
**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, 2021

or

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

Commission file number: 001-32136

Arbor Realty Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland
*(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)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbols</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	ABR	New York Stock Exchange
Preferred Stock, 6.375% Series D Cumulative Redeemable, par value \$0.01 per share	ABR-PD	New York Stock Exchange
Preferred Stock, 6.25% Series E Cumulative Redeemable, par value \$0.01 per share	ABR-PE	New York Stock Exchange
Preferred Stock, 6.25% Series F Fixed-to- Floating Rate Cumulative Redeemable, par value \$0.01 per share	ABR-PF	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

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

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

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

Issuer has 143,006,659 shares of common stock outstanding at October 22, 2021.

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Forward-Looking Statements

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

This report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. We use words such as “anticipate,” “expect,” “believe,” “intend,” “should,” “could,” “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, in particular, due to the uncertainties created by the novel coronavirus (“COVID-19”) pandemic; the potential impact of the COVID-19 pandemic on our business, results of operations and financial condition; adverse changes in our status with government-sponsored enterprises affecting our ability to originate loans through such programs; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; changes in federal and state laws and regulations, including changes in tax laws; the availability and cost of capital for future investments; and competition. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement.

Additional information regarding these and other risks and uncertainties we face is contained in our annual report on Form 10-K for the year ended December 31, 2020 (the “2020 Annual Report”) filed with the SEC on February 19, 2021 and in our other reports and filings with the SEC.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(\$ in thousands, except share and per share data)

	September 30, 2021 (Unaudited)	December 31, 2020
Assets:		
Cash and cash equivalents	\$ 380,730	\$ 339,528
Restricted cash	569,928	197,470
Loans and investments, net (allowance for credit losses: \$131,534 and \$148,329, respectively)	8,993,790	5,285,868
Loans held-for-sale, net	1,274,234	986,919
Capitalized mortgage servicing rights, net	417,283	379,974
Securities held-to-maturity, net (allowance for credit losses: \$1,761 and \$1,644, respectively)	112,735	95,524
Investments in equity affiliates	91,846	74,274
Due from related party	12,664	12,449
Goodwill and other intangible assets	101,933	105,451
Other assets	214,441	183,529
Total assets	<u>\$ 12,169,584</u>	<u>\$ 7,660,986</u>
Liabilities and Equity:		
Credit and repurchase facilities	\$ 3,399,711	\$ 2,234,883
Collateralized loan obligations	4,715,804	2,517,309
Senior unsecured notes	1,102,578	662,843
Convertible senior unsecured notes, net	258,001	267,973
Junior subordinated notes to subsidiary trust issuing preferred securities	142,192	141,656
Due to related party	4,384	2,365
Due to borrowers	93,544	89,325
Allowance for loss-sharing obligations	62,828	64,303
Other liabilities	255,135	197,644
Total liabilities	<u>10,034,177</u>	<u>6,178,301</u>
Commitments and contingencies (Note 13)		
Equity:		
Arbor Realty Trust, Inc. stockholders' equity:		
Preferred stock, cumulative, redeemable, \$0.01 par value: 100,000,000 shares authorized, shares issued and outstanding by period, respectively:		
Special voting preferred shares, 16,325,095 and 17,560,633 shares		
8.25% Series A, 0 and 1,551,500 shares		
7.75% Series B, 0 and 1,260,000 shares		
8.50% Series C, 0 and 900,000 shares		
6.375% Series D, 9,200,000 and 0 shares		
6.25% Series E, 5,750,000 and 0 shares	361,635	89,472
Common stock, \$0.01 par value: 500,000,000 shares authorized - 143,007,036 and 123,181,173 shares issued and outstanding, respectively	1,430	1,232
Additional paid-in capital	1,635,134	1,317,109
Retained earnings (accumulated deficit)	10,674	(63,442)
Total Arbor Realty Trust, Inc. stockholders' equity	<u>2,008,873</u>	<u>1,344,371</u>
Noncontrolling interest	126,534	138,314
Total equity	<u>2,135,407</u>	<u>1,482,685</u>
Total liabilities and equity	<u>\$ 12,169,584</u>	<u>\$ 7,660,986</u>

Note: Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities, or VIEs, as we are the primary beneficiary of these VIEs. As of September 30, 2021 and December 31, 2020, assets of our consolidated VIEs totaled \$5,706,553 and \$3,134,447, respectively, and the liabilities of our consolidated VIEs totaled \$4,721,526 and \$2,520,064, respectively. See Note 14 for discussion of our VIEs.

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(\$ in thousands, except share and per share data)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Interest income	\$ 125,480	\$ 81,701	\$ 321,772	\$ 253,307
Interest expense	55,560	37,888	144,122	129,172
Net interest income	<u>69,920</u>	<u>43,813</u>	<u>177,650</u>	<u>124,135</u>
Other revenue:				
Gain on sales, including fee-based services, net	16,334	19,895	86,102	60,566
Mortgage servicing rights	32,453	42,357	95,688	96,708
Servicing revenue, net	20,088	13,348	50,939	40,156
Property operating income	—	1,033	—	3,976
Loss on derivative instruments, net	(1,492)	(753)	(7,320)	(58,852)
Other income, net	2,195	1,050	4,140	3,404
Total other revenue	<u>69,578</u>	<u>76,930</u>	<u>229,549</u>	<u>145,958</u>
Other expenses:				
Employee compensation and benefits	41,973	32,962	128,647	101,652
Selling and administrative	11,757	9,356	33,707	29,013
Property operating expenses	149	1,300	421	4,778
Depreciation and amortization	1,807	1,922	5,349	5,830
Provision for loss sharing (net of recoveries)	(3,272)	(2,227)	(1,070)	21,706
Provision for credit losses (net of recoveries)	(3,799)	(7,586)	(12,689)	59,510
Total other expenses	<u>48,615</u>	<u>35,727</u>	<u>154,365</u>	<u>222,489</u>
Income before extinguishment of debt, sale of real estate, income from equity affiliates and income taxes	90,883	85,016	252,834	47,604
Loss on extinguishment of debt	—	—	(1,370)	(3,546)
(Loss) gain on sale of real estate	—	(1,868)	1,228	(1,868)
Income from equity affiliates	5,086	32,358	32,095	56,758
Provision for income taxes	(9,905)	(17,785)	(33,356)	(15,493)
Net income	<u>86,064</u>	<u>97,721</u>	<u>251,431</u>	<u>83,455</u>
Preferred stock dividends	4,913	1,888	13,216	5,665
Net income attributable to noncontrolling interest	8,347	13,836	26,806	11,012
Net income attributable to common stockholders	<u>\$ 72,804</u>	<u>\$ 81,997</u>	<u>\$ 211,409</u>	<u>\$ 66,778</u>
Basic earnings per common share	<u>\$ 0.51</u>	<u>\$ 0.72</u>	<u>\$ 1.57</u>	<u>\$ 0.60</u>
Diluted earnings per common share	<u>\$ 0.51</u>	<u>\$ 0.72</u>	<u>\$ 1.56</u>	<u>\$ 0.59</u>
Weighted average shares outstanding:				
Basic	<u>142,624,300</u>	<u>113,766,446</u>	<u>134,437,663</u>	<u>111,775,436</u>
Diluted	<u>160,270,905</u>	<u>133,997,087</u>	<u>152,691,461</u>	<u>132,401,315</u>
Dividends declared per common share	<u>\$ 0.35</u>	<u>\$ 0.31</u>	<u>\$ 1.02</u>	<u>\$ 0.91</u>

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(\$ in thousands, except shares)

Three Months Ended September 30, 2021									
	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Arbor Realty Trust, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance – July 1, 2021	25,552,233	\$ 222,627	141,738,609	\$ 1,417	\$ 1,620,898	\$ (12,084)	\$ 1,832,858	\$ 123,909	\$ 1,956,767
Issuance of common stock	—	—	800,000	8	14,596	—	14,604	—	14,604
Issuance of common stock from convertible debt	—	—	386,459	4	(4)	—	—	—	—
Issuance of 6.25% Series E preferred stock	5,750,000	139,008	—	—	—	—	139,008	—	139,008
Redemption of preferred stock	—	—	—	—	—	—	—	—	—
Stock-based compensation, net	—	—	81,968	1	(356)	—	(355)	—	(355)
Distributions - common stock	—	—	—	—	—	(50,043)	(50,043)	—	(50,043)
Distributions - preferred stock	—	—	—	—	—	(4,916)	(4,916)	—	(4,916)
Distributions - noncontrolling interest	—	—	—	—	—	—	—	(5,722)	(5,722)
Distributions - noncontrolling interest	(27,138)	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	77,717	77,717	8,347	86,064
Balance – September 30, 2021	<u>31,275,095</u>	<u>\$ 361,635</u>	<u>143,007,036</u>	<u>\$ 1,430</u>	<u>\$ 1,635,134</u>	<u>\$ 10,674</u>	<u>\$ 2,008,873</u>	<u>\$ 126,534</u>	<u>\$ 2,135,407</u>
Nine Months Ended September 30, 2021									
Balance - January 1, 2021	21,272,133	\$ 89,472	123,181,173	\$ 1,232	\$ 1,317,109	\$ (63,442)	\$ 1,344,371	\$ 138,314	\$ 1,482,685
Issuance of common stock	—	—	20,222,879	202	342,416	—	342,618	—	342,618
Repurchase of common stock	—	—	(1,399,999)	(14)	(23,446)	—	(23,460)	—	(23,460)
Issuance of common stock from convertible debt	—	—	386,459	4	(4)	—	—	—	—
Issuance of 6.375% Series D preferred stock	9,200,000	222,463	—	—	—	—	222,463	—	222,463
Issuance of 6.25% Series E preferred stock	5,750,000	139,008	—	—	—	—	139,008	—	139,008
Redemption of preferred stock	(3,711,500)	(89,296)	—	—	—	(3,492)	(92,788)	—	(92,788)
Stock-based compensation, net	—	—	616,524	6	(941)	—	(935)	—	(935)
Distributions - common stock	—	—	—	—	—	(137,282)	(137,282)	—	(137,282)
Distributions - preferred stock	—	—	—	—	—	(9,735)	(9,735)	—	(9,735)
Distributions - noncontrolling interest	—	—	—	—	—	—	—	(17,488)	(17,488)
Redemption of operating partnership units	(1,235,538)	(12)	—	—	—	—	(12)	(21,098)	(21,110)
Net income	—	—	—	—	—	224,625	224,625	26,806	251,431
Balance – September 30, 2021	<u>31,275,095</u>	<u>\$ 361,635</u>	<u>143,007,036</u>	<u>\$ 1,430</u>	<u>\$ 1,635,134</u>	<u>\$ 10,674</u>	<u>\$ 2,008,873</u>	<u>\$ 126,534</u>	<u>\$ 2,135,407</u>

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited) (Continued)
(\$ in thousands, except shares)

Three Months Ended September 30, 2020									
	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid- in Capital	Accumulated Deficit	Total Arbor Realty Trust, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance - July 1, 2020	24,080,765	\$ 89,500	112,211,461	\$ 1,122	\$ 1,182,449	\$ (167,165)	\$ 1,105,906	\$ 151,870	\$ 1,257,776
Issuance of common stock	—	—	3,579,266	36	40,506	—	40,542	—	40,542
Stock-based compensation, net	—	—	139,624	1	(10)	—	(9)	—	(9)
Distributions - common stock	—	—	—	—	—	(35,371)	(35,371)	—	(35,371)
Distributions - preferred stock	—	—	—	—	—	(1,888)	(1,888)	—	(1,888)
Distributions - noncontrolling interest	—	—	—	—	—	—	—	(5,880)	(5,880)
Redemption of operating partnership units	(2,736,894)	(28)	—	—	—	—	(28)	(29,627)	(29,655)
Net income	—	—	—	—	—	83,885	83,885	13,836	97,721
Balance - September 30, 2020	<u>21,343,871</u>	<u>\$ 89,472</u>	<u>115,930,351</u>	<u>\$ 1,159</u>	<u>\$ 1,222,945</u>	<u>\$ (120,539)</u>	<u>\$ 1,193,037</u>	<u>\$ 130,199</u>	<u>\$ 1,323,236</u>

Nine Months Ended September 30, 2020									
Balance - January 1, 2020	24,195,594	\$ 89,501	109,706,214	\$ 1,097	\$ 1,154,932	\$ (60,920)	\$ 1,184,610	\$ 171,417	\$ 1,356,027
Cumulative-effect adjustment (adoption of credit loss standard)	—	—	—	—	—	(24,106)	(24,106)	(4,501)	(28,607)
Balance - January 1, 2020 (as adjusted for adoption of credit loss standard)	24,195,594	\$ 89,501	109,706,214	\$ 1,097	\$ 1,154,932	\$ (85,026)	\$ 1,160,504	\$ 166,916	\$ 1,327,420
Issuance of common stock	—	—	6,887,274	69	78,481	—	78,550	—	78,550
Repurchase of common stock	—	—	(1,625,777)	(16)	(12,745)	—	(12,761)	—	(12,761)
Issuance of common stock from convertible debt	—	—	363,013	3	90	—	93	—	93
Stock-based compensation, net	—	—	599,627	6	3,786	—	3,792	—	3,792
Distributions - common stock	—	—	—	—	—	(102,283)	(102,283)	—	(102,283)
Distributions - preferred stock	—	—	—	—	—	(5,673)	(5,673)	—	(5,673)
Distributions - noncontrolling interest	—	—	—	—	—	—	—	(18,102)	(18,102)
Redemption of operating partnership units	(2,851,723)	(29)	—	—	(1,599)	—	(1,628)	(29,627)	(31,255)
Net income	—	—	—	—	—	72,443	72,443	11,012	83,455
Balance - September 30, 2020	<u>21,343,871</u>	<u>\$ 89,472</u>	<u>115,930,351</u>	<u>\$ 1,159</u>	<u>\$ 1,222,945</u>	<u>\$ (120,539)</u>	<u>\$ 1,193,037</u>	<u>\$ 130,199</u>	<u>\$ 1,323,236</u>

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2021	2020
Operating activities:		
Net income	\$ 251,431	\$ 83,455
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,349	5,830
Stock-based compensation	7,986	7,286
Amortization and accretion of interest and fees, net	119	3,172
Amortization of capitalized mortgage servicing rights	43,744	36,129
Originations of loans held-for-sale	(4,558,811)	(3,940,322)
Proceeds from sales of loans held-for-sale, net of gain on sale	4,330,959	4,169,411
Loss on sale of real estate	—	1,868
Mortgage servicing rights	(95,688)	(96,708)
Write-off of capitalized mortgage servicing rights from payoffs	18,344	12,610
Provision for loss sharing (net of recoveries)	(1,070)	21,706
Provision for credit losses (net of recoveries)	(12,689)	59,510
Net recoveries (charge-offs) for loss sharing obligations	(411)	399
Deferred tax provision (benefit)	10,692	(5,172)
Income from equity affiliates	(32,095)	(56,758)
Distributions from equity affiliates	25,450	16,333
Loss on extinguishment of debt	1,370	3,546
Payoffs and paydowns of loans held-for-sale	2,375	117
Changes in operating assets and liabilities	2,543	(18,711)
Net cash (used in) provided by operating activities	<u>(402)</u>	<u>303,701</u>
Investing Activities:		
Loans and investments funded, originated and purchased, net	(5,174,313)	(1,425,051)
Payoffs and paydowns of loans and investments	1,345,559	674,929
Proceeds from sale of loans and investments	110,000	—
Deferred fees	41,475	10,338
Contributions to equity affiliates	(38,604)	(98)
Distributions from equity affiliates	27,675	—
Purchase of securities held-to-maturity, net	(23,747)	(37,927)
Payoffs and paydowns of securities held-to-maturity	9,760	8,914
Due to borrowers and reserves	(53,929)	(50,168)
Investments in real estate, net	—	(131)
Proceeds from sale of real estate, net	—	7,499
Net cash used in investing activities	<u>(3,756,124)</u>	<u>(811,695)</u>
Financing activities:		
Proceeds from credit and repurchase facilities	10,494,663	7,565,743
Paydowns and payoffs of credit and repurchase facilities	(9,328,154)	(7,792,471)
Proceeds from issuance of collateralized loan obligations	2,567,387	668,000
Payoffs and paydowns of collateralized loan obligations	(356,150)	(282,874)
Payoffs and paydowns of debt fund	—	(70,000)
Proceeds from issuance of common stock	342,618	78,550
Proceeds from issuance of preferred stock	361,471	—
Settlements of convertible senior unsecured notes	(14,300)	(22,145)
Proceeds from issuance of senior unsecured notes	445,000	345,750
Redemption of preferred stock	(92,788)	—
Redemption of operating partnership units	(21,110)	(31,255)
Payments of withholding taxes on net settlement of vested stock	(8,921)	(3,494)
Repurchase of common stock	(23,460)	(12,761)
Distributions to stockholders	(161,404)	(126,058)
Payment of deferred financing costs	(34,666)	(17,086)
Net cash provided by financing activities	<u>4,170,186</u>	<u>299,899</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	413,660	(208,095)
Cash, cash equivalents and restricted cash at beginning of period	536,998	510,562
Cash, cash equivalents and restricted cash at end of period	<u>\$ 950,658</u>	<u>\$ 302,467</u>

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)
(in thousands)

	Nine Months Ended September 30,	
	2021	2020
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents at beginning of period	\$ 339,528	\$ 299,687
Restricted cash at beginning of period	197,470	210,875
Cash, cash equivalents and restricted cash at beginning of period	<u>\$ 536,998</u>	<u>\$ 510,562</u>
Cash and cash equivalents at end of period	\$ 380,730	\$ 192,204
Restricted cash at end of period	569,928	110,263
Cash, cash equivalents and restricted cash at end of period	<u>\$ 950,658</u>	<u>\$ 302,467</u>
Supplemental cash flow information:		
Cash used to pay interest	\$ 119,978	\$ 108,573
Cash used to pay taxes	37,436	22,810
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred from loans and investment, net to loans held-for-sale	\$ 65,204	\$ —
Distributions accrued on preferred stock	3,732	629
Cummulative-effect adjustment (for adoption of credit loss standard)	—	28,607
Settlements of convertible senior unsecured notes	—	4,778
Fair value of conversion feature of convertible senior unsecured notes	—	185
Issuance of common stock from convertible debt	—	93

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2021

Note 1 — Description of Business

Arbor Realty Trust, Inc. (“we,” “us,” or “our”) is a Maryland corporation formed in 2003. We operate through two business segments: our Structured Loan Origination and Investment Business, or “Structured Business,” and our Agency Loan Origination and Servicing Business, or “Agency Business.”

Through our Structured Business, we invest in a diversified portfolio of structured finance assets in the multifamily, single-family rental (“SFR”) and commercial real estate markets, primarily consisting of bridge and mezzanine loans, including junior participating interests in first mortgages and preferred and direct equity. We also invest in real estate-related joint ventures and may directly acquire real property and invest in real estate-related notes and certain mortgage-related securities.

Through our Agency Business, we originate, sell and service a range of multifamily finance products through the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac,” and together with Fannie Mae, the government-sponsored enterprises, or “GSEs”), the Government National Mortgage Association (“Ginnie Mae”), Federal Housing Authority (“FHA”) and the U.S. Department of Housing and Urban Development (together with Ginnie Mae and FHA, “HUD”). We retain the servicing rights and asset management responsibilities on substantially all loans we originate and sell under the GSE and HUD programs. We are an approved Fannie Mae Delegated Underwriting and Servicing (“DUS”) lender nationally, a Freddie Mac Multifamily Conventional Loan lender, seller/servicer, in New York, New Jersey and Connecticut, a Freddie Mac affordable, manufactured housing, senior housing and small balance loan (“SBL”) lender, seller/servicer, nationally and a HUD MAP and LEAN senior housing/healthcare lender nationally. We also originate and service permanent financing loans underwritten using the guidelines of our existing agency loans sold to the GSEs, which we refer to as “Private Label” loans, and originate and sell finance products through conduit/commercial mortgage-backed securities (“CMBS”) programs. We pool and securitize the Private Label loans and sell certificates in the securitizations to third-party investors, while retaining the servicing rights and the highest risk bottom tranche certificate of the securitization (“APL certificates”).

Substantially all of our operations are conducted through our operating partnership, Arbor Realty Limited Partnership (“ARLP”), for which we serve as the indirect general partner, and ARLP’s subsidiaries. We are organized to qualify as a real estate investment trust (“REIT”) for U.S. federal income tax purposes. 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 REIT income, primarily within the Agency Business, are operated through taxable REIT subsidiaries (“TRS”), which are part of our TRS consolidated group (the “TRS Consolidated Group”) and are subject to U.S. federal, state and local income taxes. In general, our TRS entities may hold assets that the REIT cannot hold directly and may engage in real estate or non-real estate-related business.

Note 2 — Basis of Presentation and Significant Accounting Policies

Basis of Presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), for interim financial statements and the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements prepared under GAAP have been condensed or omitted. In our opinion, all adjustments considered necessary for a fair presentation of our financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with our financial statements and notes thereto included in our 2020 Annual Report.

Principles of Consolidation

These consolidated financial statements include our financial statements and the financial statements of our wholly owned subsidiaries, partnerships and other joint ventures in which we own a controlling interest, including variable interest entities (“VIEs”) of which we are the primary beneficiary. Entities in which we have a significant influence are accounted for under the equity method. Our VIEs are described in Note 14. All significant intercompany transactions and balances have been eliminated in consolidation.

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Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that could materially affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Beginning early 2020, there has been a global outbreak of COVID-19, which had forced many countries, including the United States, to declare national emergencies, to institute “stay-at-home” orders, to close financial markets and to restrict operations of non-essential businesses. Such actions have created significant disruptions in global supply chains, and adversely impacted many industries. COVID-19 could have a continued and prolonged adverse impact on economic and market conditions, which could continue a period of global economic slowdown. The impact of COVID-19 on companies continues to evolve, and the extent and duration of the economic fallout from this pandemic, both globally and to our business, remain unclear, making any estimate or assumption as of September 30, 2021 inherently less certain than they would be absent the current and potential impacts of COVID-19.

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. Our real estate owned assets previously recorded to real estate owned, net on our consolidated balance sheets are now recorded to other assets for all periods presented.

Recently Adopted Accounting Pronouncements

Description	Adoption Date	Effect on Financial Statements
In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application.	First quarter of 2021	The adoption of this guidance did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

Description	Effective Date	Effect on Financial Statements
In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. This guidance reduces the number of accounting models for convertible debt instruments. Upon adoption of this guidance, convertible debt proceeds will no longer be allocated between debt and equity components, reducing the unamortized debt discount and lowering interest expense. This guidance also changes the method used to calculate diluted earnings per share when an instrument may be settled in cash or shares, if the effect is dilutive.	First quarter of 2022 with early adoption permitted beginning in the first quarter of 2021	We continue to evaluate the impact the adoption of this guidance will have on our consolidated financial statements and related disclosures. We expect to adopt this guidance on January 1, 2022. Upon adoption, we will reclassify the remaining equity component from equity to our convertible senior unsecured notes liability and cease the amortization of the debt discount through interest expense. The adoption of this guidance will also require us to change the method which we use to calculate diluted earnings per share to the if-converted method, potentially requiring us to add back interest expense to the numerator and make certain adjustments to the denominator.

Significant Accounting Policies

See Item 8 – Financial Statements and Supplementary Data in our 2020 Annual Report for a description of our significant accounting policies. There have been no significant changes to our significant accounting policies since December 31, 2020.

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Note 3 — Loans and Investments

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

	<u>September 30, 2021</u>	<u>Percent of Total</u>	<u>Loan Count</u>	<u>Wtd. Avg. Pay Rate (1)</u>	<u>Wtd. Avg. Remaining Months to Maturity</u>	<u>Wtd. Avg. First Dollar LTV Ratio (2)</u>	<u>Wtd. Avg. Last Dollar LTV Ratio (3)</u>
Bridge loans (4)	\$ 8,696,486	95 %	423	4.45 %	20.7	0 %	76 %
Mezzanine loans	256,413	3 %	38	6.83 %	53.5	30 %	82 %
Preferred equity investments	186,705	2 %	13	6.62 %	35.2	59 %	89 %
Other loans (5)	29,403	<1 %	2	4.63 %	51.1	0 %	69 %
	<u>9,169,007</u>	<u>100 %</u>	<u>476</u>	<u>4.56 %</u>	<u>22.0</u>	<u>2 %</u>	<u>76 %</u>
Allowance for credit losses	(131,534)						
Unearned revenue	(43,683)						
Loans and investments, net	<u>\$ 8,993,790</u>						
	<u>December 31, 2020</u>						
Bridge loans (4)	\$ 5,022,509	92 %	263	5.09 %	16.2	0 %	76 %
Mezzanine loans	159,242	3 %	29	7.40 %	45.0	32 %	82 %
Preferred equity investments	224,928	4 %	14	7.07 %	49.8	64 %	89 %
Other loans (5)	68,403	1 %	22	4.95 %	74.8	0 %	69 %
	<u>5,475,082</u>	<u>100 %</u>	<u>328</u>	<u>5.23 %</u>	<u>19.2</u>	<u>4 %</u>	<u>77 %</u>
Allowance for credit losses	(148,329)						
Unearned revenue	(40,885)						
Loans and investments, net	<u>\$ 5,285,868</u>						

- (1) “Weighted Average Pay Rate” is a weighted average, based on the unpaid principal balance (“UPB”) of each loan in our portfolio, of the interest rate required to be paid monthly as stated in the individual loan agreements. Certain loans and investments that require an additional rate of interest “accrual rate” to be paid at maturity are not included in the weighted average pay rate as shown in the table.
- (2) The “First Dollar Loan-to-Value (“LTV”) Ratio” is calculated by comparing the total of our senior most dollar and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will absorb a total loss of our position.
- (3) The “Last Dollar LTV Ratio” is calculated by comparing the total of the carrying value of our loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will initially absorb a loss.
- (4) As of September 30, 2021 and December 31, 2020, bridge loans included 86 and 38, respectively, SFR loans with an aggregate UPB of \$614.3 million and \$309.2 million, respectively, of which \$277.3 million and \$88.1 million, respectively, was funded.
- (5) As of September 30, 2021, other loans included 2 variable rate SFR permanent loans and as of December 31, 2020, other loans included 22 SFR permanent loans.

During the first quarter of 2021, the Structured Business transferred 21 fixed rate SFR permanent loans with a UPB of \$65.2 million to the Agency Business, which represented all fixed rate SFR permanent loans originated prior to such transfer. Fixed rate SFR permanent loans are reported through the Agency Business beginning in 2021 and classified as held-for-sale. See Note 4 for further details.

Concentration of Credit Risk

We are subject to concentration risk in that, at September 30, 2021, the UPB related to 32 loans with five different borrowers represented 11% of total assets. At December 31, 2020, the UPB related to 22 loans with five different borrowers represented 12% of total assets. During both the nine months ended September 30, 2021 and the year ended December 31, 2020, no single loan or investment represented more than 10% of our total assets and no single investor group generated over 10% of our revenue. See Note 17 for details on our concentration of related party loans and investments.

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We assign a credit risk rating of pass, pass/watch, special mention, substandard or doubtful to each loan and investment, with a pass rating being the lowest risk and a doubtful rating being the highest risk. Each credit risk rating has benchmark guidelines that pertain to debt-service coverage ratios, LTV ratios, borrower strength, asset quality, and funded cash reserves. Other factors such as guarantees, market strength, and remaining loan term and borrower equity are also reviewed and factored into determining the credit risk rating assigned to each loan. This metric provides a helpful snapshot of portfolio quality and credit risk. All portfolio assets are subject to, at a minimum, a thorough quarterly financial evaluation in which historical operating performance and forward-looking projections are reviewed, however, we maintain a higher level of scrutiny and focus on loans that we consider “high risk” and that possess deteriorating credit quality.

Generally speaking, given our typical loan profile, risk ratings of pass, pass/watch and special mention suggest that we expect the loan to make both principal and interest payments according to the contractual terms of the loan agreement. A risk rating of substandard indicates we anticipate the loan may require a modification of some kind. A risk rating of doubtful indicates we expect the loan to underperform over its term, and there could be loss of interest and/or principal. Further, while the above are the primary guidelines used in determining a certain risk rating, subjective items such as borrower strength, market strength or asset quality may result in a rating that is higher or lower than might be indicated by any risk rating matrix.

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A summary of the loan portfolio's internal risk ratings and LTV ratios by asset class as of September 30, 2021 is as follows (\$ in thousands):

Asset Class / Risk Rating	UPB by Origination Year					Prior	Total	Wtd. Avg. First Dollar LTV Ratio	Wtd. Avg. Last Dollar LTV Ratio
	2021	2020	2019	2018	2017				
Multifamily:									
Pass	\$ 3,167,965	\$ 350,623	\$ 185,265	\$ —	\$ 20,300	\$ 276	\$ 3,724,429		
Pass/Watch	1,458,271	1,077,411	256,877	127,255	32,500	28,800	2,981,114		
Special Mention	180,723	415,519	617,506	63,233	—	350	1,277,331		
Substandard	—	14,340	89,330	11,400	31,117	8,250	154,437		
Doubtful	—	—	—	—	17,700	—	17,700		
Total Multifamily	\$ 4,806,959	\$ 1,857,893	\$ 1,148,978	\$ 201,888	\$ 101,617	\$ 37,676	\$ 8,155,011	2 %	76 %
Single-Family Rental:									
Pass	\$ 30,777	\$ 3,165	\$ 44,181	\$ —	\$ —	\$ —	\$ 78,123		
Pass/Watch	169,677	26,813	—	—	—	—	196,490		
Special Mention	3,340	28,722	—	—	—	—	32,062		
Total Single-Family Rental	\$ 203,794	\$ 58,700	\$ 44,181	\$ —	\$ —	\$ —	\$ 306,675	0 %	63 %
Land:									
Special Mention	\$ —	\$ 8,100	\$ —	\$ —	\$ —	\$ —	\$ 8,100		
Substandard	—	71,018	19,524	—	19,975	127,928	238,445		
Total Land	\$ —	\$ 79,118	\$ 19,524	\$ —	\$ 19,975	\$ 127,928	\$ 246,545	0 %	95 %
Healthcare:									
Pass/Watch	\$ —	\$ —	\$ —	\$ 26,850	\$ —	\$ —	\$ 26,850		
Special Mention	—	—	65,819	14,650	39,650	—	120,119		
Total Healthcare	\$ —	\$ —	\$ 65,819	\$ 41,500	\$ 39,650	\$ —	\$ 146,969	0 %	79 %
Office:									
Special Mention	\$ —	\$ 35,410	\$ —	\$ 42,799	\$ 43,151	\$ 2,096	\$ 123,456		
Doubtful	—	—	—	—	—	880	880		
Total Office	\$ —	\$ 35,410	\$ —	\$ 42,799	\$ 43,151	\$ 2,976	\$ 124,336	0 %	83 %
Student Housing:									
Pass	\$ 25,700	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 25,700		
Special Mention	—	—	31,100	—	—	—	31,100		
Substandard	—	23,500	—	13,000	—	—	36,500		
Total Student Housing	\$ 25,700	\$ 23,500	\$ 31,100	\$ 13,000	\$ —	\$ —	\$ 93,300	19 %	71 %
Hotel:									
Pass/Watch	\$ —	\$ 5,846	\$ —	\$ —	\$ —	\$ —	\$ 5,846		
Special Mention	—	—	41,000	—	—	—	41,000		
Total Hotel	\$ —	\$ 5,846	\$ 41,000	\$ —	\$ —	\$ —	\$ 46,846	0 %	75 %
Retail:									
Pass	\$ —	\$ —	\$ 4,000	\$ —	\$ —	\$ —	\$ 4,000		
Special Mention	—	—	—	26,600	—	—	26,600		
Substandard	—	—	—	—	—	3,445	3,445		
Total Retail	\$ —	\$ —	\$ 4,000	\$ 26,600	\$ —	\$ 3,445	\$ 34,045	9 %	72 %
Other:									
Pass/Watch	\$ —	\$ —	\$ —	\$ —	\$ 13,580	\$ —	\$ 13,580		
Doubtful	—	—	—	—	—	1,700	1,700		
Total Other	\$ —	\$ —	\$ —	\$ —	\$ 13,580	\$ 1,700	\$ 15,280	7 %	51 %
Grand Total	\$ 5,036,453	\$ 2,060,467	\$ 1,354,602	\$ 325,787	\$ 217,973	\$ 173,725	\$ 9,169,007	2 %	76 %

Geographic Concentration Risk

As of September 30, 2021, 18% and 15% of the outstanding balance of our loan and investment portfolio had underlying properties in Texas and New York, respectively. As of December 31, 2020, 19% and 11% of the outstanding balance of our loan and investment portfolio had underlying properties in New York and Texas, respectively. No other states represented 10% or more of the total loan and investment portfolio.

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Allowance for Credit Losses

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

	Three Months Ended September 30, 2021								
	Land	Multifamily	Retail	Office	Student Housing	Hotel	Healthcare	Other	Total
Allowance for credit losses:									
Beginning balance	\$ 78,057	\$ 30,160	\$ 13,819	\$ 7,822	\$ 2,365	\$ 225	\$ 3,866	\$ 2,133	\$ 138,447
Provision for credit losses (net of recoveries)	(45)	(2,093)	—	(95)	(542)	(209)	(3,851)	(78)	(6,913)
Ending balance	<u>\$ 78,012</u>	<u>\$ 28,067</u>	<u>\$ 13,819</u>	<u>\$ 7,727</u>	<u>\$ 1,823</u>	<u>\$ 16</u>	<u>\$ 15</u>	<u>\$ 2,055</u>	<u>\$ 131,534</u>
Allowance for credit losses:									
Beginning balance	\$ 78,094	\$ 34,606	\$ 13,981	\$ 8,532	\$ 4,110	\$ 7,672	\$ 3,930	\$ 1,886	\$ 152,811
Provision for credit losses (net of recoveries)	(84)	103	(40)	(6,589)	675	(133)	(21)	23	(6,066)
Ending balance	<u>\$ 78,010</u>	<u>\$ 34,709</u>	<u>\$ 13,941</u>	<u>\$ 1,943</u>	<u>\$ 4,785</u>	<u>\$ 7,539</u>	<u>\$ 3,909</u>	<u>\$ 1,909</u>	<u>\$ 146,745</u>
Allowance for credit losses:									
Beginning balance	\$ 78,150	\$ 36,468	\$ 13,861	\$ 1,846	\$ 4,078	\$ 7,759	\$ 3,880	\$ 2,287	\$ 148,329
Provision for credit losses (net of recoveries)	(138)	(8,401)	(42)	5,881	(2,255)	(7,743)	(3,865)	(232)	(16,795)
Ending balance	<u>\$ 78,012</u>	<u>\$ 28,067</u>	<u>\$ 13,819</u>	<u>\$ 7,727</u>	<u>\$ 1,823</u>	<u>\$ 16</u>	<u>\$ 15</u>	<u>\$ 2,055</u>	<u>\$ 131,534</u>
Allowance for credit losses:									
Beginning balance, prior to adoption of CECL	\$ 67,869	\$ —	\$ —	\$ 1,500	\$ —	\$ —	\$ —	\$ 1,700	\$ 71,069
Impact of adopting CECL - January 1, 2020	77	16,322	335	287	68	29	64	112	17,294
Provision for credit losses (net of recoveries)	10,064	18,387	13,606	156	4,717	7,510	3,845	97	58,382
Ending balance	<u>\$ 78,010</u>	<u>\$ 34,709</u>	<u>\$ 13,941</u>	<u>\$ 1,943</u>	<u>\$ 4,785</u>	<u>\$ 7,539</u>	<u>\$ 3,909</u>	<u>\$ 1,909</u>	<u>\$ 146,745</u>

Our estimate of allowance for credit losses on our structured loans and investments, including related unfunded loan commitments, was based on a reasonable and supportable forecast period that was adjusted for the expectations that the markets we operate in will experience moderate improvements in economic conditions, decreases in unemployment rates, continued low interest rates and other market factors including positive developments in the COVID-19 pandemic.

The expected credit losses over the contractual period of our loans also include the obligation to extend credit through our unfunded loan commitments. Our current expected credit loss (“CECL”) allowance for unfunded loan commitments are adjusted quarterly and correspond with the associated outstanding loans. As of September 30, 2021 and December 31, 2020, we had outstanding unfunded commitments of \$638.1 million and \$353.8 million, respectively, that we are obligated to fund as borrowers meet certain requirements.

As of September 30, 2021 and December 31, 2020, accrued interest receivable related to our loans totaling \$59.7 million and \$41.6 million, respectively, was excluded from the estimate of credit losses and is included in other assets on the consolidated balance sheets.

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All of our structured loans and investments are secured by real estate assets or by interests in real estate assets, and, as such, the measurement of credit losses may be based on the difference between the fair value of the underlying collateral and the carrying value of the assets as of the period end. A summary of our specific loans considered impaired by asset class is as follows (in thousands):

Asset Class	September 30, 2021				
	UPB (1)	Carrying Value	Allowance for Credit Losses	Wtd. Avg. First Dollar LTV Ratio	Wtd. Avg. Last Dollar LTV Ratio
Land	\$ 134,215	\$ 127,868	\$ 77,868	0 %	99 %
Retail	30,045	29,348	13,818	10 %	77 %
Office	2,096	2,096	1,500	0 %	64 %
Commercial	1,700	1,700	1,700	63 %	63 %
Total	\$ 168,056	\$ 161,012	\$ 94,886	2 %	94 %

Asset Class	December 31, 2020				
	UPB (1)	Carrying Value	Allowance for Credit Losses	Wtd. Avg. First Dollar LTV Ratio	Wtd. Avg. Last Dollar LTV Ratio
Land	\$ 134,215	\$ 127,829	\$ 77,869	0 %	99 %
Hotel	110,000	89,613	7,500	0 %	94 %
Retail	30,079	28,957	13,851	10 %	75 %
Healthcare	4,625	4,673	3,845	0 %	83 %
Office	2,166	2,166	1,500	0 %	71 %
Commercial	1,700	1,700	1,700	63 %	63 %
Total	\$ 282,785	\$ 254,938	\$ 106,265	1 %	94 %

(1) Represents the UPB of eight and ten impaired loans (less unearned revenue and other holdbacks and adjustments) by asset class at September 30, 2021 and December 31, 2020, respectively.

There were no loans for which the fair value of the collateral securing the loan was less than the carrying value of the loan for which we had not recorded a provision for credit loss as of September 30, 2021 and December 31, 2020.

At September 30, 2021, six loans with an aggregate net carrying value of \$53.0 million, net of related loan loss reserves of \$2.6 million, were classified as non-performing and, at December 31, 2020, seven loans with an aggregate net carrying value of \$53.8 million, net of related loan loss reserves of \$6.5 million, were classified as non-performing. Income from non-performing loans is generally recognized on a cash basis when it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

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

Asset Class	September 30, 2021			December 31, 2020		
	UPB	Less Than 90 Days Past Due	Greater Than 90 Days Past Due	UPB	Less Than 90 Days Past Due	Greater Than 90 Days Past Due
Student Housing	\$ 36,500	\$ —	\$ 36,500	\$ 36,500	\$ —	\$ 36,500
Multifamily	17,700	—	17,700	17,700	—	17,700
Commercial	1,700	—	1,700	1,700	—	1,700
Retail	920	—	920	920	—	920
Office	880	—	880	880	—	880
Healthcare	—	—	—	4,625	—	4,625
Total	\$ 57,700	\$ —	\$ 57,700	\$ 62,325	\$ —	\$ 62,325

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In addition, we have six loans with a carrying value totaling \$121.4 million at September 30, 2021, that are collateralized by a land development project. The loans do not carry a current pay rate of interest, however, five of the loans with a carrying value totaling \$112.0 million entitle us to a weighted average accrual rate of interest of 7.91%. In 2008, we suspended the recording of the accrual rate of interest on these loans, as they were impaired and we deemed the collection of this interest to be doubtful. At both September 30, 2021 and December 31, 2020, we had a cumulative allowance for credit losses of \$71.4 million related to these loans. The loans are subject to certain risks associated with a development project including, but not limited to, availability of construction financing, increases in projected construction costs, demand for the development's outputs upon completion of the project, and litigation risk. Additionally, these loans were not classified as non-performing as the borrower is in compliance with all of the terms and conditions of the loans.

At both September 30, 2021 and December 31, 2020, we had no loans contractually past due 90 days or more that are still accruing interest. During both the three and nine months ended September 30, 2021 and 2020, interest income recognized on nonaccrual loans was de minimis.

In August 2020, we entered into a loan modification agreement on a \$26.5 million bridge loan with an interest rate of LIBOR plus 6.00% with a 2.375% LIBOR floor and a \$6.1 million mezzanine loan with a fixed rate of 12% collateralized by a retail property to: (1) reduce the interest rate on both loans to the greater of: (i) LIBOR plus 5.50% and (ii) 6.50%, and (2) to extend the maturity three years to December 2024. A portion of the foregoing interest equal to 2.00% will be deferred to payoff and will be waived if the loan is paid off by December 31, 2022. The loan modification agreement also includes a \$6.0 million required principal paydown, which occurred at the closing of the modification transaction, and an \$8.0 million principal reduction once the borrower deposits an additional reserve deposit of approximately \$4.6 million by December 31, 2021.

In 2019, we purchased \$50.0 million of a \$110.0 million bridge loan, which was collateralized by a hotel property and scheduled to mature in December 2022. In the first quarter of 2020, we recorded a \$7.5 million allowance for credit losses due to a reduction in the appraised value of the property. In August 2020, we purchased the remaining \$60.0 million bridge loan at a discount for \$39.9 million, which we determined had experienced a more than insignificant deterioration in credit quality since origination and, therefore, deemed to be a purchased loan with credit deterioration. The \$20.1 million discount was classified as a noncredit discount and no portion of the discount was allocated to allowance for credit losses at the date of purchase since the appraised value of the property was greater than the purchase price. Shortly after the purchase, we entered into a forbearance agreement with the borrower to temporarily reduce the interest rate from LIBOR plus 3.00% with a 1.50% LIBOR floor to a pay rate of 1.00% and to include a \$10.0 million principal reduction if the loan is paid off by March 2, 2021. In January 2021, we entered into a second forbearance agreement which temporarily eliminated the pay rate, extended the principal reduction payoff deadline to June 30, 2021 and increased the interest rate to an unaccrued default rate of 9.50%, which was deferred to payoff. In June 2021, we received \$95.0 million for full satisfaction of these loans, reversed the \$7.5 million allowance for credit losses and recorded interest income of \$3.5 million.

These two loan modifications were deemed troubled debt restructurings. There were no other loan modifications, refinancing's and/or extensions during the nine months ended September 30, 2021 and 2020 that were considered troubled debt restructurings.

Given the transitional nature of some of our real estate loans, we may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. At September 30, 2021 and December 31, 2020, we had total interest reserves of \$89.2 million and \$78.3 million, respectively, on 297 loans and 186 loans, respectively, with an aggregate UPB of \$5.27 billion and \$3.60 billion, respectively.

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Note 4 — Loans Held-for-Sale, Net

Our GSE loans held-for-sale are typically sold within 60 days of loan origination, while our Private Label loans are generally expected to be sold and securitized within 180 days of loan origination. Loans held-for-sale, net consists of the following (in thousands):

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Private Label	\$ 761,098	\$ 56,186
Fannie Mae	279,981	679,342
Freddie Mac	108,589	180,004
FHA	70,113	53,063
SFR - Fixed Rate	39,506	—
	<u>1,259,287</u>	<u>968,595</u>
Fair value of future MSR	19,151	21,600
Unearned discount	(4,204)	(3,276)
Loans held-for-sale, net	<u>\$ 1,274,234</u>	<u>\$ 986,919</u>

During the three and nine months ended September 30, 2021, we sold \$1.01 billion and \$4.33 billion, respectively, of loans held-for-sale and recorded gain on sales, including fees, of \$16.3 million and \$86.1 million, respectively. During the three and nine months ended September 30, 2020, we sold \$1.22 billion and \$4.17 billion, respectively, of loans held-for-sale and recorded gain on sales, including fees, of \$19.9 million and \$60.6 million, respectively.

Included in the total loans sold during 2021 and 2020 were Private Label loans totaling \$449.9 million and \$727.2 million, respectively, which were sold to unconsolidated affiliates of ours who pooled and securitized the loans. We retained the most subordinate class of certificates in the 2021 and 2020 securitizations totaling \$38.2 million and \$63.6 million, respectively, in satisfaction of credit risk retention requirements (see Note 7 for details), and we are also the primary servicer of the mortgage loans. In addition, the total loans sold during 2021 included 23 fixed rate SFR permanent loans totaling \$75.3 million which resulted in a gain on sale of \$2.8 million.

At September 30, 2021 and December 31, 2020, there were no loans held-for-sale that were 90 days or more past due, and there were no loans held-for-sale that were placed on a non-accrual status.

Subsequent Event. In October 2021, we closed a Private Label securitization totaling \$535.0 million, of which we retained the most subordinate class of certificates totaling \$47.5 million.

Note 5 — Capitalized Mortgage Servicing Rights

Our capitalized mortgage servicing rights (“MSRs”) reflect commercial real estate MSRs derived from loans sold in our Agency Business or acquired MSRs. The discount rates used to determine the present value of our MSRs throughout the periods presented for all MSRs were between 8% - 13% (representing a weighted average discount rate of 12%) based on our best estimate of market discount rates. The weighted average estimated life remaining of our MSRs was 8.5 years and 8.6 years at September 30, 2021 and December 31, 2020, respectively.

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

	Three Months Ended September 30, 2021			Nine Months Ended September 30, 2021		
	Originated	Acquired	Total	Originated	Acquired	Total
Beginning balance	\$ 383,063	\$ 35,590	\$ 418,653	\$ 336,466	\$ 43,508	\$ 379,974
Additions	22,387	—	22,387	99,397	—	99,397
Amortization	(12,345)	(2,527)	(14,872)	(35,221)	(8,523)	(43,744)
Write-downs and payoffs	(7,420)	(1,465)	(8,885)	(14,957)	(3,387)	(18,344)
Ending balance	<u>\$ 385,685</u>	<u>\$ 31,598</u>	<u>\$ 417,283</u>	<u>\$ 385,685</u>	<u>\$ 31,598</u>	<u>\$ 417,283</u>

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	Originated	Acquired	Total	Originated	Acquired	Total
Beginning balance	\$ 260,452	\$ 52,836	\$ 313,288	\$ 221,901	\$ 64,519	\$ 286,420
Additions	37,403	—	37,403	97,554	—	97,554
Amortization	(8,811)	(3,605)	(12,416)	(24,425)	(11,704)	(36,129)
Write-downs and payoffs	(2,081)	(959)	(3,040)	(8,067)	(4,543)	(12,610)
Ending balance	<u>\$ 286,963</u>	<u>\$ 48,272</u>	<u>\$ 335,235</u>	<u>\$ 286,963</u>	<u>\$ 48,272</u>	<u>\$ 335,235</u>

We collected prepayment fees totaling \$11.2 million and \$18.1 million during the three and nine months ended September 30, 2021, respectively, and \$2.0 million and \$10.1 million during the three and nine months ended September 30, 2020, respectively. Prepayment fees are included as a component of servicing revenue, net on the consolidated statements of income. As of September 30, 2021 and December 31, 2020, we had no valuation allowance recorded on any of our MSRs.

The expected amortization of capitalized MSRs recorded as of September 30, 2021 is as follows (in thousands):

Year	Amortization
2021 (three months ending 12/31/2021)	\$ 14,991
2022	57,963
2023	54,522
2024	51,072
2025	48,251
2026	44,235
Thereafter	146,249
Total	<u>\$ 417,283</u>

Actual amortization may vary from these estimates.

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Note 6 — Mortgage Servicing

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

September 30, 2021				
Product Concentrations			Geographic Concentrations	
Product	UPB (1)	Percent of Total	State	UPB Percentage of Total
Fannie Mae	\$ 19,271,527	74 %	Texas	14 %
Freddie Mac	4,726,587	18 %	New York	10 %
Private Label	1,176,391	4 %	North Carolina	9 %
FHA	933,519	4 %	California	9 %
SFR - Fixed Rate	104,094	<1 %	Georgia	6 %
Total	<u>\$ 26,212,118</u>	<u>100 %</u>	Florida	6 %
			New Jersey	5 %
			Other (2)	41 %
			Total	<u>100 %</u>
December 31, 2020				
Fannie Mae	\$ 18,268,268	74 %	Texas	16 %
Freddie Mac	4,881,080	20 %	New York	9 %
FHA	752,116	3 %	North Carolina	9 %
Private Label	726,992	3 %	California	9 %
Total	<u>\$ 24,628,456</u>	<u>100 %</u>	Florida	7 %
			Georgia	6 %
			New Jersey	4 %
			Other (2)	40 %
			Total	<u>100 %</u>

- (1) Excludes loans which we are not collecting a servicing fee.
(2) No other individual state represented 4% or more of the total.

At September 30, 2021 and December 31, 2020, our weighted average servicing fee was 45.7 basis points and 45.4 basis points, respectively. At September 30, 2021 and December 31, 2020, we held total escrow balances of \$1.78 billion and \$1.29 billion, respectively, which is not reflected in our consolidated balance sheets. Of the total escrow balances, we held \$767.2 million and \$867.6 million at September 30, 2021 and December 31, 2020, respectively, related to loans we are servicing within our Agency Business. These escrows are maintained in separate accounts at several federally insured depository institutions, which may exceed FDIC insured limits. We earn interest income on the total escrow deposits, generally based on a market rate of interest negotiated with the financial institutions that hold the escrow deposits. Interest earned on total escrows, net of interest paid to the borrower, was \$1.0 million and \$3.2 million during the three and nine months ended September 30, 2021, respectively, and \$1.3 million and \$5.8 million during the three and nine months ended September 30, 2020, respectively, and is a component of servicing revenue, net in the consolidated statements of income.

Note 7 — Securities Held-to-Maturity

Agency Private Label Certificates (“APL certificates”). In connection with our Private Label securitizations, we retain the most subordinate class of the APL certificates in satisfaction of credit risk retention requirements. As of September 30, 2021, we retained APL certificates with an initial face value of \$101.9 million, which were purchased at a discount for \$61.7 million. These certificates are collateralized by 10-year fixed rate first mortgage loans on multifamily properties, bear interest at an initial weighted average variable rate of 4.51% and have an estimated weighted average remaining maturity of 8.6 years. The weighted average effective interest rate was 9.65% and 10.15% at September 30, 2021 and December 31, 2020, respectively, and the full \$101.9 million is expected to mature after five years through ten years.

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Agency B Piece Bonds. Freddie Mac may choose to hold, sell or securitize loans we sell to them under the Freddie Mac SBL program. As part of the securitizations under the SBL program, we have the ability to purchase the B Piece bond through a bidding process, which represents the bottom 10%, or highest risk, of the securitization. As of September 30, 2021, we retained 49%, or \$106.2 million initial face value, of seven B Piece bonds, which were purchased at a discount for \$74.7 million, and sold the remaining 51% to a third-party at par. These securities are collateralized by a pool of multifamily mortgage loans, bear interest at an initial weighted average variable rate of 3.74% and have an estimated weighted average remaining maturity of 5.8 years. The weighted average effective interest rate was 11.17% and 10.85% at September 30, 2021 and December 31, 2020, respectively, including the accretion of a portion of the discount deemed collectible. Approximately \$11.3 million is estimated to mature within one year, \$30.1 million is estimated to mature after one year through five years, \$8.2 million is estimated to mature after five years through ten years and \$15.5 million is estimated to mature after ten years.

A summary of our securities held-to-maturity is as follows (in thousands):

	Face Value	Net Carrying Value	Unrealized Gain/(Loss)	Estimated Fair Value	Allowance for Credit Losses
September 30, 2021					
APL certificates	\$ 101,868	\$ 62,412	\$ 5,575	\$ 67,987	\$ 1,315
B Piece bonds	65,137	50,323	3,821	54,144	446
Total	<u>\$ 167,005</u>	<u>\$ 112,735</u>	<u>\$ 9,396</u>	<u>\$ 122,131</u>	<u>\$ 1,761</u>
December 31, 2020					
APL certificates	\$ 63,627	\$ 37,685	\$ (2,105)	\$ 35,580	\$ 1,023
B Piece bonds	76,497	57,839	709	58,548	621
Total	<u>\$ 140,124</u>	<u>\$ 95,524</u>	<u>\$ (1,396)</u>	<u>\$ 94,128</u>	<u>\$ 1,644</u>

A summary of the changes in the allowance for credit losses for our securities held-to-maturity is as follows (in thousands):

	Three Months Ended September 30, 2021		
	APL Certificates	B Piece Bonds	Total
Beginning balance	\$ 1,568	\$ 547	\$ 2,115
Provision for credit loss expense/(reversal)	(253)	(101)	(354)
Ending balance	<u>\$ 1,315</u>	<u>\$ 446</u>	<u>\$ 1,761</u>
	Nine Months Ended September 30, 2021		
	APL Certificates	B Piece Bonds	Total
Beginning balance	\$ 1,023	\$ 621	\$ 1,644
Provision for credit loss expense/(reversal)	292	(175)	117
Ending balance	<u>\$ 1,315</u>	<u>\$ 446</u>	<u>\$ 1,761</u>

The allowance for credit losses on our held-to-maturity securities was estimated on a collective basis by major security type and was based on a reasonable and supportable forecast period and a historical loss reversion for similar securities. The issuers continue to make timely principal and interest payments and we continue to accrue interest on all our securities. As of September 30, 2021, no other-than-temporary impairment was recorded on our held-to-maturity securities.

We recorded interest income (including the amortization of discount) related to these investments of \$3.4 million and \$9.4 million during the three and nine months ended September 30, 2021, respectively, and \$2.9 million and \$6.9 million during the three and nine months ended September 30, 2020, respectively.

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Note 8 — Investments in Equity Affiliates

We account for all investments in equity affiliates under the equity method. A summary of these investments is as follows (in thousands):

Equity Affiliates	Investments in Equity Affiliates at		UPB of Loans to Equity Affiliates at September 30, 2021
	September 30, 2021	December 31, 2020	
Arbor Residential Investor LLC	\$ 68,473	\$ 59,150	\$ —
AMAC Holdings III LLC	12,223	10,308	—
Tapestry on the River	3,410	—	—
Emerson at Forney	3,000	—	—
North Vermont Avenue	2,420	2,496	—
Lightstone Value Plus REIT L.P.	1,895	1,895	—
JT Prime	425	425	—
West Shore Café	—	—	1,687
Lexford Portfolio	—	—	—
East River Portfolio	—	—	—
Total	\$ 91,846	\$ 74,274	\$ 1,687

Arbor Residential Investor LLC (“ARI”). During the three and nine months ended September 30, 2021, we recorded income of \$5.4 million and \$32.7 million, respectively, and during the three and nine months ended September 30, 2020, we recorded income of \$32.3 million and \$56.1 million, respectively, to income from equity affiliates in our consolidated statements of income. We also received cash distributions totaling \$4.7 million and \$23.4 million from this investment during the three and nine months ended September 30, 2021, respectively, and \$15.0 million during both the three and nine months ended September 30, 2020, which were classified as returns of capital. In January 2021, an equity investor in the underlying residential mortgage banking business exercised their right to purchase an additional interest in this investment, which decreased our indirect interest to 12.3%. The allocation of income is based on the underlying agreements, which may be different than our indirect interest, and was 9.2% as of September 30, 2021.

Summarized statements of income for Wakefield Investment Holdings LLC, the third-party entity formed to hold the underlying residential mortgage banking business, are as follows (in thousands):

Statements of Income:	Nine Months Ended September 30,	
	2021	2020
Total revenues	\$ 935,444	\$ 1,171,796
Total expenses	722,882	790,454
Net income	\$ 212,562	\$ 381,342

AMAC Holdings III LLC (“AMAC III”). During 2021, we funded an additional \$4.5 million of a total committed investment of \$30.0 million, which brings the total funded investment to \$16.3 million at September 30, 2021. During the three and nine months ended September 30, 2021 the loss recorded from this investment was \$0.4 million and \$0.9 million, respectively. We also received cash distributions totaling \$1.7 million from this investment during the three months ended September 30, 2021, which were classified as returns of capital.

Century Summerfield Apartments. During the first quarter of 2021, we funded \$17.0 million of a total committed investment of \$20.0 million for a 50% equity interest in a joint venture with a third party that was formed to invest in an apartment community. During the second quarter of 2021, this joint venture was dissolved and we received distributions totaling \$17.2 million and recorded a \$0.2 million gain.

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Tapestry on the River. During the three months ended September 30, 2021, we invested \$14.0 million for a 48.9% equity interest in a joint venture with a third party that was formed to invest in an apartment community. We received distributions totaling \$10.6 million during the three months ended September 30, 2021, which were classified as returns of capital.

Emerson at Forney. During the three months ended September 30, 2021, we invested \$3.0 million for an 11.1% equity interest in a joint venture with a third party that was formed to invest in an apartment community.

See Note 17 for details of certain investments described above.

Note 9 — Debt Obligations

Credit and Repurchase Facilities

Borrowings under our credit and repurchase facilities are as follows (\$ in thousands):

	Current Maturity	Extended Maturity	Note Rate Type	September 30, 2021			December 31, 2020	
				Debt Carrying Value (1)	Collateral Carrying Value	Wtd. Avg. Note Rate	Debt Carrying Value (1)	Collateral Carrying Value
Structured Business								
\$1.25B joint repurchase facility	Mar. 2022	Mar. 2023	V	\$ 1,068,118	\$ 1,449,400	2.32 %	\$ 681,006	\$ 1,054,562
\$725M repurchase facility	Sept. 2022	Sept. 2023	V	343,511	484,880	2.08 %	191,622	259,559
\$450M repurchase facility	Mar. 2023	Mar. 2026	V	211,118	270,396	1.97 %	—	—
\$225M credit facility	Oct. 2022	Oct. 2023	V	14,403	21,755	3.90 %	23,606	31,809
\$200M credit facility	July 2022	N/A	V	146,878	197,468	2.14 %	39,346	47,912
\$200M repurchase facility	Oct. 2023	Oct. 2024	V	110,592	148,021	1.86 %	31,780	40,551
\$198.7M repurchase facility (2)	Dec. 2021	N/A	V	167,106	197,804	3.04 %	71,627	87,242
\$164.4M loan specific credit facilities	Dec. 2021 to Jan. 2024	N/A	V/F	164,232	218,950	3.01 %	148,615	198,550
\$100M credit facility	Oct. 2022	N/A	V	3,246	4,878	4.06 %	—	—
\$50M credit facility	April 2022	N/A	V	22,407	28,485	2.11 %	15,992	21,300
\$30M working capital facility	Nov. 2021	N/A	V	—	—	—	30,000	—
\$25M credit facility	June 2022	June 2023	V	12,623	18,296	2.36 %	9,323	14,340
\$1M master security agreements	Dec. 2022	N/A	F	790	—	4.01 %	1,441	—
Repurchase facilities - securities (3)	N/A	N/A	V	32,201	—	3.38 %	38,487	—
Structured Business total				\$ 2,297,225	\$ 3,040,333	2.35 %	\$ 1,282,845	\$ 1,755,825
Agency Business								
\$750M ASAP agreement	N/A	N/A	V	\$ 176,261	\$ 176,264	1.40 %	\$ 301,455	\$ 302,491
\$750M joint repurchase facility	Mar. 2022	N/A	V	642,652	761,098	2.06 %	42,808	56,186
\$400M repurchase facility (4)	Oct. 2021	N/A	V	169,406	169,409	1.58 %	174,515	174,555
\$200M credit facility	Mar. 2022	N/A	V	108,533	108,635	1.60 %	294,732	296,698
\$150M credit facility	Nov. 2021	N/A	V	3,100	3,100	1.43 %	49,632	49,754
\$50M credit facility	Sept. 2022	N/A	V	1,275	1,275	1.38 %	88,896	88,911
\$1.3M repurchase facility (2)	Dec. 2021	N/A	V	1,259	1,481	3.00 %	—	—
Agency Business total				\$ 1,102,486	\$ 1,221,262	1.83 %	\$ 952,038	\$ 968,595
Consolidated total				\$ 3,399,711	\$ 4,261,595	2.18 %	\$ 2,234,883	\$ 2,724,420

V = Variable Note Rate; F = Fixed Note Rate

- (1) The debt carrying value for the Structured Business at September 30, 2021 and December 31, 2020 was net of unamortized deferred finance costs of \$3.9 million and \$3.3 million, respectively. The debt carrying value for the Agency Business at September 30, 2021 and December 31, 2020 was net of unamortized deferred finance costs of \$1.6 million and \$0.6 million, respectively.
- (2) A portion of this repurchase facility was used to finance a fixed rate SFR permanent loan reported through our Agency Business.
- (3) These repurchase facilities are subject to margin call provisions associated with changes in interest spreads. As of September 30, 2021 and December 31, 2020, these facilities were collateralized by our B Piece bonds with a carrying value of \$50.3 million and \$58.5 million, respectively, and an SFR bond with a carrying value of \$10.0 million at December 31, 2020.
- (4) We are currently in negotiations with the lender to amend this facility.

Generally, our credit and repurchase facilities have extension options that are at the discretion of the banking institutions in which we have long standing relationships with. These facilities typically renew annually and also include a “wind-down” feature.

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Joint Repurchase Facility. We amended this facility three times in 2021 to increase the facility size to \$2.00 billion, which is shared between the Structured Business and the Agency Business, and to extend the maturity to March 2022 with a one year extension option. This facility is used to finance structured loans and Private Label loans. The interest rate under the facility is determined on a loan-by-loan basis and may include a LIBOR floor equal to a pro rata share of the LIBOR floors included in our originated loans. The facility has a maximum advance rate of 80% on all loans and has a \$50.0 million over advance available that bears interest at a rate of LIBOR plus 5.75%, which over advance availability matures in June 2022. If the estimated market value of the loans financed in this facility decrease, we may be required to pay down borrowings under this facility.

Structured Business

At September 30, 2021 and December 31, 2020, the weighted average interest rate for the credit and repurchase facilities of our Structured Business, including certain fees and costs, such as structuring, commitment, non-use and warehousing fees, was 2.53% and 2.97%, respectively. The leverage on our loan and investment portfolio financed through our credit and repurchase facilities, excluding the securities repurchase facilities, working capital facility and the master security agreements, was 75% and 69% at September 30, 2021 and December 31, 2020, respectively.

We amended our \$400.0 million repurchase facility four times in 2021 to increase the facility size to \$725 million and to extend the maturity to September 2022. The interest rate on new loans in 2021 is LIBOR plus 1.75% with a 0.35% LIBOR floor if utilization is above \$250.0 million and LIBOR plus 2.00% with up to a 0.35% LIBOR floor if utilization is below \$250.0 million. For existing loans, the interest rate will remain at LIBOR plus 2.00% to 2.20% with a LIBOR floor reduced to 0.35%.

In September 2021, we amended our \$100.0 million repurchase facility to increase the facility size to \$200.0 million and extend the maturity to October 2023.

In August 2021, we amended our \$100.0 million credit facility to increase the facility size to \$200.0 million, extend the maturity to July 2022 and amend the interest rates from a LIBOR-based rate to the Secured Overnight Financing Rate (“SOFR”) plus 1.50% for multifamily, SOFR plus 2.20% for independent living and SOFR plus 2.45% for assisted living.

In March 2021, we entered into a \$200.0 million repurchase facility to finance bridge loans that has interest rates of LIBOR plus 1.75% - 2.75% and matures in March 2023. The facility has a maximum advance rate of 80%. In May 2021, we amended this facility increasing the facility size to \$250.0 million. In August 2021, we amended this facility increasing the facility size to \$450.0 million.

In March 2021, we amended our \$50.0 million credit facility increasing the facility size to \$150.0 million and decreased the all in floor rate by 0.15%. In September 2021, we amended this facility to increase the facility size to \$225.0 million and allow for further reduction to the all in floor rate by up to 1.10%.

In March 2021, we entered into an \$18.2 million credit facility used to finance a hotel bridge loan. The facility bore interest at the prime rate with a 3.25% floor and was scheduled to mature in December 2022. This facility was paid off in September 2021.

In February 2021, we entered into a \$21.6 million credit facility used to finance a multifamily bridge loan. The facility bears interest at a 3.00% fixed rate and matures in January 2024.

Agency Business

During the third quarter of 2021, we amended our \$150.0 million credit facility to reduce the interest rate to LIBOR plus 1.35% and extend the maturity to October 2021.

In August 2021, we amended our \$100.0 million credit facility to decrease the facility size to \$50.0 million, extend the maturity to September 2022 and increase the interest rate 0.15% to LIBOR plus 1.30%.

In March 2021, we amended our \$150.0 million credit facility to increase the facility size to \$200.0 million, extend the maturity to March 2022, increase the interest rate 0.20% and add a 0.25% LIBOR floor.

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Collateralized Loan Obligations (“CLOs”)

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

Borrowings and the corresponding collateral under our CLOs are as follows (\$ in thousands):

	Debt			Collateral (3)		
	Face Value	Carrying Value (1)	Wtd. Avg. Rate (2)	Loans UPB	Carrying Value	Cash Restricted Cash (4)
September 30, 2021						
CLO 16	\$ 1,237,500	\$ 1,229,631	1.41 %	\$ 1,147,056	\$ 1,140,662	\$ 312,984
CLO 15	674,412	669,272	1.47 %	796,612	792,770	—
CLO 14	655,475	650,531	1.43 %	724,633	722,221	42,341
CLO 13	668,000	664,700	1.52 %	767,167	765,158	26,182
CLO 12	534,193	531,616	1.60 %	601,231	599,879	25,764
CLO 11	533,000	530,785	1.54 %	592,829	591,484	53,347
CLO 10	441,000	439,269	1.55 %	508,598	507,346	39,511
Total CLOs	<u>\$ 4,743,580</u>	<u>\$ 4,715,804</u>	<u>1.49 %</u>	<u>\$ 5,138,126</u>	<u>\$ 5,119,520</u>	<u>\$ 500,129</u>
December 31, 2020						
CLO 13	\$ 668,000	\$ 663,804	1.58 %	\$ 768,664	\$ 768,664	\$ 43
CLO 12	534,193	530,673	1.66 %	628,935	628,935	2,005
CLO 11	533,000	529,859	1.61 %	555,157	555,157	92,395
CLO 10	441,000	438,442	1.61 %	522,132	522,132	25,537
CLO 9	356,150	354,531	1.53 %	457,903	457,903	18,703
Total CLOs	<u>\$ 2,532,343</u>	<u>\$ 2,517,309</u>	<u>1.60 %</u>	<u>\$ 2,932,791</u>	<u>\$ 2,932,791</u>	<u>\$ 138,683</u>

- (1) Debt carrying value is net of \$27.8 million and \$15.0 million of deferred financing fees at September 30, 2021 and December 31, 2020, respectively.
- (2) At September 30, 2021 and December 31, 2020, the aggregate weighted average note rate for our CLOs, including certain fees and costs, was 1.79% and 1.93%, respectively.
- (3) As of September 30, 2021 and December 31, 2020, there were no collateral deemed a “credit risk” as defined by the CLO indentures.
- (4) Represents restricted cash held for principal repayments as well as for reinvestment in the CLOs. Does not include restricted cash related to interest payments, delayed fundings and expenses totaling \$52.6 million and \$49.5 million at September 30, 2021 and December 31, 2020, respectively.

CLO 16. In September 2021, we completed CLO 16, issuing eight tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling \$1.37 billion. Of the total CLO notes issued, \$1.24 billion were investment grade notes issued to third party investors and \$135.0 million were below investment grade notes retained by us. As of the CLO closing date, the notes were secured by a portfolio of loan obligations with a face value of \$1.19 billion, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has an approximate two-and-a-half-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 \$313.0 million for the purpose of acquiring additional loan obligations for a period of up to 180 days from the CLO closing date, resulting in the issuer owning loan obligations with a face value of \$1.50 billion, representing leverage of 83%. We retained a residual interest in the portfolio with a notional amount of \$262.5 million, including the \$135.0 million below investment grade notes. The notes sold to third parties had an initial weighted average interest rate of 1.31% plus one-month LIBOR and interest payments on the notes are payable monthly.

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CLO 15. In June 2021, we completed CLO 15, issuing eight tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling \$747.8 million. Of the total CLO notes issued, \$674.4 million were investment grade notes issued to third party investors and \$73.4 million were below investment grade notes retained by us. As of the CLO closing date, the notes were secured by a portfolio of loan obligations with a face value of \$653.0 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has an approximate two-and-a-half-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 \$162.0 million for the purpose of acquiring additional loan obligations for a period of up to 180 days from the CLO closing date, which we subsequently utilized, resulting in the issuer owning loan obligations with a face value of \$815.0 million, representing leverage of 83%. We retained a residual interest in the portfolio with a notional amount of \$140.6 million, including the \$73.4 million below investment grade notes. The notes sold to third parties had an initial weighted average interest rate of 1.37% plus one-month LIBOR and interest payments on the notes are payable monthly.

CLO 14. In March 2021, we completed CLO 14, issuing eight tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling \$724.2 million. Of the total CLO notes issued, \$655.5 million were investment grade notes issued to third party investors and \$68.7 million were below investment grade notes retained by us. As of the CLO closing date, the notes were secured by a portfolio of loan obligations with a face value of \$635.2 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has a two-and-a-half-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 \$149.8 million for the purpose of acquiring additional loan obligations for a period of up to 180 days from the CLO closing date, which we subsequently utilized, resulting in the issuer owning loan obligations with a face value of \$785.0 million, representing leverage of 84%. We retained a residual interest in the portfolio with a notional amount of \$129.5 million, including the \$68.7 million below investment grade notes. The notes sold to third parties had an initial weighted average interest rate of 1.33% plus one-month LIBOR and interest payments on the notes are payable monthly.

CLO 9. In March 2021, we unwound CLO 9, redeeming \$356.2 million of outstanding notes which were repaid primarily from the refinancing of the remaining assets primarily within CLO 14, as well as with cash held by CLO 9, and expensed \$1.4 million of deferred financing fees into loss on extinguishment of debt on the consolidated statements of income.

Senior Unsecured Notes

A summary of our senior unsecured notes is as follows (in thousands):

Senior Unsecured Notes	Issuance Date	Maturity	September 30, 2021			December 31, 2020		
			UPB	Carrying Value (1)	Wtd. Avg. Rate (2)	UPB	Carrying Value (1)	Wtd. Avg. Rate (2)
4.50% Notes (3)	Aug. 2021	Sept. 2026	\$ 270,000	\$ 265,938	4.50 %	\$ —	\$ —	— %
5.00% Notes (3)	Apr. 2021	Apr. 2026	175,000	172,148	5.00 %	—	—	— %
8.00% Notes (3)	Apr. 2020	Apr. 2023	70,750	70,099	8.00 %	70,750	69,793	8.00 %
4.50% Notes (3)	Mar. 2020	Mar. 2027	275,000	272,356	4.50 %	275,000	271,994	4.50 %
4.75% Notes (4)	Oct. 2019	Oct. 2024	110,000	108,930	4.75 %	110,000	108,668	4.75 %
5.75% Notes (4)	Mar. 2019	Apr. 2024	90,000	89,038	5.75 %	90,000	88,751	5.75 %
5.625% Notes (4)	Mar. 2018	May 2023	125,000	124,069	5.63 %	125,000	123,637	5.63 %
			<u>\$ 1,115,750</u>	<u>\$ 1,102,578</u>	<u>5.05 %</u>	<u>\$ 670,750</u>	<u>\$ 662,843</u>	<u>5.29 %</u>

- (1) At September 30, 2021 and December 31, 2020, the carrying value is net of deferred financing fees of \$13.2 million and \$7.9 million, respectively.
- (2) At September 30, 2021 and December 31, 2020, the aggregate weighted average note rate, including certain fees and costs, was 5.36% and 5.65%, respectively.
- (3) These notes can be redeemed by us prior to three months before the maturity date, at a redemption price equal to 100% of the aggregate principal amount, plus a “make-whole” premium and accrued and unpaid interest. We have the right to redeem the notes three months prior to or after the maturity date, at a redemption price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest.

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- (4) These notes can be redeemed by us at any time prior to the maturity date, at a redemption price equal to 100% of the aggregate principal amount, plus a “make-whole” premium and accrued and unpaid interest. We have the right to redeem the notes on or after the maturity date, at a redemption price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest.

In August 2021, we issued \$270.0 million aggregate principal amount of 4.50% senior unsecured notes due in 2026 in a private offering. We received net proceeds of \$265.8 million from the issuance, after deducting the underwriting discount and other offering expenses. We are using the net proceeds to make investments related to our business and for general corporate purposes.

In April 2021, we issued \$175.0 million aggregate principal amount of 5.00% senior unsecured notes due in 2026 in a private offering. We received net proceeds of \$172.3 million from the issuance, after deducting the underwriting discount and other offering expenses. We used the net proceeds to make investments related to our business and for general corporate purposes.

Convertible Senior Unsecured Notes

In 2019, we issued \$264.0 million in aggregate principal amount of 4.75% convertible senior notes (the “4.75% Convertible Notes”) through a private placement offering, which includes the exercised purchaser’s total over-allotment option of \$34.0 million. The 4.75% Convertible Notes pay interest semiannually in arrears and are scheduled to mature in November 2022, unless earlier converted or repurchased by the holders pursuant to their terms. The initial conversion rate was 56.1695 shares of common stock per \$1,000 of principal representing a conversion price of \$17.80 per share of common stock. We received proceeds totaling \$256.5 million, net of the underwriter’s discount and fees, which is being amortized through interest expense over the life of such notes. We used the net proceeds from the issuance primarily for the exchange of \$228.7 million of our 5.25% convertible senior notes (the “5.25% Convertible Notes”) for a combination of \$233.1 million in cash (which included accrued interest) and 4,478,315 shares of our common stock. The remaining net proceeds were used for general corporate purposes. As of September 30, 2021, the 4.75% Convertible Notes had a conversion rate of 56.6847 shares of common stock per \$1,000 of principal, which represented a conversion price of \$17.64 per share of common stock.

In July 2021, the remaining \$14.3 million principal amount of our 5.25% Convertible Notes matured and were fully settled with \$14.3 million of cash and 386,459 shares of common stock.

Our convertible senior unsecured notes are not redeemable by us prior to their maturities and are convertible by the holder into, at our election, cash, shares of our common stock, or a combination of both, subject to the satisfaction of certain conditions and during specified periods. The conversion rates are subject to adjustment upon the occurrence of certain specified events and the holders may require us to repurchase all, or any portion, of their notes for cash equal to 100% of the principal amount, plus accrued and unpaid interest, if we undergo a fundamental change specified in the agreements. We intend to settle the principal balance of our convertible debt in cash and have not assumed share settlement of the principal balance for purposes of computing earnings per share (“EPS”). At the time of issuance, there was no precedent or policy that would indicate that we would settle the principal in shares or the conversion spread in cash.

Accounting guidance requires that convertible debt instruments with cash settlement features, including partial cash settlement, account for the liability component and equity component (conversion feature) of the instrument separately. The initial value of the liability component reflects the present value of the discounted cash flows using the nonconvertible debt borrowing rate at the time of the issuance. The debt discount represents the difference between the proceeds received from the issuance and the initial carrying value of the liability component, which is accreted back to the notes principal amount through interest expense over the term of the notes, which was 1.09 years and 1.77 years at September 30, 2021 and December 31, 2020, respectively, on a weighted average basis.

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The UPB, unamortized discount and net carrying amount of the liability and equity components of our convertible notes are as follows (in thousands):

Period	Liability Component			Net Carrying Value	Equity Component
	UPB	Unamortized Debt Discount	Unamortized Deferred Financing Fees		Net Carrying Value
September 30, 2021	\$ 264,000	\$ 3,275	\$ 2,724	\$ 258,001	\$ 9,962
December 31, 2020	\$ 278,300	\$ 5,636	\$ 4,691	\$ 267,973	\$ 9,962

During the three months ended September 30, 2021, we incurred interest expense on the notes totaling \$4.5 million, of which \$3.1 million, \$0.8 million and \$0.6 million related to the cash coupon, amortization of the debt discount and of the deferred financing fees, respectively. During the nine months ended September 30, 2021, we incurred total interest expense on the notes of \$14.1 million, of which \$9.7 million, \$2.4 million and \$2.0 million related to the cash coupon, amortization of the debt discount and of the deferred financing fees, respectively. During the three months ended September 30, 2020, we incurred interest expense on the notes totaling \$4.8 million, of which \$3.3 million, \$0.8 million and \$0.7 million related to the cash coupon, amortization of the debt discount and of the deferred financing fees, respectively. During the nine months ended September 30, 2020, we incurred interest expense on the notes totaling \$14.8 million, of which \$10.0 million, \$2.5 million and \$2.3 million related to the cash coupon, amortization of the debt discount and of the deferred financing fees, respectively. Including the amortization of the deferred financing fees and debt discount, our weighted average total cost of the notes was 6.71% and 6.75% at September 30, 2021 and December 31, 2020, respectively.

Junior Subordinated Notes

The carrying values of borrowings under our junior subordinated notes were \$142.2 million and \$141.7 million at September 30, 2021 and December 31, 2020, respectively, which is net of a deferred amount of \$10.4 million and \$10.8 million, respectively, (which is amortized into interest expense over the life of the notes) and deferred financing fees of \$1.8 million for both periods. These notes have maturities ranging from March 2034 through April 2037 and pay interest quarterly at a floating rate based on LIBOR. The weighted average note rate was 2.95% and 3.06% at September 30, 2021 and December 31, 2020, respectively. Including certain fees and costs, the weighted average note rate was 3.03% and 3.15% at September 30, 2021 and December 31, 2020, respectively.

Debt Covenants

Credit and Repurchase Facilities and Unsecured Debt. The credit and repurchase facilities and unsecured debt (senior and convertible notes) contain various financial covenants, including, but not limited to, minimum liquidity requirements, minimum net worth requirements, minimum unencumbered asset requirements, as well as certain other debt service coverage ratios, debt to equity ratios and minimum servicing portfolio tests. We were in compliance with all financial covenants and restrictions at September 30, 2021.

CLOs. Our CLO vehicles contain interest coverage and asset overcollateralization covenants that must be met as of the waterfall distribution date in order for us to receive such payments. If we fail these covenants in any of our CLOs, all cash flows from the applicable CLO would be diverted to repay principal and interest on the outstanding CLO bonds and we would not receive any residual payments until that CLO regained compliance with such tests. Our CLOs were in compliance with all such covenants as of September 30, 2021, as well as on the most recent determination dates in October 2021. In the event of a breach of the CLO covenants that could not be cured in the near-term, we would be required to fund our non-CLO expenses, including employee costs, distributions required to maintain our REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CLO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, or (v) accessing the equity or debt capital markets, if available. We have the right to cure covenant breaches which would resume normal residual payments to us by purchasing non-performing loans out of the CLOs. However, we may not have sufficient liquidity available to do so at such time.

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Our CLO compliance tests as of the most recent determination dates in October 2021 are as follows:

<u>Cash Flow Triggers</u>	<u>CLO 10</u>	<u>CLO 11</u>	<u>CLO 12</u>	<u>CLO 13</u>	<u>CLO 14</u>	<u>CLO 15</u>	<u>CLO 16</u>
<u>Overcollateralization (1)</u>							
Current	126.98 %	121.95 %	118.87 %	119.76 %	119.76 %	120.85 %	121.21 %
Limit	125.98 %	120.95 %	117.87 %	118.76 %	118.76 %	119.85 %	120.21 %
Pass / Fail	Pass						
<u>Interest Coverage (2)</u>							
Current	350.15 %	400.85 %	302.20 %	391.59 %	368.75 %	334.86 %	472.24 %
Limit	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %
Pass / Fail	Pass						

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

Our CLO overcollateralization ratios as of the determination dates subsequent to each quarter are as follows:

<u>Determination (1)</u>	<u>CLO 10</u>	<u>CLO 11</u>	<u>CLO 12</u>	<u>CLO 13</u>	<u>CLO 14</u>	<u>CLO 15</u>	<u>CLO 16</u>
October 2021	126.98 %	121.95 %	118.87 %	119.76 %	119.76 %	120.85 %	121.21 %
July 2021	126.98 %	121.95 %	118.87 %	119.76 %	119.76 %	120.85 %	—
April 2021	126.98 %	121.95 %	118.87 %	119.76 %	119.76 %	—	—
January 2021	126.98 %	121.95 %	118.87 %	119.76 %	—	—	—
October 2020	126.98 %	121.95 %	118.87 %	119.76 %	—	—	—

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

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

Note 10 — Allowance for Loss-Sharing Obligations

Our allowance for loss-sharing obligations related to the Fannie Mae DUS program is as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 65,645	\$ 73,220	\$ 64,303	\$ 34,648
Impact of adopting CECL - January 1, 2020	—	—	—	14,406
Provisions for loss sharing	(3,022)	(2,031)	(557)	22,538
Provisions reversal for loan repayments	(250)	(196)	(513)	(832)
Recoveries (charge-offs), net	455	167	(405)	400
Ending balance	<u>\$ 62,828</u>	<u>\$ 71,160</u>	<u>\$ 62,828</u>	<u>\$ 71,160</u>

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When a loan is sold under the Fannie Mae DUS program, we undertake an obligation to partially guarantee the performance of the loan. A liability is recognized for the fair value of the guarantee obligation undertaken for the non-contingent aspect of the guarantee and is removed only upon either the expiration or settlement of the guarantee. At September 30, 2021 and 2020, guarantee obligations of \$34.4 million and \$33.2 million, respectively, were included in the allowance for loss-sharing obligations.

In addition to and separately from the fair value of the guarantee, we estimate our allowance for loss-sharing under CECL over the contractual period in which we are exposed to credit risk. The current expected loss related to loss-sharing was based on a collective pooling basis with similar risk characteristics, a reasonable and supportable forecast and a reversion period based on our average historical losses through the remaining contractual term of the portfolio.

When we settle a loss under the DUS loss-sharing model, the net loss is charged-off against the previously recorded loss-sharing obligation. The settled loss is often net of any previously advanced principal and interest payments in accordance with the DUS program, which are reflected as reductions to the proceeds needed to settle losses. At September 30, 2021 and December 31, 2020, we had outstanding advances of less than \$0.1 million and \$0.1 million, respectively, which were netted against the allowance for loss-sharing obligations.

At September 30, 2021 and December 31, 2020, our allowance for loss-sharing obligations, associated with expected losses under CECL, was \$28.4 million and \$30.3 million, respectively, and represented 0.15% and 0.17%, respectively, of the Fannie Mae servicing portfolio.

At September 30, 2021 and December 31, 2020, the maximum quantifiable liability associated with our guarantees under the Fannie Mae DUS agreement was \$3.62 billion and \$3.41 billion, respectively. The maximum quantifiable liability is not representative of the actual loss we would incur. We would be liable for this amount only if all of the loans we service for Fannie Mae, for which we retain some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement.

Note 11 — Derivative Financial Instruments

We enter into derivative financial instruments to manage exposures that arise from business activities resulting in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates and credit risk. We do not use these derivatives for speculative purposes, but are instead using them to manage our interest rate and credit risk exposure.

Agency Rate Lock and Forward Sale Commitments. We enter into contractual commitments to originate and sell mortgage loans at fixed prices with fixed expiration dates. The commitments become effective when the borrower “rate locks” a specified interest rate within time frames established by us. All potential borrowers are evaluated for creditworthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the rate lock by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers under the GSE programs, we enter into a forward sale commitment with the investor simultaneously with the rate lock commitment with the borrower. The forward sale contract locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. Sale commitments with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

These commitments meet the definition of a derivative and are recorded at fair value, including the effects of interest rate movements which are reflected as a component of loss on derivative instruments, net in the consolidated statements of income. The estimated fair value of rate lock commitments also includes the fair value of the expected net cash flows associated with the servicing of the loan which is recorded as income from MSR in the consolidated statements of income. During the three and nine months ended September 30, 2021, we recorded net losses of \$8.6 million and \$7.5 million, respectively, from changes in the fair value of these derivatives and \$32.5 million and \$95.7 million, respectively, of income from MSR. During the three and nine months ended September 30, 2020, we recorded a net loss of \$0.9 million and a net gain of \$3.3 million, respectively, from changes in the fair value of these derivatives and \$42.4 million and \$96.7 million, respectively, of income from MSR. The gains and losses are recorded in loss on derivative instruments, net on our consolidated statements of income. See Note 12 for details.

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Interest Rate and Credit Default Swaps (“Swaps”). We enter into over-the-counter swaps to hedge our interest rate and credit risk exposure inherent in (1) our held-for-sale Agency Business Private Label loans from the time the loans are rate locked until sale and securitization, and (2) our Agency Business SFR – fixed rate loans from the time the loans are originated until the time they can be financed with match term fixed rate securitized debt. Our interest rate swaps typically have a three-month maturity and are tied to the five-year and ten-year swap rates. Our credit default swaps typically have a five-year maturity, are tied to the credit spreads of the underlying bond issuers and we typically hold our position until we price our Private Label loan securitizations. The Swaps do not meet the criteria for hedge accounting, are cleared by a central clearing house and variation margin payments, made in cash, are treated as a legal settlement of the derivative itself as opposed to a pledge of collateral.

During the three months ended September 30, 2021, we recorded realized and unrealized gains of \$5.4 million and \$1.9 million, respectively, to our Agency Business related to our Swaps. During the nine months ended September 30, 2021, we recorded realized losses of \$1.1 million and unrealized gains of \$1.5 million to our Agency Business related to Swaps. During the three months ended September 30, 2020, we recorded realized losses of \$0.2 million and unrealized gains of \$0.4 million to our Structured Business and realized losses of \$0.1 million and unrealized gains of \$0.1 million to our Agency Business related to our Swaps. During the nine months ended September 30, 2020, we recorded realized losses of \$3.0 million and unrealized losses of \$0.1 million to our Structured Business and realized losses of \$57.3 million and unrealized losses of \$1.5 million to our Agency Business related to our Swaps. The realized and unrealized gains and losses are recorded in loss on derivative instruments, net on our consolidated statements of income.

A summary of our non-qualifying derivative financial instruments is as follows (\$ in thousands):

Derivative	September 30, 2021				
	Count	Notional Value	Balance Sheet Location	Fair Value	
				Derivative Assets	Derivative Liabilities
<u>Agency Business</u>					
Rate Lock Commitments	12	\$ 68,797	Other Assets/Other Liabilities	\$ 707	\$ (1,369)
Forward Sale Commitments	45	527,480	Other Assets/Other Liabilities	1,489	(6,884)
Swaps	1,945	194,500		—	—
		<u>\$ 790,777</u>		<u>\$ 2,196</u>	<u>\$ (8,253)</u>
December 31, 2020					
<u>Agency Business</u>					
Rate Lock Commitments	7	\$ 136,354	Other Assets/Other Liabilities	\$ 1,967	\$ (231)
Forward Sale Commitments	114	1,048,763	Other Assets/Other Liabilities	1,925	(990)
Swaps	453	45,300		—	—
		<u>\$ 1,230,417</u>		<u>\$ 3,892</u>	<u>\$ (1,221)</u>

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Note 12 — Fair Value

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

	September 30, 2021			December 31, 2020		
	Principal / Notional Amount	Carrying Value	Estimated Fair Value	Principal / Notional Amount	Carrying Value	Estimated Fair Value
Financial assets:						
Loans and investments, net	\$ 9,169,007	\$ 8,993,790	\$ 9,202,924	\$ 5,475,082	\$ 5,285,868	\$ 5,428,141
Loans held-for-sale, net	1,259,287	1,274,234	1,309,556	968,595	986,919	1,007,294
Capitalized mortgage servicing rights, net	n/a	417,283	473,679	n/a	379,974	415,495
Securities held-to-maturity, net	167,005	112,735	122,131	140,124	95,524	94,128
Derivative financial instruments	77,242	2,196	2,196	865,975	3,892	3,892
Financial liabilities:						
Credit and repurchase facilities	\$ 3,405,232	\$ 3,399,711	\$ 3,399,579	\$ 2,238,722	\$ 2,234,883	\$ 2,235,668
Collateralized loan obligations	4,743,580	4,715,804	4,744,351	2,532,343	2,517,309	2,495,195
Senior unsecured notes	1,115,750	1,102,578	1,134,816	670,750	662,843	670,117
Convertible senior unsecured notes, net	264,000	258,001	296,472	278,300	267,973	280,636
Junior subordinated notes	154,336	142,192	101,169	154,336	141,656	99,594
Derivative financial instruments	519,035	8,253	8,253	319,142	1,221	1,221

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. Determining which category an asset or liability falls within the hierarchy requires judgment and we evaluate our hierarchy disclosures each quarter. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

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

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

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

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 inputs based on direct capitalization rate and discounted cash flow methodologies using discount rates, which, in our opinion, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality (Level 3). Fair values of impaired loans and investments are estimated using inputs that require significant judgments, which include assumptions regarding discount rates, capitalization rates, creditworthiness of major tenants, occupancy rates, availability of financing, exit plans and other factors (Level 3).

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Loans held-for-sale, net. Consists of originated loans that are generally expected to be transferred or sold within 60 days to 180 days of loan funding, and are valued using pricing models that incorporate observable inputs from current market assumptions or a hypothetical securitization model utilizing observable market data from recent securitization spreads and observable pricing of loans with similar characteristics (Level 2). Fair value includes the fair value allocated to the associated future MSR and is calculated pursuant to the valuation techniques described below for capitalized mortgage servicing rights, net (Level 3).

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

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

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

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

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

Senior unsecured notes. Fair values are estimated at current market quotes received from active markets when available (Level 1). If quotes from active markets are unavailable, then the fair values are estimated utilizing current market quotes received from inactive markets (Level 2).

Convertible senior unsecured notes, net. Fair values are estimated using current market quotes received from inactive markets (Level 2).

We measure certain financial assets and financial liabilities at fair value on a recurring basis. The fair values of these financial assets and liabilities are determined using the following input levels as of September 30, 2021 (in thousands):

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Derivative financial instruments	\$ 2,196	\$ 2,196	\$ —	\$ 1,489	\$ 707
Financial liabilities:					
Derivative financial instruments	\$ 8,253	\$ 8,253	\$ —	\$ 8,253	\$ —

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We measure certain financial and non-financial assets at fair value on a nonrecurring basis. The fair values of these financial and non-financial assets, if applicable, are determined using the following input levels as of September 30, 2021 (in thousands):

	Net Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Impaired loans, net (1)	\$ 66,126	\$ 66,126	\$ —	\$ —	\$ 66,126

(1) We had an allowance for credit losses of \$94.9 million relating to eight impaired loans with an aggregate carrying value, before loan loss reserves, of \$161.0 million at September 30, 2021.

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 credit losses, when such loan or investment is deemed to be impaired. We consider a loan impaired when, based upon current information, it is probable that we will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. We evaluate 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 credit losses. These valuations require significant judgments, which include assumptions regarding capitalization and discount rates, revenue growth rates, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan and other factors. The table above and below includes all impaired loans, regardless of the period in which the impairment was recognized.

Quantitative information about Level 3 fair value measurements at September 30, 2021 is as follows (\$ in thousands):

	Fair Value	Valuation Techniques	Significant Unobservable Inputs	
Financial assets:				
<u>Impaired loans:</u>				
Land	\$ 50,000	Discounted cash flows	Discount rate	21.50 %
			Revenue growth rate	3.00 %
Retail	15,530	Discounted cash flows	Discount rate	10.15 %
			Capitalization rate	9.25 %
			Revenue growth rate	1.68 %
Office	596	Discounted cash flows	Discount rate	11.00 %
			Capitalization rate	9.00 %
			Revenue growth rate	2.50 %
<u>Derivative financial instruments:</u>				
Rate lock commitments	707	Discounted cash flows	W/A discount rate	9.56 %

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

	Fair Value Measurements Using Significant Unobservable Inputs		Fair Value Measurements Using Significant Unobservable Inputs	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Derivative assets and liabilities, net				
Beginning balance	\$ 124	\$ 549	\$ 1,967	\$ 1,066
Settlements	(23,412)	(40,746)	(81,486)	(95,614)
Realized gains recorded in earnings	23,288	40,197	79,519	94,548
Unrealized gains recorded in earnings	707	2,160	707	2,160
Ending balance	<u>\$ 707</u>	<u>\$ 2,160</u>	<u>\$ 707</u>	<u>\$ 2,160</u>

The components of fair value and other relevant information associated with our rate lock commitments, forward sales commitments and the estimated fair value of cash flows from servicing on loans held-for-sale are as follows (in thousands):

September 30, 2021	Notional/ Principal Amount	Fair Value of Servicing Rights	Interest Rate Movement Effect	Total Fair Value Adjustment
Rate lock commitments	\$ 68,797	\$ 707	\$ (1,369)	\$ (662)
Forward sale commitments	527,480	—	1,369	1,369
Loans held-for-sale, net (1)	1,259,287	19,151	—	19,151
Total		<u>\$ 19,858</u>	<u>\$ —</u>	<u>\$ 19,858</u>

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

We measure certain assets and liabilities for which fair value is only disclosed. The fair value of these assets and liabilities are determined using the following input levels as of September 30, 2021 (in thousands):

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Loans and investments, net	\$ 8,993,790	\$ 9,202,924	\$ —	\$ —	\$ 9,202,924
Loans held-for-sale, net	1,274,234	1,309,556	—	1,290,405	19,151
Capitalized mortgage servicing rights, net	417,283	473,679	—	—	473,679
Securities held-to-maturity, net	112,735	122,131	—	—	122,131
Financial liabilities:					
Credit and repurchase facilities	\$ 3,399,711	\$ 3,399,579	\$ —	\$ 1,102,486	\$ 2,297,093
Collateralized loan obligations	4,715,804	4,744,351	—	—	4,744,351
Senior unsecured notes	1,102,578	1,134,816	1,134,816	—	—
Convertible senior unsecured notes, net	258,001	296,472	—	296,472	—
Junior subordinated notes	142,192	101,169	—	—	101,169

Note 13 — Commitments and Contingencies

Impact of COVID-19. The magnitude and duration of COVID-19 and its impact on our business and on our borrowers is uncertain and will mostly depend on future events, which cannot be predicted. As this pandemic continues and if economic conditions worsen, it may have long-term impacts on our financial position, results of operations and cash flows. See Note 2 and Item 1A. Risk Factors of our 2020 Annual Report for further discussion of COVID-19.

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Agency Business Commitments. Our Agency Business is subject to supervision by certain regulatory agencies. Among other things, these agencies require us to meet certain minimum net worth, operational liquidity and restricted liquidity collateral requirements, and compliance with reporting requirements. Our adjusted net worth and liquidity required by the agencies for all periods presented exceeded these requirements.

As of September 30, 2021, we were required to maintain at least \$19.0 million of liquid assets in one of our subsidiaries to meet our operational liquidity requirements for Fannie Mae and we had operational liquidity in excess of this requirement.

We are generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program and are required to secure this obligation by assigning restricted cash balances and/or a letter of credit to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level by a Fannie Mae assigned tier, which considers the loan balance, risk level of the loan, age of the loan and level of risk-sharing. Fannie Mae requires restricted liquidity for Tier 2 loans of 75 basis points, 15 basis points for Tier 3 loans and 5 basis points for Tier 4 loans, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. A significant portion of our Fannie Mae DUS serviced loans for which we have risk sharing are Tier 2 loans. As of September 30, 2021, we met the restricted liquidity requirement with a \$45.0 million letter of credit and \$17.0 million of cash collateral.

As of September 30, 2021, reserve requirements for the Fannie Mae DUS loan portfolio will require us to fund \$46.1 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within our at-risk portfolio. Fannie Mae periodically reassesses these collateral requirements and may make changes to these requirements in the future. We generate sufficient cash flow from our operations to meet these capital standards and do not expect any changes to have a material impact on our future operations; however, future changes to collateral requirements may adversely impact our available cash.

We are subject to various capital requirements in connection with seller/servicer agreements that we have entered into with secondary market investors. Failure to maintain minimum capital requirements could result in our inability to originate and service loans for the respective investor and, therefore, could have a direct material effect on our consolidated financial statements. As of September 30, 2021, we met all of Fannie Mae's quarterly capital requirements and our Fannie Mae adjusted net worth was in excess of the required net worth. We are not subject to capital requirements on a quarterly basis for Ginnie Mae and FHA, as requirements for these investors are only required on an annual basis.

As an approved designated seller/servicer under Freddie Mac's SBL program, we are required to post collateral to ensure that we are able to meet certain purchase and loss obligations required by this program. Under the SBL program, we are required to post collateral equal to \$5.0 million, which is satisfied with a \$5.0 million letter of credit.

We enter into contractual commitments with borrowers providing rate lock commitments while simultaneously entering into forward sale commitments with investors. These commitments are outstanding for short periods of time (generally less than 60 days) and are described in more detail in Note 11 and Note 12.

Debt Obligations and Operating Leases. As of September 30, 2021, the maturities of our debt obligations and the minimum annual operating lease payments under leases with a term in excess of one year are as follows (in thousands):

Year	Debt Obligations	Minimum Annual Operating Lease Payments	Total
2021 (three months ending December 31, 2021)	\$ 1,426,798	\$ 2,127	\$ 1,428,925
2022	2,991,831	8,257	3,000,088
2023	1,652,679	8,031	1,660,710
2024	1,178,993	7,926	1,186,919
2025	497,701	7,978	505,679
2026	1,473,359	8,282	1,481,641
Thereafter	461,537	26,098	487,635
Total	<u>\$ 9,682,898</u>	<u>\$ 68,699</u>	<u>\$ 9,751,597</u>

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During the three months ended September 30, 2021 and 2020, we recorded lease expense of \$2.4 million and \$1.5 million, respectively, and during the nine months ended September 30, 2021 and 2020, we recorded lease expense of \$7.0 million and \$4.6 million, respectively.

Unfunded Commitments. In accordance with certain structured loans and investments, we have outstanding unfunded commitments of \$638.1 million as of September 30, 2021 that we are obligated to fund as borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations, building construction and conversions based on criteria met by the borrower in accordance with the loan agreements.

Litigation. We are currently neither subject to any material litigation nor, to the best of our knowledge, threatened by any material litigation other than the following:

In June 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 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 was removed to the Bankruptcy Court. Currently, there is just a single case in Bankruptcy Court.

The lawsuits all alleged, 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 named as defendants Arbor ESH II, LLC, Arbor Commercial Mortgage, LLC (“ACM”), 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, 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. The Trust also alleges 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 ACM, 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, named ACM 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.

In June 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 from the lawsuits, none of whom are related to us, 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 Trust’s 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 to amend and the amended complaint has been filed. The amended complaint seeks approximately \$139.0 million in the aggregate, plus interest from the date of the alleged unlawful transfers, from director designees, portions of which are also sought from our affiliates as well as from unaffiliated defendants.

We moved to dismiss the referenced remaining actions in December 2013.

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After supplemental briefing and multiple adjourned conferences, in August 2020, the Court issued a decision granting our motion to dismiss in part, dismissing 9 of the 17 counts. The Court permitted claims against director designees to proceed on theories of authorization of illegal dividends and breach of fiduciary duty. The Court permitted claims against the defendant entities, including our affiliated entities, to proceed on theories of constructive fraudulent transfer and fraudulent transfer under state and federal law. Moreover, the Court affirmatively dismissed four counts against the defendant entities to the extent they are based on distributions from certain so-called LIBOR Floor Certificates. According to the amended complaint, the total LIBOR Floor Certificate transfers were \$74.0 million in value. As a result, with what remains of the amended complaint, total possible liability against the affiliated entities has correspondingly fallen, whereas total possible liability against the director designees remains at approximately \$139.0 million.

The parties have stipulated to a schedule for discovery and we intend to vigorously defend against the remaining claims. 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.

Due to Borrowers. Due to borrowers represents borrowers' funds held by us to fund certain expenditures or to be released at our discretion upon the occurrence of certain pre-specified events, and to serve as additional collateral for borrowers' loans. While retained, these balances earn interest in accordance with the specific loan terms they are associated with.

Note 14 — Variable Interest Entities

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 have determined that our operating partnership, ARLP, and our CLO entities, which we consolidate, are VIEs. ARLP is already consolidated in our financial statements, therefore, the identification of this entity as a VIE had no impact on our consolidated financial statements.

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

The assets and liabilities related to these consolidated CLOs are as follows (in thousands):

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Assets:		
Restricted cash	\$ 552,705	\$ 188,226
Loans and investments, net	5,119,520	2,923,634
Other assets	34,328	22,587
Total assets	<u>\$ 5,706,553</u>	<u>\$ 3,134,447</u>
Liabilities:		
Collateralized loan obligations	\$ 4,715,804	\$ 2,517,309
Other liabilities	5,722	2,755
Total liabilities	<u>\$ 4,721,526</u>	<u>\$ 2,520,064</u>

Assets held by the CLOs are restricted and can only be used to settle obligations of the CLOs. The liabilities of the CLOs are non-recourse to us and can only be satisfied from each respective asset pool. See Note 9 for details. We are not obligated to provide, have not provided, and do not intend to provide financial support to any of the consolidated CLOs.

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Unconsolidated VIEs. We determined that we are not the primary beneficiary of 29 VIEs in which we have a variable interest as of September 30, 2021 because we do not have the ability to direct the activities of the VIEs that most significantly impact each entity's economic performance.

A summary of our variable interests in identified VIEs, of which we are not the primary beneficiary, as of September 30, 2021 is as follows (in thousands):

Type	Carrying Amount (1)
Loans	\$ 482,495
APL certificates	63,727
B Piece bonds	50,769
Equity investments	14,644
Agency interest only strips	648
Total	\$ 612,283

(1) Represents the carrying amount of loans and investments before reserves. At September 30, 2021, \$130.0 million of loans to VIEs had corresponding specific loan loss reserves of \$79.4 million. The maximum loss exposure as of September 30, 2021 would not exceed the carrying amount of our investment.

These unconsolidated VIEs have exposure to real estate debt of approximately \$4.01 billion at September 30, 2021.

Note 15 — Equity

Preferred Stock. In August 2021, we completed a public offering of 5,750,000 shares of 6.25% Series E cumulative redeemable preferred stock with a liquidation preference of \$25.00 per share, generating net proceeds of approximately \$139.1 million after deducting the underwriting discount and other offering expenses. The proceeds were used to make investments related to our business and for general corporate purposes. The Series E preferred stock is not redeemable by us prior to August 11, 2026 except under circumstances intended to preserve our qualification as a REIT and except upon the occurrence of a change of control.

In June 2021, we completed a public offering of 9,200,000 shares of 6.375% Series D cumulative redeemable preferred stock with a liquidation preference of \$25.00 per share, generating net proceeds of approximately \$222.6 million after deducting the underwriting discount and other offering expenses. We used \$93.3 million of the proceeds to fully redeem our Series A, B and C preferred stock. The Series D preferred stock is not redeemable by us prior to June 2, 2026 except under circumstances intended to preserve our qualification as a REIT and except upon the occurrence of a change of control.

Subsequent Event. In October 2021, we completed a public offering of 8,050,000 shares of 6.25% Series F fixed-to-floating rate cumulative redeemable preferred stock with a liquidation preference of \$25.00 per share, generating net proceeds of approximately \$194.8 million after deducting the underwriting discount and other offering expenses. Holders of the Series F preferred stock will be entitled to receive cumulative dividends at a fixed rate equal to 6.25% from the date of issuance through October 29, 2026 and at a floating rate equal to a benchmark rate (which is expected to be the three-month SOFR) plus a spread of 5.442% per annum beginning October 30, 2026, provided that in no event should the rate be lower than 6.125%. The proceeds received are being used to make investments related to our business and for general corporate purposes. The Series F preferred stock is not redeemable by us prior to October 12, 2026 except under circumstances intended to preserve our qualification as a REIT and except upon the occurrence of a change of control.

Common Stock. In August 2021, we amended the equity distribution agreement with JMP Securities LLC ("JMP"). In accordance with the terms of the amendment, we may offer and sell up to 20,000,000 shares of our common stock in "At-The-Market" equity offerings through JMP by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, or at negotiated prices. During the nine months ended September 30, 2021, we sold 7,222,879 shares of our common stock for net proceeds of \$123.8 million. We used \$21.1 million of the net proceeds to redeem OP Units from two of ACM's members for their membership interest in ACM. As of September 30, 2021, we had 19,200,000 shares available under the amended agreement.

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In June 2021, we completed a public offering in which we sold 6,000,000 shares of our common stock for \$18.46 per share and received net proceeds of \$110.6 million after deducting the underwriter's discount and other offering expenses. The proceeds were used to make investments related to our business and for general corporate purposes. We also used \$11.1 million of the net proceeds from this offering to purchase 600,000 shares of our common stock from ACM at the same price the underwriters paid to purchase the shares.

In March 2021, we completed a public offering in which we sold 7,000,000 shares of our common stock for \$15.48 per share and received net proceeds of \$108.2 million after deducting the underwriter's discount and other offering expenses. The proceeds were used to make investments related to our business and for general corporate purposes. We also used \$12.4 million of the net proceeds from this offering to purchase 800,000 shares of our common stock from certain executive officers of ours, ACM and an estate planning family vehicle established by our chief executive officer at the same price the underwriters paid to purchase the shares.

Noncontrolling Interest. Noncontrolling interest relates to the operating partnership units ("OP Units") issued to satisfy a portion of the purchase price in connection with the acquisition of the agency platform of ACM in 2016 (the "Acquisition"). Each of these OP Units are paired with one share of our special voting preferred shares having a par value of \$0.01 per share and is entitled to one vote each on any matter submitted for stockholder approval. The OP Units are entitled to receive distributions if and when our Board of Directors authorizes and declares common stock distributions. The OP Units are also redeemable for cash, or at our option, for shares of our common stock on a one-for-one basis. At September 30, 2021, there were 16,325,095 OP Units outstanding, which represented 10.2% of the voting power of our outstanding stock.

Distributions. Dividends declared (on a per share basis) during the nine months ended September 30, 2021 are as follows:

Common Stock		Preferred Stock					
Declaration Date	Dividend	Declaration Date	Dividend (1)				
			Series A	Series B	Series C	Series D	Series E
February 17, 2021	\$ 0.33	February 1, 2021	\$ 0.515625	\$ 0.484375	\$ 0.53125	N/A	N/A
May 5, 2021	\$ 0.34	April 30, 2021	\$ 0.515625	\$ 0.484375	\$ 0.53125	N/A	N/A
July 28, 2021	\$ 0.35	July 2, 2021	N/A	N/A	N/A	\$ 0.256771	N/A

(1) The dividend declared on July 2, 2021 was for June 2, 2021 through July 29, 2021, the dividend declared on April 30, 2021 was for March 1, 2021 through May 31, 2021 and the dividend declared on February 1, 2021 was for December 1, 2020 through February 28, 2021. As mentioned above, we fully redeemed our Series A, B and C preferred stock in June 2021.

Common Stock – On October 27, 2021, the Board of Directors declared a cash dividend of \$0.36 per share of common stock. The dividend is payable on November 30, 2021 to common stockholders of record as of the close of business on November 15, 2021.

Preferred Stock – On October 1, 2021, the Board of Directors declared a cash dividend of \$0.3984375 per share of Series D preferred stock and a cash dividend of \$0.34288 per share of Series E preferred stock. The Series D preferred stock dividend reflects accrued dividends from July 30, 2021 through October 29, 2021. The Series E preferred stock dividend reflects accrued dividends from August 11, 2021 (the date of issuance) through October 29, 2021. The dividends are payable on November 1, 2021 to preferred stockholders of record on October 15, 2021.

Deferred Compensation. During the nine months ended September 30, 2021, we issued 351,807 shares of restricted common stock to employees under the 2020 Amended Omnibus Stock Incentive Plan (the "2020 Plan") with a total grant date fair value of \$5.8 million, of which: (1) 115,047 shares with a grant date fair value of \$1.9 million were fully vested on the grant date; (2) 99,952 shares with a grant date fair value of \$1.7 million will vest on the first anniversary of the grant date; (3) 87,265 shares with a grant date fair value of \$1.4 million will vest on the second anniversary of the grant date; (4) 25,479 shares with a grant date fair value of \$0.4 million will vest on the third anniversary of the grant date; and (5) 24,064 shares with a grant date fair value of \$0.4 million will vest on the fourth anniversary of the grant date. We also issued 27,864 shares of fully vested common stock to the independent members of the Board of Directors under the 2020 Plan with a grant date fair value of \$0.4 million.

During the first quarter of 2021, 448,980 shares of performance-based restricted stock units previously granted to our chief executive officer fully vested and were net settled for 229,083 common shares.

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During the nine months ended September 30, 2021, we withheld 183,144 shares from the net settlement of restricted common stock by employees for payment of withholding taxes on shares that vested.

In April 2021, we entered into a second amended and restated annual incentive agreement (the “2021 annual incentive agreement”) with our chief executive officer, effective January 1, 2021. The terms of the 2021 annual incentive agreement provide for: (1) an annual base salary of \$1.2 million; (2) an annual cash payment of \$0.8 million; and (3) annual performance cash bonus target opportunities of \$2.9 million at target performance, \$1.5 million at threshold performance and \$4.4 million at maximum performance, with the opportunity to earn an additional \$0.7 million annually in the event of extraordinary performance with respect to corporate capital growth goals. The 2021 annual incentive agreement also provides for: (1) a grant with a value of \$3.0 million to be made in July 2021, dependent on reaching certain goals relating to the integration of the Acquisition (“Acquisition Related Grant”), which represents the last Acquisition Related Grant; and (2) at our chief executive officer’s option, to be exercised annually for the remainder of the term of the 2021 annual incentive agreement, either (i) a grant with a value of \$3.0 million, which will vest in full three years from the date of the grant (“Time Based Vesting Equity Award”) or (ii) a performance based award of restricted stock (“Performance-Based TSR Equity Award”) with an annual value at grant of \$12.0 million, relating to our total stockholder return objectives. The Acquisition Related Grant will vest in full on the third anniversary of the grant date. The Performance-Based TSR Equity Award will vest, in whole or in part, based on the attainment of total stockholder return goals over a five-year period.

In April 2021, our chief executive officer elected to receive the Time Based Vesting Equity Award option in connection with the 2021 annual incentive agreement; therefore, we granted our chief executive officer 184,729 shares of restricted common stock with a grant date fair value of \$3.1 million that vest in full in April 2024. In July 2021, we granted our chief executive officer 165,746 shares of performance based restricted stock with a grant date fair value of \$3.0 million in connection with the Acquisition Related Grant, which vest in full in July 2024. In addition, 294,985 shares of performance-based restricted stock granted in 2018 vested in the third quarter of 2021, which were net settled for 150,530 common shares.

Earnings Per Share. Basic EPS is calculated by dividing net income (loss) attributable to common stockholders 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 calculated by dividing net income (loss) 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 common stock equivalents include the weighted average dilutive effect of performance-based restricted stock units granted to our chief executive officer, OP Units and convertible senior unsecured notes.

A reconciliation of the numerator and denominator of our basic and diluted EPS computations (\$ in thousands, except share and per share data) is as follows:

	Three Months Ended September 30,			
	2021		2020	
	Basic	Diluted	Basic	Diluted
Net income attributable to common stockholders (1)	\$ 72,804	\$ 72,804	\$ 81,997	\$ 81,997
Net income attributable to noncontrolling interest (2)	—	8,347	—	13,836
Net income attributable to common stockholders and noncontrolling interest	<u>\$ 72,804</u>	<u>\$ 81,151</u>	<u>\$ 81,997</u>	<u>\$ 95,833</u>
Weighted average shares outstanding	142,624,300	142,624,300	113,766,446	113,766,446
Dilutive effect of OP Units (2)	—	16,351,643	—	19,196,660
Dilutive effect of restricted stock units (3)	—	940,045	—	1,029,668
Dilutive effect of convertible notes (4)	—	354,917	—	4,313
Weighted average shares outstanding	<u>142,624,300</u>	<u>160,270,905</u>	<u>113,766,446</u>	<u>133,997,087</u>
Net income per common share (1)	<u>\$ 0.51</u>	<u>\$ 0.51</u>	<u>\$ 0.72</u>	<u>\$ 0.72</u>

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	Nine Months Ended September 30,			
	2021		2020	
	Basic	Diluted	Basic	Diluted
Net income attributable to common stockholders (1)	\$ 211,409	\$ 211,409	\$ 66,778	\$ 66,778
Net income attributable to noncontrolling interest (2)	—	26,806	—	11,012
Net income attributable to common stockholders and noncontrolling interest	\$ 211,409	\$ 238,215	\$ 66,778	\$ 77,790
Weighted average shares outstanding	134,437,663	134,437,663	111,775,436	111,775,436
Dilutive effect of OP Units (2)	—	16,985,073	—	19,993,983
Dilutive effect of restricted stock units (3)	—	927,542	—	600,648
Dilutive effect of convertible notes (4)	—	341,183	—	31,248
Weighted average shares outstanding	134,437,663	152,691,461	111,775,436	132,401,315
Net income per common share (1)	\$ 1.57	\$ 1.56	\$ 0.60	\$ 0.59

- (1) Net of preferred stock dividends.
- (2) We consider OP Units to be common stock equivalents as the holders have voting rights, the right to distributions and the right to redeem the OP Units for the cash value of a corresponding number of shares of common stock or a corresponding number of shares of common stock, at our election.
- (3) Our chief executive officer was granted restricted stock units during 2020, which vest at the end of a four-year performance period based upon our achievement of total stockholder return objectives.
- (4) The convertible senior unsecured notes impact diluted earnings per share if the average price of our common stock exceeds the conversion price, as calculated in accordance with the terms of the indenture.

Note 16 — Income Taxes

As a REIT, we are generally not subject to U.S. federal income tax to the extent of our distributions to stockholders and as long as certain asset, income, distribution, ownership and administrative tests are met. To maintain our qualification as a REIT, we must annually distribute at least 90% of our REIT-taxable income to our stockholders and meet certain other requirements. We may also be subject to certain state, local and franchise taxes. Under certain circumstances, federal income and excise taxes may be due on our undistributed taxable income. If we were to fail to meet these requirements, we would be subject to U.S. federal income tax, which could have a material adverse impact on our results of operations and amounts available for distributions to our stockholders. We believe that all of the criteria to maintain our REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods.

The Agency Business is operated through our TRS Consolidated Group and is subject to U.S. federal, state and local income taxes. In general, our TRS entities may hold assets that the REIT cannot hold directly and may engage in real estate or non-real estate-related business.

In the three and nine months ended September 30, 2021, we recorded a tax provision of \$9.9 million and \$33.4 million, respectively. In the three and nine months ended September 30, 2020, we recorded a tax provision of \$17.8 million and \$15.5 million, respectively. The tax provision recorded in the three months ended September 30, 2021 consisted of current and deferred tax provisions of \$3.6 million and \$6.3 million, respectively. The tax provision recorded in the nine months ended September 30, 2021 consisted of current and deferred tax provisions of \$22.7 million and \$10.7 million, respectively. The tax provision recorded in the three months ended September 30, 2020 consisted of a current tax provision of \$13.9 million and a deferred tax provision of \$3.9 million. The tax provision recorded in the nine months ended September 30, 2020 consisted of a current tax provision of \$20.7 million and a deferred tax benefit of \$5.2 million. Current and deferred taxes are primarily recorded on the portion of earnings (losses) recognized by us with respect to our interest in the TRS's. Deferred income tax assets and liabilities are calculated based on temporary differences between our U.S. GAAP consolidated financial statements and the federal, state, local tax basis of assets and liabilities as of the consolidated balance sheets.

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Note 17 — Agreements and Transactions with Related Parties

Support Agreement and Employee Secondment Agreement. We have a support agreement and a secondment agreement with ACM and certain of its affiliates and certain affiliates of a relative of our chief executive officer (“Service Recipients”) where we provide support services and seconded employees to the Service Recipients. The Service Recipients reimburse us for the costs of performing such services and the cost of the seconded employees. During the three and nine months ended September 30, 2021, we incurred \$0.8 million and \$2.4 million, respectively, and, during the three and nine months ended September 30, 2020, we incurred \$0.6 million and \$1.8 million, respectively, of costs for services provided and employees seconded to the Service Recipients, all of which were reimbursed to us and included in due from related party on the consolidated balance sheets.

Other Related Party Transactions. Due from related party was \$12.7 million and \$12.4 million at September 30, 2021 and December 31, 2020, respectively, which consisted primarily of amounts due from our affiliated servicing operations related to real estate transactions closing at the end of the quarter and amounts due from ACM for costs incurred in connection with the support and secondment agreements described above.

Due to related party was \$4.4 million and \$2.4 million at September 30, 2021 and December 31, 2020, respectively, and consisted of loan payoffs, holdbacks and escrows to be remitted to our affiliated servicing operations related to real estate transactions.

In March 2021, we originated a \$63.4 million bridge loan to a third-party to purchase a multifamily property from a multifamily-focused commercial real estate investment fund sponsored and managed by our chief executive officer and one of his immediate family members, which fund has no continued involvement with the property following the purchase. The loan has an interest rate of LIBOR plus 3.75% with a LIBOR floor of 0.25% and matures in March 2024. Interest income recorded from this loan was \$0.7 million and \$1.4 million for the three and nine months ended September 30, 2021, respectively.

In December 2020, we committed to fund a \$32.5 million bridge loan (of which \$2.3 million was funded as of September 30, 2021) and made a \$3.5 million preferred equity investment in a SFR build-to-rent construction project. An entity owned by an immediate family member of our chief executive officer also made an equity investment in the project and owns a 21.8% equity interest in the borrowing entity. The bridge loan has an interest rate of LIBOR plus 5.50% with a LIBOR floor of 0.75% and matures in October 2023 and the preferred equity investment has a fixed rate of 12% and matures in October 2023. Interest income recorded from these loans was \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2021, respectively.

In October 2020, we committed to fund a \$30.5 million bridge loan and made a \$4.6 million preferred equity investment in a SFR build-to-rent construction project. ACM and an entity owned by an immediate family member of our chief executive officer also made equity investments in the project and own an 18.9% equity interest in the borrowing entity. The bridge loan, which was not funded as of September 30, 2021, has an interest rate of LIBOR plus 5.50% with a LIBOR floor of 0.75% and matures in May 2023 and the preferred equity investment has a fixed rate of 12% and matures in April 2023. Interest income recorded from the preferred equity investment was \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2021, respectively.

We have a \$35.0 million bridge loan and a \$7.8 million preferred equity interest on an office building in New York City. The property is controlled by a third party. The day-to-day operations were previously managed by an entity owned by an immediate family member of our chief executive officer. On September 1, 2021, we entered into a forbearance agreement with the borrower on the outstanding bridge loan to defer all interest owed to payoff. Interest income recorded from these loans was \$0.3 million and \$1.0 million for the three and nine months ended September 30, 2021, respectively, and \$0.3 million and \$1.7 million for the three and nine months ended September 30, 2020, respectively.

In March 2020, we originated a \$14.8 million Private Label loan and a \$3.4 million mezzanine loan on two multifamily properties owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns a 50% interest in the borrowing entity. The Private Label loan bears interest at a fixed rate of 3.1% and the mezzanine loan bears interest at a fixed rate of 9.0% and both loans mature in April 2030. In May 2020, we sold the Private Label loan to an unconsolidated affiliate of ours. Interest income recorded from these loans totaled \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2021, respectively, and \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2020, respectively.

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In certain instances, our business requires our executives to charter privately owned aircraft in furtherance of our business. In 2019, we entered into an aircraft time-sharing agreement with an entity controlled by our chief executive officer that owns private aircraft. Pursuant to the agreement, we reimburse the aircraft owner for the required costs under Federal Aviation Administration regulations for the flights our executives' charter. During the nine months ended September 30, 2021 and 2020, we reimbursed the aircraft owner \$0.1 million and \$0.4 million, respectively, for the flights chartered by our executives pursuant the agreement.

In 2019, we, along with ACM, certain executives of ours and a consortium of independent outside investors, formed AMAC III, a multifamily-focused commercial real estate investment fund sponsored and managed by our chief executive officer and one of his immediate family members. We committed to a \$30.0 million investment (of which \$16.2 million was funded as of September 30, 2021) for an 18% interest in AMAC III. During the three and nine months ended September 30, 2021 the loss recorded from this investment was \$0.4 million and \$0.9 million, respectively. During the three and nine months ended September 30, 2020, the loss recorded from this investment was less than \$0.1 million and \$0.6 million, respectively. In July 2019, AMAC III originated a \$7.0 million mezzanine loan to a borrower with which we have an outstanding \$34.0 million bridge loan. In June 2020, for full satisfaction of the mezzanine loan, AMAC III became the owner of the property. In August 2020, the \$34.0 million bridge loan was refinanced with a \$35.4 million bridge loan, which bears interest at a rate of LIBOR plus 3.50% and matures in August 2022. We also originated a \$15.6 million Private Label loan in December 2019 to a borrower which is 100% owned by AMAC III, which bears interest at a fixed rate of 3.735% and matures in January 2030. In May 2020, we sold the Private Label loan to an unconsolidated affiliate of ours. Interest income recorded from these loans totaled \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2021, respectively, and \$1.6 million for the nine months ended September 30, 2020.

In 2018, we originated a \$37.5 million bridge loan, which was used to purchase several multifamily properties. In 2019, an entity owned, in part, by an immediate family member of our chief executive officer, purchased a 23.9% interest in the borrowing entity. The loan had an interest rate of LIBOR plus 4.25% with a LIBOR floor of 2.375% and was scheduled to mature in October 2020. In May 2020, the borrower repaid this loan in full. Interest income recorded from this loan was \$1.4 million for the nine months ended September 30, 2020.

In 2018, we acquired a \$19.5 million bridge loan originated by ACM. The loan was used to purchase several multifamily properties by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 85% of the borrowing entity. The loan had an interest rate of LIBOR plus 4.0% with a LIBOR floor of 2.125% and was scheduled to mature in July 2021. In January 2021, the borrower repaid this loan in full. Interest income recorded from this loan was \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2020, respectively.

In 2018, we originated a \$17.7 million bridge loan to an entity owned, in part, by an immediate family member of our chief executive officer, who owns a 10.8% interest in the borrowing entity. The loan was used to purchase several undeveloped parcels of land. The loan has a fixed interest rate of 10% and was scheduled to mature in February 2020. In September 2019, the borrower made a partial paydown of principal totaling \$4.7 million and the remaining balance was paid off in January 2020. Interest income recorded from this loan was \$0.1 million for the nine months ended September 30, 2020.

In 2018, we originated a \$21.7 million bridge loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 75% in the borrowing entity. The loan has an interest rate of LIBOR plus 4.75% with a LIBOR floor of 1.25% and was scheduled to mature in June 2021, which was extended to August 2023. Interest income recorded from this loan was \$0.3 million for both the three months ended September 30, 2021 and 2020, and \$1.0 million for both the nine months ended September 30, 2021 and 2020.

In 2018, we acquired a \$9.4 million bridge loan originated by ACM. The loan was used to purchase several multifamily properties by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 75% of the borrowing entity. The loan has an interest rate of LIBOR plus 5.0% with a LIBOR floor of 1.25% and was scheduled to mature in January 2021. In January 2021, the maturity date of this loan was extended to January 2022 and, in September 2021, this loan paid off in full. Interest income recorded from this loan was \$0.3 million for the nine months ended September 30, 2021. Interest income recorded from this loan was \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2020, respectively.

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In 2017, we originated two bridge loans totaling \$28.0 million on two multifamily properties owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 45% of the borrowing entity. The loans had an interest rate of LIBOR plus 5.25% with LIBOR floors ranging from 1.24% to 1.54% and were scheduled to mature in the fourth quarter of 2020. The borrower refinanced these loans with a \$31.1 million bridge loan we originated in 2019 with an interest rate of LIBOR plus 4.0%, a LIBOR floor of 1.80% and a maturity date in October 2021. Interest income recorded from this loan was \$0.5 million for both the three months ended September 30, 2021 and 2020, and \$1.4 million for both the nine months ended September 30, 2021 and 2020.

In 2017, we originated a \$46.9 million Fannie Mae loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers) which owns a 17.6% interest in the borrowing entity. We carry a maximum loss-sharing obligation with Fannie Mae on this loan of up to 5% of the original UPB. Servicing revenue recorded from this loan was less than \$0.1 million for all periods presented.

In 2017, Ginkgo Investment Company LLC ("Ginkgo"), of which one of our directors is a 33% managing member, purchased a multifamily apartment complex which assumed an existing \$8.3 million Fannie Mae loan that we service. Ginkgo subsequently sold the majority of its interest in this property and owned a 3.6% interest at September 30, 2021. We carry a maximum loss-sharing obligation with Fannie Mae on this loan of up to 20% of the original UPB. Upon the sale, we received a 1% loan assumption fee which was governed by existing loan agreements that were in place when the loan was originated in 2015, prior to such purchase. Servicing revenue recorded from this loan was less than \$0.1 million for all periods presented.

In 2016, we originated \$48.0 million of bridge loans on six multifamily properties owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns interests ranging from 10.5% to 12.0% in the borrowing entities. The loans had an interest rate of LIBOR plus 4.5% with a LIBOR floor of 0.25% and were scheduled to mature in September 2019. In 2017, a \$6.8 million loan on one property paid off in full and in 2018 four additional loans totaling \$28.3 million paid off in full. In January 2019, \$10.9 million of the \$12.9 million remaining bridge loan paid off, with the \$2.0 million remaining UPB converting to a mezzanine loan with a fixed interest rate of 10.0% and a January 2024 maturity. Interest income recorded from the remaining mezzanine loan was \$0.1 million for both the three months ended September 30, 2021 and 2020, and \$0.2 million for both the nine months ended September 30, 2021 and 2020.

In 2015, we invested \$9.6 million for 50% of ACM's indirect interest in a joint venture with a third party that was formed to invest in a residential mortgage banking business. As a result of this transaction, we had an initial indirect interest of 22.5% in this entity. In January 2021, an equity investor in the underlying residential mortgage banking business exercised their right to purchase an additional interest in this investment, which decreased our indirect interest to 12.3%. We recorded income from equity affiliates related to this investment of \$5.4 million and \$32.7 million in the three and nine months ended September 30, 2021, respectively, and \$32.3 million and \$56.1 million in the three and nine months ended September 30, 2020, respectively. During the three and nine months ended September 30, 2021, we also received cash distributions totaling \$4.7 million and \$23.4 million from this investment, respectively, which were classified as returns of capital.

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We, along with an executive officer of ours and a consortium of independent outside investors, hold equity investments in a portfolio of multifamily properties referred to as the “Lexford” portfolio, which is managed by an entity owned primarily by a consortium of affiliated investors, including our chief executive officer and an executive officer of ours. Based on the terms of the management contract, the management company 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 restructuring of the debt. In 2018, the owners of Lexford restructured part of its debt and we originated 12 bridge loans totaling \$280.5 million, which were used to repay in full certain existing mortgage debt and to renovate 72 multifamily properties included in the portfolio. The loans were originated in 2018, had interest rates of LIBOR plus 4.0% and were scheduled to mature in June 2021. During 2019, the borrower made payoffs and partial paydowns of principal totaling \$250.0 million and in March 2020, the remaining balance of the loans were refinanced with a \$34.6 million Private Label loan, which bears interest at a fixed rate of 3.30% and matures in March 2030. In May 2020, we sold the Private Label loan to an unconsolidated affiliate of ours. Interest income recorded from these loans totaled \$0.5 million during the nine months ended September 30, 2020. Further, as part of this restructuring, \$50.0 million in unsecured financing was provided by an unsecured lender to certain parent entities of the property owners. ACM owns slightly less than half of the unsecured lender entity and, therefore, provided slightly less than half of the unsecured lender financing. In addition, in connection with our equity investment, we received distributions totaling \$1.1 million during the nine months ended September 30, 2020, which was recorded as income from equity affiliates. Separate from the loans we originated in 2018, we provide limited (“bad boy”) guarantees for certain other debt controlled by Lexford. The bad boy guarantees may become a liability for us upon standard “bad” acts such as fraud or a material misrepresentation by Lexford or us. At September 30, 2021, this debt had an aggregate outstanding balance of \$607.4 million and is scheduled to mature through 2029.

Several of our executives, including our chief financial officer, senior counsel and our chairman, chief executive officer and president, hold similar positions for ACM. Our chief executive officer and his affiliated entities (“the Kaufman Entities”) together beneficially own approximately 35% of the outstanding membership interests of ACM and certain of our employees and directors also hold an ownership interest in ACM. Furthermore, one of our directors serves as the trustee and co-trustee of two of the Kaufman Entities that hold membership interests in ACM. Upon the closing of the Acquisition in 2016, we issued OP Units, each paired with one share of our special voting preferred shares. At September 30, 2021, ACM holds 2,828,629 shares of our common stock and 10,665,530 OP Units, which in the aggregate represents 8.5% of the voting power of our outstanding stock. Our Board of Directors approved a resolution under our charter allowing our chief executive officer and ACM (in which our chief executive officer has a controlling equity interest in) to own more than the 5% ownership interest limit of our common stock as stated in our amended charter.

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Note 18 — Segment Information

The summarized statements of income and balance sheet data, as well as certain other data, by segment are included in the following tables (\$ in thousands). Specifically identifiable costs are recorded directly to each business segment. For items not specifically identifiable, costs have been allocated between the business segments using the most meaningful allocation methodologies, which was predominately direct labor costs (i.e., time spent working on each business segment). Such costs include, but are not limited to, compensation and employee related costs, selling and administrative expenses and stock-based compensation.

	Three Months Ended September 30, 2021			Consolidated
	Structured Business	Agency Business	Other / Eliminations (1)	
Interest income	\$ 114,710	\$ 10,770	\$ —	\$ 125,480
Interest expense	50,823	4,737	—	55,560
Net interest income	63,887	6,033	—	69,920
Other revenue:				
Gain on sales, including fee-based services, net	—	16,334	—	16,334
Mortgage servicing rights	—	32,453	—	32,453
Servicing revenue	—	34,960	—	34,960
Amortization of MSR's	—	(14,872)	—	(14,872)
Loss on derivative instruments, net	—	(1,492)	—	(1,492)
Other income, net	2,168	27	—	2,195
Total other revenue	2,168	67,410	—	69,578
Other expenses:				
Employee compensation and benefits	14,082	27,891	—	41,973
Selling and administrative	5,718	6,039	—	11,757
Property operating expenses	149	—	—	149
Depreciation and amortization	634	1,173	—	1,807
Provision for loss sharing (net of recoveries)	—	(3,272)	—	(3,272)
Provision for credit losses (net of recoveries)	(3,445)	(354)	—	(3,799)
Total other expenses	17,138	31,477	—	48,615
Income before income from equity affiliates and income taxes	48,917	41,966	—	90,883
Income from equity affiliates	5,086	—	—	5,086
Provision for income taxes	(622)	(9,283)	—	(9,905)
Net income	53,381	32,683	—	86,064
Preferred stock dividends	4,913	—	—	4,913
Net income attributable to noncontrolling interest	—	—	8,347	8,347
Net income attributable to common stockholders	\$ 48,468	\$ 32,683	\$ (8,347)	\$ 72,804

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	Three Months Ended September 30, 2020			
	Structured Business	Agency Business	Other / Eliminations (1)	Consolidated
Interest income	\$ 75,471	\$ 6,230	\$ —	\$ 81,701
Interest expense	35,252	2,636	—	37,888
Net interest income	40,219	3,594	—	43,813
Other revenue:				
Gain on sales, including fee-based services, net	—	19,895	—	19,895
Mortgage servicing rights	—	42,357	—	42,357
Servicing revenue	—	25,764	—	25,764
Amortization of MSR's	—	(12,416)	—	(12,416)
Property operating income	1,033	—	—	1,033
Gain (loss) on derivative instruments, net	118	(871)	—	(753)
Other income, net	1,050	—	—	1,050
Total other revenue	2,201	74,729	—	76,930
Other expenses:				
Employee compensation and benefits	8,873	24,089	—	32,962
Selling and administrative	4,665	4,691	—	9,356
Property operating expenses	1,300	—	—	1,300
Depreciation and amortization	598	1,324	—	1,922
Provision for loss sharing (net of recoveries)	—	(2,227)	—	(2,227)
Provision for credit losses (net of recoveries)	(6,065)	(1,521)	—	(7,586)
Total other expenses	9,371	26,356	—	35,727
Income before sale of real estate, income from equity affiliates and income taxes	33,049	51,967	—	85,016
Loss on sale of real estate	(1,868)	—	—	(1,868)
Income from equity affiliates	32,358	—	—	32,358
Provision for income taxes	(6,494)	(11,291)	—	(17,785)
Net income	57,045	40,676	—	97,721
Preferred stock dividends	1,888	—	—	1,888
Net income attributable to noncontrolling interest	—	—	13,836	13,836
Net income attributable to common stockholders	\$ 55,157	\$ 40,676	\$ (13,836)	\$ 81,997

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	Nine Months Ended September 30, 2021			
	Structured Business	Agency Business	Other / Eliminations (1)	Consolidated
Interest income	\$ 294,418	\$ 27,354	\$ —	\$ 321,772
Interest expense	131,795	12,327	—	144,122
Net interest income	<u>162,623</u>	<u>15,027</u>	<u>—</u>	<u>177,650</u>
Other revenue:				
Gain on sales, including fee-based services, net	—	86,102	—	86,102
Mortgage servicing rights	—	95,688	—	95,688
Servicing revenue	—	94,683	—	94,683
Amortization of MSRs	—	(43,744)	—	(43,744)
Loss on derivative instruments, net	—	(7,320)	—	(7,320)
Other income, net	4,105	35	—	4,140
Total other revenue	<u>4,105</u>	<u>225,444</u>	<u>—</u>	<u>229,549</u>
Other expenses:				
Employee compensation and benefits	37,566	91,081	—	128,647
Selling and administrative	15,477	18,230	—	33,707
Property operating expenses	421	—	—	421
Depreciation and amortization	1,832	3,517	—	5,349
Provision for loss sharing (net of recoveries)	—	(1,070)	—	(1,070)
Provision for credit losses (net of recoveries)	(12,807)	118	—	(12,689)
Total other expenses	<u>42,489</u>	<u>111,876</u>	<u>—</u>	<u>154,365</u>
Income before extinguishment of debt, sale of real estate income from equity affiliates and income taxes	124,239	128,595	—	252,834
Loss on extinguishment of debt	(1,370)	—	—	(1,370)
Gain on sale of real estate	—	1,228	—	1,228
Income from equity affiliates	32,095	—	—	32,095
Provision for income taxes	(6,288)	(27,068)	—	(33,356)
Net income	<u>148,676</u>	<u>102,755</u>	<u>—</u>	<u>251,431</u>
Preferred stock dividends	13,216	—	—	13,216
Net income attributable to noncontrolling interest	—	—	26,806	26,806
Net income attributable to common stockholders	<u>\$ 135,460</u>	<u>\$ 102,755</u>	<u>\$ (26,806)</u>	<u>\$ 211,409</u>

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2021

	Nine Months Ended September 30, 2020			
	Structured Business	Agency Business	Other / Eliminations (1)	Consolidated
Interest income	\$ 228,243	\$ 25,064	\$ —	\$ 253,307
Interest expense	115,390	13,782	—	129,172
Net interest income	<u>112,853</u>	<u>11,282</u>	<u>—</u>	<u>124,135</u>
Other revenue:				
Gain on sales, including fee-based services, net	—	60,566	—	60,566
Mortgage servicing rights	—	96,708	—	96,708
Servicing revenue	—	76,285	—	76,285
Amortization of MSRs	—	(36,129)	—	(36,129)
Property operating income	3,976	—	—	3,976
Loss on derivative instruments, net	(3,176)	(55,676)	—	(58,852)
Other income, net	3,347	57	—	3,404
Total other revenue	<u>4,147</u>	<u>141,811</u>	<u>—</u>	<u>145,958</u>
Other expenses:				
Employee compensation and benefits	28,880	72,772	—	101,652
Selling and administrative	12,647	16,366	—	29,013
Property operating expenses	4,778	—	—	4,778
Depreciation and amortization	1,845	3,985	—	5,830
Provision for loss sharing (net of recoveries)	—	21,706	—	21,706
Provision for credit losses (net of recoveries)	58,383	1,127	—	59,510
Total other expenses	<u>106,533</u>	<u>115,956</u>	<u>—</u>	<u>222,489</u>
Income before extinguishment of debt, sale of real estate, income from equity affiliates and income taxes	10,467	37,137	—	47,604
Loss on extinguishment of debt	(3,546)	—	—	(3,546)
Loss on sale of real estate	(1,868)	—	—	(1,868)
Income from equity affiliates	56,758	—	—	56,758
Provision for income taxes	(9,337)	(6,156)	—	(15,493)
Net income	<u>52,474</u>	<u>30,981</u>	<u>—</u>	<u>83,455</u>
Preferred stock dividends	5,665	—	—	5,665
Net income attributable to noncontrolling interest	—	—	11,012	11,012
Net income attributable to common stockholders	<u>\$ 46,809</u>	<u>\$ 30,981</u>	<u>\$ (11,012)</u>	<u>\$ 66,778</u>

(1) Includes income allocated to the noncontrolling interest holders not allocated to the two reportable segments.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2021

	September 30, 2021		
	Structured Business	Agency Business	Consolidated
Assets:			
Cash and cash equivalents	\$ 162,870	\$ 217,860	\$ 380,730
Restricted cash	552,706	17,222	569,928
Loans and investments, net	8,993,790	—	8,993,790
Loans held-for-sale, net	—	1,274,234	1,274,234
Capitalized mortgage servicing rights, net	—	417,283	417,283
Securities held-to-maturity, net	—	112,735	112,735
Investments in equity affiliates	91,846	—	91,846
Goodwill and other intangible assets	12,500	89,433	101,933
Other assets	136,653	90,452	227,105
Total assets	\$ 9,950,365	\$ 2,219,219	\$ 12,169,584

Liabilities:			
Debt obligations	\$ 8,515,801	\$ 1,102,485	\$ 9,618,286
Allowance for loss-sharing obligations	—	62,828	62,828
Other liabilities	225,088	127,975	353,063
Total liabilities	\$ 8,740,889	\$ 1,293,288	\$ 10,034,177

	December 31, 2020		
	Assets:		
Cash and cash equivalents	\$ 172,568	\$ 166,960	\$ 339,528
Restricted cash	188,226	9,244	197,470
Loans and investments, net	5,285,868	—	5,285,868
Loans held-for-sale, net	—	986,919	986,919
Capitalized mortgage servicing rights, net	—	379,974	379,974
Securities held-to-maturity, net	—	95,524	95,524
Investments in equity affiliates	74,274	—	74,274
Goodwill and other intangible assets	12,500	92,951	105,451
Other assets	142,844	53,134	195,978
Total assets	\$ 5,876,280	\$ 1,784,706	\$ 7,660,986

Liabilities:			
Debt obligations	\$ 4,872,626	\$ 952,038	\$ 5,824,664
Allowance for loss-sharing obligations	—	64,303	64,303
Other liabilities	203,554	85,780	289,334
Total liabilities	\$ 5,076,180	\$ 1,102,121	\$ 6,178,301

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2021

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2021	2020	2021	2020
Origination Data:				
<u>Structured Business</u>				
Bridge loans (1)	\$ 2,383,346	\$ 286,993	\$ 5,189,722	\$ 1,371,049
Mezzanine loans	62,657	1,000	156,914	16,722
Preferred equity investments	28,650	—	28,650	23,500
Other loans (2)	—	3,765	26,238	37,197
Total new loan originations	<u>\$ 2,474,653</u>	<u>\$ 291,758</u>	<u>\$ 5,401,524</u>	<u>\$ 1,448,468</u>
(1) The three and nine months ended September 30, 2021 includes 25 and 68 SFR loans with a UPB of \$105.3 million and \$219.5 million, respectively. During the three and nine months ended September 30, 2021, we committed to fund one and five SFR build-to-rent bridge loans totaling \$17.6 million and \$156.0 million, respectively.				
(2) The nine months ended September 30, 2021 and 2020 includes 1 and 9 SFR permanent loans with a UPB of \$26.2 million and \$37.2 million, respectively.				
Loan payoffs / paydowns	\$ 567,858	\$ 206,028	\$ 1,463,826	\$ 640,494
<u>Agency Business</u>				
<u>Origination Volumes by Investor:</u>				
Fannie Mae	\$ 719,730	\$ 1,117,679	\$ 2,421,206	\$ 2,839,833
Private Label	625,176	5,840	1,154,814	337,307
Freddie Mac	307,664	252,014	578,295	587,445
FHA	84,430	100,345	281,674	193,821
SFR - Fixed Rate	67,227	—	79,223	—
Total	<u>\$ 1,804,227</u>	<u>\$ 1,475,878</u>	<u>\$ 4,515,212</u>	<u>\$ 3,958,406</u>
Total loan commitment volume	<u>\$ 1,856,474</u>	<u>\$ 1,528,551</u>	<u>\$ 4,510,953</u>	<u>\$ 4,002,492</u>
Loan Sales Data:				
<u>Agency Business</u>				
Fannie Mae	\$ 660,693	\$ 1,038,053	\$ 2,820,558	\$ 2,856,020
Freddie Mac	238,880	116,628	647,827	468,019
FHA	78,188	64,781	308,193	118,218
SFR - Fixed Rate	29,197	—	104,491	—
Private Label	—	—	449,890	727,154
Total	<u>\$ 1,006,958</u>	<u>\$ 1,219,462</u>	<u>\$ 4,330,959</u>	<u>\$ 4,169,411</u>
Sales margin (fee-based services as a % of loan sales)	<u>1.62 %</u>	<u>1.63 %</u>	<u>1.99 %</u>	<u>1.45 %</u>
MSR rate (MSR income as a % of loan commitments)	<u>1.75 %</u>	<u>2.77 %</u>	<u>2.12 %</u>	<u>2.42 %</u>

	<u>September 30, 2021</u>		
	<u>UPB of Servicing Portfolio</u>	<u>Wtd. Avg. Servicing Fee Rate (basis points)</u>	<u>Wtd. Avg. Life of Servicing Portfolio (in years)</u>
Key Servicing Metrics for Agency Business:			
Fannie Mae	\$ 19,271,527	53.2	8.4
Freddie Mac	4,726,587	28.1	9.8
Private Label	1,176,391	20.0	8.8
FHA	933,519	15.6	21.4
SFR - Fixed Rate	104,094	20.0	5.7
Total	<u>\$ 26,212,118</u>	<u>45.7</u>	<u>9.1</u>
December 31, 2020			
Fannie Mae	\$ 18,268,268	52.3	8.2
Freddie Mac	4,881,080	27.9	9.9
FHA	752,116	16.3	20.3
Private Label	726,992	20.0	8.7
Total	<u>\$ 24,628,456</u>	<u>45.4</u>	<u>8.9</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the unaudited consolidated interim financial statements, and related notes and the section entitled "Forward-Looking Statements" included herein.

Overview

Through our Structured Business, we invest in a diversified portfolio of structured finance assets in the multifamily, SFR and commercial real estate markets, primarily consisting of bridge and mezzanine loans, including junior participating interests in first mortgages and preferred and direct equity. We also invest in real estate-related joint ventures and may directly acquire real property and invest in real estate-related notes and certain mortgage-related securities.

Through our Agency Business, we originate, sell and service a range of multifamily finance products through Fannie Mae and Freddie Mac, Ginnie Mae, FHA and HUD. We retain the servicing rights and asset management responsibilities on substantially all loans we originate and sell under the GSE and HUD programs. We are an approved Fannie Mae DUS lender nationally, a Freddie Mac Multifamily Conventional Loan lender, seller/servicer, in New York, New Jersey and Connecticut, a Freddie Mac affordable, manufactured housing, senior housing and SBL lender, seller/servicer, nationally and a HUD MAP and LEAN senior housing/healthcare lender nationally. We also originate and service permanent financing loans underwritten using the guidelines of our existing agency loans sold to the GSEs, which we refer to as "Private Label" loans and originate and sell finance products through CMBS programs. We pool and securitize the Private Label loans and sell certificates in the securitizations to third-party investors, while retaining the servicing rights and APL certificates of the securitization.

We conduct our operations to qualify as a REIT. 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.

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 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. We recognize the bulk of our net interest income from our Structured Business. Additionally, we recognize net interest income from loans originated through our Agency Business, which are generally sold within 60 days of origination.

Fees and other revenues recognized from originating, selling and servicing mortgage loans through the GSE and HUD programs. Revenue recognized from the origination and sale of mortgage loans consists of gains on sale of loans (net of any direct loan origination costs incurred), commitment fees, broker fees, loan assumption fees and loan origination fees. These gains and fees are collectively referred to as gain on sales, including fee-based services, net. We record income from MSRs at the time of commitment to the borrower, which represents the fair value of the expected net future cash flows associated with the rights to service mortgage loans that we originate, with the recognition of a corresponding asset upon sale. We also record servicing revenue which consists of fees received for servicing mortgage loans, net of amortization on the MSR assets recorded. Although we have long-established relationships with the GSE and HUD agencies, our operating performance would be negatively impacted if our business relationships with these agencies deteriorate. Additionally, we also recognize revenue from originating, selling and servicing our Private Label loans.

Income earned from our structured transactions. Our structured transactions are primarily comprised of investments in equity affiliates, which represent unconsolidated joint venture investments formed to acquire, develop and/or sell real estate-related assets. Operating results from these investments can be difficult to predict and can vary significantly period-to-period. If interest rates were to rise, it is likely that income from these investments would be significantly and negatively impacted, particularly from our investment in a residential mortgage banking business, since rising interest rates generally decrease the demand for residential real estate loans and the number of loan originations. In addition, we periodically receive distributions from our equity investments. It is difficult to forecast the timing of such payments, which can be substantial in any given quarter. We account for structured transactions within our Structured Business.

Credit quality of our loans and investments, including our servicing portfolio. Effective portfolio management is essential to maximize the performance and value of our loan and investment and servicing portfolios. Maintaining the credit quality of the loans in our portfolios is of critical importance. Loans that do not perform in accordance with their terms may have a negative impact on earnings and liquidity.

COVID-19 Impact. The global outbreak of COVID-19 that began in early 2020, has forced many countries, including the U.S., to declare national emergencies, to institute “stay-at-home” orders, to close financial markets and to restrict operations of non-essential businesses. Such actions have created significant disruptions in global supply chains, and adversely impacted many industries. COVID-19 could have a continued and prolonged adverse impact on economic and market conditions, which could continue a period of global economic slowdown. Although we have not been significantly impacted by COVID-19 to-date, the impact of COVID-19 on companies continues to evolve, and the extent and duration of the economic fallout from this pandemic, both globally and to our business, remain unclear and present risk with respect to our financial condition, results of operations, liquidity, and ability to pay distributions.

Significant Developments During the Third Quarter of 2021

Financing and Capital Markets Activity.

- We closed a collateralized securitization vehicle (CLO 16) totaling \$1.50 billion of real estate related assets and cash, of which \$1.24 billion of investment grade notes were issued to third party investors and \$135.0 million of below investment-grade notes and a \$127.5 million equity interest in the portfolio were retained by us;
- We issued \$270.0 million of 4.50% senior unsecured notes due in 2026 in a private offering; and
- We raised \$139.1 million from the issuance of 6.25% Series E preferred stock.

Structured Business Activity.

- Our Structured loan and investment portfolio grew 24.1% to \$9.17 billion on loan originations totaling \$2.47 billion, partially offset by loan runoff of \$567.9 million; and
- We recorded income of \$5.4 million and received a \$4.7 million cash distribution from our residential mortgage business joint venture.

Agency Business Activity.

- Loan originations and sales totaled \$1.80 billion and \$1.01 billion, respectively; and
- Our fee-based servicing portfolio grew to \$26.21 billion.

Dividend. We raised our quarterly common dividend to \$0.36 per share, our sixth consecutive quarterly increase.

Subsequent Events.

- In October 2021, we completed a public offering of 8,050,000 shares of 6.25% Series F preferred stock, generating net proceeds of approximately \$194.8 million; and
- In October 2021, we closed a Private Label securitization totaling \$535.0 million, of which we retained the most subordinate class of certificates totaling \$47.5 million.

Current Market Conditions, Risks and Recent Trends

As discussed throughout this report, the COVID-19 pandemic continues to impact the global economy in unprecedented ways, swiftly halting activity across many industries, and continuing to cause significant disruption and liquidity constraints in many market segments, including the financial services, real estate and credit markets. The impact of COVID-19 on companies continues to evolve, and the extent and duration of the economic fallout from this pandemic remains unclear. COVID-19 could have a continued and prolonged adverse impact on economic and market conditions, which could continue a period of global economic slowdown. Although we have not been significantly impacted by COVID-19 to-date, adverse economic conditions have resulted, and may continue to result, in declining real estate values, increased payment delinquencies and defaults and increased loan modifications and foreclosures, all of which could have a significant impact on our future results of operations, financial condition, business prospects and our ability to make distributions to our stockholders.

The pandemic has caused a dislocation in the capital markets resulting in a reduction of available liquidity. Many commercial mortgage REITs have suffered, and continue to suffer, from the reduction in available liquidity since access to capital is critical to grow their business. Despite this reduction in liquidity, we continue to raise capital through various vehicles to grow our business.

Our Agency Business requires limited capital to grow, as originations are financed through warehouse facilities for generally up to 60 days before the loans are sold, therefore this lack of liquidity has not and should not, impact our ability to grow this business. However, our Structured Business is more reliant on the capital markets to grow, and therefore, a lack of liquidity for a prolonged period of time could limit our ability to grow this business. In our Structured Business, 89% of our portfolio is in multifamily assets with most of these loans containing interest reserves and/or replenishment obligations by our borrowers.

The federal government, Fannie Mae and Freddie Mac have made certain forbearance and non-eviction programs available to borrowers and tenants should they need to counteract any short-term pressure on their properties from COVID-19 and its impact on the economy. For borrowers, in order to qualify for a forbearance, they need to demonstrate they have been adversely affected by the pandemic and their ability to make their loan payments has been impacted. All loan and rent payments that are suspended remain the obligations of the borrowers and tenants.

Currently, our Agency Business had approved forbearances related to approximately 0.2% of our Fannie Mae DUS portfolio and approximately 2.8% of our Freddie Mac portfolio. We are closely monitoring and managing the requests for forbearances and there could potentially be additional economic stress during the remainder of 2021.

Interest rates continue to remain at historically low levels. While lower interest rates generally have a positive impact on origination volume as borrowers look to refinance loans to take advantage of lower rates, our net interest income may be negatively impacted as higher yielding loans are paid off and replaced with lower yielding loans. However, we are somewhat insulated from decreasing interest rates, since a large portion of our structured loan portfolio has LIBOR floors, which could increase our net interest income in the future if rates remain at these historically low levels. Conversely, if interest rates were to rise, it could negatively impact our net interest income. An increase in rates would cause an increase in interest expense as most of our debt is variable. However, since a large portion of our structured loan portfolio has LIBOR floors that are in the money, any increase in interest income due to rising interest rates is not likely to be as substantial as the corresponding increase in interest expense.

We are a national originator with Fannie Mae and Freddie Mac, and the GSEs remain the most significant providers of capital to the multifamily market. In October 2021, the Federal Housing Finance Agency ("FHFA") announced that its 2022 loan origination caps for Fannie Mae and Freddie Mac will be \$78 billion for each enterprise for a total opportunity of \$156 billion (the "2022 Caps"), which has increased from its 2021 loan origination caps of \$70 billion for each enterprise (the "2021 Caps"). The 2022 Caps will continue to apply to all multifamily business, have no exclusions and mandate that 50% be directed towards mission driven, affordable housing. The FHFA will also require at least 25% be affordable to residents at or below 60% of area median income for 2022, up from 20% in 2021. Our originations with the GSEs are highly profitable executions as they provide significant gains from the sale of our loans, non-cash gains related to MSR and servicing revenues. Therefore, a decline in our GSE originations could negatively impact our financial results. We are unsure whether the FHFA will impose stricter limitations on GSE multifamily production volume in the future.

Changes in Financial Condition

Assets — Comparison of balances at September 30, 2021 to December 31, 2020:

Our Structured loan and investment portfolio balance was \$9.17 billion and \$5.48 billion at September 30, 2021 and December 31, 2020, respectively. This increase was primarily due to loan originations exceeding loan payoffs and paydowns by \$3.94 billion. See below for details.

Our portfolio had a weighted average current interest pay rate of 4.56% and 5.23% at September 30, 2021 and December 31, 2020, respectively. Including certain fees earned and costs associated with the structured portfolio, the weighted average current interest rate was 4.97% and 5.80% at September 30, 2021 and December 31, 2020, respectively. Advances on our financing facilities totaled \$8.58 billion and \$4.92 billion at September 30, 2021 and December 31, 2020, respectively, with a weighted average funding cost of 2.32% and 2.64%, respectively, which excludes financing costs. Including financing costs, the weighted average funding rate was 2.64% and 3.03% at September 30, 2021 and December 31, 2020, respectively.

Activity from our Structured Business portfolio is comprised of the following (\$ in thousands):

	Three Months Ended	Nine Months Ended
	September 30, 2021	September 30, 2021
Loans originated (1)	\$ 2,474,653	\$ 5,401,524
Number of loans	118	266
Weighted average interest rate	4.28 %	4.44 %
(1) During the three and nine months ended September 30, 2021, we committed to fund one and five SFR build-to-rent bridge loans totaling \$17.6 million and \$156.0 million, respectively.		
Loans paid-off / paid-down	\$ 567,858	\$ 1,463,826
Number of loans	54	111
Weighted average interest rate	6.81 %	6.66 %
Loans extended	\$ 439,479	\$ 939,794
Number of loans	22	58

Loans held-for-sale from the Agency Business increased \$287.3 million, primarily from loan originations exceeding sales by \$184.3 million as noted in the following table (in thousands). Loan sales includes \$104.5 million of fixed rate SFR permanent loans that are now recorded through the Agency Business beginning in the first quarter of 2021, see Note 3 and 4 for details, and \$449.9 million of Private Label loans which were sold in connection with a Private Label multifamily mortgage loan securitization in the second quarter of 2021. Our GSE loans are generally sold within 60 days, while our Private Label loans are generally expected to be sold and securitized within 180 days from the loan origination date.

	Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
	Loan Originations	Loan Sales	Loan Originations	Loan Sales
Fannie Mae	\$ 719,730	\$ 660,693	\$ 2,421,206	\$ 2,820,558
Private Label	625,176	—	1,154,814	449,890
Freddie Mac	307,664	238,880	578,295	647,827
FHA	84,430	78,188	281,674	308,193
SFR - Fixed Rate	67,227	29,197	79,223	104,491
Total	<u>\$ 1,804,227</u>	<u>\$ 1,006,958</u>	<u>\$ 4,515,212</u>	<u>\$ 4,330,959</u>

Capitalized mortgage servicing rights increased \$37.3 million, primarily due to MSRs recorded on new loan originations, partially offset by amortization and write-offs. Our capitalized mortgage servicing rights represent the estimated value of our rights to service mortgage loans for others. At September 30, 2021, the weighted average estimated life remaining of our MSRs was 8.5 years.

Securities held-to-maturity increased \$17.2 million, primarily due to the purchase, at a discount, of APL certificates in connection with a Private Label securitization.

Investments in equity affiliates increased \$17.6 million, primarily due to income from our investment in a residential mortgage banking business of \$32.7 million, partially offset by \$23.4 million in cash distributions received from the same investment. In addition, we entered into two new equity investments during the third quarter of 2021 totaling \$6.4 million. See Note 8 for details.

Other assets increased \$30.9 million, primarily due to increases in current tax assets, interest receivables from portfolio growth and the fair value of our Swaps.

Liabilities – Comparison of balances at September 30, 2021 to December 31, 2020:

Credit and repurchase facilities increased \$1.16 billion, primarily due to funding of new structured loan activity.

Collateralized loan obligations increased \$2.20 billion, primarily due to the issuances of three new CLOs, where we issued \$2.57 billion of notes to third party investors, partially offset by the unwind of a CLO totaling \$356.2 million.

Senior unsecured notes increased \$439.7 million, primarily due to our issuances of \$270.0 million of 4.50% notes and \$175.0 million of 5.00% notes.

Other liabilities increased \$57.5 million, primarily due to increases in accrued compensation, deferred tax liabilities, good faith deposits on new loan originations and the fair value of our rate lock and forward sale commitments.

Equity

In August 2021, we completed a public offering of 5,750,000 shares of 6.25% Series E cumulative redeemable preferred stock with a liquidation preference of \$25.00 per share, generating net proceeds of approximately \$139.1 million after deducting the underwriting discount and other offering expenses.

In June 2021, we completed a public offering of 9,200,000 shares of 6.375% Series D cumulative redeemable preferred stock with a liquidation preference of \$25.00 per share, generating net proceeds of \$222.6 million after deducting the underwriting discount and other offering expenses. We used \$93.3 million of the proceeds to fully redeem our Series A, B and C preferred stock.

During the nine months ended September 30, 2021, we sold 20,222,879 shares of our common stock through two public offerings and our “At-The-Market” agreement, raising net proceeds totaling \$342.6 million. We used \$44.6 million of the net proceeds to purchase a total of 2,608,400 of common stock and OP Units from certain executive officers of ours, ACM and its members and an estate planning family vehicle established by our chief executive officer.

See Note 15 for the details of our dividends declared and our deferred compensation transactions during the nine months ended September 30, 2021.

Agency Servicing Portfolio

The following table sets forth the characteristics of our loan servicing portfolio collateralizing our mortgage servicing rights and servicing revenue (\$ in thousands):

Product	September 30, 2021									
	Servicing Portfolio UPB	Loan Count	Wtd. Avg. Age of Portfolio (in years)	Wtd. Avg. Portfolio Maturity (in years)	Interest Rate Type		Wtd. Avg. Note Rate	Annualized Prepayments as a Percentage of Portfolio (1)	Delinquencies as a Percentage of Portfolio (2)	
					Fixed	Adjustable				
Fannie Mae	\$ 19,271,527	2,763	3.0	8.8	97 %	3 %	4.01 %	9.39 %	0.29 %	
Freddie Mac	4,726,587	1,330	2.8	11.2	88 %	12 %	3.90 %	17.96 %	0.63 %	
Private Label	1,176,391	72	1.3	8.7	100 %	— %	3.75 %	— %	— %	
FHA	933,519	90	2.5	33.6	100 %	— %	3.11 %	18.96 %	— %	
SFR - Fixed Rate	104,094	27	1.2	5.6	100 %	— %	4.70 %	— %	— %	
Total	\$ 26,212,118	4,282	2.9	10.1	96 %	4 %	3.95 %	10.82 %	0.33 %	

Product	December 31, 2020									
	Servicing Portfolio UPB	Loan Count	Wtd. Avg. Age of Portfolio (in years)	Wtd. Avg. Portfolio Maturity (in years)	Interest Rate Type		Wtd. Avg. Note Rate	Annualized Prepayments as a Percentage of Portfolio (1)	Delinquencies as a Percentage of Portfolio (2)	
					Fixed	Adjustable				
Fannie Mae	\$ 18,268,268	2,712	2.8	9.0	97 %	3 %	4.12 %	6.40 %	0.33 %	
Freddie Mac	4,881,080	1,413	2.6	11.7	88 %	12 %	3.99 %	11.47 %	0.65 %	
FHA	752,116	89	3.0	32.9	100 %	— %	3.39 %	33.60 %	— %	
Private Label	726,992	40	1.0	9.1	100 %	— %	3.81 %	— %	— %	
Total	\$ 24,628,456	4,254	2.7	10.3	95 %	5 %	4.06 %	8.05 %	0.37 %	

- (1) Prepayments reflect loans repaid prior to six months from the loan's maturity. The majority of our loan servicing portfolio has a prepayment protection term and therefore, we may collect a prepayment fee which is included as a component of servicing revenue, net.
- (2) Delinquent loans reflect loans that are contractually 60 days or more past due. As of September 30, 2021 and December 31, 2020, delinquent loans totaled \$86.1 million and \$91.3 million, respectively, of which \$36.3 million and \$19.6 million, respectively, were in the foreclosure process. No loans were in bankruptcy as of September 30, 2021 and December 31, 2020.

Our servicing portfolio represents commercial real estate loans originated in our Agency Business, which are generally transferred or sold within 60 days from the date the loan is funded. Primarily all of the loans in our servicing portfolio are collateralized by multifamily properties. In addition, we are generally required to share in the risk of any losses associated with loans sold under the Fannie Mae DUS program, see Note 10.

Comparison of Results of Operations for the Three Months Ended September 30, 2021 and 2020

The following table provides our consolidated operating results (\$ in thousands):

	Three Months Ended September 30,		Increase / (Decrease)	
	2021	2020	Amount	Percent
Interest income	\$ 125,480	\$ 81,701	\$ 43,779	54 %
Interest expense	55,560	37,888	17,672	47 %
Net interest income	69,920	43,813	26,107	60 %
Other revenue:				
Gain on sales, including fee-based services, net	16,334	19,895	(3,561)	(18)%
Mortgage servicing rights	32,453	42,357	(9,904)	(23)%
Servicing revenue, net	20,088	13,348	6,740	50 %
Property operating income	—	1,033	(1,033)	nm
Loss on derivative instruments, net	(1,492)	(753)	(739)	98 %
Other income, net	2,195	1,050	1,145	109 %
Total other revenue	69,578	76,930	(7,352)	(10)%
Other expenses:				
Employee compensation and benefits	41,973	32,962	9,011	27 %
Selling and administrative	11,757	9,356	2,401	26 %
Property operating expenses	149	1,300	(1,151)	(89)%
Depreciation and amortization	1,807	1,922	(115)	(6)%
Provision for loss sharing (net of recoveries)	(3,272)	(2,227)	(1,045)	47 %
Provision for credit losses (net of recoveries)	(3,799)	(7,586)	3,787	(50)%
Total other expenses	48,615	35,727	12,888	36 %
Income before sale of real estate, income from equity affiliates and income taxes	90,883	85,016	5,867	7 %
Loss on sale of real estate	—	(1,868)	1,868	nm
Income from equity affiliates	5,086	32,358	(27,272)	(84)%
Provision for income taxes	(9,905)	(17,785)	7,880	(44)
Net income	86,064	97,721	(11,657)	(12)%
Preferred stock dividends	4,913	1,888	3,025	160 %
Net income attributable to noncontrolling interest	8,347	13,836	(5,489)	(40)%
Net income attributable to common stockholders	\$ 72,804	\$ 81,997	\$ (9,193)	(11)%

nm — not meaningful

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The following table presents the average balance of our Structured Business interest-earning assets and interest-bearing liabilities, associated interest income (expense) and the corresponding weighted average yields (\$ in thousands):

	Three Months Ended September 30,					
	2021			2020		
	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>Structured Business interest-earning assets:</i>						
Bridge loans	\$ 7,653,224	\$ 101,189	5.25 %	\$ 4,522,755	\$ 64,838	5.70 %
Preferred equity investments	228,799	6,994	12.13 %	209,106	5,539	10.54 %
Mezzanine / junior participation loans	268,509	6,030	8.91 %	176,238	3,617	8.16 %
Other	32,026	311	3.85 %	76,710	943	4.89 %
Core interest-earning assets	8,182,558	114,524	5.55 %	4,984,809	74,937	5.98 %
Cash equivalents	391,352	186	0.19 %	346,140	534	0.61 %
Total interest-earning assets	<u>\$ 8,573,910</u>	<u>\$ 114,710</u>	<u>5.31 %</u>	<u>\$ 5,330,949</u>	<u>\$ 75,471</u>	<u>5.63 %</u>
<i>Structured Business interest-bearing liabilities:</i>						
CLO	\$ 3,532,982	\$ 16,137	1.81 %	\$ 2,532,593	\$ 12,284	1.93 %
Warehouse lines	2,427,386	16,056	2.62 %	951,678	7,478	3.13 %
Unsecured debt	1,199,407	17,436	5.77 %	949,240	14,182	5.94 %
Trust preferred	154,336	1,194	3.07 %	154,336	1,308	3.37 %
Total interest-bearing liabilities	<u>\$ 7,314,111</u>	<u>50,823</u>	<u>2.76 %</u>	<u>\$ 4,587,847</u>	<u>35,252</u>	<u>3.06 %</u>
Net interest income		<u>\$ 63,887</u>			<u>\$ 40,219</u>	

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

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

Net Interest Income

The increase in interest income was mainly due to a \$39.2 million increase from our Structured Business, primarily due to an increase in our average core interest-earning assets from loan originations exceeding loan runoff, partially offset by a decrease in the average yield on core interest-earning assets. The decrease in the average yield was due to lower rates on originations as compared to loan runoff, largely offset by higher fees on early runoff.

The increase in interest expense was mainly due to a \$15.6 million increase from our Structured Business, primarily due to an increase in the average balance of our interest-bearing liabilities, due to growth in our loan portfolio and the issuance of additional unsecured debt. This was partially offset by a decrease in the average cost of our interest-bearing liabilities, mainly from decreases in LIBOR, the recent issuance of CLOs at lower rates and more favorable terms on warehouse debt.

Agency Business Revenue

The decrease in gain on sales, including fee-based services, net was primarily due to a 17% decrease (\$212.5 million) in loan sales volume. The sales margin (fee-based services as a percentage of loan sales) of 1.62% this quarter was consistent with the prior year period sales margin of 1.63%.

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The decrease in income from MSR was primarily due to a 37% decrease in the MSR rate (income from MSR as a percentage of loan commitment volume) from 2.77% to 1.75%, partially offset by a 21% increase (\$327.9 million) in loan commitment volume. The decrease in the MSR rate was primarily due to lower Fannie Mae loan commitments, which carry a higher servicing fee, and a decrease in the average servicing fee on FHA loan commitments.

The increase in servicing revenue, net was primarily due to the growth in our servicing portfolio.

Other Expenses

The increase in employee compensation and benefits expense was primarily due to increases in headcount and incentive compensation as a result of the portfolio growth in both business segments.

The increase in selling and administrative expenses was primarily due to higher rent expense, consulting fees and travel expenses in both business segments, partially offset by a decrease in legal costs in our Structured Business as a result of a \$2.5 million litigation settlement related to a hotel property that we sold in the third quarter of 2020.

We recorded net reversals this quarter in both our provision for loss sharing and provision for credit losses primarily due to improved market conditions and expected future forecasts in our CECL models for both business segments.

Loss on Sale of Real Estate

The loss recorded in the third quarter of 2020 was from the hotel property we sold in September 2020.

Income from Equity Affiliates

Income from equity affiliates in the third quarter of 2021 and 2020 primarily reflects income from our investment in a residential mortgage banking business of \$5.4 million and \$32.3 million, respectively. The income from this investment was driven by the historically low interest rates and strength in the residential housing market during COVID-19.

Provision for Income Taxes

In the three months ended September 30, 2021, we recorded a tax provision of \$9.9 million, which consisted of current and deferred tax provisions of \$3.6 million and \$6.3 million, respectively. In the three months ended September 30, 2020, we recorded a tax provision of \$17.8 million, which consisted of current and deferred tax provisions of \$13.9 million and \$3.9 million, respectively. The decrease in the tax provision was primarily due to lower income generated from our investment in a residential banking business and a decrease in the pre-tax income from our Agency Business.

Preferred Stock Dividends

The increase in preferred stock dividends was due to the issuances of our Series D and E preferred stock, which included a significantly larger number of shares than our Series A, B and C preferred stock that were redeemed in the second quarter of 2021.

Net Income Attributable to Noncontrolling Interest

The noncontrolling interest relates to the outstanding OP Units issued as part of the Acquisition. There were 16,325,095 OP Units and 17,632,371 OP Units outstanding as of September 30, 2021 and 2020, respectively, which represented 10.2% and 13.2% of our outstanding stock at September 30, 2021 and 2020, respectively.

Comparison of Results of Operations for the Nine Months Ended September 30, 2021 and 2020

The following table provides our consolidated operating results (\$ in thousands):

	Nine Months Ended September 30,		Increase / (Decrease)	
	2021	2020	Amount	Percent
Interest income	\$ 321,772	\$ 253,307	\$ 68,465	27 %
Interest expense	144,122	129,172	14,950	12 %
Net interest income	177,650	124,135	53,515	43 %
Other revenue:				
Gain on sales, including fee-based services, net	86,102	60,566	25,536	42 %
Mortgage servicing rights	95,688	96,708	(1,020)	(1)%
Servicing revenue, net	50,939	40,156	10,783	27 %
Property operating income	—	3,976	(3,976)	nm
Loss on derivative instruments, net	(7,320)	(58,852)	51,532	(88)%
Other income, net	4,140	3,404	736	22 %
Total other revenue	229,549	145,958	83,591	57 %
Other expenses:				
Employee compensation and benefits	128,647	101,652	26,995	27 %
Selling and administrative	33,707	29,013	4,694	16 %
Property operating expenses	421	4,778	(4,357)	(91)%
Depreciation and amortization	5,349	5,830	(481)	(8)%
Provision for loss sharing (net of recoveries)	(1,070)	21,706	(22,776)	nm
Provision for credit losses (net of recoveries)	(12,689)	59,510	(72,199)	nm
Total other expenses	154,365	222,489	(68,124)	(31)%
Income before extinguishment of debt, sale of real estate, income from equity affiliates and income taxes	252,834	47,604	205,230	nm
Loss on extinguishment of debt	(1,370)	(3,546)	2,176	(61)%
Gain (loss) on sale of real estate	1,228	(1,868)	3,096	nm
Income from equity affiliates	32,095	56,758	(24,663)	(43)%
Provision for income taxes	(33,356)	(15,493)	(17,863)	115 %
Net income	251,431	83,455	167,976	nm
Preferred stock dividends	13,216	5,665	7,551	133 %
Net income attributable to noncontrolling interest	26,806	11,012	15,794	143 %
Net income attributable to common stockholders	\$ 211,409	\$ 66,778	\$ 144,631	nm

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The following table presents the average balance of our Structured Business interest-earning assets and interest-bearing liabilities, associated interest income (expense) and the corresponding weighted average yields (\$ in thousands):

	Nine Months Ended September 30,					
	2021			2020		
	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>Structured Business interest-earning assets:</i>						
Bridge loans	\$ 6,434,423	\$ 261,168	5.43 %	\$ 4,323,098	\$ 192,860	5.96 %
Preferred equity investments	226,193	18,184	10.75 %	205,706	17,094	11.10 %
Mezzanine / junior participation loans	213,083	13,622	8.55 %	176,889	11,825	8.93 %
Other	29,898	964	4.31 %	87,519	3,941	6.01 %
Core interest-earning assets	6,903,597	293,938	5.69 %	4,793,212	225,720	6.29 %
Cash equivalents	352,391	480	0.18 %	387,332	2,523	0.87 %
Total interest-earning assets	<u>\$ 7,255,988</u>	<u>\$ 294,418</u>	<u>5.42 %</u>	<u>\$ 5,180,544</u>	<u>\$ 228,243</u>	<u>5.89 %</u>
<i>Structured Business interest-bearing liabilities:</i>						
CLO	\$ 3,043,007	\$ 41,832	1.84 %	\$ 2,439,365	\$ 44,722	2.45 %
Warehouse lines	1,881,717	38,931	2.77 %	979,846	26,215	3.57 %
Unsecured debt	1,072,407	47,448	5.92 %	853,339	38,175	5.98 %
Trust preferred	154,336	3,584	3.10 %	154,336	4,693	4.06 %
Debt fund	—	—	— %	29,891	1,585	7.08 %
Total interest-bearing liabilities	<u>\$ 6,151,467</u>	<u>131,795</u>	<u>2.86 %</u>	<u>\$ 4,456,777</u>	<u>115,390</u>	<u>3.46 %</u>
Net interest income		<u>\$ 162,623</u>			<u>\$ 112,853</u>	

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

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

Net Interest Income

The increase in interest income was mainly due to a \$66.2 million increase from our Structured Business, primarily due to an increase in our average core interest-earning assets from loan originations exceeding loan runoff, partially offset by a decrease in the average yield on core interest-earning assets. The decrease in the average yield was due to lower rates on originations as compared to loan runoff and a decrease in the average LIBOR.

The increase in interest expense was mainly due to a \$16.4 million increase from our Structured Business, primarily due to an increase in the average balance of our interest-bearing liabilities, due to growth in our loan portfolio and the issuance of additional unsecured debt. This was partially offset by a decrease in the average cost of our interest-bearing liabilities, mainly from decreases in LIBOR, the recent issuance of CLOs at lower rates and more favorable terms on warehouse debt.

Agency Business Revenue

The increase in gain on sales, including fee-based services, net was primarily due a 37% increase in the sales margin from 1.45% to 1.99%, as a result of higher margins on Private Label and SFR loan sales, and a 4% increase (\$161.5 million) in loan sales volume.

The decrease in income from MSR was primarily due to a 12% decrease in the MSR rate from 2.42% to 2.12%, largely offset by a 13% increase in loan commitment volume. The decrease in the MSR rate was primarily due to lower Fannie Mae loan commitments, which carry a higher servicing fee.

The increase in servicing revenue, net was primarily due to the growth in our servicing portfolio.

Other Revenue

The losses on derivative instruments in both 2021 and 2020 were primarily from our Agency Business and were predominantly from losses recognized on our Swaps held in connection with our Private Label loans.

Other Expenses

The increase in employee compensation and benefits expense was primarily due to increases in headcount and incentive compensation as a result of the portfolio growth in both business segments, as well as commissions in our Agency Business in connection with higher loan sales volume and sales margins.

The increase in selling and administrative expenses was primarily due to higher rent expense in both business segments. Administrative expenses were also lower in 2020 as a result of the COVID-19 pandemic due to travel restrictions and fewer events. We also recorded a \$2.5 million litigation settlement related to a hotel property that we sold in the third quarter of 2020.

The decreases in both provision for loss sharing and provision for credit losses were primarily due to the reversal of CECL reserves in both business segments in connection with improved market conditions and expected future forecasts.

Loss on Extinguishment of Debt

The loss on extinguishment of debt in both periods was deferred financing fees recognized in connection with the unwind of CLOs, along with a loss recognized in connection with the unwind of the Luxembourg commercial real estate debt fund in 2020.

Gain (loss) on Sale of Real Estate

The gain recorded in 2021 was from the sale of a repurchased Fannie Mae loan. The loss recorded in 2020 was from a hotel property we sold in September 2020.

Income from Equity Affiliates

Income from equity affiliates in 2021 and 2020 primarily reflects income from our investment in a residential mortgage banking business of \$32.7 million and \$56.1 million, respectively. The income from this investment was driven by the historically low interest rates and strength in the residential housing market during COVID-19.

Provision for Income Taxes

In the nine months ended September 30, 2021, we recorded a tax provision of \$33.4 million, which consisted of current and deferred tax provisions of \$22.7 million and \$10.7 million, respectively. In the nine months ended September 30, 2020, we recorded a tax provision of \$15.5 million, which consisted of a current tax provision of \$20.7 million and a deferred tax benefit of \$5.2 million. The increase in the tax provision was primarily due to an increase in pre-tax income from our Agency Business, partially offset by lower income generated from our investment in a residential banking business in 2021, compared to 2020.

Preferred Stock Dividends

The increase in preferred stock dividends was due to the issuances of our Series D and E preferred stock, which included a significantly larger number of shares than our Series A, B and C preferred stock that were redeemed in the second quarter of 2021.

Net Income Attributable to Noncontrolling Interest

The noncontrolling interest relates to the outstanding OP Units issued as part of the Acquisition. There were 16,325,095 OP Units and 17,632,371 OP Units outstanding as of September 30, 2021 and 2020, respectively, which represented 10.2% and 13.2% of our outstanding stock at September 30, 2021 and 2020, respectively.

Liquidity and Capital Resources

Sources of Liquidity. Liquidity is a measure of our ability to meet our potential cash requirements, including ongoing commitments to repay borrowings, satisfaction of collateral requirements under the Fannie Mae DUS risk-sharing agreement and, as an approved designated seller/servicer of Freddie Mac's SBL program, operational liquidity requirements of the GSE agencies, fund new loans and investments, 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, proceeds from CLOs and securitizations, debt facilities and cash flows from operations. We closely monitor our liquidity position and believe our existing sources of funds and access to additional liquidity will be adequate to meet our liquidity needs.

We are monitoring the COVID-19 pandemic and its impact on our financing sources, borrowers and their tenants, and the economy as a whole. The magnitude and duration of the pandemic, and its impact on our operations and liquidity, are uncertain and continue to evolve. To the extent that our financing sources, borrowers and their tenants continue to be impacted by the pandemic, or by the other risks disclosed in our filings with the SEC, it would have a material adverse effect on our liquidity and capital resources.

We had approximately \$8.58 billion in total structured debt outstanding at September 30, 2021. Of this total, approximately \$6.28 billion, or 73%, does not contain mark-to-market provisions and is comprised of non-recourse CLO vehicles, senior unsecured debt and junior subordinated notes, the majority of which have maturity dates in 2022, or later. The remaining \$2.30 billion of debt is in warehouse and repurchase facilities with several different banks that we have long-standing relationships with. While we expect to extend or renew all of our facilities as they mature, we cannot provide assurance that they will be extended or renewed on as favorable terms.

In addition to our ability to extend our warehouse and repurchase facilities, we have approximately \$800 million in cash and available liquidity as well as other liquidity sources, including our \$26.21 billion agency servicing portfolio, which is mostly prepayment protected and generates approximately \$120 million per year in recurring cash flow.

At September 30, 2021, we had \$65.1 million of securities financed with \$32.2 million of debt that was subject to margin calls related to changes in interest spreads.

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 and liquidity requirements.

Cash Flows. Cash flows used in operating activities were \$0.4 million during the nine months ended September 30, 2021 as net income of \$251.4 million was substantially offset by net cash outflows of \$227.9 million as a result of loan originations exceeding loan sales in our Agency Business, as well as certain other non-cash net income adjustments.

Cash flows used in investing activities totaled \$3.76 billion during the nine months ended September 30, 2021. Loan and investment activity (originations and payoffs/paydowns) comprise the majority of our investing activities. Loan originations from our Structured Business totaling \$5.17 billion, net of payoffs and paydowns of \$1.35 billion, resulted in net cash outflows of \$3.83 billion.

Cash flows provided by financing activities totaled \$4.17 billion during the nine months ended September 30, 2021 and consisted primarily of net proceeds of \$2.21 billion from CLO activity, net cash inflows of \$1.17 billion from debt facility activities (financed loan originations were greater than facility paydowns) and \$1.15 billion of proceeds from the issuance of common and preferred stock and senior unsecured notes, partially offset by \$161.4 million of distributions to our stockholders and OP Unit holders and \$92.8 million for the redemption of preferred stock.

Agency Business Requirements. The Agency Business is subject to supervision by certain regulatory agencies. Among other things, these agencies require us to meet certain minimum net worth, operational liquidity and restricted liquidity collateral requirements, purchase and loss obligations and compliance with reporting requirements. Our adjusted net worth and operational liquidity exceeded the agencies' requirements as of September 30, 2021. Our restricted liquidity and purchase and loss obligations were satisfied with letters of credit totaling \$50.0 million and \$17.0 million of cash collateral. See Note 13 for details about our performance regarding these requirements.

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We also enter into contractual commitments with borrowers providing rate lock commitments while simultaneously entering into forward sale commitments with investors. These commitments are outstanding for short periods of time (generally less than 60 days) and are described in Note 11.

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 and substantially all of our loans held-for-sale. The following is a summary of our debt facilities (in thousands):

Debt Instruments	September 30, 2021			Maturity Dates (2)
	Commitment	UPB (1)	Available	
Structured Business				
Credit and repurchase facilities	\$ 3,651,149	\$ 2,301,103	\$ 1,350,046	2021 - 2024
Collateralized loan obligations (3)	4,743,580	4,743,580	—	2021 - 2026
Senior unsecured notes	1,115,750	1,115,750	—	2023 - 2027
Convertible senior unsecured notes	264,000	264,000	—	2022
Junior subordinated notes	154,336	154,336	—	2034 - 2037
Structured Business total	9,928,815	8,578,769	1,350,046	
Agency Business				
Credit and repurchase facilities (4)	2,301,259	1,104,129	1,197,130	2021 - 2022
Consolidated total	\$ 12,230,074	\$ 9,682,898	\$ 2,547,176	

(1) Excludes the impact of deferred financing costs.

(2) See Note 13 for a breakdown of debt maturities by year.

(3) Maturity dates represent the weighted average remaining maturity based on the underlying collateral as of September 30, 2021.

(4) The ASAP agreement we have with Fannie Mae has no expiration date.

We utilize our credit and repurchase facilities primarily to finance our loan originations on a short-term basis prior to loan securitizations, including through CLOs. The timing, size and frequency of our securitizations impact the balances of these borrowings and produce some fluctuations. The following table provides additional information regarding the balances of our borrowings (in thousands):

Quarter Ended	Quarterly Average UPB	End of Period UPB	Maximum UPB at Any Month-End
September 30, 2021	\$ 3,191,129	\$ 3,409,598	\$ 3,409,598
June 30, 2021	2,327,114	3,405,232	2,588,456
March 31, 2021	2,177,350	2,220,307	2,262,160
December 31, 2020	1,939,759	2,238,722	2,238,722
September 30, 2020	1,406,219	1,454,419	1,454,419

Our debt facilities, including their restrictive covenants, are described in Note 9.

Off-Balance Sheet Arrangements. At September 30, 2021, we had no off-balance sheet arrangements.

Contractual Obligations. During the nine months ended September 30, 2021, the following significant changes were made to our contractual obligations disclosed in our 2020 Annual Report: (1) closed three CLOs issuing \$2.57 billion of investment grade notes; (2) unwound a CLO redeeming \$356.2 million of outstanding notes; (3) issued \$270.0 million of 4.50% senior unsecured notes; (4) issued \$175.0 million of 5.00% senior unsecured notes; and (5) entered into new and modified existing debt facilities.

Refer to Note 13 for a description of our debt maturities by year and unfunded commitments as of September 30, 2021.

Derivative Financial Instruments

We enter into derivative financial instruments in the normal course of business to manage the potential loss exposure caused by fluctuations of interest rates. See Note 11 for details.

Critical Accounting Policies

Please refer to Note 2 of the Notes to Consolidated Financial Statements in our 2020 Annual Report for a discussion of our critical accounting policies. During the nine months ended September 30, 2021, there were no material changes to these policies.

Non-GAAP Financial Measures

Distributable Earnings. We are presenting distributable earnings because we believe it is an important supplemental measure of our operating performance and is useful to investors, analysts and other parties in the evaluation of REITs and their ability to provide dividends to stockholders. Dividends are one of the principal reasons investors invest in REITs. To maintain REIT status, REITs are required to distribute at least 90% of their REIT-taxable income. We consider distributable earnings in determining our quarterly dividend and believe that, over time, distributable earnings is a useful indicator of our dividends per share.

We define distributable earnings as net income (loss) attributable to common stockholders computed in accordance with GAAP, adjusted for accounting items such as depreciation and amortization (adjusted for unconsolidated joint ventures), non-cash stock-based compensation expense, income from MSR, amortization and write-offs of MSR, gains/losses on derivative instruments primarily associated with Private Label loans not yet sold and securitized, the tax impact on cumulative gains/losses on derivative instruments associated with Private Label loans sold during the periods presented, changes in fair value of GSE-related derivatives that temporarily flow through earnings, deferred tax provision (benefit), CECL provisions for credit losses (adjusted for realized losses as described below) and amortization of the convertible senior notes conversion option. We also add back one-time charges such as acquisition costs and one-time gains/losses on the early extinguishment of debt and redemption of preferred stock.

We reduce distributable earnings for realized losses in the period we determine that a loan is deemed nonrecoverable in whole or in part. Loans are deemed nonrecoverable upon the earlier of: (i) when the loan receivable is settled (i.e. when the loan is repaid, or in the case of foreclosure, when the underlying asset is sold); or (ii) when we determine that it is nearly certain that all amounts due will not be collected. The realized loss amount is equal to the difference between the cash received, or expected to be received, and the book value of the asset.

Distributable earnings is not intended to be an indication of our cash flows 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 distributable earnings may be different from the calculations used by other companies and, therefore, comparability may be limited.

Distributable earnings is as follows (\$ in thousands, except share and per share data):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net income attributable to common stockholders	\$ 72,804	\$ 81,997	\$ 211,409	\$ 66,778
Adjustments:				
Net income attributable to noncontrolling interest	8,347	13,836	26,806	11,012
Income from mortgage servicing rights	(32,453)	(42,357)	(95,688)	(96,708)
Deferred tax provision (benefit)	6,256	3,853	10,692	(5,172)
Amortization and write-offs of MSRs	23,757	15,456	62,088	48,739
Depreciation and amortization	2,705	2,867	8,137	8,731
Loss on extinguishment of debt	—	—	1,370	3,546
Provision for credit losses, net	(9,867)	(11,137)	(18,210)	79,144
Loss on derivative instruments, net	1,492	753	1,484	44,113
Stock-based compensation	2,612	1,854	7,986	7,286
Loss on redemption of preferred stock	—	—	3,479	—
Distributable earnings (1)	<u>\$ 75,653</u>	<u>\$ 67,122</u>	<u>\$ 219,553</u>	<u>\$ 167,469</u>
Diluted distributable earnings per share (1)	<u>\$ 0.47</u>	<u>\$ 0.50</u>	<u>\$ 1.44</u>	<u>\$ 1.26</u>
Diluted weighted average shares outstanding (1)	<u>160,270,905</u>	<u>133,997,087</u>	<u>152,691,461</u>	<u>132,401,315</u>

(1) Amounts are attributable to common stockholders and OP Unit holders. The OP Units are redeemable for cash, or at our option for shares of our common stock on a one-for-one basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We disclosed a quantitative and qualitative analysis regarding market risk in Item 7A of our 2020 Annual Report. That information is supplemented by the information included above in Item 2 of this report. Other than the developments described thereunder, there have been no material changes in our exposure to market risk since December 31, 2020. The following table projects the potential impact on interest for a 12-month period, assuming an instantaneous increases of 25 basis points and 50 basis points in LIBOR (in thousands). Since LIBOR rates were close to zero at September 30, 2021, we have excluded the impact of a decrease in LIBOR.

	<u>Assets (Liabilities) Subject to Interest Rate Sensitivity (1)</u>	<u>25 Basis Point Increase</u>	<u>50 Basis Point Increase</u>
Interest income from loans and investments	\$ 9,169,007	\$ 7,281	\$ 20,062
Interest expense from debt obligations	(8,578,769)	15,722	33,220
Impact to net interest income		(8,441)	(13,158)
Interest from cash, restricted cash and escrows (2)	2,734,778	6,837	13,674
Net change to interest		<u>\$ (1,604)</u>	<u>\$ 516</u>

(1) Represents the UPB of our loan portfolio and the principal balance of our debt.

(2) The interest rates on these balances are not indexed to LIBOR and are negotiated periodically with each corresponding bank based on certain benchmark rates, therefore, these amounts are provided for illustrative purposes only since the actual amounts earned could be materially different from the amounts provided.

Based on our structured loans and investments and corresponding debt as of September 30, 2021, increases in LIBOR of 0.25% and 0.50% would decrease our annual net interest income as a result of LIBOR floors on a portion of our loan portfolio that are above LIBOR as of September 30, 2021, which would limit the effect of an increase on interest income. Conversely, these LIBOR floors would reduce the impact on interest income from decreases in LIBOR, which would result in increases to net interest income.

We enter into interest rate swaps to hedge our exposure to changes in interest rates inherent in (1) our held-for-sale Agency Business Private Label loans from the time the loans are rate locked until sale and securitization, and (2) our Agency Business SFR – fixed rate loans from the time the loans are originated until the time they can be financed with match term fixed rate securitized debt. Our interest rate swaps are tied to the five-year and ten-year swap rates and hedge our exposure to Private Label loans until the time they are securitized and changes in the fair value of our held-for-sale Agency Business SFR – fixed rate loans. A 25 basis point and a 50 basis point increase to the five-year and ten-year swap rates on our interest rate swaps held at September 30, 2021 would have resulted in a gain of \$4.4 million and \$8.7 million, respectively, in the nine months ended September 30, 2021, while a 25 basis point and a 50 basis point decrease in the rates would have resulted in a loss of \$4.5 million and \$9.1 million, respectively.

Our Agency Business originates, sells and services a range of multifamily finance products with Fannie Mae, Freddie Mac and HUD. Our loans held-for-sale to these agencies are not currently exposed to interest rate risk during the loan commitment, closing and delivery process. The sale or placement of each loan to an investor is negotiated prior to closing on the loan with the borrower, and the sale or placement is generally effectuated within 60 days of closing. The coupon rate for the loan is set after we establish the interest rate with the investor.

In addition, the fair value of our MSRs is subject to market risk since a significant driver of the fair value of these assets is the discount rates. A 100 basis point increase in the weighted average discount rate would decrease the fair value of our MSRs by \$16.2 million as of September 30, 2021, while a 100 basis point decrease would increase the fair value by \$17.2 million.

Item 4. Controls and Procedures

Management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures at September 30, 2021. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2021.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. 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 13.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Item 1A of our 2020 Annual Report.

Item 6. Exhibits

Exhibit #	Description
3.1	Articles of Incorporation of Arbor Realty Trust, Inc. (1)
3.2	Articles of Amendment to Articles of Incorporation of Arbor Realty Trust, Inc. (2)
3.3	Amended and Restated Bylaws of Arbor Realty Trust, Inc. (3)
3.4	Articles Supplementary of 6.375% Series D Cumulative Redeemable Preferred Stock. (4)
3.5	Articles Supplementary of 6.25% Series E Cumulative Redeemable Preferred Stock (5)
3.6	Articles Supplementary of 6.25% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (6)
3.7	Specimen 6.375% Series D Cumulative Redeemable Preferred Stock Certificate (7)
4.1	Specimen 6.25% Series E Cumulative Redeemable Preferred Stock Certificate (8)
4.2	Specimen 6.25% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (9)
10.1	Fourth Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated June 25, 2021, by and among Arbor Realty GPOP, Inc., Arbor Realty LPOP, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Trust, Inc. (10)
10.2	First Amendment dated August 25, 2021 to the Fourth Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated June 25, 2021, by and among Arbor Realty GPOP, Inc., Arbor Realty LPOP, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Trust, Inc.
10.3	Second Amendment dated October 12, 2021 to the Fourth Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated June 25, 2021, by and among Arbor Realty GPOP, Inc., Arbor Realty LPOP, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Trust, Inc.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14.
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	Financial statements from the Quarterly Report on Form 10-Q of Arbor Realty Trust, Inc. for the quarter ended September 30, 2021, filed on October 29, 2021, formatted in Inline Extensible Business Reporting Language (“XBRL”): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Changes in Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

In accordance with Item 601 (b)(4)(iii)(A) of Regulation S-K, certain instruments with respect to long-term debt of the registrant have been omitted but will be furnished to the Securities and Exchange Commission upon request.

(1) Incorporated by reference to Registration Statement on Form S-11 (No. 333-110472), as amended filed November 13, 2003.

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- (2) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 filed August 7, 2007.
- (3) Incorporated by reference to Exhibit 3.1 of Form 8-K filed December 1, 2020.
- (4) Incorporated by reference to Exhibit 3.7 on Form 8-A filed June 2, 2021.
- (5) Incorporated by reference to Exhibit 3.5 on Form 8-A filed August 11, 2021.
- (6) Incorporated by reference to Exhibit 3.6 on Form 8-A filed October 12, 2021.
- (7) Incorporated by reference to Exhibit 4.1 on Form 8-A filed June 2, 2021.
- (8) Incorporated by reference to Exhibit 4.1 on Form 8-A filed August 11, 2021.
- (9) Incorporated by reference to Exhibit 4.1 on Form 8-A filed October 12, 2021.
- (10) Incorporated by reference to Exhibit 10.2 on Form S-4 (No. 333-257494) filed June 28, 2021.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARBOR REALTY TRUST, INC.

Date: October 29, 2021

By: /s/ Ivan Kaufman
Ivan Kaufman
Chief Executive Officer

Date: October 29, 2021

By: /s/ Paul Elenio
Paul Elenio
Chief Financial Officer

**AMENDMENT NO. 1 TO THE
FOURTH AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP
OF
ARBOR REALTY LIMITED PARTNERSHIP**

August 25, 2021

This Amendment No. 1 to the Fourth Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership (this "Amendment") is made as of August 25, 2021 by Arbor Realty GPOP, Inc., a Delaware corporation, as the General Partner of Arbor Realty Limited Partnership, a Delaware limited partnership (the "Partnership"), pursuant to the Fourth Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated as of June 25, 2021 (the "Agreement"), by and among Arbor Realty GPOP, Inc., Arbor Realty LPOP, Inc. (the "Initial Limited Partner"), Arbor Commercial Mortgage, LLC and Arbor Realty Trust, Inc. (the "Parent REIT"). All capitalized terms used in this Amendment and not otherwise defined herein shall have the respective meanings assigned to such terms in the Agreement.

WHEREAS, Section 4.3E of the Agreement generally prohibits the Parent REIT from issuing Preferred Shares unless (i) the Parent REIT contributes the cash proceeds or other consideration received from the issuance of such Preferred Shares to the General Partner or the Initial Limited Partner and (ii) the General Partner or the Initial Limited Partner, as the case may be, contributes such proceeds to the Partnership in exchange for Partnership Units with designations, preferences and other rights, terms and provisions that are substantially the same as the designations, preferences and other rights, terms and provisions of such Preferred Shares.

WHEREAS, Section 4.2A of the Agreement authorizes the General Partner to issue additional Partnership Interests, in the form of Partnership Units, for any Partnership purpose, at any time or from time to time, to the Partners (including the General Partner) or to other Persons, for such consideration and on such terms and conditions as shall be established by the General Partner in its sole and absolute discretion, all without the approval of any Limited Partners, with such designations, preferences and relative, participating, optional or other special rights, powers and duties as shall be determined by the General Partner, in its sole and absolute discretion without the approval of any Limited Partner, and set forth in the Agreement or a written document thereafter attached to and made an exhibit to the Agreement (each, a "Partnership Unit Designation").

WHEREAS, Section 4.2A of the Agreement authorizes the General Partner to amend Exhibit A to reflect the issuance of any additional Partnership Interest.

WHEREAS, Section 7.3C of the Agreement permits the General Partner, without the consent of the Limited Partners, to amend the Agreement for the purpose of reflecting the issuance of additional Partnership Interests in accordance with Section 4.2 and to reflect a change that is of an inconsequential nature and does not adversely affect the Limited Partners in any material respect.

WHEREAS, pursuant to and in accordance with Section 4.2A and Section 7.3C of the Agreement, the General Partner is causing the Partnership to issue 575,000 additional Partnership Units to the General Partner and 5,175,000 additional Partnership Units to the Initial Limited Partner, designated as Series E Preferred Units, in connection with the issuance by the Parent REIT of 5,750,000 shares of its 6.25% Series E Cumulative Redeemable Preferred Stock, \$0.01 par value per share, and the contribution of the proceeds therefrom to the Partnership.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the Agreement is hereby amended as follows:

A. Amendments to Agreement.

1. Exhibit A of the Agreement is hereby deleted and replaced with Exhibit A attached to this Amendment.
-

2. The exhibit index of the Agreement is hereby deleted and replaced with the following:

EXHIBITS

Exhibit A	PARTNERS AND PARTNERSHIP UNITS	A-1
Exhibit B	EXAMPLES REGARDING ADJUSTMENT FACTOR	B-1
Exhibit C	NOTICE OF REDEMPTION	C-1
Exhibit D	FORM OF UNIT CERTIFICATE	D-1
Exhibit E	PARTNERSHIP UNIT DESIGNATION OF THE SERIES D PREFERRED UNITS	E-1
Exhibit F	PARTNERSHIP UNIT DESIGNATION OF THE SERIES E PREFERRED UNITS	F-1

3. The Partnership Unit Designation of the Series E Preferred Units, attached to this Amendment as Exhibit F, is hereby added to the Agreement to reflect the issuance of the Series E Preferred Units.

- B. No Other Amendments. Except as set forth in Part A above, all the terms and provisions of the Agreement shall continue in full force and effect.
- C. Governing Law. This Amendment shall be construed and enforced in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law. In the event of a conflict between any provision of this Amendment and any non-mandatory provision of the Delaware Revised Uniform Limited Partnership Act (6 Del. C. § 17-101 et seq.), as it may be amended from time to time, and any successor to such statute, the provisions of this Amendment shall control and take precedence.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, this Amendment has been executed as of the date first written above.

GENERAL PARTNER:

ARBOR REALTY GPOP, INC.

By: /s/ Paul Elenio

Name: Paul Elenio

Title: Chief Financial Officer

*[Signature Page to Amendment No. 1 to the Fourth Amended and Restated Agreement of Limited Partnership of
Arbor Realty Limited Partnership]*

Exhibit A

PARTNERS AND PARTNERSHIP UNITS

Name and Address of Partners	Partnership Units (Type and Amount)	Percentage Interests
<u>General Partner:</u>		
ARBOR REALTY GPOP, INC. 333 Earle Ovington Boulevard, Suite 900 Uniondale, NY 11553	[] Common Units [] Series D Preferred Units [] Series E Preferred Units	[]%
<u>Limited Partners:</u>		
ARBOR REALTY LPOP, INC. 333 Earle Ovington Boulevard, Suite 900 Uniondale, NY 11553	[] Common Units [] Series D Preferred Units [] Series E Preferred Units	[]%
ARBOR COMMERCIAL MORTGAGE, LLC [] []	[] Common Units	[]%

Exhibit F

(see attached)

**AMENDMENT NO. 2 TO THE
FOURTH AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP
OF
ARBOR REALTY LIMITED PARTNERSHIP**

October 12, 2021

This Amendment No. 2 to the Fourth Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership (this "Amendment") is made as of October 12, 2021 by Arbor Realty GPOP, Inc., a Delaware corporation, as the General Partner of Arbor Realty Limited Partnership, a Delaware limited partnership (the "Partnership"), pursuant to the Fourth Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated as of June 25, 2021, as amended on August 25, 2021 (the "Agreement"), by and among Arbor Realty GPOP, Inc., Arbor Realty LPOP, Inc. (the "Initial Limited Partner"), Arbor Commercial Mortgage, LLC and Arbor Realty Trust, Inc. (the "Parent REIT"). All capitalized terms used in this Amendment and not otherwise defined herein shall have the respective meanings assigned to such terms in the Agreement.

WHEREAS, Section 4.3E of the Agreement generally prohibits the Parent REIT from issuing Preferred Shares unless (i) the Parent REIT contributes the cash proceeds or other consideration received from the issuance of such Preferred Shares to the General Partner or the Initial Limited Partner and (ii) the General Partner or the Initial Limited Partner, as the case may be, contributes such proceeds to the Partnership in exchange for Partnership Units with designations, preferences and other rights, terms and provisions that are substantially the same as the designations, preferences and other rights, terms and provisions of such Preferred Shares.

WHEREAS, Section 4.2A of the Agreement authorizes the General Partner to issue additional Partnership Interests, in the form of Partnership Units, for any Partnership purpose, at any time or from time to time, to the Partners (including the General Partner) or to other Persons, for such consideration and on such terms and conditions as shall be established by the General Partner in its sole and absolute discretion, all without the approval of any Limited Partners, with such designations, preferences and relative, participating, optional or other special rights, powers and duties as shall be determined by the General Partner, in its sole and absolute discretion without the approval of any Limited Partner, and set forth in the Agreement or a written document thereafter attached to and made an exhibit to the Agreement (each, a "Partnership Unit Designation").

WHEREAS, Section 4.2A of the Agreement authorizes the General Partner to amend Exhibit A to reflect the issuance of any additional Partnership Interest.

WHEREAS, Section 7.3C of the Agreement permits the General Partner, without the consent of the Limited Partners, to amend the Agreement for the purpose of reflecting the issuance of additional Partnership Interests in accordance with Section 4.2 and to reflect a change that is of an inconsequential nature and does not adversely affect the Limited Partners in any material respect.

WHEREAS, pursuant to and in accordance with Section 4.2A and Section 7.3C of the Agreement, the General Partner is causing the Partnership to issue 805,000 additional Partnership Units to the General Partner and 7,245,000 additional Partnership Units to the Initial Limited Partner, designated as Series F Preferred Units, in connection with the issuance by the Parent REIT of 8,050,000 shares of its 6.25% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share, and the contribution of the proceeds therefrom to the Partnership.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the Agreement is hereby amended as follows:

A. Amendments to Agreement.

1. Exhibit A of the Agreement is hereby deleted and replaced with Exhibit A attached to this Amendment.
-

2. The exhibit index of the Agreement is hereby deleted and replaced with the following:

EXHIBITS

Exhibit A	PARTNERS AND PARTNERSHIP UNITS	A-1
Exhibit B	EXAMPLES REGARDING ADJUSTMENT FACTOR	B-1
Exhibit C	NOTICE OF REDEMPTION	C-1
Exhibit D	FORM OF UNIT CERTIFICATE	D-1
Exhibit E	PARTNERSHIP UNIT DESIGNATION OF THE SERIES D PREFERRED UNITS	E-1
Exhibit F	PARTNERSHIP UNIT DESIGNATION OF THE SERIES E PREFERRED UNITS	F-1
Exhibit G	PARTNERSHIP UNIT DESIGNATION OF THE SERIES F PREFERRED UNITS	G-1

3. The Partnership Unit Designation of the Series F Preferred Units, attached to this Amendment as Exhibit G, is hereby added to the Agreement to reflect the issuance of the Series F Preferred Units.

- B. No Other Amendments. Except as set forth in Part A above, all the terms and provisions of the Agreement shall continue in full force and effect.
- C. Governing Law. This Amendment shall be construed and enforced in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law. In the event of a conflict between any provision of this Amendment and any non-mandatory provision of the Delaware Revised Uniform Limited Partnership Act (6 Del. C. § 17-101 et seq.), as it may be amended from time to time, and any successor to such statute, the provisions of this Amendment shall control and take precedence.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, this Amendment has been executed as of the date first written above.

GENERAL PARTNER:

ARBOR REALTY GPOP, INC.

By: /s/Paul Elenio

Name: Paul Elenio

Title: Chief Financial Officer

[Signature Page to Amendment No. 2 to the Fourth Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership]

Exhibit A

PARTNERS AND PARTNERSHIP UNITS

Name and Address of Partners	Partnership Units (Type and Amount)	Percentage Interests
<u>General Partner:</u>		
ARBOR REALTY GPOP, INC. 333 Earle Ovington Boulevard, Suite 900 Uniondale, NY 11553	[_____] Common Units [_____] Series D Preferred Units [_____] Series E Preferred Units [_____] Series F Preferred Units	[__]%
<u>Limited Partners:</u>		
ARBOR REALTY LPOP, INC. 333 Earle Ovington Boulevard, Suite 900 Uniondale, NY 11553	[_____] Common Units [_____] Series D Preferred Units [_____] Series E Preferred Units [_____] Series F Preferred Units	[__]%
ARBOR COMMERCIAL MORTGAGE, LLC 333 Earle Ovington Boulevard, Suite 900 Uniondale, NY 11553	[_____] Common Units	[__]%

Exhibit G

(see attached)

Certification of Chief Executive Officer

I, Ivan Kaufman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arbor Realty Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2021

By: /s/ Ivan Kaufman
Ivan Kaufman
Chief Executive Officer

Certification of Chief Financial Officer

I, Paul Elenio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arbor Realty Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2021

By: /s/ Paul Elenio

Paul Elenio

Chief Financial Officer

**Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Arbor Realty Trust, Inc. (the "Company") for the quarter ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2021

By: /s/ Ivan Kaufman
Ivan Kaufman
Chief Executive Officer

Date: October 29, 2021

By: /s/ Paul Elenio
Paul Elenio
Chief Financial Officer

This certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this certification required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
