

ARBOR REALTY TRUST INC
Form 10-Q
November 09, 2016
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2016

Or

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)

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Maryland
(State or other jurisdiction of
incorporation)

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

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

11553
(Zip Code)

(516) 506-4200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common stock, \$0.01 par value per share: 51,401,295 outstanding as of November 8, 2016.

Table of Contents

ARBOR REALTY TRUST, INC.

FORM 10-Q

INDEX

<u>PART I. FINANCIAL INFORMATION</u>	2
<u>Item 1. Financial Statements</u>	2
<u>Consolidated Balance Sheets at September 30, 2016 (Unaudited) and December 31, 2015</u>	2
<u>Consolidated Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2016 and 2015</u>	3
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2016 and 2015</u>	4
<u>Consolidated Statement of Changes in Equity (Unaudited) for the Nine Months Ended September 30, 2016</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2016 and 2015</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	54
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	73
<u>Item 4. Controls and Procedures</u>	74
<u>PART II. OTHER INFORMATION</u>	74
<u>Item 1. Legal Proceedings</u>	74
<u>Item 1A. Risk Factors</u>	74
<u>Item 6. Exhibits</u>	75
<u>Signatures</u>	77

Table of Contents

Forward Looking Statements

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

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. We use words such as anticipates, expects, believes, intends, should, will, may and similar expressions to identify forward-looking statements, although not all forward-looking statements include these words. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically; adverse changes in the financing markets we access affecting our ability to finance our loan and investment portfolio; adverse changes in our status with government-sponsored enterprises (GSEs) affecting our ability to originate loans through GSE programs; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; changes in federal and state laws and regulations, including changes in tax laws; the availability and cost of capital for future investments; and competition. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect management's views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement.

Additional information regarding these and other risks and uncertainties we face is contained in our annual report on Form 10-K for the year ended December 31, 2015 (the 2015 Annual Report), Definitive Proxy Statement on Schedule 14A we filed with the Securities and Exchange Commission (SEC) on April 22, 2016 and in our other reports and filings with the SEC.

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

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	September 30, 2016 (Unaudited)	December 31, 2015
Assets:		
Cash and cash equivalents	\$ 71,613,974	\$ 188,708,687
Restricted cash	176,615,179	48,301,244
Loans and investments, net	1,656,748,937	1,450,334,341
Loans held-for-sale, net	310,252,600	
Capitalized mortgage servicing rights, net	224,297,210	
Available-for-sale securities, at fair value	5,214,998	2,022,030
Investments in equity affiliates	41,962,338	30,870,235
Real estate owned, net	19,762,787	60,845,509
Real estate held-for-sale, net		8,669,203
Due from related party	493,412	8,082,265
Goodwill and other intangible assets	99,932,986	
Other assets	43,326,307	29,558,430
Total assets	\$ 2,650,220,728	\$ 1,827,391,944
Liabilities and Equity:		
Credit facilities and repurchase agreements	\$ 431,060,399	\$ 136,252,135
Collateralized loan obligations	1,007,736,720	758,899,661
Senior unsecured notes	94,330,797	93,764,994
Junior subordinated notes to subsidiary trust issuing preferred securities	157,662,855	157,117,130
Mortgage note payable - real estate owned		27,155,000
Related party financing	50,000,000	
Due to related party	18,583,192	3,428,333
Due to borrowers	50,823,894	34,629,595
Allowance for loss-sharing obligations	31,113,413	
Other liabilities	83,477,916	51,054,321
Total liabilities	1,924,789,186	1,262,301,169
Commitments and contingencies (Note 17)		
Equity:		
Arbor Realty Trust, Inc. stockholders' equity:		
Preferred stock, cumulative, redeemable, \$0.01 par value: 100,000,000 shares authorized; special voting preferred shares; 21,230,769 shares issued and outstanding and no shares issued and outstanding, respectively; 8.25% Series A, \$38,787,500 aggregate liquidation preference; 1,551,500 shares issued and outstanding; 7.75%	89,508,213	89,295,905

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Series B, \$31,500,000 aggregate liquidation preference; 1,260,000 shares issued and outstanding; 8.50% Series C, \$22,500,000 aggregate liquidation preference; 900,000 shares issued and outstanding			
Common stock, \$0.01 par value: 500,000,000 shares authorized; 51,401,295 and 50,962,516 shares issued and outstanding, respectively			
		514,013	509,625
Additional paid-in capital		619,179,982	616,244,196
Accumulated deficit		(137,441,120)	(136,118,001)
Accumulated other comprehensive loss		(1,142,053)	(4,840,950)
Total Arbor Realty Trust, Inc. stockholders' equity		570,619,035	565,090,775
Noncontrolling interest		154,812,507	
Total equity		725,431,542	565,090,775
Total liabilities and equity	\$	2,650,220,728	\$ 1,827,391,944

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income	\$ 29,636,227	\$ 26,025,709	\$ 83,424,190	\$ 79,575,689
Other interest income, net			2,539,274	7,884,344
Interest expense	16,966,228	11,885,363	42,958,329	37,405,492
Net interest income	12,669,999	14,140,346	43,005,135	50,054,541
Other revenue:				
Fee-based services, including gain on sales, net	9,693,822		9,693,822	
Mortgage servicing rights	15,968,067		15,968,067	
Servicing revenue, net	5,885,884		5,885,884	
Property operating income	2,960,940	7,202,851	12,719,027	22,855,028
Other income, net	359,546	51,633	663,977	164,449
Total other revenue	34,868,259	7,254,484	44,930,777	23,019,477
Other expenses:				
Employee compensation and benefits	14,216,679	4,877,059	22,856,433	14,133,403
Selling and administrative	5,903,031	2,063,408	10,277,844	7,442,979
Acquisition costs	6,406,258	1,116,126	10,261,902	1,542,169
Property operating expenses	2,819,004	6,028,585	10,991,823	18,381,317
Depreciation and amortization	1,808,765	1,250,761	3,129,410	4,137,080
Impairment loss on real estate owned			11,200,000	
Provision for loss sharing	1,316,862		1,316,862	
Provision for loan losses (net of recoveries)	(54,000)	277,464	(24,995)	2,353,688
Management fee - related party	3,325,000	2,725,000	8,875,000	8,075,000
Total other expenses	35,741,599	18,338,403	78,884,279	56,065,636
Income before gain on acceleration of deferred income, loss on termination of swaps, gain on sale of real estate, income from equity affiliates and provision for income taxes	11,796,659	3,056,427	9,051,633	17,008,382
Gain on acceleration of deferred income		8,162,720		19,171,882
Loss on termination of swaps		(340,197)		(4,629,647)
Gain on sale of real estate			11,630,687	3,984,364
Income from equity affiliates	4,929,375	6,353,239	11,193,918	10,983,177
Provision for income taxes	(300,000)		(300,000)	
Net income	16,426,034	17,232,189	31,576,238	46,518,158
Preferred stock dividends	1,888,430	1,888,430	5,665,290	5,665,290
Net income attributable to noncontrolling interest	3,649,432		3,649,432	
Net income attributable to common stockholders	\$ 10,888,172	\$ 15,343,759	\$ 22,261,516	\$ 40,852,868
Basic earnings per common share	\$ 0.21	\$ 0.30	\$ 0.43	\$ 0.80
Diluted earnings per common share	\$ 0.21	\$ 0.30	\$ 0.43	\$ 0.80
Weighted average shares outstanding:				
Basic	51,390,467	50,962,516	51,272,795	50,822,444

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Diluted	70,271,796	50,962,516	51,627,550	50,917,442
Dividends declared per common share	\$ 0.16	\$ 0.15	\$ 0.46	\$ 0.43

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 16,426,034	\$ 17,232,189	\$ 31,576,238	\$ 46,518,158
Unrealized (loss) gain on securities available-for-sale, at fair value	(88,184)	(176,368)	(117,579)	246,973
Unrealized gain (loss) on derivative financial instruments, net	66,254	(349,012)	(195,981)	(1,255,739)
Reclassification of net realized loss on derivatives designated as cash flow hedges into loss on termination of swaps		340,197		4,626,192
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	1,316,157	1,467,673	4,012,457	4,709,173
Comprehensive income	17,720,261	18,514,679	35,275,135	54,844,757
Less:				
Comprehensive income attributable to noncontrolling interest	3,974,327		3,974,327	
Preferred stock dividends	1,888,430	1,888,430	5,665,290	5,665,290
Comprehensive income attributable to common stockholders	\$ 11,857,504	\$ 16,626,249	\$ 25,635,518	\$ 49,179,467

See Notes to Consolidated Financial Statements.

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

Nine Months Ended September 30, 2016

	Arbor Realty Trust, Inc. Stockholders Equity						Accumulated Other Comprehensive Loss	Total Arbor Realty Trust, Inc. Stockholders Equity	Noncontrolling Interest	Total
	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid- in Capital	Accumulated Deficit				
Balance - January 1, 2016	3,711,500	\$ 89,295,905	50,962,516	\$ 509,625	\$ 616,244,196	\$ (136,118,001)	\$ (4,840,950)	\$ 565,090,775	\$	\$ 565,090,775
Issuance of special voting preferred shares and operating partnership units	21,230,769	212,308						212,308	154,559,998	154,772,306
Stock-based compensation			439,780	4,398	2,935,776			2,940,174		2,944,574
Forfeiture of unvested restricted stock			(1,001)	(10)	10					(991)
Distributions - common stock						(23,573,786)		(23,573,786)		(23,573,786)
Distributions - preferred stock						(5,665,290)		(5,665,290)		(5,665,290)
Distributions - preferred stock of private REIT						(10,849)		(10,849)		(10,849)
Distributions - noncontrolling interest									(3,396,923)	(3,396,923)
Net income						27,926,806		27,926,806	3,649,432	31,576,238
Unrealized loss on securities available-for-sale							(117,579)	(117,579)		(117,579)
							(195,981)	(195,981)		(195,981)

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Unrealized loss
on derivative
financial
instruments, net

Reclassification
of net realized
loss on
derivatives
designated as
cash flow hedges
into earnings

4,012,457 4,012,457

Balance -
September 30,
2016

24,942,269 \$ 89,508,213 51,401,295 \$ 514,013 \$ 619,179,982 \$ (137,441,120) \$ (1,142,053) \$ 570,619,035 \$ 154,812,507 \$ 725,000,000

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Operating activities:		
Net income	\$ 31,576,238	\$ 46,518,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,129,410	4,137,080
Stock-based compensation	2,940,174	2,890,581
Amortization and accretion of interest and fees, net	2,539,980	1,709,609
Amortization of capitalized mortgage servicing rights	7,586,524	
Originations of loans held-for-sale	(853,935,531)	
Proceeds from sales of loans held-for-sale, net of gain on sale	975,969,372	
Mortgage servicing rights	(15,968,067)	
Write-off of capitalized mortgage servicing rights from payoffs	1,669,081	
Impairment loss on real estate owned	11,200,000	
Provision for loan losses (net of recoveries)	(24,995)	2,353,688
Provision for loss sharing (net of recoveries)	1,316,862	
Gain on acceleration of deferred income		(19,171,882)
Allowance for loss-sharing obligations (net of charge-offs)	(2,131,178)	
Loss on termination of swaps		4,629,647
Gain on sale of real estate	(11,630,687)	(3,984,364)
Gain on sale of securities	(15,491)	
Income from equity affiliates	(11,193,918)	(10,983,177)
Change in fair value of available-for-sale securities	46,021	
Changes in operating assets and liabilities	5,894,972	7,500,170
Net cash provided by operating activities	148,968,767	35,599,510
Investing Activities:		
Loans and investments funded, originated and purchased, net	(725,025,857)	(734,651,094)
Payoffs and paydowns of loans and investments	531,874,076	698,138,074
Acquisition of the Agency Business, net of cash acquired	(68,356,323)	
Deferred fees	7,412,018	3,707,798
Principal collection on securities, net		2,100,000
Investments in real estate, net	(611,497)	(2,025,366)
Contributions to equity affiliates	(4,641,973)	(17,017,972)
Distributions from equity affiliates	731,942	
Proceeds from sale of real estate	49,029,780	18,482,352
Proceeds from sale of available-for-sale securities	1,567,207	
Due to borrowers and reserves	128,492	
Net cash used in investing activities	(207,892,135)	(31,266,208)
Financing activities:		
Proceeds from repurchase agreements, credit facilities and notes payable	1,681,492,236	555,589,837
Paydowns and payoffs of repurchase agreements, loan participations and credit facilities	(1,807,884,108)	(612,512,543)
Proceeds from mortgage note payable - real estate owned		27,155,000
Paydowns and payoffs of mortgage note payable - real estate owned	(27,155,000)	(30,984,357)
Proceeds from collateralized loan obligations	250,250,000	486,625,000
Payoffs and paydowns of collateralized debt obligations		(312,071,055)
Payoffs and paydowns of collateralized loan obligations		(177,000,000)
Change in restricted cash	(123,982,753)	159,223,507

Edgar Filing: ARBOR REALTY TRUST INC - Form 10-Q

Payments on swaps and margin calls to counterparties		(290,000)	
Receipts on swaps and returns of margin calls from counterparties	3,440,049		3,330,000
Distributions paid on common stock	(23,573,786)		(21,850,942)
Distributions paid on preferred stock	(5,665,290)		(5,665,290)
Distributions paid on preferred stock of private REIT	(10,849)		(10,566)
Payment of deferred financing costs	(5,081,844)		(10,676,809)
Net cash (used in) provided by financing activities	(58,171,345)		60,861,782
Net (decrease) increase in cash and cash equivalents	(117,094,713)		65,195,084
Cash and cash equivalents at beginning of period	188,708,687		50,417,745
Cash and cash equivalents at end of period	\$ 71,613,974	\$	115,612,829

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2016	2015
Supplemental cash flow information:		
Cash used to pay interest	\$ 36,287,261	\$ 32,665,815
Cash used for taxes	\$ 298,654	\$ 385,932
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	