manage our business affairs in conformity with the policies and the general investment guidelines that are approved and monitored by our Board of Directors.

We and our operating partnership have also entered into a services agreement with our Manager pursuant to which our asset management group provides asset management services to our Manager. In the event the services provided by our asset management group pursuant to the agreement exceed by more than 15% per quarter the level of activity anticipated by the Board of Directors, we will negotiate in good faith with our Manager an adjustment to the Manager's base management fee under the management agreement, to reflect the scope of the services, the quantity of serviced assets or the time required to be devoted to the services by our asset management group.

The base management fee is an arrangement whereby we reimburse our Manager for its actual costs incurred in managing our business based on the parties' agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. We retain all origination fees on investments.

The incentive fee is calculated as (1) 25% of the amount by which (a) our funds from operations per share, adjusted for certain gains and losses including gains from the retirement and restructuring of debt and 60% of any loan loss reserve recoveries (spread over a three year period), exceeds (b) the product of (x) 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, whichever is greater, and (y) the greater of \$10.00 or the weighted average of book value of the net assets contributed by our Manager to ARLP per ARLP partnership unit, the offering price per share of our common equity in the private offering on July 1, 2003 and subsequent offerings and the issue price per ARLP partnership unit for subsequent contributions to ARLP, multiplied by (2) the weighted average of our outstanding shares.

The minimum return, or incentive fee hurdle to be reached before an incentive fee is earned, is a percentage applied on a per share basis to the greater of \$10.00 or the average gross proceeds per share. In addition, 60% of any loan loss and other reserve recoveries are eligible to be included in the incentive fee calculation, which recoveries are spread over a three year period.

The management agreement also allows us to consider, from time to time, the payment of additional "success-based" fees to our Manager for accomplishing certain specified corporate objectives; has a termination fee of \$10.0 million; and is renewable automatically for successive one-year terms, unless terminated with six months prior written notice. If we terminate or elect not to renew the management agreement without cause, we are required to pay the termination fee of \$10.0 million.

Our Manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of its employees, rent for facilities and other "overhead" expenses. We are required to pay our Manager management fees as well as reimburse our Manager for all expenses incurred on our behalf in connection with the raising of capital or the incurrence of debt, interest expenses, taxes and license fees, litigation and extraordinary or non-recurring expenses.

Our Manager, pursuant to the management agreement, and Mr. Kaufman, pursuant to his non-competition agreement, have granted us a right of first refusal to pursue all opportunities

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2014****Note 14 Agreements and Transactions with Related Parties (Continued)**

identified by them or their affiliates to invest in multifamily and commercial mortgage loans and customized financing transactions, including bridge loans, mezzanine loans, preferred equity investments, note acquisitions and participation interests in owners of real properties (collectively, "Structured Finance Investments") as long as such investment opportunities are consistent with our investment objectives and guidelines and such investments would not adversely affect our status as a REIT. These agreements also provide that our Manager or Mr. Kaufman, as the case may be, may pursue any opportunity in Structured Finance Investments if the opportunity is rejected by both our credit committee and a majority of our independent directors.

Pursuant to the management agreement and Mr. Kaufman's non-competition agreement, we have agreed not to pursue, and to allow our Manager and its affiliates, including Mr. Kaufman, to pursue opportunities to invest in multifamily and commercial mortgage loans that meet the underwriting and approval guidelines of Fannie Mae, Freddie Mac, the Federal Housing Administration and conduit commercial lending programs secured by first liens on real property (collectively, the "Manager Target Investments"). In addition to its exclusive right to pursue Manager Target Investments, our Manager and its affiliates may pursue any other type of investment (except Structured Finance Investments) without our consent.

The following table sets forth our base management fees and incentive fees for the periods indicated:

Management Fees:	Year Ended December 31,		
	2014	2013	2012
Base(1)	\$ 9,900,000	\$ 10,900,000	\$ 10,000,000
Incentive(2)			
Total management fee	\$ 9,900,000	\$ 10,900,000	\$ 10,000,000

(1) Included in base management fees at December 31, 2014, 2013 and 2012 was \$2.7 million, \$2.8 million and \$3.1 million, respectively, which was included in due to related party. These amounts are paid in the quarters subsequent to each respective year end.

(2) During the third quarter of 2014, we recognized a \$19.0 million prepaid incentive management fee related to the recognition of deferred revenue. See below for further details.

Beginning January 1, 2014, we directly compensate our chief executive officer \$1.0 million in annual base compensation as an employee. As such, this compensation is now recorded as employee compensation and benefits, which was previously recorded as part of the base management fee prior to 2014. For the years ended December 31, 2014, 2013 and 2012, no "success-based" payments were made.

Installments of the annual incentive fee are subject to quarterly recalculation and potential reconciliation at the end of the fiscal year, and any overpayments are required to be repaid in accordance with the management agreement. For the years ended December 31, 2014, 2013 and 2012, our Manager did not earn an incentive management fee.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2014

Note 14 Agreements and Transactions with Related Parties (Continued)

In 2007, our Manager received an incentive fee installment totaling \$19.0 million which was recorded as a prepaid management fee related to the incentive fee on \$77.1 million of deferred revenue recognized on the transfer of control of the 450 West 33rd Street property, which is one of our equity affiliates. The incentive fee was not earned and was refundable until the guarantee was terminated and the deferred revenue was recognized. The \$77.1 million non-cash gain was deferred as a result of guarantying a portion of the property's indebtedness. In July 2014, the existing debt on the property was refinanced and our portion of the guarantee was terminated, resulting in the recognition of the deferred gain and \$19.0 million prepaid incentive management fee.

Other Related Party Transactions

Due from related party was approximately \$0.1 million at December 31, 2014 and 2013 and consisted primarily of escrows held by our Manager and its affiliates related to real estate transactions.

Due to related party was \$2.7 million and \$2.8 million at December 31, 2014 and 2013, respectively, and consisted primarily of base management fees due to our Manager that we remitted in the following quarter.

During the third quarter of 2014, we invested \$0.1 million for a 5% interest in a joint venture that owns two multifamily properties. The joint venture consists of a consortium of investors consisting of certain of our officers, including Mr. Ivan Kaufman, and other related parties, who together own an interest of approximately 95%. In August 2014, we originated two bridge loans totaling \$5.0 million to the joint venture with an interest rate of 5.5% over one-month LIBOR and a maturity date of August 2015. Interest income recorded from these loans totaled \$0.1 million for the year ended December 31, 2014.

In July 2014, we originated a \$30.4 million bridge loan for an office property owned by a consortium of investors including Mr. Ivan Kaufman and his affiliates, who together own an interest of approximately 24% in the borrowing entity. The loan has an interest rate of LIBOR plus 7.90% and a maturity date of January 2016. Interest income recorded from this loan totaled approximately \$1.2 million for the year ended December 31, 2014.

In March 2014, we originated a bridge loan to a third party borrower for a portfolio of properties with an unpaid principal balance of \$70.1 million, of which, \$15.0 million was financed with junior loan participations to our Manager. The loan has a weighted average interest rate of 6.38% and a maturity date of March 2016. In May 2014, the junior loan participations to our Manager were paid off. The participations had a weighted average interest rate of 7.20% and a maturity date of March 2016. Interest income recorded from this loan totaled approximately \$3.8 million for the year ended December 31, 2014.

We had two loans totaling \$22.4 million, which were secured by a property purchased in 2011 by a third party borrower from our Manager. In the first quarter 2014, our Manager purchased the property from the prior borrower subject to our loans. In connection with this purchase, our Manager paid down the loans by \$2.3 million and we restructured our remaining debt outstanding into a first mortgage of \$14.6 million with a maturity date of March 2015 and a second mortgage of \$5.1 million with a maturity date of April 2015, both with an interest rate of LIBOR plus 4.80%. Interest income recorded

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December 31, 2014

Note 14 Agreements and Transactions with Related Parties (Continued)

from these loans totaled approximately \$0.9 million, \$1.5 million and \$1.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

In October 2013, we purchased, at par, a \$3.0 million mezzanine loan from our Manager who originated the loan in September 2013 to a third party entity. The loan had a fixed interest rate of 13.00% and a maturity date of October 2018 and was paid off in the third quarter of 2014. Interest income recorded from this loan was approximately \$0.3 million and \$0.1 million for the years ended December 31, 2014 and 2013, respectively.

In June 2013, our Board of Directors formed a special committee consisting of independent directors in connection with the exploration and evaluation of a potential transaction with our Manager involving the acquisition of our Manager's Fannie Mae, DUS, FHA and CMBS platforms, as well as the internalization of the management of our current business. There were preliminary discussions between the special committee and representatives of our Manager regarding a potential transaction during the second and third quarter of 2013. In connection therewith, the special committee engaged legal, financial and accounting advisors resulting in approximately \$1.4 million of advisory fees during 2013. In late June of 2014, preliminary discussions regarding a possible transaction resumed but we cannot provide any assurance whether any transaction between us and our Manager will occur, or if a transaction did occur, any information on the timing, terms or form of any such transaction, including the amount or type of consideration (including the issuance of common stock) or related financing. No advisory fees or other related fees were incurred during 2014.

In April 2013, we originated six bridge loans totaling \$53.0 million for a portfolio of multifamily properties owned by a consortium of investors including Mr. Ivan Kaufman and his affiliates and Mr. Fred Weber, our executive vice president of structured finance, who together own an interest of approximately 19% in the borrowing entity. The loans had an interest rate of one-month LIBOR plus 7.25% and a maturity date of April 2015, which were paid off in the fourth quarter of 2013. In November 2013, we originated a new bridge loan for \$2.0 million with an interest rate of one-month LIBOR plus 5.50%, which was paid off in the second quarter of 2014. Interest income recorded from these loans totaled approximately \$0.1 million and \$3.1 million for the years ended December 31, 2014 and 2013.

In April 2013, we also purchased, at par, a \$6.4 million bridge loan from our Manager who originated the loan in March 2013 to a third party entity that acquired the property from an entity owned by Mr. Ivan Kaufman and his affiliates and Mr. Fred Weber, who together also provided a \$1.1 million preferred equity contribution to the overall transaction. Mr. Ivan Kaufman also provided a \$1.0 million personal guaranty on the bridge loan. The bridge loan bore interest at a rate of one-month LIBOR plus 5.00% for the first year then one-month LIBOR plus 6.00% thereafter and had a maturity date of March 2015 with three one year extension options, and was paid off in the second quarter of 2014. Interest income recorded from this loan totaled approximately \$0.2 million for both the years ended December 31, 2014 and 2013.

In January 2013, we originated a \$7.5 million bridge loan for a multifamily property. William C. Green, who serves on our Board of Directors, holds a 6.6% partnership interest in the borrowing entity and is the chief financial officer of an affiliated entity that is a partner in, and the management company for, the borrowing entity. Mr. Green also provided a \$0.4 million personal guaranty on the

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bridge loan. The loan bore interest at a rate of one-month LIBOR plus 6.00%, had a maturity date of January 2015, and was paid off in the second quarter of 2014. Interest income recorded from this loan totaled approximately \$0.2 million and \$0.5 million for the years ended December 31, 2014 and 2013.

In December 2012, our Manager acquired a multifamily property and simultaneously sold the property to a third party, who received a \$30.0 million bridge loan from us. Our Manager retained a \$6.0 million preferred equity interest in the entity. The loan to us bore interest at a rate of one-month LIBOR plus 5.00% with a LIBOR cap of 1.00% and paid off in the third quarter of 2014. Interest income recorded from this loan totaled approximately \$0.9 million, \$1.6 million and \$0.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

In September 2012, we purchased, at par, a \$5.1 million bridge loan from our Manager. The loan was originated by our Manager in May 2012 to a third party entity that acquired a multifamily property from our Manager. The loan bears interest at a rate of one-month LIBOR plus 5.50% with a LIBOR floor of 0.24% and has a maturity date of May 2015. Interest income recorded from this loan totaled approximately \$0.3 million, \$0.3 million and \$0.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

In December 2011, we completed a restructuring of a \$67.6 million preferred equity investment on the Lexford Portfolio ("Lexford"), which is a portfolio of multifamily assets. We, along with a consortium of independent outside investors, made an additional preferred equity investment of \$25.0 million in Lexford of which we held a \$10.5 million interest, and Mr. Fred Weber, our executive vice president of structured finance, held a \$0.5 million interest, which was paid down to \$22.5 million in the third quarter of 2013, and then paid off in the fourth quarter of 2013. The original preferred equity investment now bears a fixed rate of interest of 2.36%, revised from an original rate of LIBOR plus 5.00% (the loan was paying a modified rate of LIBOR plus 1.65% at the time of the new investment). The original preferred equity investment matures in June 2020 and was paid down during 2014 to a balance of \$49.7 million at December 31, 2014. Interest income recorded from the additional preferred equity investment totaled approximately \$1.1 million and \$1.3 million for the years ended December 31, 2013 and 2012, respectively. The additional preferred equity investment had a fixed interest rate of 12% and a maturity date in June 2020. We, along with the same outside investors, also made a \$0.1 million equity investment into Lexford, of which we held a \$44,000 noncontrolling interest, and do not have the power to control the significant activities of the entity. During the fourth quarter of 2011, we recorded losses from the entity against the equity investment, reducing the balance to zero. In addition, under the terms of the restructuring, Lexford's first mortgage lender required a change of property manager for the underlying assets. The new management company is an affiliate of Mr. Ivan Kaufman, our chairman and chief executive officer, and has a contract with the new entity for 7.5 years and is entitled to 4.75% of gross revenues of the underlying properties, along with the potential to share in the proceeds of a sale or refinancing of the debt should the management company remain engaged by the new entity at the time of such capital event. In the first quarter of 2012, Mr. Fred Weber invested \$250,000 in the new management company and currently owns a 23.5% ownership interest. Mr. Ivan Kaufman and his affiliates currently own a 53.9% ownership interest. We have provided limited ("bad boy") guarantees for certain debt controlled by Lexford. The bad boy guarantees may become a liability for us upon standard "bad" acts such as fraud or a material

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misrepresentation by Lexford or us. At December 31, 2014, this debt had an aggregate outstanding balance of \$716.1 million and is scheduled to mature between 2017 and 2023.

Interest income recorded from additional loans originated in 2011 or prior years with our affiliates totaled \$0.3 million, \$0.3 million and \$2.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

In the first quarter of 2015, we acquired 50% of our Manager's indirect interest in a residential mortgage banking company for approximately \$9.6 million. As a result of this transaction, we will own a 22.5% indirect interest in this entity and expect to account for our interest under the equity method of accounting.

We are dependent upon our Manager with whom we have a conflict of interest, to provide services to us that are vital to our operations. Our chairman, chief executive officer and president, Mr. Ivan Kaufman, is also the chief executive officer and president of our Manager, and, our chief financial officer and treasurer, Mr. Paul Elenio, is the chief financial officer of our Manager. In addition, Mr. Kaufman and his affiliated entities ("the Kaufman Entities") together beneficially own approximately 92% of the outstanding membership interests of our Manager and certain of our employees and directors also hold an ownership interest in our Manager. Furthermore, one of our former directors is general counsel to our Manager and another of our directors also serves as the trustee of one of the Kaufman Entities that holds a majority of the outstanding membership interests in our Manager and co-trustee of another Kaufman Entity that owns an equity interest in our Manager. Our Manager currently holds approximately 5.3 million of our common shares, representing approximately 11% of the voting power of our outstanding stock as of December 31, 2014. Our Board of Directors approved a resolution under our charter allowing Ivan Kaufman and our Manager, (which Mr. Kaufman has a controlling equity interest in), to own more than the 5% ownership interest limit of our common stock as stated in our charter as amended.

Note 15 Income Taxes

We are organized and conduct our operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on taxable income which is distributed to its stockholders, provided that at least 90% of taxable income is distributed and provided that certain other requirements are met. We did not have REIT federal taxable income net of dividends paid and net operating loss deductions for the years ended December 31, 2014, 2013 and 2012, and therefore, have not provided for federal income tax expense, except for \$0.4 million of federal alternative minimum tax recorded in 2012.

For the years ended December 31, 2014 and 2013, we did not incur any state tax expenses. For the 2009 and 2010 tax years, the income and the tax on certain debt extinguishment transactions was, at our election, deferred to be recognized ratably over five years from 2014 to 2018. We expect that our current and anticipated net operating losses will fully offset the income to be recognized over the five year period.

Certain of our assets or operations that would not otherwise comply with the REIT requirements, are owned or conducted by our taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. We did not record a provision for current income taxes related to the assets

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that are held in taxable REIT subsidiaries for the years ended December 31, 2014, 2013 and 2012. For the year ended December 31, 2012, we recorded a \$1.4 million income tax benefit for the receipt of a refund of federal income taxes paid by a taxable REIT subsidiary in a prior year.

(Benefit) provision for income taxes was comprised as follows:

	Year Ended December 31,		
	2014	2013	2012
Current tax (benefit) provision:			
Federal	\$	\$	\$ (1,025,508)
State			245,517
Total current tax (benefit) provision			(779,991)
Deferred tax (benefit) provision:			
Federal net of valuation allowance			(13,695)
State net of valuation allowance			(7,872)
Total deferred tax (benefit) provision			(21,567)
Total (benefit) provision	\$	\$	\$ (801,558)

A reconciliation of our effective income tax rate as a percentage of pretax income or loss to the U.S. federal statutory rate is as follows:

	Year Ended December 31,		
	2014	2013	2012
U.S. federal statutory rate	35.0%	35.0%	35.0%
REIT non-taxable income	(36.8)	(35.7)	(41.0)
State and local income taxes, net of federal tax benefit	(0.5)	(1.1)	(1.1)
Change in valuation allowance	2.3	1.8	9.8
Refund			(6.5)
Effective income tax rate		%	% (3.8)%

The significant components of deferred tax assets (liabilities) were as follows:

	December 31,
	2014 2013