
**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 March 31, 2023**

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 181,161,134 shares of common stock outstanding at April 28, 2023.

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PART I. FINANCIAL INFORMATION

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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, as well as information in our annual report on Form 10-K for the year ended December 31, 2022 (the “2022 Annual Report”) filed with the SEC on February 17, 2023 and in our other reports and filings with the SEC.

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, macroeconomic and geopolitical conditions generally, and the real estate market specifically, in particular, due to the severity and duration of 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; inflation; 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.

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)

| | March 31, 2023 (Unaudited) | December 31, 2022 |
|--|----------------------------------|----------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 774,544 | \$ 534,357 |
| Restricted cash | 704,844 | 713,808 |
| Loans and investments, net (allowance for credit losses of \$153,077 and \$132,559) | 13,430,985 | 14,254,674 |
| Loans held-for-sale, net | 469,602 | 354,070 |
| Capitalized mortgage servicing rights, net | 396,634 | 401,471 |
| Securities held-to-maturity, net (allowance for credit losses of \$5,025 and \$3,153) | 153,888 | 156,547 |
| Investments in equity affiliates | 77,641 | 79,130 |
| Due from related party | 113,105 | 77,419 |
| Goodwill and other intangible assets | 94,896 | 96,069 |
| Other assets | 372,085 | 371,440 |
| Total assets | \$ 16,588,224 | \$ 17,038,985 |
| Liabilities and Equity: | | |
| Credit and repurchase facilities | \$ 3,650,876 | \$ 3,841,814 |
| Securitized debt | 7,508,472 | 7,849,270 |
| Senior unsecured notes | 1,409,899 | 1,385,994 |
| Convertible senior unsecured notes | 281,046 | 280,356 |
| Junior subordinated notes to subsidiary trust issuing preferred securities | 143,322 | 143,128 |
| Due to related party | 12,481 | 12,350 |
| Due to borrowers | 59,281 | 61,237 |
| Allowance for loss-sharing obligations | 59,757 | 57,168 |
| Other liabilities | 305,633 | 335,789 |
| Total liabilities | 13,430,767 | 13,967,106 |
| 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: | 633,684 | 633,684 |
| Special voting preferred shares - 16,293,589 shares | | |
| 6.375% Series D - 9,200,000 shares | | |
| 6.25% Series E - 5,750,000 shares | | |
| 6.25% Series F - 11,342,000 shares | | |
| Common stock, \$0.01 par value: 500,000,000 shares authorized - 183,821,003 and 178,230,522 shares issued and outstanding | 1,838 | 1,782 |
| Additional paid-in capital | 2,278,287 | 2,204,481 |
| Retained earnings | 107,697 | 97,049 |
| Total Arbor Realty Trust, Inc. stockholders' equity | 3,021,506 | 2,936,996 |
| Noncontrolling interest | 135,951 | 134,883 |
| Total equity | 3,157,457 | 3,071,879 |
| Total liabilities and equity | \$ 16,588,224 | \$ 17,038,985 |

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. At March 31, 2023 and December 31, 2022, assets of our consolidated VIEs totaled \$9,354,036 and \$9,785,261, respectively, and the liabilities of our consolidated VIEs totaled \$7,532,335 and \$7,876,024, 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)

| | Three Months Ended March 31, | |
|--|------------------------------|-------------|
| | 2023 | 2022 |
| Interest income | \$ 327,947 | \$ 166,698 |
| Interest expense | 219,373 | 82,559 |
| Net interest income | 108,574 | 84,139 |
| Other revenue: | | |
| Gain on sales, including fee-based services, net | 14,589 | 1,656 |
| Mortgage servicing rights | 18,458 | 15,312 |
| Servicing revenue, net | 29,565 | 21,054 |
| Property operating income | 1,381 | 295 |
| Gain on derivative instruments, net | 4,223 | 17,386 |
| Other income, net | 4,882 | 3,200 |
| Total other revenue | 73,098 | 58,903 |
| Other expenses: | | |
| Employee compensation and benefits | 42,399 | 42,025 |
| Selling and administrative | 13,623 | 14,548 |
| Property operating expenses | 1,383 | 535 |
| Depreciation and amortization | 2,624 | 1,983 |
| Provision for loss sharing (net of recoveries) | 3,177 | (662) |
| Provision for credit losses (net of recoveries) | 22,517 | 2,358 |
| Total other expenses | 85,723 | 60,787 |
| Income before extinguishment of debt, income from equity affiliates and income taxes | 95,949 | 82,255 |
| Loss on extinguishment of debt | — | (1,350) |
| Income from equity affiliates | 14,326 | 7,212 |
| Provision for income taxes | (8,029) | (8,188) |
| Net income | 102,246 | 79,929 |
| Preferred stock dividends | 10,342 | 9,056 |
| Net income attributable to noncontrolling interest | 7,585 | 6,816 |
| Net income attributable to common stockholders | \$ 84,319 | \$ 64,057 |
| Basic earnings per common share | \$ 0.47 | \$ 0.42 |
| Diluted earnings per common share | \$ 0.46 | \$ 0.40 |
| Weighted average shares outstanding: | | |
| Basic | 181,116,674 | 153,420,238 |
| Diluted | 214,910,974 | 185,431,404 |
| Dividends declared per common share | \$ 0.40 | \$ 0.37 |

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 March 31, 2023 | | | | | | | | | |
|---|------------------------------|-----------------------------|---------------------------|------------------------------|----------------------------------|----------------------|--|----------------------------|---------------------|
| | Preferred Stock Shares | Preferred Stock Value | Common Stock Shares | Common Stock Par Value | Additional Paid-in Capital | Retained Earnings | Total Arbor Realty Trust, Inc. Stockholders' Equity | Noncontrolling Interest | Total Equity |
| Balance – January 1, 2023 | 42,585,589 | \$ 633,684 | 178,230,522 | \$ 1,782 | \$ 2,204,481 | \$ 97,049 | \$ 2,936,996 | \$ 134,883 | \$ 3,071,879 |
| Issuance of common stock | — | — | 5,635,800 | 56 | 82,688 | — | 82,744 | — | 82,744 |
| Repurchase of common stock | — | — | (886,432) | (9) | (9,662) | — | (9,671) | — | (9,671) |
| Stock-based compensation, net | — | — | 841,113 | 9 | 780 | — | 789 | — | 789 |
| Distributions - common stock | — | — | — | — | — | (73,666) | (73,666) | — | (73,666) |
| Distributions - preferred stock | — | — | — | — | — | (10,347) | (10,347) | — | (10,347) |
| Distributions - noncontrolling interest | — | — | — | — | — | — | — | (6,517) | (6,517) |
| Net income | — | — | — | — | — | 94,661 | 94,661 | 7,585 | 102,246 |
| Balance – March 31, 2023 | <u>42,585,589</u> | <u>\$ 633,684</u> | <u>183,821,003</u> | <u>\$ 1,838</u> | <u>\$ 2,278,287</u> | <u>\$ 107,697</u> | <u>\$ 3,021,506</u> | <u>\$ 135,951</u> | <u>\$ 3,157,457</u> |
| Three Months Ended March 31, 2022 | | | | | | | | | |
| Balance - January 1, 2022 | 39,325,095 | 556,163 | 151,362,181 | 1,514 | 1,789,229 | 68,144 | 2,415,050 | 132,487 | 2,547,537 |
| Issuance of common stock | — | — | 8,225,750 | 82 | 137,718 | — | 137,800 | — | 137,800 |
| Issuance of Series F preferred stock | 3,292,000 | 77,571 | — | — | — | — | 77,571 | — | 77,571 |
| Stock-based compensation, net | — | — | 610,184 | 6 | 674 | — | 680 | — | 680 |
| Distributions - common stock | — | — | — | — | — | (56,373) | (56,373) | — | (56,373) |
| Distributions - preferred stock | — | — | — | — | — | (9,056) | (9,056) | — | (9,056) |
| Distributions - noncontrolling interest | — | — | — | — | — | — | — | (6,040) | (6,040) |
| Net income | — | — | — | — | — | 73,113 | 73,113 | 6,816 | 79,929 |
| Balance – March 31, 2022 | <u>42,617,095</u> | <u>\$ 633,734</u> | <u>160,198,115</u> | <u>\$ 1,602</u> | <u>\$ 1,927,621</u> | <u>\$ 75,828</u> | <u>\$ 2,638,785</u> | <u>\$ 133,263</u> | <u>\$ 2,772,048</u> |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended March 31, | |
|---|-------------------------------------|--------------------|
| | 2023 | 2022 |
| Operating activities: | | |
| Net income | \$ 102,246 | \$ 79,929 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 2,624 | 1,983 |
| Stock-based compensation | 5,901 | 6,095 |
| Amortization and accretion of interest and fees, net | (236) | (2,840) |
| Amortization of capitalized mortgage servicing rights | 15,416 | 14,972 |
| Originations of loans held-for-sale | (1,033,384) | (845,620) |
| Proceeds from sales of loans held-for-sale, net of gain on sale | 921,522 | 1,586,715 |
| Mortgage servicing rights | (18,458) | (15,312) |
| Write-off of capitalized mortgage servicing rights from payoffs | 3,307 | 12,697 |
| Provision for loss sharing (net of recoveries) | 3,177 | (662) |
| Provision for credit losses (net of recoveries) | 22,517 | 2,358 |
| Net charge-offs for loss sharing obligations | (588) | (230) |
| Deferred tax provision (benefit) | 3,164 | (1,720) |
| Income from equity affiliates | (14,326) | (7,212) |
| Distributions from operations of equity affiliates | 4,748 | 12,859 |
| Change in fair value of held-for-sale loans | (2,960) | — |
| Loss on extinguishment of debt | — | 1,350 |
| Payoffs and paydowns of loans held-for-sale | 13 | 3,258 |
| Changes in operating assets and liabilities | (71,468) | (11,792) |
| Net cash (used in) provided by operating activities | <u>(56,785)</u> | <u>836,828</u> |
| Investing Activities: | | |
| Loans and investments funded, originated and purchased, net | (380,633) | (2,656,874) |
| Payoffs and paydowns of loans and investments | 1,191,076 | 668,379 |
| Deferred fees | 3,953 | 20,767 |
| Contributions to equity affiliates | (500) | (12,807) |
| Distributions from equity affiliates | 11,567 | — |
| Payoffs and paydowns of securities held-to-maturity | 2,580 | 2,647 |
| Purchase of securities held-to-maturity, net | — | (27,598) |
| Due to borrowers and reserves | — | (12,150) |
| Net cash provided by (used in) investing activities | <u>828,043</u> | <u>(2,017,636)</u> |
| Financing activities: | | |
| Proceeds from credit and repurchase facilities | 1,849,389 | 3,035,664 |
| Paydowns and payoffs of credit and repurchase facilities | (2,042,692) | (3,213,976) |
| Payoffs and paydowns of securitized debt | (344,547) | (441,000) |
| Proceeds from issuance of common stock | 82,744 | 137,800 |
| Proceeds from issuance of senior unsecured notes | 95,000 | — |
| Payoffs and paydowns of senior unsecured notes | (70,750) | — |
| Payments of withholding taxes on net settlement of vested stock | (5,112) | (5,415) |
| Repurchase of common stock | (9,671) | — |
| Distributions to stockholders | (90,530) | (72,099) |
| Payment of deferred financing costs | (3,866) | (13,915) |
| Proceeds from issuance of securitized debt | — | 1,652,812 |
| Proceeds from issuance of preferred stock | — | 77,571 |
| Net cash (used in) provided by financing activities | <u>(540,035)</u> | <u>1,157,442</u> |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 231,223 | (23,366) |
| Cash, cash equivalents and restricted cash at beginning of period | 1,248,165 | 891,270 |
| Cash, cash equivalents and restricted cash at end of period | <u>\$ 1,479,388</u> | <u>\$ 867,904</u> |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------------|
| | 2023 | 2022 |
| Reconciliation of cash, cash equivalents and restricted cash: | | |
| Cash and cash equivalents at beginning of period | \$ 534,357 | \$ 404,580 |
| Restricted cash at beginning of period | 713,808 | 486,690 |
| Cash, cash equivalents and restricted cash at beginning of period | <u>\$ 1,248,165</u> | <u>\$ 891,270</u> |
| Cash and cash equivalents at end of period | \$ 774,544 | \$ 350,814 |
| Restricted cash at end of period | 704,844 | 517,090 |
| Cash, cash equivalents and restricted cash at end of period | <u>\$ 1,479,388</u> | <u>\$ 867,904</u> |
| Supplemental cash flow information: | | |
| Cash used to pay interest | \$ 213,849 | \$ 70,069 |
| Cash used to pay taxes | 1,032 | 741 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Distributions accrued on preferred stock | 7,010 | 6,138 |
| Cummulative-effect adjustment (adoption of convertible debt standard) | — | 2,447 |

See Notes to Consolidated Financial Statements.

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

Note 1 — Description of Business

Arbor Realty Trust, Inc. (“we,” “us,” or “our”) is a Maryland corporation formed in 2003. We are a nationwide real estate investment trust (“REIT”) and direct lender, providing loan origination and servicing for commercial real estate assets. 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 loans, in addition to mezzanine loans, 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 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

The 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 2022 Annual Report.

Principles of Consolidation

The consolidated financial statements include our financial statements and the financial statements of our wholly owned subsidiaries, partnerships and other entities 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.

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

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. The ongoing effects of the COVID-19 pandemic have caused significant disruptions to the U.S. and global economies. Although vaccine availability and usage have continued to increase, which has led to less negative short-term effects, such as travel bans, quarantines, layoffs and shutdowns, the ongoing longer-term macroeconomic effects on inflation, interest rates, capital markets, labor shortages, property values and global supply chains continue to negatively impact many industries, including the U.S. commercial real estate market. In addition, new strains of COVID-19 continue to emerge, which may cause governments and businesses to re-impose aggressive measures to help slow its spread, making the future impact difficult to predict. The ultimate impact of COVID-19 on the economy, including rising inflation, increasing interest rates, tightening of capital markets and reduced property values, both globally and to our business, makes any estimate or assumption at March 31, 2023 inherently less certain.

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements.

Recently Adopted Accounting Pronouncements

| Description | Adoption Date | Effect on Financial Statements |
|--|-----------------------|--|
| In March 2022, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This guidance eliminates the accounting guidance on troubled debt restructurings and amends existing disclosures, including the requirement to disclose current period gross write-offs by year of origination. The guidance also updates the requirements related to accounting for credit losses and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. | First quarter of 2023 | The adoption of this guidance did not have a material impact on our consolidated financial statements. |

Recently Issued Accounting Pronouncements

In March 2023, the FASB issued ASU 2023-01, Leases (Topic 842) – Common Control Arrangements and ASU 2023-02, Investments – Equity Method and Joint Ventures: Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method, both effective for us in the first quarter of 2024. We currently do not have any transactions that fall under the scope of this guidance; therefore, the adoption of this guidance is not expected to have an impact on our consolidated financial statements.

Significant Accounting Policies

See Item 8 – Financial Statements and Supplementary Data in our 2022 Annual Report for a description of our significant accounting policies. There have been no significant changes to our significant accounting policies since December 31, 2022.

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

Note 3 — Loans and Investments

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

| | <u>March 31, 2023</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) | \$ 13,298,939 | 97 % | 659 | 8.62 % | 18.3 | 0 % | 76 % |
| Mezzanine loans | 222,094 | 2 % | 46 | 8.15 % | 60.7 | 44 % | 80 % |
| Preferred equity investments | 89,725 | 1 % | 7 | 6.56 % | 45.3 | 47 % | 84 % |
| Other loans (5) | 32,966 | <1 % | 3 | 9.23 % | 29.5 | 0 % | 57 % |
| | <u>13,643,724</u> | <u>100 %</u> | <u>715</u> | <u>8.60 %</u> | <u>19.2</u> | <u>1 %</u> | <u>76 %</u> |
| Allowance for credit losses | (153,077) | | | | | | |
| Unearned revenue | (59,662) | | | | | | |
| Loans and investments, net | <u>\$ 13,430,985</u> | | | | | | |
| | <u>December 31, 2022</u> | | | | | | |
| Bridge loans (4) | \$ 14,096,054 | 98 % | 692 | 8.17 % | 19.8 | 0 % | 76 % |
| Mezzanine loans | 213,499 | 1 % | 44 | 8.13 % | 63.1 | 42 % | 77 % |
| Preferred equity investments | 110,725 | 1 % | 8 | 7.63 % | 39.2 | 46 % | 79 % |
| Other loans (5) | 35,845 | <1 % | 3 | 8.76 % | 32.8 | 0 % | 58 % |
| | <u>14,456,123</u> | <u>100 %</u> | <u>747</u> | <u>8.17 %</u> | <u>20.6</u> | <u>1 %</u> | <u>76 %</u> |
| Allowance for credit losses | (132,559) | | | | | | |
| Unearned revenue | (68,890) | | | | | | |
| Loans and investments, net | <u>\$ 14,254,674</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 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) At March 31, 2023 and December 31, 2022, bridge loans included 254 and 241, respectively, of SFR loans with a total gross loan commitment of \$1.63 billion and \$1.57 billion, respectively, of which \$982.0 million and \$927.4 million, respectively, was funded.
- (5) At both March 31, 2023 and December 31, 2022, other loans included 3 variable rate SFR permanent loans.

Concentration of Credit Risk

We are subject to concentration risk in that, at March 31, 2023, the UPB related to 84 loans with five different borrowers represented 11% of total assets. At December 31, 2022, the UPB related to 38 loans with five different borrowers represented 11% of total assets. During both the three months ended March 31, 2023 and the year ended December 31, 2022, 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.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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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.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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A summary of the loan portfolio's internal risk ratings and LTV ratios by asset class at March 31, 2023 is as follows (\$ in thousands):

| Asset Class / Risk Rating | UPB by Origination Year | | | | | | Total | Wtd. Avg. | Wtd. Avg. |
|------------------------------|-------------------------|---------------------|---------------------|-------------------|-------------------|-------------------|----------------------|-------------------------|-------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | | First Dollar | Last Dollar |
| | | | | | | | | LTV Ratio | LTV Ratio |
| Multifamily: | | | | | | | | | |
| Pass | \$ 22,360 | \$ 549,835 | \$ 268,328 | \$ 3,155 | \$ — | \$ 20,300 | \$ 863,978 | | |
| Pass/Watch | 160,465 | 2,781,244 | 3,236,800 | 303,109 | 203,354 | 22,050 | 6,707,022 | | |
| Special Mention | — | 1,322,873 | 2,884,543 | 51,175 | 51,785 | 27,194 | 4,337,570 | | |
| Substandard | — | 97,218 | 259,302 | — | 10,565 | 32,500 | 399,585 | | |
| Total Multifamily | \$ 182,825 | \$ 4,751,170 | \$ 6,648,973 | \$ 357,439 | \$ 265,704 | \$ 102,044 | \$ 12,308,155 | 1 % | 77 % |
| Single-Family Rental: | | | | | | | | | |
| | | | | | | | | Percentage of portfolio | 91 % |
| Pass | \$ — | \$ — | \$ 22,928 | \$ 3,113 | \$ — | \$ — | \$ 26,041 | | |
| Pass/Watch | 33,188 | 449,188 | 293,140 | 107,147 | 20,965 | — | 903,628 | | |
| Special Mention | — | 20,710 | 27,474 | 37,139 | — | — | 85,323 | | |
| Total Single-Family Rental | \$ 33,188 | \$ 469,898 | \$ 343,542 | \$ 147,399 | \$ 20,965 | \$ — | \$ 1,014,992 | 0 % | 63 % |
| Land: | | | | | | | | | |
| | | | | | | | | Percentage of portfolio | 7 % |
| Special Mention | \$ — | \$ — | \$ — | \$ 8,100 | \$ — | \$ — | \$ 8,100 | | |
| Substandard | — | — | — | — | — | 127,928 | 127,928 | | |
| Total Land | \$ — | \$ — | \$ — | \$ 8,100 | \$ — | \$ 127,928 | \$ 136,028 | 0 % | 98 % |
| Office: | | | | | | | | | |
| | | | | | | | | Percentage of portfolio | 1 % |
| Pass/Watch | \$ — | \$ — | \$ — | \$ 35,410 | \$ — | \$ — | \$ 35,410 | | |
| Substandard | — | — | — | — | — | 44,625 | 44,625 | | |
| Total Office | \$ — | \$ — | \$ — | \$ 35,410 | \$ — | \$ 44,625 | \$ 80,035 | 0 % | 99 % |
| Healthcare: | | | | | | | | | |
| | | | | | | | | Percentage of portfolio | 1 % |
| Pass/Watch | \$ — | \$ — | \$ — | \$ — | \$ 51,069 | \$ — | \$ 51,069 | | |
| Total Healthcare | \$ — | \$ — | \$ — | \$ — | \$ 51,069 | \$ — | \$ 51,069 | 0 % | 69 % |
| Retail: | | | | | | | | | |
| | | | | | | | | Percentage of portfolio | <1 % |
| Pass | \$ — | \$ — | \$ — | \$ — | \$ 4,000 | \$ — | \$ 4,000 | | |
| Special Mention | — | — | — | — | — | 3,445 | 3,445 | | |
| Substandard | — | — | — | — | — | 18,600 | 18,600 | | |
| Total Retail | \$ — | \$ — | \$ — | \$ — | \$ 4,000 | \$ 22,045 | \$ 26,045 | 11 % | 71 % |
| Student Housing: | | | | | | | | | |
| | | | | | | | | Percentage of portfolio | <1 % |
| Pass/Watch | \$ — | \$ — | \$ 25,700 | \$ — | \$ — | \$ — | \$ 25,700 | | |
| Total Student Housing | \$ — | \$ — | \$ 25,700 | \$ — | \$ — | \$ — | \$ 25,700 | 0 % | 67 % |
| Other: | | | | | | | | | |
| | | | | | | | | Percentage of portfolio | <1 % |
| Doubtful | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 1,700 | \$ 1,700 | | |
| Total Other | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 1,700 | \$ 1,700 | 63 % | 63 % |
| Grand Total | \$ 216,013 | \$ 5,221,068 | \$ 7,018,215 | \$ 548,348 | \$ 341,738 | \$ 298,342 | \$ 13,643,724 | 1 % | 76 % |

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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Geographic Concentration Risk

At March 31, 2023, underlying properties in Texas and Florida represented 24% and 15%, respectively, of the outstanding balance of our loan and investment portfolio. At December 31, 2022, underlying properties in Texas and Florida represented 22% and 14%, respectively, of the outstanding balance of our loan and investment portfolio. No other states represented 10% or more of the total loan and investment portfolio.

Allowance for Credit Losses

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

| | Three Months Ended March 31, 2023 | | | | | | | Total |
|---|--|--------------------|-----------------|-----------------|-------------------|-----------------------------|---------------|-------------------|
| | Land | Multifamily | Office | Retail | Commercial | Single-Family Rental | Other | |
| Allowance for credit losses: | | | | | | | | |
| Beginning balance | \$ 78,068 | \$ 37,961 | \$ 8,162 | \$ 5,819 | \$ 1,700 | \$ 781 | \$ 68 | \$ 132,559 |
| Provision for credit losses (net of recoveries) | 18 | 20,387 | (56) | — | — | 192 | (23) | 20,518 |
| Ending balance | <u>\$ 78,086</u> | <u>\$ 58,348</u> | <u>\$ 8,106</u> | <u>\$ 5,819</u> | <u>\$ 1,700</u> | <u>\$ 973</u> | <u>\$ 45</u> | <u>\$ 153,077</u> |
| | | | | | | | | |
| | Three Months Ended March 31, 2022 | | | | | | | |
| Allowance for credit losses: | | | | | | | | |
| Beginning balance | \$ 77,970 | \$ 18,707 | \$ 8,073 | \$ 5,819 | \$ 1,700 | \$ 320 | \$ 652 | \$ 113,241 |
| Provision for credit losses (net of recoveries) | (30) | 3,377 | 12 | — | — | 101 | (319) | 3,141 |
| Ending balance | <u>\$ 77,940</u> | <u>\$ 22,084</u> | <u>\$ 8,085</u> | <u>\$ 5,819</u> | <u>\$ 1,700</u> | <u>\$ 421</u> | <u>\$ 333</u> | <u>\$ 116,382</u> |

The increase in the provision for credit losses during the three months ended March 31, 2023 of \$20.5 million was primarily attributable to the impact from the macroeconomic outlook of the commercial real estate market. 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 reflects recent observable data, including an increase in interest rates, higher unemployment forecasts, and rising inflation, including an estimated continual decline in real estate values and other market factors.

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 is adjusted quarterly and corresponds with the associated outstanding loans. At March 31, 2023 and December 31, 2022, we had outstanding unfunded commitments of \$1.05 billion and \$1.15 billion, respectively, that we are obligated to fund as borrowers meet certain requirements.

At March 31, 2023 and December 31, 2022, accrued interest receivable related to our loans totaling \$112.8 million and \$108.5 million, respectively, was excluded from the estimate of credit losses and is included in other assets on the consolidated balance sheets.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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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 | March 31, 2023 | | | | | |
|--------------|-------------------|-------------------|-----------------------------|----------------------------------|---------------------------------|--|
| | 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 | \$ 77,869 | 0 % | 99 % | |
| Office | 44,625 | 44,625 | 7,951 | 0 % | 100 % | |
| Retail | 22,045 | 17,563 | 5,817 | 13 % | 78 % | |
| Commercial | 1,700 | 1,700 | 1,700 | 63 % | 63 % | |
| Total | \$ 202,585 | \$ 191,756 | \$ 93,337 | 2 % | 96 % | |

| Asset Class | December 31, 2022 | | | | | |
|--------------|-------------------|-------------------|-----------------------------|----------------------------------|---------------------------------|--|
| | 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 | \$ 77,869 | 0 % | 99 % | |
| Retail | 22,045 | 17,563 | 5,817 | 14 % | 79 % | |
| Commercial | 1,700 | 1,700 | 1,700 | 63 % | 63 % | |
| Total | \$ 157,960 | \$ 147,131 | \$ 85,386 | 3 % | 96 % | |

(1) Represents the UPB of eight and seven impaired loans (less unearned revenue and other holdbacks and adjustments) by asset class at March 31, 2023 and December 31, 2022, 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 at March 31, 2023 and December 31, 2022.

At both March 31, 2023 and December 31, 2022, four loans with an aggregate net carrying value of \$2.6 million, net of related loan loss reserves of \$5.1 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 | March 31, 2023 | | | December 31, 2022 | | |
|--------------|-----------------|----------------------------|-------------------------------|-------------------|----------------------------|-------------------------------|
| | 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 |
| Multifamily | \$ 2,605 | \$ — | \$ 2,605 | \$ 2,605 | \$ — | \$ 2,605 |
| Retail | 3,445 | — | 3,445 | 3,445 | — | 3,445 |
| Commercial | 1,700 | — | 1,700 | 1,700 | — | 1,700 |
| Total | \$ 7,750 | \$ — | \$ 7,750 | \$ 7,750 | \$ — | \$ 7,750 |

In addition, we have six loans with a carrying value totaling \$121.4 million at March 31, 2023, 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 March 31, 2023 and December 31, 2022, 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 compliant with all of the terms and conditions of the loans.

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At both March 31, 2023 and December 31, 2022, we had no loans contractually past due 90 days or more that are still accruing interest. During the three months ended March 31, 2023 and 2022, we received \$0.6 million and zero, respectively, of interest income on nonaccrual loans.

There were no loan modifications, refinancing's and/or extensions during the three months ended March 31, 2023 or 2022 for borrowers experiencing financial difficulty.

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 March 31, 2023 and December 31, 2022, we had total interest reserves of \$118.0 million and \$123.7 million, respectively, on 479 loans and 480 loans, respectively, with an aggregate UPB of \$7.48 billion and \$7.70 billion, respectively.

Subsequent Event

In April 2023, we exercised our right to foreclose on a group of properties in Houston, Texas that are the underlying collateral for four bridge loans with a total UPB of \$217.4 million at March 31, 2023. We simultaneously sold these properties to a significant equity investor in the original bridge loans and provided new bridge loan financing as part of the sale. We did not record a loss on the original bridge loans and recovered all the outstanding interest owed to us as part of this restructuring.

Note 4 — Loans Held-for-Sale, Net

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

| | <u>March 31, 2023</u> | <u>December 31, 2022</u> |
|----------------------------|-----------------------|--------------------------|
| Fannie Mae | \$ 316,283 | \$ 173,020 |
| FHA | 68,008 | 21,021 |
| Freddie Mac | 41,813 | 8,938 |
| Private Label | 33,897 | 152,735 |
| SFR - Fixed Rate | 8,737 | 12,352 |
| | <u>468,738</u> | <u>368,066</u> |
| Fair value of future MSR | 7,387 | 5,557 |
| Unrealized impairment loss | (1,565) | (15,703) |
| Unearned discount | (4,958) | (3,850) |
| Loans held-for-sale, net | <u>\$ 469,602</u> | <u>\$ 354,070</u> |

During the three months ended March 31, 2023 and 2022, we sold \$932.7 million and \$1.59 billion, respectively, of loans held-for-sale. Included in the total loans sold in the first quarters of 2023 and 2022 were \$159.9 million and \$489.3 million, respectively, of Private Label loans that were sold to unconsolidated affiliates. In connection with the Private Label loans sold in the first quarter of 2022, which were securitized by the purchaser, we retained the most subordinate class of certificates in this securitization totaling \$43.4 million in satisfaction of credit risk retention requirements (see Note 7 for details), and we are also the primary servicer of the mortgage loans.

During 2022, we recorded a loss of \$5.2 million (net of corresponding swap gains associated with these loans) on seven Private Label loans with a UPB of \$129.9 million and a net carrying value of \$116.4 million. During the first quarter of 2023, we sold these loans and recorded a gain of \$0.9 million.

At March 31, 2023 and December 31, 2022, 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.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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Note 5 — Capitalized Mortgage Servicing Rights

Our capitalized mortgage servicing rights (“MSRs”) reflect commercial real estate MSRs derived primarily from loans sold in our Agency Business or acquired MSRs. The discount rates used to determine the present value of all our MSRs throughout the periods presented 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 8.6 years at both March 31, 2023 and December 31, 2022.

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

| | Three Months Ended March 31, 2023 | | | Three Months Ended March 31, 2022 | | |
|-------------------------|-----------------------------------|------------------|-------------------|-----------------------------------|------------------|-------------------|
| | Originated | Acquired | Total | Originated | Acquired | Total |
| Beginning balance | \$ 386,878 | \$ 14,593 | \$ 401,471 | \$ 395,573 | \$ 27,161 | \$ 422,734 |
| Additions | 13,886 | — | 13,886 | 26,971 | — | 26,971 |
| Amortization | (14,287) | (1,129) | (15,416) | (12,927) | (2,045) | (14,972) |
| Write-downs and payoffs | (2,841) | (466) | (3,307) | (11,556) | (1,141) | (12,697) |
| Ending balance | <u>\$ 383,636</u> | <u>\$ 12,998</u> | <u>\$ 396,634</u> | <u>\$ 398,061</u> | <u>\$ 23,975</u> | <u>\$ 422,036</u> |

We collected prepayment fees totaling \$2.1 million and \$16.1 million during the three months ended March 31, 2023 and 2022, respectively, which are included as a component of servicing revenue, net on the consolidated statements of income. At March 31, 2023 and December 31, 2022, we had no valuation allowance recorded on any of our MSRs.

The expected amortization of capitalized MSRs recorded at March 31, 2023 is as follows (in thousands):

| Year | Amortization |
|--------------------------------------|-------------------|
| 2023 (nine months ending 12/31/2023) | \$ 46,546 |
| 2024 | 60,349 |
| 2025 | 56,515 |
| 2026 | 50,349 |
| 2027 | 45,525 |
| Thereafter | 137,350 |
| Total | <u>\$ 396,634</u> |

Based on scheduled maturities, actual amortization may vary from these estimates.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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Note 6 — Mortgage Servicing

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

| March 31, 2023 | | | | |
|------------------------|----------------------|--------------|---------------------------|-------------------|
| Product Concentrations | | | Geographic Concentrations | |
| Product | UPB (1) | % of Total | State | UPB % of Total |
| Fannie Mae | \$ 19,508,256 | 67 % | Texas | 12 % |
| Freddie Mac | 5,180,607 | 18 % | New York | 11 % |
| Private Label | 2,233,500 | 8 % | California | 8 % |
| FHA | 1,242,669 | 4 % | North Carolina | 8 % |
| Bridge (2) | 467,881 | 2 % | Georgia | 6 % |
| SFR - Fixed Rate | 279,712 | 1 % | Florida | 5 % |
| Total | \$ 28,912,625 | 100 % | New Jersey | 5 % |
| | | | Illinois | 4 % |
| | | | Other (3) | 41 % |
| | | | Total | 100 % |
| December 31, 2022 | | | | |
| Fannie Mae | \$ 19,038,124 | 68 % | Texas | 11 % |
| Freddie Mac | 5,153,207 | 18 % | New York | 11 % |
| Private Label | 2,074,859 | 8 % | California | 8 % |
| FHA | 1,155,893 | 4 % | North Carolina | 8 % |
| Bridge (2) | 301,182 | 1 % | Georgia | 6 % |
| SFR - Fixed Rate | 274,764 | 1 % | Florida | 5 % |
| Total | \$ 27,998,029 | 100 % | New Jersey | 5 % |
| | | | Illinois | 4 % |
| | | | Other (3) | 42 % |
| | | | Total | 100 % |

(1) Excludes loans which we are not collecting a servicing fee.

(2) Represents bridge loans that were either sold by our Structured Business or refinanced by a third-party lender which we retained the right to service.

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

At March 31, 2023 and December 31, 2022, our weighted average servicing fee was 40.3 basis points and 41.1 basis points, respectively. At March 31, 2023 and December 31, 2022, we held total escrow balances (including unfunded CLO holdbacks) of approximately \$1.5 billion and \$1.7 billion, respectively, of which approximately \$1.3 billion and \$1.5 billion, respectively, is not included in our consolidated balance sheets. These escrows are maintained in separate accounts at several federally insured depository institutions, which may exceed FDIC insured limits. We earn interest income on the total escrow deposits, which is 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, is included as a component of servicing revenue, net in the consolidated statements of income as noted in the following table.

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The components of servicing revenue, net are as follows (in thousands):

| | Three Months Ended March 31, | |
|----------------------------|-------------------------------------|------------------|
| | 2023 | 2022 |
| Servicing fees | \$ 29,210 | \$ 31,748 |
| Interest earned on escrows | 17,003 | 837 |
| Prepayment fees | 2,075 | 16,138 |
| Write-offs of MSR | (3,307) | (12,697) |
| Amortization of MSR | (15,416) | (14,972) |
| Servicing revenue, net | <u>\$ 29,565</u> | <u>\$ 21,054</u> |

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. At March 31, 2023, we retained APL certificates with an initial face value of \$192.8 million, which were purchased at a discount for \$119.0 million. These certificates are collateralized by 5-year to 10-year fixed rate first mortgage loans on multifamily properties, bear interest at an initial weighted average variable rate of 3.94% and have an estimated weighted average remaining maturity of 7.30 years. The weighted average effective interest rate was 8.85% at both March 31, 2023 and December 31, 2022, including the accretion of a portion of the discount deemed collectible. Approximately \$6.7 million is estimated to mature after one year through five years and \$186.1 million is estimated to mature after five years through ten years.

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. At March 31, 2023, 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. 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 6.0 years. The weighted average effective interest rate was 11.43% and 12.20% at March 31, 2023 and December 31, 2022, respectively, including the accretion of a portion of the discount deemed collectible. Approximately \$7.3 million is estimated to mature within one year, \$15.8 million is estimated to mature after one year through five years, \$0.4 million is estimated to mature after five years through ten years and \$16.3 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 |
|---------------------------------|-------------------|---------------------------|-------------------------------|-----------------------------|------------------------------------|
| <u>March 31, 2023</u> | | | | | |
| APL certificates | \$ 192,791 | \$ 124,118 | \$ (16,178) | \$ 107,940 | \$ 3,330 |
| B Piece bonds | 39,750 | 29,770 | 3,253 | 33,023 | 1,695 |
| Total | <u>\$ 232,541</u> | <u>\$ 153,888</u> | <u>\$ (12,925)</u> | <u>\$ 140,963</u> | <u>\$ 5,025</u> |
| <u>December 31, 2022</u> | | | | | |
| APL certificates | \$ 192,791 | \$ 123,475 | \$ (13,348) | \$ 110,127 | \$ 2,783 |
| B Piece bonds | 41,464 | 33,072 | 1,372 | 34,444 | 370 |
| Total | <u>\$ 234,255</u> | <u>\$ 156,547</u> | <u>\$ (11,976)</u> | <u>\$ 144,571</u> | <u>\$ 3,153</u> |

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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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 March 31, 2023 | | |
|--|-----------------------------------|------------------|-----------------|
| | APL Certificates | B Piece Bonds | Total |
| Beginning balance | \$ 2,783 | \$ 370 | \$ 3,153 |
| Provision for credit loss expense/(reversal) | 547 | 1,325 | 1,872 |
| Ending balance | <u>\$ 3,330</u> | <u>\$ 1,695</u> | <u>\$ 5,025</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.

We recorded interest income (including the amortization of discount) related to these investments of \$3.1 million and \$5.2 million during the three months ended March 31, 2023 and 2022, respectively.

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 |
|---------------------------------|-------------------------------------|-------------------|--|
| | March 31, 2023 | December 31, 2022 | Equity Affiliates at March 31, 2023 |
| Arbor Residential Investor LLC | \$ 46,141 | \$ 46,951 | \$ — |
| AMAC Holdings III LLC | 14,791 | 15,825 | — |
| Fifth Wall Ventures | 13,939 | 13,584 | — |
| Lightstone Value Plus REIT L.P. | 1,895 | 1,895 | — |
| Docsumo Pte. Ltd. | 450 | 450 | — |
| JT Prime | 425 | 425 | — |
| North Vermont Avenue | — | — | — |
| West Shore Café | — | — | 1,688 |
| Lexford Portfolio | — | — | — |
| East River Portfolio | — | — | — |
| Total | <u>\$ 77,641</u> | <u>\$ 79,130</u> | <u>\$ 1,688</u> |

Arbor Residential Investor LLC (“ARI”). During the three months ended March 31, 2023 and 2022, we recorded a loss of \$0.9 million and income of \$5.0 million, respectively, to income from equity affiliates in our consolidated statements of income. We also received cash distributions of \$7.5 million during the three months ended March 31, 2022, which were classified as returns of capital. The allocation of income is based on the underlying agreements, which may be different than our indirect interest, and was 9.2% at March 31, 2023. At March 31, 2023, our indirect interest was 12.3%.

AMAC Holdings III LLC (“AMAC III”). During the first quarter of 2023, we received distributions of \$0.6 million, which were classified as returns of capital and recorded a loss of \$0.4 million. During the first quarter of 2022, we funded an additional \$4.9 million and recorded a loss of \$0.5 million.

Fifth Wall Ventures (“Fifth Wall”). We funded an additional \$0.4 million and \$4.8 million during the first quarters of 2023 and 2022, respectively.

Docsumo Pte. Ltd. (“Docsumo”). In the first quarter of 2022, we invested \$0.5 million for a noncontrolling interest in Docsumo, a startup company that converts unstructured documents, such as bank statements and pay stubs, to accurate structured data and checks documents for fraud, such as photoshopped layers and font changes, using artificial intelligence.

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Lexford Portfolio. During the three months ended March 31, 2023, we received distributions of \$4.7 million, which were recognized as income from equity affiliates.

Equity Participation Interest. During the first quarters of 2023 and 2022, we received \$11.0 million and \$2.6 million, respectively, from equity participation interests on properties that were sold and which we had a preferred equity loan that previously paid-off.

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 | March 31, 2023 | | | December 31, 2022 | |
|--|-----------------------|-----------------------|----------------|-------------------------|---------------------------|---------------------|-------------------------|---------------------------|
| | | | | Debt Carrying Value (1) | Collateral Carrying Value | Wtd. Avg. Note Rate | Debt Carrying Value (1) | Collateral Carrying Value |
| Structured Business | | | | | | | | |
| \$2.5B joint repurchase facility (2) | Mar. 2024 | Mar. 2025 | V | \$ 1,336,305 | \$ 1,876,423 | 7.26 % | \$ 1,516,657 | \$ 2,099,447 |
| \$1B repurchase facility (2) | Dec. 2023 | N/A | V | 391,056 | 559,341 | 6.97 % | 498,666 | 703,740 |
| \$500M repurchase facility (3) | | N/A | V | 198,152 | 240,799 | 7.89 % | 154,653 | 188,563 |
| \$499M repurchase facility (2)(4) | Oct. 2023 | N/A | V | 339,819 | 487,321 | 7.22 % | 351,056 | 504,506 |
| \$450M repurchase facility | Mar. 2024 | Mar. 2026 | V | 319,106 | 419,485 | 7.03 % | 344,237 | 450,736 |
| \$450M repurchase facility | Oct. 2023 | Oct. 2024 | V | 102,470 | 131,924 | 6.57 % | 186,639 | 239,678 |
| \$400M credit facility | July 2023 | N/A | V | 33,232 | 43,383 | 6.83 % | 33,221 | 43,238 |
| \$225M credit facility | Oct. 2023 | Oct. 2024 | V | 64,877 | 116,288 | 7.52 % | 47,398 | 81,119 |
| \$200M repurchase facility | Mar. 2024 | Mar. 2025 | V | 45,769 | 65,401 | 7.52 % | 32,494 | 47,750 |
| \$200M repurchase facility | Jan. 2024 | Jan. 2025 | V | 147,948 | 187,508 | 6.92 % | 154,516 | 200,099 |
| \$169M loan specific credit facilities | May 2023 to Aug. 2025 | May 2023 to Aug. 2027 | V/F | 169,111 | 238,458 | 6.97 % | 156,107 | 225,805 |
| \$50M credit facility | Apr. 2024 | Apr. 2025 | V | 29,199 | 36,500 | 7.07 % | 29,194 | 36,500 |
| \$35M working capital facility | Apr. 2024 | N/A | V | — | — | — | — | — |
| \$25M credit facility | Oct. 2024 | N/A | V | 18,747 | 24,475 | 7.57 % | 18,701 | 24,572 |
| \$25M credit facility | Apr. 2026 | Apr. 2027 | V | — | — | — | — | — |
| Repurchase facility - securities (2) (5) | N/A | N/A | V | 33,100 | — | 6.59 % | 12,832 | — |
| Structured Business total | | | | \$ 3,228,891 | \$ 4,427,306 | 7.18 % | \$ 3,536,371 | \$ 4,845,753 |
| Agency Business | | | | | | | | |
| \$750M ASAP agreement | N/A | N/A | V | \$ 82,581 | \$ 82,679 | 5.78 % | \$ 29,476 | \$ 30,291 |
| \$500M joint repurchase facility (2) | Mar. 2024 | Mar. 2025 | V | 8,047 | 11,350 | 7.03 % | 104,629 | 135,641 |
| \$500M repurchase facility | Nov. 2023 | N/A | V | 112,978 | 125,336 | 6.18 % | 66,778 | 66,866 |
| \$200M repurchase facility | Mar. 2024 | N/A | V | 167,480 | 167,681 | 6.27 % | 31,475 | 33,177 |
| \$150M credit facility | July 2023 | N/A | V | 50,365 | 50,408 | 6.33 % | 57,887 | 57,974 |
| \$50M credit facility | Sept. 2023 | N/A | V | — | — | — | 14,664 | 14,671 |
| \$1M repurchase facility (2)(4) | Oct. 2023 | N/A | V | 534 | 907 | 7.18 % | 534 | 920 |
| Agency Business total | | | | \$ 421,985 | \$ 438,361 | 6.17 % | \$ 305,443 | \$ 339,540 |
| Consolidated total | | | | \$ 3,650,876 | \$ 4,865,667 | 7.06 % | \$ 3,841,814 | \$ 5,185,293 |

V = Variable Note Rate; F = Fixed Note Rate

- (1) At March 31, 2023 and December 31, 2022, debt carrying value for the Structured Business was net of unamortized deferred finance costs of \$11.1 million and \$13.3 million, respectively, and for the Agency Business was net of unamortized deferred finance costs of \$0.8 million and \$0.9 million, respectively.
- (2) These facilities are subject to margin call provisions associated with changes in interest spreads.
- (3) The commitment amount under this repurchase facility expires six months after the lender provides written notice. We then have an additional six months to repurchase the underlying loans.
- (4) A portion of this facility was used to finance a fixed rate SFR permanent loan reported through our Agency Business.
- (5) At March 31, 2023, this facility was collateralized by certificates retained by us from our Freddie Mac Q Series securitization (“Q Series securitization”) with a principal balance of \$47.4 million. At December 31, 2022, this facility was collateralized by B Piece bonds with a carrying value of \$33.1 million.

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During 2022 and 2023, several of our credit and repurchase facilities, in both our Structured Business and Agency Business, converted from a LIBOR-based interest rate to a SOFR-based interest rate for new financings. Existing financings generally remain at a LIBOR-based interest rate.

Structured Business

At March 31, 2023 and December 31, 2022, 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 7.57% and 6.95%, respectively. The leverage on our loan and investment portfolio financed through our credit and repurchase facilities, excluding the securities repurchase facility and the working capital facility, was 72% and 73% at March 31, 2023 and December 31, 2022, respectively.

In March 2023, we amended a \$450.0 million repurchase facility to exercise a one-year extension option to March 2024 and amend the interest rate to a minimum of SOFR plus 2.00%.

Agency Business

In March 2023, we amended a \$200.0 million credit facility to extend the maturity to March 2024 and amend the interest rate to SOFR plus 1.40%.

Securitized Debt

We account for securitized debt transactions on our consolidated balance sheet as financing facilities. These transactions are considered VIEs for which we are the primary beneficiary and are consolidated in our financial statements. The investment grade notes and guaranteed certificates issued to third parties are treated as secured financings and are non-recourse to us.

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Borrowings and the corresponding collateral under our securitized debt transactions 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) |
| March 31, 2023 | | | | | | |
| CLO 19 | \$ 872,812 | \$ 867,037 | 7.33 % | \$ 985,430 | \$ 980,805 | \$ 34,882 |
| CLO 18 | 1,652,812 | 1,646,248 | 6.77 % | 1,970,977 | 1,963,706 | — |
| CLO 17 | 1,714,125 | 1,708,200 | 6.63 % | 1,939,977 | 1,933,198 | 129,142 |
| CLO 16 | 1,237,500 | 1,232,352 | 6.26 % | 1,411,145 | 1,405,680 | 55,931 |
| CLO 15 | 674,412 | 671,983 | 6.32 % | 607,100 | 604,704 | 186,520 |
| CLO 14 | 655,475 | 653,034 | 6.27 % | 673,732 | 671,839 | 73,802 |
| CLO 13 | 294,477 | 293,022 | 6.76 % | 400,617 | 399,695 | 24,175 |
| CLO 12 | 203,027 | 202,375 | 6.93 % | 257,714 | 256,655 | 27,900 |
| Total CLOs | 7,304,640 | 7,274,251 | 6.63 % | 8,246,692 | 8,216,282 | 532,352 |
| Q Series securitization | 236,878 | 234,221 | 6.87 % | 315,837 | 314,166 | — |
| Total securitized debt | <u>\$ 7,541,518</u> | <u>\$ 7,508,472</u> | <u>6.64 %</u> | <u>\$ 8,562,529</u> | <u>\$ 8,530,448</u> | <u>\$ 532,352</u> |
| December 31, 2022 | | | | | | |
| CLO 19 | \$ 872,812 | \$ 866,605 | 6.75 % | \$ 952,268 | \$ 947,336 | \$ 64,300 |
| CLO 18 | 1,652,812 | 1,645,711 | 6.19 % | 1,899,174 | 1,891,215 | 85,970 |
| CLO 17 | 1,714,125 | 1,707,676 | 6.16 % | 1,911,866 | 1,904,732 | 145,726 |
| CLO 16 | 1,237,500 | 1,231,887 | 5.79 % | 1,307,244 | 1,301,794 | 106,495 |
| CLO 15 | 674,412 | 671,532 | 5.84 % | 797,755 | 795,078 | 2,861 |
| CLO 14 | 655,475 | 652,617 | 5.80 % | 732,247 | 730,057 | 37,090 |
| CLO 13 | 462,769 | 461,005 | 6.03 % | 552,182 | 550,924 | 37,875 |
| CLO 12 | 379,283 | 378,331 | 6.09 % | 466,474 | 465,003 | 500 |
| Total CLOs | 7,649,188 | 7,615,364 | 6.10 % | 8,619,210 | 8,586,139 | 480,817 |
| Q Series securitization | 236,878 | 233,906 | 6.30 % | 315,837 | 313,965 | — |
| Total securitized debt | <u>\$ 7,886,066</u> | <u>\$ 7,849,270</u> | <u>6.11 %</u> | <u>\$ 8,935,047</u> | <u>\$ 8,900,104</u> | <u>\$ 480,817</u> |

- (1) Debt carrying value is net of \$33.0 million and \$36.8 million of deferred financing fees at March 31, 2023 and December 31, 2022, respectively.
- (2) At March 31, 2023 and December 31, 2022, the aggregate weighted average note rate for our collateralized loan obligations (“CLOs”), including certain fees and costs, was 6.86% and 6.32%, respectively.
- (3) At March 31, 2023, five loans with an aggregate UPB of \$121.4 million were deemed a “credit risk” as defined by the CLO indentures. At December 31, 2022, there were no collateral deemed a “credit risk” as defined by the CLO indentures. Credit risk assets are generally defined as one that, in the CLO collateral manager’s reasonable business judgment, has a significant risk of becoming a defaulted asset.
- (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 \$167.5 million and \$230.0 million at March 31, 2023 and December 31, 2022, respectively.

CLO 13 and CLO 12. During the three months ended March 31, 2023, \$168.3 million and \$176.3 million of CLO 13 and CLO 12, respectively, have been paid down.

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Senior Unsecured Notes

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

| Senior Unsecured Notes | Issuance Date | Maturity | March 31, 2023 | | | December 31, 2022 | | |
|------------------------|---------------|------------|---------------------|---------------------|--------------------|---------------------|---------------------|--------------------|
| | | | UPB | Carrying Value (1) | Wtd. Avg. Rate (2) | UPB | Carrying Value (1) | Wtd. Avg. Rate (2) |
| 7.75% Notes (3) | Mar. 2023 | Mar. 2026 | \$ 95,000 | \$ 93,518 | 7.75 % | \$ — | \$ — | — |
| 8.50% Notes (3) | Oct. 2022 | Oct. 2027 | 150,000 | 147,647 | 8.50 % | 150,000 | 147,519 | 8.50 % |
| 5.00% Notes (3) | Dec. 2021 | Dec. 2028 | 180,000 | 177,557 | 5.00 % | 180,000 | 177,450 | 5.00 % |
| 4.50% Notes (3) | Aug. 2021 | Sept. 2026 | 270,000 | 267,136 | 4.50 % | 270,000 | 266,926 | 4.50 % |
| 5.00% Notes (3) | Apr. 2021 | Apr. 2026 | 175,000 | 173,073 | 5.00 % | 175,000 | 172,917 | 5.00 % |
| 8.00% Notes (3) | Apr. 2020 | Apr. 2023 | — | — | — | 70,750 | 70,613 | 8.00 % |
| 4.50% Notes (3) | Mar. 2020 | Mar. 2027 | 275,000 | 273,081 | 4.50 % | 275,000 | 272,960 | 4.50 % |
| 4.75% Notes (4) | Oct. 2019 | Oct. 2024 | 110,000 | 109,457 | 4.75 % | 110,000 | 109,369 | 4.75 % |
| 5.75% Notes (4) | Mar. 2019 | Apr. 2024 | 90,000 | 89,611 | 5.75 % | 90,000 | 89,514 | 5.75 % |
| 5.625% Notes (4) | Mar. 2018 | May 2023 | 78,850 | 78,819 | 5.63 % | 78,850 | 78,726 | 5.63 % |
| | | | <u>\$ 1,423,850</u> | <u>\$ 1,409,899</u> | <u>5.42 %</u> | <u>\$ 1,399,600</u> | <u>\$ 1,385,994</u> | <u>5.40 %</u> |

- (1) At March 31, 2023 and December 31, 2022, the carrying value is net of deferred financing fees of \$14.0 million and \$13.6 million, respectively.
- (2) At March 31, 2023 and December 31, 2022, the aggregate weighted average note rate, including certain fees and costs, was 5.72% and 5.69%, 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 within three months prior to the maturity date at a redemption price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest.
- (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 the maturity date at a redemption price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest.

In March 2023, we issued \$95.0 million aggregate principal amount of 7.75% senior unsecured notes due in 2026 in a private offering. We received net proceeds of \$93.4 million from the issuance, after deducting the placement agent commission and other offering expenses. We used \$70.8 million of the proceeds, which includes accrued interest and other fees, to repurchase the remaining portion of our 8.00% senior unsecured notes due in 2023.

Subsequent Event. In May 2023, our 5.625% senior unsecured notes matured and were redeemed for cash.

Convertible Senior Unsecured Notes

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.

The UPB and net carrying value of our convertible notes are as follows (in thousands):

| Period | UPB | Unamortized Deferred Financing Fees | Net Carrying Value |
|-------------------|-------------------|-------------------------------------|--------------------|
| March 31, 2023 | <u>\$ 287,500</u> | <u>\$ 6,454</u> | <u>\$ 281,046</u> |
| December 31, 2022 | <u>\$ 287,500</u> | <u>\$ 7,144</u> | <u>\$ 280,356</u> |

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During the three months ended March 31, 2023, we incurred interest expense on the notes totaling \$6.1 million, of which \$5.4 million and \$0.7 million related to the cash coupon and deferred financing fees, respectively. During the three months ended March 31, 2022, we incurred interest expense on the notes totaling \$3.8 million, of which \$3.1 million and \$0.7 million related to the cash coupon and deferred financing fees, respectively. Including the amortization of the deferred financing fees, our weighted average total cost of the notes was 8.42% at both March 31, 2023 and December 31, 2022. At March 31, 2023, the 7.50% convertible senior notes had a conversion rate of 59.9317 shares of common stock per \$1,000 of principal, which represented a conversion price of \$16.69 per share of common stock.

Junior Subordinated Notes

The carrying values of borrowings under our junior subordinated notes were \$143.3 million and \$143.1 million at March 31, 2023 and December 31, 2022, respectively, which is net of a deferred amount of \$9.5 million and \$9.6 million, respectively, (which is amortized into interest expense over the life of the notes) and deferred financing fees of \$1.6 million at both March 31, 2023 and December 31, 2022. 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 8.08% and 7.65% at March 31, 2023 and December 31, 2022, respectively. Including certain fees and costs, the weighted average note rate was 8.16% and 7.74% at March 31, 2023 and December 31, 2022, 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 March 31, 2023.

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 at March 31, 2023, as well as on the most recent determination dates in April 2023. 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 (1) cash on hand, (2) income from any CLO not in breach of a covenant test, (3) income from real property and loan assets, (4) sale of assets, or (5) 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.

Our CLO compliance tests as of the most recent determination dates in April 2023 are as follows:

| <u>Cash Flow Triggers</u> | <u>CLO 12</u> | <u>CLO 13</u> | <u>CLO 14</u> | <u>CLO 15</u> | <u>CLO 16</u> | <u>CLO 17</u> | <u>CLO 18</u> | <u>CLO 19</u> |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <u>Overcollateralization (1)</u> | | | | | | | | |
| Current | 149.65 % | 144.83 % | 119.76 % | 120.85 % | 121.21 % | 122.51 % | 124.03 % | 120.30 % |
| Limit | 117.87 % | 118.76 % | 118.76 % | 119.85 % | 120.21 % | 121.51 % | 123.03 % | 119.30 % |
| Pass / Fail | Pass | Pass | Pass | Pass | Pass | Pass | Pass | Pass |
| <u>Interest Coverage (2)</u> | | | | | | | | |
| Current | 181.78 % | 157.94 % | 181.82 % | 169.24 % | 159.94 % | 145.12 % | 150.89 % | 124.34 % |
| Limit | 120.00 % | 120.00 % | 120.00 % | 120.00 % | 120.00 % | 120.00 % | 120.00 % | 120.00 % |
| Pass / Fail | Pass | Pass | Pass | Pass | Pass | Pass | Pass | Pass |

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

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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 12</u> | <u>CLO 13</u> | <u>CLO 14</u> | <u>CLO 15</u> | <u>CLO 16</u> | <u>CLO 17</u> | <u>CLO 18</u> | <u>CLO 19</u> |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| April 2023 | 149.65 % | 144.83 % | 119.76 % | 120.85 % | 121.21 % | 122.51 % | 124.03 % | 120.30 % |
| January 2023 | 126.58 % | 128.52 % | 119.76 % | 120.85 % | 121.21 % | 122.51 % | 124.03 % | 120.30 % |
| October 2022 | 118.87 % | 119.76 % | 119.76 % | 120.85 % | 121.21 % | 122.51 % | 124.03 % | 120.30 % |
| July 2022 | 118.87 % | 119.76 % | 119.76 % | 120.85 % | 121.21 % | 122.51 % | 124.03 % | 120.30 % |
| April 2022 | 118.87 % | 119.76 % | 119.76 % | 120.85 % | 121.21 % | 122.51 % | 124.03 % | — |

(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 March 31,</u> | |
|---|-------------------------------------|------------------|
| | <u>2023</u> | <u>2022</u> |
| Beginning balance | \$ 57,168 | \$ 56,064 |
| Provisions for loss sharing | 4,567 | 133 |
| Provisions reversal for loan repayments | (1,390) | (795) |
| Recoveries (charge-offs), net | (588) | (230) |
| Ending balance | <u>\$ 59,757</u> | <u>\$ 55,172</u> |

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 March 31, 2023 and 2022, we had \$34.5 million and \$34.4 million, respectively, of guarantee obligations 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 March 31, 2023 and December 31, 2022, we had outstanding advances of \$0.4 million and \$0.8 million, respectively, which were netted against the allowance for loss-sharing obligations.

At March 31, 2023 and December 31, 2022, our allowance for loss-sharing obligations, associated with expected losses under CECL, was \$25.3 million and \$22.7 million, respectively, and represented 0.13% and 0.12%, respectively, of our Fannie Mae servicing portfolio. During the three months ended March 31, 2023, we recorded a \$2.6 million increase in CECL reserves.

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At March 31, 2023 and December 31, 2022, the maximum quantifiable liability associated with our guarantees under the Fannie Mae DUS agreement was \$3.58 billion and \$3.49 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 gain (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 months ended March 31, 2023 and 2022, we recorded a gain of \$7.1 million and a loss of \$2.5 million, respectively, from changes in the fair value of these derivatives and \$18.5 million and \$15.3 million, respectively, of income from MSR. See Note 12 for details.

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 or 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 March 31, 2023, we recorded realized gains of \$1.6 million and unrealized losses of \$4.4 million and during the three months ended March 31, 2022, we recorded realized and unrealized gains of \$18.0 million and \$2.0 million, respectively, to our Agency Business related to our Swaps. The realized and unrealized gains and losses are recorded in gain on derivative instruments, net.

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

| Derivative | March 31, 2023 | | | | |
|--------------------------|----------------|---------------------|--------------------------------|-------------------|------------------------|
| | Count | Notional Value | Balance Sheet Location | Fair Value | |
| | | | | Derivative Assets | Derivative Liabilities |
| Rate lock commitments | 9 | \$ 334,722 | Other assets/other liabilities | \$ 3,097 | \$ (2,352) |
| Forward sale commitments | 48 | 760,826 | Other assets/other liabilities | 6,679 | (1,022) |
| Swaps | 250 | 25,000 | | — | — |
| | | <u>\$ 1,120,548</u> | | <u>\$ 9,776</u> | <u>\$ (3,374)</u> |
| December 31, 2022 | | | | | |
| Rate lock commitments | 6 | \$ 91,472 | Other assets/other liabilities | \$ 354 | \$ (1,070) |
| Forward sale commitments | 27 | 294,451 | Other assets/other liabilities | 1,151 | (3,827) |
| Swaps | 1,298 | 129,800 | | — | — |
| | | <u>\$ 515,723</u> | | <u>\$ 1,505</u> | <u>\$ (4,897)</u> |

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):

| | March 31, 2023 | | | December 31, 2022 | | |
|--|-----------------------------|----------------|----------------------|-----------------------------|----------------|----------------------|
| | Principal / Notional Amount | Carrying Value | Estimated Fair Value | Principal / Notional Amount | Carrying Value | Estimated Fair Value |
| Financial assets: | | | | | | |
| Loans and investments, net | \$ 13,643,724 | \$ 13,430,985 | \$ 13,634,147 | \$ 14,456,123 | \$ 14,254,674 | \$ 14,468,418 |
| Loans held-for-sale, net | 468,738 | 469,602 | 483,727 | 368,066 | 354,070 | 362,054 |
| Capitalized mortgage servicing rights, net | n/a | 396,634 | 502,282 | n/a | 401,471 | 530,913 |
| Securities held-to-maturity, net | 232,541 | 153,888 | 140,963 | 234,255 | 156,547 | 144,571 |
| Derivative financial instruments | 591,688 | 9,776 | 9,776 | 111,950 | 1,505 | 1,505 |
| Financial liabilities: | | | | | | |
| Credit and repurchase facilities | \$ 3,662,756 | \$ 3,650,876 | \$ 3,610,881 | \$ 3,856,009 | \$ 3,841,814 | \$ 3,828,192 |
| Securitized debt | 7,541,518 | 7,508,472 | 7,326,912 | 7,886,066 | 7,849,270 | 7,560,541 |
| Senior unsecured notes | 1,423,850 | 1,409,899 | 1,257,377 | 1,399,600 | 1,385,994 | 1,262,560 |
| Convertible senior unsecured notes | 287,500 | 281,046 | 264,141 | 287,500 | 280,356 | 287,834 |
| Junior subordinated notes | 154,336 | 143,322 | 104,595 | 154,336 | 143,128 | 103,977 |
| Derivative financial instruments | 503,860 | 3,374 | 3,374 | 273,973 | 4,897 | 4,897 |

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.

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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).

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 is 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.

Securitized debt 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. Fair values are estimated using current market quotes received from inactive markets (Level 2).

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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 at March 31, 2023 (in thousands):

| | Carrying Value | Fair Value | Fair Value Measurements Using Fair Value Hierarchy | | |
|----------------------------------|----------------|------------|--|----------|----------|
| | | | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | | |
| Derivative financial instruments | \$ 9,776 | \$ 9,776 | \$ — | \$ 6,679 | \$ 3,097 |
| Financial liabilities: | | | | | |
| Derivative financial instruments | \$ 3,374 | \$ 3,374 | \$ — | \$ 3,374 | \$ — |

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 at March 31, 2023 (in thousands):

| | Net Carrying Value | Fair Value | Fair Value Measurements Using Fair Value Hierarchy | | |
|-------------------------------|--------------------|-------------------|--|------------------|------------------|
| | | | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | | |
| <i>Impaired loans, net</i> | | | | | |
| Loans held-for-investment (1) | \$ 98,419 | \$ 98,419 | \$ — | \$ — | \$ 98,419 |
| Loans held-for-sale (2) | 41,068 | 41,068 | — | 41,068 | — |
| | <u>\$ 139,487</u> | <u>\$ 139,487</u> | <u>\$ —</u> | <u>\$ 41,068</u> | <u>\$ 98,419</u> |

- (1) We had an allowance for credit losses of \$93.3 million relating to eight impaired loans with an aggregate carrying value, before loan loss reserves, of \$191.8 million at March 31, 2023.
- (2) We had unrealized impairment losses of \$1.6 million related to ten held-for-sale loans with an aggregate carrying value, before unrealized impairment losses, of \$42.6 million.

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 all amounts due for both principal and interest will not be collected 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, or an impairment loss. 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.

Loans held-for-sale are generally transferred and sold within 60-180 days of loan origination and are reported at lower of cost or market. We consider a loan classified as held-for-sale impaired if, based on current information, it is probable that we will sell the loan below par, or not be able to collect all principal and interest in accordance with the contractual terms of the loan agreement. These loans 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.

The tables above and below include all impaired loans, regardless of the period in which the impairment was recognized.

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Quantitative information about Level 3 fair value measurements at March 31, 2023 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 % |
| | | | Discount rate | 7.50 % |
| Office | 36,674 | Discounted cash flows | Capitalization rate | 5.25 % |
| | | | Revenue growth rate | 3.00 % |
| | | | Discount rate | 11.25 % |
| Retail | 11,745 | Discounted cash flows | Capitalization rate | 9.25 % |
| | | | Revenue growth rate | 3.00 % |
| <u>Derivative financial instruments:</u> | | | | |
| Rate lock commitments | 3,097 | Discounted cash flows | W/A discount rate | 13.27 % |

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 Three Months Ended March 31, | |
|---|--|-----------------|
| | 2023 | 2022 |
| Derivative assets and liabilities, net | | |
| Beginning balance | \$ 354 | \$ 295 |
| Settlements | (15,066) | (13,683) |
| Realized gains recorded in earnings | 14,712 | 13,388 |
| Unrealized gains recorded in earnings | 3,097 | 1,355 |
| Ending balance | <u>\$ 3,097</u> | <u>\$ 1,355</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):

| March 31, 2023 | Notional/ Principal Amount | Fair Value of Servicing Rights | Interest Rate Movement Effect | Unrealized Impairment Loss | Total Fair Value Adjustment |
|------------------------------|-------------------------------|-----------------------------------|----------------------------------|----------------------------------|--------------------------------|
| Rate lock commitments | \$ 334,722 | \$ 3,097 | \$ 1,185 | \$ — | \$ 4,282 |
| Forward sale commitments | 760,826 | — | (1,185) | — | (1,185) |
| Loans held-for-sale, net (1) | 468,738 | 7,388 | — | (1,565) | 5,823 |
| Total | | <u>\$ 10,485</u> | <u>\$ —</u> | <u>\$ (1,565)</u> | <u>\$ 8,920</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.

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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 at March 31, 2023 (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 | \$ 13,430,985 | \$ 13,634,147 | \$ — | \$ — | \$ 13,634,147 |
| Loans held-for-sale, net | 469,602 | 483,727 | — | 476,339 | 7,388 |
| Capitalized mortgage servicing rights, net | 396,634 | 502,282 | — | — | 502,282 |
| Securities held-to-maturity, net | 153,888 | 140,963 | — | — | 140,963 |
| Financial liabilities: | | | | | |
| Credit and repurchase facilities | \$ 3,650,876 | \$ 3,610,881 | \$ — | \$ 421,985 | \$ 3,188,896 |
| Securitized debt | 7,508,472 | 7,326,912 | — | — | 7,326,912 |
| Senior unsecured notes | 1,409,899 | 1,257,377 | 1,257,377 | — | — |
| Convertible senior unsecured notes | 281,046 | 264,141 | — | 264,141 | — |
| Junior subordinated notes | 143,322 | 104,595 | — | — | 104,595 |

Note 13 — Commitments and Contingencies

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.

At March 31, 2023, we were required to maintain at least \$18.8 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. At March 31, 2023, the restricted liquidity requirement totaled \$67.3 million and was satisfied with a \$64.0 million letter of credit and \$2.5 million of cash issued to Fannie Mae.

At March 31, 2023, reserve requirements for the Fannie Mae DUS loan portfolio will require us to fund \$35.7 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. At March 31, 2023, 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.

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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. At March 31, 2023, 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 |
|---|----------------------|---|----------------------|
| 2023 (nine months ending December 31, 2023) | \$ 1,944,655 | \$ 7,076 | \$ 1,951,731 |
| 2024 | 2,997,340 | 9,180 | 3,006,520 |
| 2025 | 1,902,049 | 9,318 | 1,911,367 |
| 2026 | 4,905,927 | 9,363 | 4,915,290 |
| 2027 | 985,653 | 7,929 | 993,582 |
| 2028 | 180,000 | 7,301 | 187,301 |
| Thereafter | 154,336 | 20,491 | 174,827 |
| Total | <u>\$ 13,069,960</u> | <u>\$ 70,658</u> | <u>\$ 13,140,618</u> |

During the three months ended March 31, 2023 and 2022, we recorded lease expense of \$2.6 million and \$2.4 million, respectively.

Unfunded Commitments. In accordance with certain structured loans and investments, we have outstanding unfunded commitments of \$1.05 billion at March 31, 2023 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 that had emerged from bankruptcy. There were 73 defendants in the three lawsuits, including 55 corporate and partnership entities and 18 individuals. A subsidiary of ours and certain individuals and other entities that are affiliates of ours were included as defendants.

In June 2013, the Trust amended the lawsuits, to, among other things, (1) consolidate the lawsuits into one lawsuit, (2) remove 47 defendants from the lawsuits, none of whom were related to us, so that there were 26 remaining defendants, including 16 corporate and partnership entities and 10 individuals, and (3) reduce the counts within the lawsuits from over 100 down to 17 (as consolidated, the "Action"). For more detailed information regarding the Action, please refer to Note 14 of our 2022 Annual Report filed with the SEC on February 17, 2023.

After extensive motion practice and discovery, in early December 2022, the plaintiff and certain co-defendants, including our affiliates, commenced discussions regarding a possible settlement of the Action, and in late December 2022, those parties reached an agreement in principle to settle the Action for a total of \$38 million. We agreed to pay up to \$7.4 million of the settlement amount, which amount was accrued in our December 31, 2022 financial statements. We maintain certain claims against a co-defendant on which we may recover amounts in the future, reducing our contribution to the settlement, but we can give no assurances that we will be successful in any such recovery.

In early March 2023, the parties to the settlement finalized the settlement documents and on April 25, 2023, the Bankruptcy Court approved the settlement in open court. Pursuant to the settlement agreement, the parties to the settlement are expected to make the agreed upon payments and the broad mutual releases will become effective during the second quarter, upon which the Action will be discontinued, with prejudice.

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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 and Q Series securitization entities ("Securitization Entities") are VIEs, which we consolidate. ARLP was already consolidated in our financial statements, therefore, the identification of this entity as a VIE had no impact on our consolidated financial statements.

Our Securitization Entities invest in real estate and real estate-related securities and are financed by the issuance of debt securities. We believe we hold the power necessary to direct the most significant economic activities of those entities. We also have exposure to losses to the extent of our equity interests and 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 Securitization Entities, prior to the unwind. Our operating results and cash flows include the gross asset and liability amounts related to the Securitization Entities as opposed to our net economic interests in those entities.

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

| | <u>March 31, 2023</u> | <u>December 31, 2022</u> |
|----------------------------|-----------------------|--------------------------|
| Assets: | | |
| Restricted cash | \$ 699,892 | \$ 710,775 |
| Loans and investments, net | 8,530,448 | 8,900,104 |
| Other assets | 123,696 | 174,382 |
| Total assets | <u>\$ 9,354,036</u> | <u>\$ 9,785,261</u> |
| Liabilities: | | |
| Securitized debt | \$ 7,508,472 | \$ 7,849,270 |
| Other liabilities | 23,863 | 26,754 |
| Total liabilities | <u>\$ 7,532,335</u> | <u>\$ 7,876,024</u> |

Assets held by the Securitization Entities are restricted and can only be used to settle obligations of those entities. The liabilities of the Securitization Entities 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 Securitization Entities.

Unconsolidated VIEs. We determined that we are not the primary beneficiary of 28 VIEs in which we have a variable interest at March 31, 2023 because we do not have the ability to direct the activities of the VIEs that most significantly impact each entity's economic performance.

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A summary of our variable interests in identified VIEs, of which we are not the primary beneficiary, at March 31, 2023 is as follows (in thousands):

| Type | Carrying Amount (1) |
|-----------------------------|---------------------|
| Loans | \$ 437,448 |
| APL certificates | 127,448 |
| B Piece bonds | 31,465 |
| Equity investments | 19,160 |
| Agency interest only strips | 214 |
| Total | \$ 615,735 |

(1) Represents the carrying amount of loans and investments before reserves. At March 31, 2023, \$172.5 million of loans to VIEs had corresponding specific loan loss reserves of \$85.8 million. The maximum loss exposure at March 31, 2023 would not exceed the carrying amount of our investment.

These unconsolidated VIEs have exposure to real estate debt of approximately \$3.95 billion at March 31, 2023.

Note 15 — Equity

Common Stock. During the first quarter of 2023, we sold 5,635,800 shares of our common stock at an average price of \$14.68 per share for net proceeds of \$82.7 million through an “At-The-Market” equity offering sales agreement. The proceeds were used to make investments related to our business and for general corporate purposes.

In March 2023, the Board of Directors authorized a share repurchase program providing for the repurchase of up to \$50.0 million of our outstanding common stock. The repurchase of our common stock may be made from time to time in the open market, through privately negotiated transactions, or otherwise in compliance with Rule 10b-18 and Rule 10b5-1 under the Securities Exchange Act of 1934, based on our stock price, general market conditions, applicable legal requirements and other factors. The program may be discontinued or modified at any time. As of April 30, 2023, we repurchased 3,545,604 shares of our common stock under this program at a total cost of \$37.4 million and an average cost of \$10.56 per share.

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 Arbor Commercial Mortgage, LLC (“ACM”) in 2016. 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 March 31, 2023, there were 16,293,589 OP Units outstanding, which represented 8.1% of the voting power of our outstanding stock.

Distributions. Dividends declared (on a per share basis) during the three months ended March 31, 2023 are as follows:

| Common Stock | | Preferred Stock | | | |
|-------------------|----------|------------------|--------------|-------------|-------------|
| Declaration Date | Dividend | Declaration Date | Dividend | | |
| | | | Series D | Series E | Series F |
| February 15, 2023 | \$ 0.40 | January 3, 2023 | \$ 0.3984375 | \$ 0.390625 | \$ 0.390625 |
| | | March 31, 2023 | \$ 0.3984375 | \$ 0.390625 | \$ 0.390625 |

Common Stock – On May 3, 2023, the Board of Directors declared a cash dividend of \$0.42 per share of common stock. The dividend is payable on May 31, 2023 to common stockholders of record as of the close of business on May 19, 2023.

Deferred Compensation. During the first quarter of 2023, we issued 889,822 shares of restricted common stock to our employees and Board of Directors under the 2020 Amended Omnibus Stock Incentive Plan (the “2020 Plan”) with a total grant date fair value of \$10.4 million, of which: (1) 256,208 shares with a grant date fair value of \$3.0 million vested on the grant date; (2) 24,493 shares with a grant date fair value of \$0.4 million will vest during the remainder of 2023; (3) 260,304 shares with a grant date fair value of \$3.1

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million will vest in 2024; (4) 235,969 shares with a grant date fair value of \$2.7 million will vest in 2025; (5) 78,126 shares with a grant date fair value of \$0.9 million will vest in 2026; and (6) 34,722 shares with a grant date fair value of \$0.4 million will vest in 2027. We also issued 40,796 fully vested restricted stock units (“RSUs”) with a grant date fair value of \$0.5 million to certain members of our Board of Directors and 247,275 RSUs with a grant date fair value of \$2.9 million that vest in full in the first quarter of 2026 to our chief executive officer. The individuals decided to defer the receipt of the common stock, to which the RSUs are converted into, to a future date pursuant to a pre-established deferral election.

During the first quarter of 2023, 352,427 shares of performance-based restricted stock units previously granted to our chief executive officer fully vested and were net settled for 172,513 common shares.

During the first quarter of 2023, we withheld 188,542 shares from the net settlement of restricted common stock by employees for payment of withholding taxes on shares that vested.

Earnings Per Share (“EPS”). 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. Our common stock equivalents include the weighted average dilutive effect of 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 is as follows (\$ in thousands, except share and per share data):

| | Three Months Ended March 31, | | | |
|--|------------------------------|-------------|-------------|-------------|
| | 2023 | | 2022 | |
| | Basic | Diluted | Basic | Diluted |
| Net income attributable to common stockholders (1) | \$ 84,319 | \$ 84,319 | \$ 64,057 | \$ 64,057 |
| Net income attributable to noncontrolling interest (2) | — | 7,585 | — | 6,816 |
| Interest expense on convertible notes | — | 6,081 | — | 3,995 |
| Net income attributable to common stockholders and noncontrolling interest | \$ 84,319 | \$ 97,985 | \$ 64,057 | \$ 74,868 |
| Weighted average shares outstanding | 181,116,674 | 181,116,674 | 153,420,238 | 153,420,238 |
| Dilutive effect of OP Units (2) | — | 16,293,589 | — | 16,325,095 |
| Dilutive effect of convertible notes | — | 17,230,358 | — | 15,111,154 |
| Dilutive effect of restricted stock units (3) | — | 270,353 | — | 574,917 |
| Weighted average shares outstanding | 181,116,674 | 214,910,974 | 153,420,238 | 185,431,404 |
| Net income per common share (1) | \$ 0.47 | \$ 0.46 | \$ 0.42 | \$ 0.40 |

(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, which vest at the end of a four-year performance period based upon our achievement of total stockholder return objectives.

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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 months ended March 31, 2023 and 2022, we recorded a tax provision of \$8.0 million and \$8.2 million, respectively. The tax provision recorded in the three months ended March 31, 2023 consisted of a current and deferred tax provision of \$4.8 million and \$3.2 million, respectively. The tax provision recorded in the three months ended March 31, 2022 consisted of a current tax provision of \$9.9 million and a deferred tax benefit of \$1.7 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.

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 months ended March 31, 2023 and 2022, we incurred \$0.7 million and \$0.8 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 \$113.1 million and \$77.4 million at March 31, 2023 and December 31, 2022, 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 \$12.5 million and \$12.4 million at March 31, 2023 and December 31, 2022, respectively, and consisted of loan payoffs, holdbacks and escrows to be remitted to our affiliated servicing operations related to real estate transactions.

In July 2022, we purchased a \$46.2 million bridge loan originated by ACM at par (none of which was funded at March 31, 2023) for an SFR build-to-rent construction project. A consortium of investors (which includes, among other unaffiliated investors, certain of our officers with a minority ownership interest) owns 70% of the borrowing entity and an entity indirectly owned and controlled by an immediate family member of our chief executive officer owns 10% of the borrowing entity. The loan has an interest rate of SOFR plus 5.50% and is scheduled to mature in March 2025.

In April 2022, we committed to fund a \$67.1 million bridge loan (none of which was funded at March 31, 2023) in an 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 2.25% equity interest in the borrowing entity. The bridge loan has an interest rate of SOFR plus 4.63% with a SOFR floor of 0.25% and matures in May 2025. Interest income recorded from this loan was less than \$0.1 million for the three months ended March 31, 2023.

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In February 2022, we committed to fund a \$39.4 million bridge loan (none of which was funded at March 31, 2023) in an 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 2.25% equity interest in the borrowing entity. The bridge loan has an interest rate of LIBOR plus 4.00% with a LIBOR floor of 0.25% and matures in March 2025. Interest income recorded from this loan was less than \$0.1 million for the three months ended March 31, 2023.

In 2021, we invested \$4.2 million for 49.3% interest in a limited liability company (“LLC”) which purchased a retail property for \$32.5 million and assumed an existing \$26.0 million CMBS loan. A portion of the property can potentially be converted to office space, of which we obtain the right to occupy, in part. An entity owned by an immediate family member of our chief executive officer also made an investment in the LLC for a 10.0% ownership, is the managing member and holds the right to purchase our interest in the LLC.

In 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 \$1.4 million and \$0.7 million for the three months ended March 31, 2023 and 2022, respectively.

In 2020, we committed to fund a \$32.5 million bridge loan (\$16.0 million was funded at March 31, 2023) and made a \$3.5 million preferred equity investment in an 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 5.5% with a LIBOR floor of 0.75%, the preferred equity investment has a 12.0% fixed rate, and both loans mature in October 2023. Interest income recorded from these loans was \$0.5 million and \$0.2 million for the three months ended March 31, 2023 and 2022, respectively.

In 2020, we committed to fund a \$30.5 million bridge loan and we 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 (\$21.1 million was funded at March 31, 2023) has an interest rate of LIBOR plus 5.5% with a LIBOR floor of 0.75% and was scheduled to mature in May 2023 and the preferred equity investment has a 12.0% fixed rate and was scheduled to mature in April 2023. In April 2023, the bridge loan was upsized to \$38.4 million, and the interest rate was changed to SOFR plus 5.25% with a SOFR floor of 0.75%. In addition, the maturity date on both loans were extended to May 2025. Interest income recorded from these loans was \$0.7 million and \$0.3 million for the three months ended March 31, 2023 and 2022, respectively.

In 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. In 2020, we sold the Private Label loan to an unconsolidated affiliate of ours. The mezzanine loan bears interest at a 9.0% fixed rate and matures in April 2030. Interest income recorded from the mezzanine loan was \$0.1 million for both the three months ended March 31, 2023 and 2022.

We have a \$35.0 million bridge loan and a \$9.6 million preferred equity interest on an office building. The property is controlled by a third party. The day-to-day operations are currently being managed by an immediate family member, or one of his affiliated entities, of our chief executive officer. In 2021, we entered into a forbearance agreement with the borrower on the outstanding bridge loan to defer all interest owed until maturity or early payoff. At both March 31, 2023 and December 31, 2022, these loans had an allowance for credit loss recorded against them totaling \$8.0 million.

In certain instances, our business requires our executives to charter privately owned aircraft in furtherance of our business. We have an aircraft time-sharing agreement with an entity controlled by our chief executive officer that owns a 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 both the three months ended March 31, 2023 and 2022, we reimbursed the aircraft owner \$0.2 million for the flights chartered by our executives pursuant the agreement.

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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 (\$25.2 million was funded at March 31, 2023) for an 18% interest in AMAC III. During the three months ended March 31, 2023 and 2022, we recorded a loss associated with this investment of \$0.4 million and \$0.5 million, respectively, and during the three months ended March 31, 2023, we received a cash distribution of \$0.6 million. In 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 2020, for full satisfaction of the mezzanine loan, AMAC III became the owner of the property. Also in 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 3.5% and matures in August 2023. We also originated a \$15.6 million Private Label loan in 2019 to a borrower which is 100% owned by AMAC III, which bears interest at a 3.735% fixed rate and matures in January 2030. In 2020, we sold the Private Label loan to an unconsolidated affiliate of ours. Interest income recorded from the bridge loan was \$0.7 million and \$0.3 million for the three months ended March 31, 2023 and 2022, respectively.

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 0.25% and matures in August 2023. Interest income recorded from this loan was \$0.5 million and \$0.3 million for the three months ended March 31, 2023 and 2022, respectively.

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 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 1.8%, which was scheduled to mature in October 2022. In May 2022, this loan paid off in full. Interest income recorded from this loan was \$0.5 million for the three months ended March 31, 2022.

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 March 31, 2023. 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 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 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 mezzanine loan was \$0.1 million for all periods presented.

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. At March 31, 2023, we had an indirect interest of 12.3% in this entity. We recorded a loss related to this investment of \$0.9 million and income of \$5.0 million in the three months ended March 31, 2023 and 2022, respectively. During the three months ended March 31, 2022, we also received a cash distribution of \$7.5 million 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 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 3.3% and matures in March 2030. In 2020, we sold the Private Label loan to an unconsolidated affiliate of ours. Further, as part of this 2018 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 \$4.7 million during the three months ended March 31, 2023, which were 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 March 31, 2023, this debt had an aggregate outstanding balance of approximately \$600.0 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. At March 31, 2023, ACM holds 2,535,870 shares of our common stock and 10,615,085 OP Units, which represents 6.6% 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, (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 March 31, 2023 | | | Consolidated |
|--|-----------------------------------|------------------|--------------------------|------------------|
| | Structured Business | Agency Business | Other / Eliminations (1) | |
| Interest income | \$ 317,376 | \$ 10,571 | \$ — | \$ 327,947 |
| Interest expense | 214,894 | 4,479 | — | 219,373 |
| Net interest income | <u>102,482</u> | <u>6,092</u> | <u>—</u> | <u>108,574</u> |
| Other revenue: | | | | |
| Gain on sales, including fee-based services, net | — | 14,589 | — | 14,589 |
| Mortgage servicing rights | — | 18,458 | — | 18,458 |
| Servicing revenue | — | 44,981 | — | 44,981 |
| Amortization of MSRs | — | (15,416) | — | (15,416) |
| Property operating income | 1,381 | — | — | 1,381 |
| Gain on derivative instruments, net | — | 4,223 | — | 4,223 |
| Other income, net | 1,908 | 2,974 | — | 4,882 |
| Total other revenue | <u>3,289</u> | <u>69,809</u> | <u>—</u> | <u>73,098</u> |
| Other expenses: | | | | |
| Employee compensation and benefits | 15,641 | 26,758 | — | 42,399 |
| Selling and administrative | 6,711 | 6,912 | — | 13,623 |
| Property operating expenses | 1,383 | — | — | 1,383 |
| Depreciation and amortization | 1,451 | 1,173 | — | 2,624 |
| Provision for loss sharing (net of recoveries) | — | 3,177 | — | 3,177 |
| Provision for credit losses (net of recoveries) | 20,645 | 1,872 | — | 22,517 |
| Total other expenses | <u>45,831</u> | <u>39,892</u> | <u>—</u> | <u>85,723</u> |
| Income before income from equity affiliates and income taxes | 59,940 | 36,009 | — | 95,949 |
| Income from equity affiliates | 14,326 | — | — | 14,326 |
| Benefit from (provision for) income taxes | 429 | (8,458) | — | (8,029) |
| Net income | <u>74,695</u> | <u>27,551</u> | <u>—</u> | <u>102,246</u> |
| Preferred stock dividends | 10,342 | — | — | 10,342 |
| Net income attributable to noncontrolling interest | — | — | 7,585 | 7,585 |
| Net income attributable to common stockholders | <u>\$ 64,353</u> | <u>\$ 27,551</u> | <u>\$ (7,585)</u> | <u>\$ 84,319</u> |

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| | Three Months Ended March 31, 2022 | | | Consolidated |
|--|-----------------------------------|-----------------|--------------------------|--------------|
| | Structured Business | Agency Business | Other / Eliminations (1) | |
| Interest income | \$ 156,260 | \$ 10,438 | \$ — | \$ 166,698 |
| Interest expense | 78,202 | 4,357 | — | 82,559 |
| Net interest income | 78,058 | 6,081 | — | 84,139 |
| Other revenue: | | | | |
| Gain on sales, including fee-based services, net | — | 1,656 | — | 1,656 |
| Mortgage servicing rights | — | 15,312 | — | 15,312 |
| Servicing revenue | — | 36,026 | — | 36,026 |
| Amortization of MSRs | — | (14,972) | — | (14,972) |
| Property operating income | 295 | — | — | 295 |
| Gain on derivative instruments, net | — | 17,386 | — | 17,386 |
| Other income, net | 3,196 | 4 | — | 3,200 |
| Total other revenue | 3,491 | 55,412 | — | 58,903 |
| Other expenses: | | | | |
| Employee compensation and benefits | 15,487 | 26,538 | — | 42,025 |
| Selling and administrative | 7,409 | 7,139 | — | 14,548 |
| Property operating expenses | 535 | — | — | 535 |
| Depreciation and amortization | 810 | 1,173 | — | 1,983 |
| Provision for loss sharing (net of recoveries) | — | (662) | — | (662) |
| Provision for credit losses (net of recoveries) | 2,069 | 289 | — | 2,358 |
| Total other expenses | 26,310 | 34,477 | — | 60,787 |
| Income before extinguishment of debt, income from equity affiliates and income taxes | 55,239 | 27,016 | — | 82,255 |
| Loss on extinguishment of debt | (1,350) | — | — | (1,350) |
| Income from equity affiliates | 7,212 | — | — | 7,212 |
| Provision for income taxes | (1,432) | (6,756) | — | (8,188) |
| Net income | 59,669 | 20,260 | — | 79,929 |
| Preferred stock dividends | 9,056 | — | — | 9,056 |
| Net income attributable to noncontrolling interest | — | — | 6,816 | 6,816 |
| Net income attributable to common stockholders | \$ 50,613 | \$ 20,260 | \$ (6,816) | \$ 64,057 |

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

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| | March 31, 2023 | | |
|--|----------------------|---------------------|----------------------|
| | Structured Business | Agency Business | Consolidated |
| Assets: | | | |
| Cash and cash equivalents | \$ 405,596 | \$ 368,948 | \$ 774,544 |
| Restricted cash | 702,360 | 2,484 | 704,844 |
| Loans and investments, net | 13,430,985 | — | 13,430,985 |
| Loans held-for-sale, net | — | 469,602 | 469,602 |
| Capitalized mortgage servicing rights, net | — | 396,634 | 396,634 |
| Securities held-to-maturity, net | — | 153,888 | 153,888 |
| Investments in equity affiliates | 77,641 | — | 77,641 |
| Goodwill and other intangible assets | 12,500 | 82,396 | 94,896 |
| Other assets and due from related party | 413,846 | 71,344 | 485,190 |
| Total assets | \$ 15,042,928 | \$ 1,545,296 | \$ 16,588,224 |

| | | | |
|--|----------------------|-------------------|----------------------|
| Liabilities: | | | |
| Debt obligations | \$ 12,571,630 | \$ 421,985 | \$ 12,993,615 |
| Allowance for loss-sharing obligations | — | 59,757 | 59,757 |
| Other liabilities and due to related parties | 268,048 | 109,347 | 377,395 |
| Total liabilities | \$ 12,839,678 | \$ 591,089 | \$ 13,430,767 |

| | December 31, 2022 | | |
|--|----------------------|---------------------|----------------------|
| | Assets: | | |
| Cash and cash equivalents | \$ 200,514 | \$ 333,843 | \$ 534,357 |
| Restricted cash | 713,615 | 193 | 713,808 |
| Loans and investments, net | 14,254,674 | — | 14,254,674 |
| Loans held-for-sale, net | — | 354,070 | 354,070 |
| Capitalized mortgage servicing rights, net | — | 401,471 | 401,471 |
| Securities held-to-maturity, net | — | 156,547 | 156,547 |
| Investments in equity affiliates | 79,130 | — | 79,130 |
| Goodwill and other intangible assets | 12,500 | 83,569 | 96,069 |
| Other assets and due from related party | 367,837 | 81,022 | 448,859 |
| Total assets | \$ 15,628,270 | \$ 1,410,715 | \$ 17,038,985 |

| | | | |
|--|----------------------|-------------------|----------------------|
| Liabilities: | | | |
| Debt obligations | \$ 13,195,120 | \$ 305,442 | \$ 13,500,562 |
| Allowance for loss-sharing obligations | — | 57,168 | 57,168 |
| Other liabilities and due to related parties | 299,559 | 109,817 | 409,376 |
| Total liabilities | \$ 13,494,679 | \$ 472,427 | \$ 13,967,106 |

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

| | Three Months Ended March 31, | |
|--|-------------------------------------|---------------------|
| | 2023 | 2022 |
| Origination Data: | | |
| <i>Structured Business</i> | | |
| Bridge loans (1) | \$ 262,189 | \$ 2,820,716 |
| Mezzanine / Preferred Equity | 5,845 | 8,139 |
| Total new loan originations | <u>\$ 268,034</u> | <u>\$ 2,828,855</u> |
| Loan runoff | \$ 1,186,649 | \$ 666,551 |
| <i>Agency Business</i> | | |
| <i>Origination Volumes by Investor:</i> | | |
| Fannie Mae | \$ 795,021 | \$ 449,680 |
| FHA | 148,940 | 11,990 |
| Freddie Mac | 101,332 | 299,072 |
| Private Label | 41,107 | 72,896 |
| SFR - Fixed Rate | 5,461 | 4,871 |
| Total | <u>\$ 1,091,861</u> | <u>\$ 838,509</u> |
| Total loan commitment volume | <u>\$ 1,500,110</u> | <u>\$ 975,132</u> |
| Agency Business Loan Sales Data: | | |
| Fannie Mae | \$ 651,758 | \$ 666,544 |
| Private Label | 159,945 | 489,269 |
| Freddie Mac | 68,457 | 359,086 |
| FHA | 43,475 | 71,816 |
| SFR - Fixed Rate | 9,064 | — |
| Total | <u>\$ 932,699</u> | <u>\$ 1,586,715</u> |
| Sales margin (fee-based services as a % of loan sales) (2) | <u>1.56 %</u> | <u>1.18 %</u> |
| MSR rate (MSR income as a % of loan commitments) | <u>1.23 %</u> | <u>1.57 %</u> |

- (1) 2023 and 2022 includes 20 and 35 SFR loans, respectively, with a UPB of \$76.1 million and \$133.4 million, respectively. During 2023 and 2022, we committed to fund SFR loans totaling \$54.4 million and \$83.3 million, respectively.
- (2) 2022 includes \$17.1 million of gains recognized on Swaps related to the Private Label loans sold in the three months ended March 31, 2022, which is included in gain on derivative instruments, net in the consolidated statements of income.

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

| Key Servicing Metrics for Agency Business: | March 31, 2023 | | |
|---|----------------------------|---|---|
| | Servicing Portfolio UPB | Wtd. Avg. Servicing Fee Rate (basis points) | Wtd. Avg. Life of Servicing Portfolio (years) |
| Fannie Mae | \$ 19,508,256 | 49.5 | 8.0 |
| Freddie Mac | 5,180,607 | 24.7 | 9.1 |
| Private Label | 2,233,500 | 19.6 | 7.7 |
| FHA | 1,242,669 | 14.7 | 19.8 |
| Bridge | 467,881 | 11.6 | 2.9 |
| SFR - Fixed Rate | 279,712 | 20.0 | 5.9 |
| Total | \$ 28,912,625 | 40.3 | 8.6 |
| | December 31, 2022 | | |
| Fannie Mae | \$ 19,038,124 | 50.2 | 8.0 |
| Freddie Mac | 5,153,207 | 25.0 | 9.0 |
| Private Label | 2,074,859 | 18.5 | 7.6 |
| FHA | 1,155,893 | 14.9 | 19.5 |
| Bridge | 301,182 | 12.5 | 1.7 |
| SFR - Fixed Rate | 274,764 | 19.8 | 6.0 |
| Total | \$ 27,998,029 | 41.1 | 8.6 |

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 loans, in addition to mezzanine loans, 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 MSR assets 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. When interest rates rise, the income from these investments can 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. 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 ongoing effects of COVID-19 created significant disruptions to the U.S. and global economies, which could continue a period of global economic slowdown. Although vaccine availability and usage have continued to increase, which has led to less negative short-term effects, such as travel bans, quarantines, layoffs and shutdowns, the ongoing longer-term macroeconomic effects on inflation, interest rates, capital markets, labor shortages, property values and global supply chains continue to negatively impact many industries, including the U.S. commercial real estate market. 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 to our business, particularly rising inflation, increasing interest rates and dislocation in capital markets, remains unclear and present risk with respect to our financial condition, results of operations, liquidity, and ability to pay distributions.

Significant Developments During the First Quarter of 2023

Financing and Capital Markets Activity.

- Raised \$93.4 million from the issuance of our 7.75% senior unsecured notes and used a significant portion of the net proceeds from such issuance to redeem our 8.00% senior unsecured notes; and
- Raised \$82.7 million of capital from the issuances of common stock under our “At-The-Market” equity offering sales agreement.

Share Repurchase Program. In March, we implemented a share repurchase program authorizing the repurchase of up to \$50.0 million of our outstanding common stock. As of April 30, 2023, we repurchased 3,545,604 shares of our common stock under this program at a total cost of \$37.4 million and an average cost of \$10.56 per share.

Structured Business Activity.

- Our structured loan and investment portfolio decreased 6% to \$13.64 billion as loan runoff totaling \$1.19 billion outpaced loan originations totaling \$268.0 million; and
- Received and recorded \$15.7 million in income from equity affiliates from an equity participation interest on a property that was sold and a cash distribution from our Lexford joint venture.

Agency Business Activity.

- Loan originations and sales totaled \$1.09 billion and \$932.7 million, respectively; and
- Grew our fee-based servicing portfolio over 3%, or \$914.6 million, to \$28.91 billion.

Dividend. We raised our quarterly common dividend \$0.02 to \$0.42 per share, representing an annual run rate of \$1.68 per share.

Current Market Conditions, Risks and Recent Trends

As discussed throughout this report, the ongoing COVID-19 pandemic continues to impact the global economy in unprecedented ways, causing significant disruptions and liquidity constraints in many market segments, including the financial services, real estate and credit markets. Although vaccine availability and usage have continued to increase, which has led to less negative short-term effects, such as travel bans, quarantines, layoffs and shutdowns, the ongoing longer-term macroeconomic effects on inflation, interest rates, capital markets, labor shortages, property values and global supply chains continue to negatively impact many industries, including the U.S. commercial real estate market. Although we have not been significantly impacted by COVID-19 to-date, adverse economic conditions have resulted, and may continue to result, in rising interest rates, dislocation in capital markets, declining real estate values of certain asset classes, 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 Federal Reserve has raised interest rates throughout 2022 to combat inflation and restore price stability and it is expected that rates will continue to rise throughout the first half of 2023, potentially even longer. Currently, rising interest rates will positively impact our net interest income since our structured loan portfolio exceeds our corresponding debt balances and the vast majority of our loan portfolio is floating-rate based on SOFR or LIBOR. In addition, a greater portion of our debt is fixed-rate (convertible and senior unsecured notes), as compared to our structured loan portfolio, and will not reset as interest rates rise. Therefore, increases in interest income due to rising interest rates is likely to be greater than the corresponding increase in interest expense on our variable rate debt. Additionally, we earn interest on our escrow and cash balances, so an increasing interest rate environment will increase our earnings on such balances. See “Quantitative and Qualitative Disclosures about Market Risk” below for additional details. Conversely, such rising interest rates could negatively impact real estate values and limit a borrower’s ability to make debt service payments, which may limit new mortgage loan originations and increase the likelihood of incurring losses from defaulted loans if the reduction in the collateral value is insufficient to repay their loans in full.

We have recently witnessed significant volatility in the banking sector as a result of disruptions to the banking system and financial markets resulting from multiple bank failures. Although the majority of our cash is currently on deposit with major financial institutions, our balances often exceed insured limits. We limit the exposure relating to these balances by diversifying them among various counterparties. Generally, deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore we believe bear minimal credit risk.

We have been very successful in raising capital through various vehicles to grow our businesses. The anticipated continual rise in interest rates, inflation, recent bank failures and unpredictable geopolitical landscape have caused a dislocation and additional volatility in the capital markets, which may result in a continual reduction of available liquidity. Instability in the banking sector, such as the recent bank failures and consolidations, have further contributed to the tightening liquidity conditions in equity and capital markets and has affected the availability and cost of capital. The increased cost of credit, or degradation in debt financing terms, may impact our ability to identify and execute investments on attractive terms, or at all. Periods of volatility and dislocation in the capital markets, as observed recently, could limit our ability to grow our Structured Business since this business is more reliant on the capital markets to grow, but can also present us with unique avenues to participate in other lower cost financing options and build on existing relationships, or, create new relationships with lenders. Since 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, tightening liquidity conditions in equity and capital markets should not have a substantial impact on our ability to grow this business.

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 November 2022, the Federal Housing Finance Agency (“FHFA”) announced that its 2023 Caps for Fannie Mae and Freddie Mac will be \$75 billion for each enterprise for a total opportunity of \$150 billion (the “2023 Caps”), which has decreased from its 2022 loan origination caps of \$78 billion for each enterprise. The FHFA has stated that they will continue to monitor the market and reserves the right to increase the 2023 Caps if warranted, however, they will not reduce the 2023 Caps if the market is smaller than initially projected. The 2023 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 has removed the requirement that at least 25% be affordable to residents at or below 60% of area median income (“AMI”) to reduce inconsistencies with their Housing Goals regulation. Further, the FHFA has changed certain definitions of mission driven affordable housing and also allows loans to finance energy or water efficiency improvements with units affordable at or below 80% of AMI to be classified as mission-driven, up from 60% AMI in 2022. This increase will allow the GSEs to expand their effort on energy and water conservation measures at workforce housing properties. 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 MSRs 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 March 31, 2023 to December 31, 2022:

Our Structured loan and investment portfolio balance was \$13.64 billion and \$14.46 billion at March 31, 2023 and December 31, 2022, respectively. This decrease was primarily due to loan runoff exceeding loan originations by \$918.6 million. See below for details.

Our portfolio had a weighted average current interest pay rate of 8.60% and 8.17% at March 31, 2023 and December 31, 2022, respectively. Including certain fees earned and costs associated with the structured portfolio, the weighted average current interest rate was 8.83% and 8.42% at March 31, 2023 and December 31, 2022, respectively. Our debt that finances our loans and investment portfolio totaled \$12.65 billion and \$13.28 billion at March 31, 2023 and December 31, 2022, respectively, with a weighted average funding cost of 6.68% and 6.22%, respectively, which excludes financing costs. Including financing costs, the weighted average funding rate was 6.97% and 6.50% at March 31, 2023 and December 31, 2022, respectively.

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

| | Three Months Ended March 31, 2023 |
|--------------------------------|--|
| Loans originated | \$ 268,034 |
| Number of loans | 24 |
| Weighted average interest rate | 9.62 % |
| Loan runoff | \$ 1,186,649 |
| Number of loans | 65 |
| Weighted average interest rate | 8.86 % |
| Loans extended | \$ 360,613 |
| Number of loans | 14 |

Loans held-for-sale from the Agency Business increased \$115.5 million, primarily from loan originations exceeding loan sales by \$159.2 million as noted in the following table, partially offset by an unfunded construction loan origination totaling \$60.4 million. Our GSE loans are generally sold within 60 days, while our Private Label loans are generally expected to be sold to third-parties or securitized within 180 days from the loan origination date. Activity from our Agency Business portfolio is comprised of the following (in thousands):

| | Three Months Ended March 31, 2023 | |
|------------------|--|-------------------|
| | Loan | |
| | Originations | Loan Sales |
| Fannie Mae | \$ 795,021 | \$ 651,758 |
| FHA | 148,940 | 43,475 |
| Freddie Mac | 101,332 | 68,457 |
| Private Label | 41,107 | 159,945 |
| SFR - Fixed Rate | 5,461 | 9,064 |
| Total | <u>\$ 1,091,861</u> | <u>\$ 932,699</u> |

Due from related party was \$113.1 million and \$77.4 million at March 31, 2023 and December 31, 2022, respectively, and represents funds received from our affiliated servicing operations related to loan payoffs.

Liabilities – Comparison of balances at March 31, 2023 to December 31, 2022:

Credit and repurchase facilities decreased \$190.9 million, primarily due to loan runoff in our Structured Business portfolio, partially offset by loan originations exceeding sales in our Agency Business.

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Securitized debt decreased \$340.8 million, primarily due to repayments of debt on CLO 12 and CLO 13 as the replacement period has ended for both CLOs.

Senior unsecured notes increased \$23.9 million, primarily due to the issuance of \$95.0 million of 7.75% senior notes, partially offset by the repurchase of \$70.8 million of our 8.00% senior notes.

Other liabilities decreased \$30.2 million, primarily due to payments of accrued commissions and incentive compensation during the first quarter of 2023, related to 2022 performance, and decreases in accrued legal fees, from the payment made to settle the Extended Stay litigation, and accrued interest payable, from payment of the semi-annual interest due on our 7.50% convertible notes.

Equity

During the first quarter of 2023, we sold 5,635,800 shares of our common stock through our “At-The-Market” equity agreement. In addition, through April 30, 2023, we repurchased 3,545,604 shares of our common stock under our share repurchase program.

See Note 15 for details of our dividends declared and deferred compensation transactions.

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 | March 31, 2023 | | | | | | | | | |
|------------------|-------------------------|--------------|------------------------------------|--------------------------------------|--------------------|------------|---------------------|--|---------------------------------------|--|
| | Servicing Portfolio UPB | Loan Count | Wtd. Avg. Age of Portfolio (years) | Wtd. Avg. Portfolio Maturity (years) | Interest Rate Type | | Wtd. Avg. Note Rate | Annualized Prepayments as a % of Portfolio (1) | Delinquencies as a % of Portfolio (2) | |
| | | | | | Fixed | Adjustable | | | | |
| Fannie Mae | \$ 19,508,256 | 2,487 | 3.2 | 8.3 | 94 % | 6 % | 4.30 % | 4.64 % | 0.43 % | |
| Freddie Mac | 5,180,607 | 1,201 | 3.0 | 10.0 | 80 % | 20 % | 4.47 % | 4.64 % | 2.86 % | |
| Private Label | 2,233,500 | 139 | 2.1 | 7.6 | 100 % | — | 3.71 % | — | — | |
| FHA | 1,242,669 | 101 | 2.5 | 33.4 | 100 % | — | 3.31 % | — | — | |
| Bridge | 467,881 | 5 | 0.9 | 2.6 | 35 % | 65 % | 7.42 % | — | — | |
| SFR - Fixed Rate | 279,712 | 56 | 1.6 | 6.1 | 100 % | — | 5.09 % | — | — | |
| Total | \$ 28,912,625 | 3,989 | 3.0 | 9.5 | 91 % | 9 % | 4.30 % | 3.97 % | 0.80 % | |

| Product | December 31, 2022 | | | | | | | | | |
|------------------|-------------------------|--------------|------------------------------------|--------------------------------------|--------------------|------------|---------------------|--|---------------------------------------|--|
| | Servicing Portfolio UPB | Loan Count | Wtd. Avg. Age of Portfolio (years) | Wtd. Avg. Portfolio Maturity (years) | Interest Rate Type | | Wtd. Avg. Note Rate | Annualized Prepayments as a % of Portfolio (1) | Delinquencies as a % of Portfolio (2) | |
| | | | | | Fixed | Adjustable | | | | |
| Fannie Mae | \$ 19,038,124 | 2,460 | 3.1 | 8.5 | 96 % | 4 % | 4.20 % | 12.71 % | 0.13 % | |
| Freddie Mac | 5,153,207 | 1,214 | 2.8 | 10.2 | 84 % | 16 % | 4.26 % | 19.78 % | 0.27 % | |
| Private Label | 2,074,859 | 130 | 1.9 | 7.8 | 100 % | — | 3.60 % | — | — | |
| FHA | 1,155,893 | 96 | 2.5 | 33.5 | 100 % | — | 3.17 % | 1.59 % | — | |
| Bridge | 301,182 | 4 | 0.9 | 1.6 | — | 100 % | 7.68 % | — | — | |
| SFR - Fixed Rate | 274,764 | 53 | 1.4 | 6.3 | 100 % | — | 5.04 % | 0.30 % | — | |
| Total | \$ 27,998,029 | 3,957 | 2.9 | 9.7 | 93 % | 7 % | 4.17 % | 12.35 % | 0.14 % | |

- (1) Prepayments reflect loans repaid prior to six months from the loan 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. See Note 5 for details.
- (2) Delinquent loans reflect loans that are contractually 60 days or more past due. At March 31, 2023 and December 31, 2022, delinquent loans totaled \$232.1 million and \$38.7 million, respectively. At March 31, 2023, there were two loans totaling \$3.3 million in bankruptcy and a \$1.0 million loan in foreclosure. There were no loans in the foreclosure process or in bankruptcy at December 31, 2022.

Our Agency Business servicing portfolio represents commercial real estate loans, which are generally transferred or sold within 60 days from the date the loan is funded. Primarily all 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 March 31, 2023 and 2022

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

| | Three Months Ended March 31, | | Increase / (Decrease) | |
|--|-------------------------------------|-------------|------------------------------|----------------|
| | 2023 | 2022 | Amount | Percent |
| Interest income | \$ 327,947 | \$ 166,698 | \$ 161,249 | 97 % |
| Interest expense | 219,373 | 82,559 | 136,814 | 166 % |
| Net interest income | 108,574 | 84,139 | 24,435 | 29 % |
| Other revenue: | | | | |
| Gain on sales, including fee-based services, net | 14,589 | 1,656 | 12,933 | nm |
| Mortgage servicing rights | 18,458 | 15,312 | 3,146 | 21 % |
| Servicing revenue, net | 29,565 | 21,054 | 8,511 | 40 % |
| Property operating income | 1,381 | 295 | 1,086 | nm |
| Gain on derivative instruments, net | 4,223 | 17,386 | (13,163) | (76)% |
| Other income, net | 4,882 | 3,200 | 1,682 | 53 % |
| Total other revenue | 73,098 | 58,903 | 14,195 | 24 % |
| Other expenses: | | | | |
| Employee compensation and benefits | 42,399 | 42,025 | 374 | 1 % |
| Selling and administrative | 13,623 | 14,548 | (925) | (6)% |
| Property operating expenses | 1,383 | 535 | 848 | 159 % |
| Depreciation and amortization | 2,624 | 1,983 | 641 | 32 % |
| Provision for loss sharing (net of recoveries) | 3,177 | (662) | 3,839 | nm |
| Provision for credit losses (net of recoveries) | 22,517 | 2,358 | 20,159 | nm |
| Total other expenses | 85,723 | 60,787 | 24,936 | 41 % |
| Income before extinguishment of debt, income from equity affiliates and income taxes | 95,949 | 82,255 | 13,694 | 17 % |
| Loss on extinguishment of debt | — | (1,350) | 1,350 | nm |
| Income from equity affiliates | 14,326 | 7,212 | 7,114 | 99 % |
| Provision for income taxes | (8,029) | (8,188) | 159 | (2) |
| Net income | 102,246 | 79,929 | 22,317 | 28 % |
| Preferred stock dividends | 10,342 | 9,056 | 1,286 | 14 % |
| Net income attributable to noncontrolling interest | 7,585 | 6,816 | 769 | 11 % |
| Net income attributable to common stockholders | \$ 84,319 | \$ 64,057 | \$ 20,262 | 32 % |

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 March 31, | | | | | |
|--|------------------------------|---------------------------|--------------------------------|----------------------------|---------------------------|--------------------------------|
| | 2023 | | | 2022 | | |
| | 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 | \$ 13,799,379 | \$ 303,019 | 8.91 % | \$ 12,506,401 | \$ 143,483 | 4.65 % |
| Mezzanine / junior participation loans | 214,971 | 5,884 | 11.10 % | 222,758 | 5,078 | 9.25 % |
| Preferred equity investments | 97,192 | 1,998 | 8.34 % | 152,761 | 2,660 | 7.06 % |
| Other | 34,152 | 833 | 9.89 % | 140,666 | 4,926 | 14.20 % |
| Core interest-earning assets | 14,145,694 | 311,734 | 8.94 % | 13,022,586 | 156,147 | 4.86 % |
| Cash equivalents | 871,105 | 5,642 | 2.63 % | 758,362 | 113 | 0.06 % |
| Total interest-earning assets | <u>\$ 15,016,799</u> | <u>\$ 317,376</u> | <u>8.57 %</u> | <u>\$ 13,780,948</u> | <u>\$ 156,260</u> | <u>4.60 %</u> |
| <i>Structured Business interest-bearing liabilities:</i> | | | | | | |
| CLO | \$ 7,480,943 | \$ 119,051 | 6.45 % | \$ 6,604,069 | \$ 31,723 | 1.95 % |
| Credit and repurchase facilities | 3,438,091 | 62,730 | 7.40 % | 3,668,456 | 24,121 | 2.67 % |
| Unsecured debt | 1,713,633 | 26,289 | 6.22 % | 1,559,751 | 21,153 | 5.50 % |
| Q Series securitization | 236,878 | 3,906 | 6.69 % | — | — | — |
| Trust preferred | 154,336 | 2,918 | 7.67 % | 154,336 | 1,205 | 3.17 % |
| Total interest-bearing liabilities | <u>\$ 13,023,881</u> | <u>214,894</u> | <u>6.69 %</u> | <u>\$ 11,986,612</u> | <u>78,202</u> | <u>2.65 %</u> |
| Net interest income | | <u>\$ 102,482</u> | | | <u>\$ 78,058</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 \$161.1 million increase from our Structured Business, primarily due to a significant increase in the average yield on core interest-earning assets, as a result of increases in benchmark interest rates, and an increase in our average balance of our core interest-earning assets, mainly from loan originations exceeding loan runoff during 2022.

The increase in interest expense was mainly due to a \$136.7 million increase from our Structured Business, primarily due to a significant increase in the average cost of our interest-bearing liabilities, mainly from increases in benchmark index rates, and an increase in the average balance of our interest-bearing liabilities, due to the growth in our loan portfolio during 2022 and the issuance of additional unsecured debt.

Agency Business Revenue

The increase in gain on sales, including fee-based services, net was primarily due to a 32% increase in the sales margin from 1.18% (which includes gains recognized on Swaps) to 1.56%, partially offset by a 41% decrease (\$654.0 million) in loan sales volume. The increase in the sales margin was primarily driven by higher margins received on Fannie Mae and Private Label loan sales.

The increase in income from MSR was primarily due to a 54% increase (\$525.0 million) in loan commitment volume, partially offset by a 22% decrease in the MSR rate from 1.57% to 1.23%. The decrease in the MSR rate was primarily due to a reduction in servicing rates on newer loans.

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The increase in servicing revenue, net was primarily due to an increase in earnings on escrow balances as a result of increases in benchmark index rates and higher escrow balances, partially offset by less prepayment penalties received.

Other Income

The gain on derivative instruments in both 2023 and 2022 were related to changes in the fair values of our forward sale commitments and Swaps held by our Agency Business.

Other Expenses

The decrease in selling and administrative expenses was primarily due to lower legal fees due to the settlement of the Extended Stay litigation.

The increase in our provisions for loss sharing and credit losses (“CECL provisions”) were primarily due to the impact of an increase in interest rates, higher unemployment rates and rising inflation, along with changes in property values, in our CECL forecast models.

Loss on Extinguishment of Debt

The loss on extinguishment of debt in 2022 represents deferred financing fees recognized in connection with the unwind of CLOs.

Income from Equity Affiliates

Income from equity affiliates in the first quarter of 2023 primarily reflects \$11.0 million received from an equity participation interest on a property that was sold and a \$4.7 million distribution received from our Lexford joint venture, while income in the first quarter of 2022 primarily reflects income from our investment in a residential mortgage banking business of \$5.0 million and a \$2.6 million equity participation interest on a property that was sold.

Provision for Income Taxes

In the three months ended March 31, 2023, we recorded a tax provision of \$8.0 million, which consisted of a current and deferred tax provision of \$4.8 million and \$3.2 million, respectively. In the three months ended March 31, 2022, we recorded a tax provision of \$8.2 million, which consisted of a current tax provision of \$9.9 million and a deferred tax benefit of \$1.7 million. The decrease in the tax provision was primarily due to lower income generated from our investment in a residential banking business.

Preferred Stock Dividends

The increase in preferred stock dividends was due to the issuance of an additional 3,292,000 shares of our Series F preferred stock during the first quarter of 2022.

Net Income Attributable to Noncontrolling Interest

The noncontrolling interest relates to the outstanding OP Units (see Note 15). There were 16,293,589 OP Units and 16,325,095 OP Units outstanding at March 31, 2023 and 2022, respectively, which represented 8.1% and 9.2% of our outstanding stock at March 31, 2023 and 2022, 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.

The ongoing COVID-19 pandemic has contributed to adverse economic and market conditions, causing significant disruptions and liquidity constraints in many market segments, including the financial services, real estate and credit markets, while adding to ongoing longer-term macroeconomic effects on inflation, interest rates and capital markets. In addition, the recent bank failures and consolidations have further contributed to a dislocation in capital markets and tightening liquidity conditions affecting the availability and cost of capital. We are monitoring its impact on our financing sources, borrowers and their tenants, as well as the economy as a whole, including the tightening liquidity conditions in equity and capital markets. 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.

As described in Note 9, certain of our repurchase facilities include margin call provisions associated with changes in interest spreads which are designed to limit the lenders credit exposure. If we experience significant decreases in the value of the properties serving as collateral under these repurchase agreements, which is set by the lenders based on current market conditions, the lenders have the right to require us to repay all, or a portion, of the funds advanced, or provide additional collateral.

We had \$12.65 billion in total structured debt outstanding at March 31, 2023. Of this total, \$9.41 billion, or 74%, does not contain mark-to-market provisions and is comprised of non-recourse securitized debt, senior unsecured debt and junior subordinated notes, the majority of which have maturity dates in 2024, or later. The remaining \$3.24 billion of debt is in credit and repurchase facilities with several different banks that we have long-standing relationships with. At March 31, 2023, we had \$2.12 billion of debt from credit and repurchase facilities that were subject to margin calls related to changes in interest spreads. 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.

At May 4, 2023, we had approximately \$785.0 million in cash and approximately \$560.0 million of replenishable cash available under our CLO vehicles, as well as other liquidity sources. In addition to our ability to extend our credit and repurchase facilities and raise funds from equity and debt offerings, we also have a \$28.91 billion agency servicing portfolio at March 31, 2023, which is mostly prepayment protected and generates approximately \$117.0 million per year in recurring cash flow.

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 totaled \$56.8 million during the three months ended March 31, 2023 and consisted primarily of net cash outflows of \$111.9 million, due to loan originations exceeding loan sales in our Agency Business, a \$30.2 million decrease in other liabilities, primarily due to payments made for commissions, incentive compensation and the settlement of the Extended Stay litigation and a \$35.7 million increase in due from related party, partially offset by net income of \$102.2 million.

Cash flows provided by investing activities totaled \$828.0 million during the three months ended March 31, 2023. Loan and investment activity (originations and payoffs/paydowns) comprise the majority of our investing activities. Loan payoffs and paydowns from our Structured Business totaling \$1.19 billion, net of originations of \$380.6 million, resulted in net cash inflows of \$810.4 million.

Cash flows used in financing activities totaled \$540.0 million during the three months ended March 31, 2023 and consisted primarily of \$344.5 million of paydowns on CLO 12 and CLO 13 (replacement period ended), net cash outflows of \$193.3 million from debt facility activities (facility paydowns were greater than loan originations) and \$90.5 million of distributions to our stockholders and OP Unit holders, partially offset by \$82.7 million of proceeds from the issuance of common 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 at March 31, 2023. Our restricted liquidity and purchase and loss obligations were satisfied with letters of credit totaling \$69.0 million and \$2.5 million of cash. 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 our loans held-for-sale. The following is a summary of our debt facilities (in thousands):

| Debt Instruments | March 31, 2023 | | | Maturity Dates (2) |
|--------------------------------------|----------------------|----------------------|---------------------|--------------------|
| | Commitment | UPB (1) | Available | |
| Structured Business | | | | |
| Credit and repurchase facilities | \$ 6,762,047 | \$ 3,239,951 | \$ 3,522,096 | 2023 - 2026 |
| Securitized debt (3) | 7,541,518 | 7,541,518 | — | 2023 - 2027 |
| Senior unsecured notes | 1,423,850 | 1,423,850 | — | 2023 - 2028 |
| Convertible senior unsecured notes | 287,500 | 287,500 | — | 2025 |
| Junior subordinated notes | 154,336 | 154,336 | — | 2034 - 2037 |
| Structured Business total | 16,169,251 | 12,647,155 | 3,522,096 | |
| Agency Business | | | | |
| Credit and repurchase facilities (4) | 2,150,534 | 422,805 | 1,727,729 | 2023 - 2024 |
| Consolidated total | <u>\$ 18,319,785</u> | <u>\$ 13,069,960</u> | <u>\$ 5,249,825</u> | |

- (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 at March 31, 2023.
- (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 |
|--------------------|-----------------------|-------------------|------------------------------|
| March 31, 2023 | \$ 3,691,191 | \$ 3,662,756 | \$ 3,696,760 |
| December 31, 2022 | 4,441,774 | 3,856,009 | 4,403,368 |
| September 30, 2022 | 4,534,744 | 4,642,911 | 4,642,911 |
| June 30, 2022 | 4,581,226 | 4,561,393 | 4,926,070 |
| March 31, 2022 | 4,224,503 | 4,315,388 | 4,842,785 |

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

Off-Balance Sheet Arrangements. At March 31, 2023, we had no off-balance sheet arrangements.

Inflation. The Federal Reserve has raised interest rates throughout 2022 to combat inflation and restore price stability and it is expected that rates will continue to rise throughout the first half of 2023, potentially even longer. Currently, rising interest rates will positively impact our net interest income since our structured loan portfolio exceeds our corresponding debt balances and the vast majority of our loan portfolio is floating-rate based on SOFR or LIBOR. In addition, a greater portion of our debt is fixed-rate (convertible and senior unsecured notes), as compared to our structured loan portfolio, and will not reset as interest rates rise. Therefore, increases in interest income due to rising interest rates is likely to be greater than the corresponding increase in interest expense on our variable rate debt. See “Quantitative and Qualitative Disclosures about Market Risk” below for additional details.

Contractual Obligations. During the three months ended March 31, 2023, the following significant changes were made to our contractual obligations disclosed in our 2022 Annual Report:

- issued \$95.0 million of 7.75% senior unsecured notes due in 2026, and used \$70.8 million of the proceeds to repurchase our 8.00% senior unsecured notes; and
- modified existing debt facilities.

Refer to Note 13 for a description of our debt maturities by year and unfunded commitments at March 31, 2023.

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 2022 Annual Report for a discussion of our critical accounting policies. During the three months ended March 31, 2023, 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, changes in fair value of GSE-related derivatives that temporarily flow through earnings (net of any tax impact), deferred tax provision (benefit), CECL provisions for credit losses (adjusted for realized losses as described below), and gains/losses on the receipt of real estate from the settlement of loans (prior to the sale of the real estate). 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: (1) 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 (2) 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 are as follows (\$ in thousands, except share and per share data):

| | Three Months Ended March 31, | |
|--|-------------------------------------|--------------------|
| | 2023 | 2022 |
| Net income attributable to common stockholders | \$ 84,319 | \$ 64,057 |
| Adjustments: | | |
| Net income attributable to noncontrolling interest | 7,585 | 6,816 |
| Income from mortgage servicing rights | (18,458) | (15,312) |
| Deferred tax provision (benefit) | 3,164 | (1,720) |
| Amortization and write-offs of MSRs | 18,723 | 27,669 |
| Depreciation and amortization | 4,295 | 2,569 |
| Loss on extinguishment of debt | — | 1,350 |
| Provision for credit losses, net | 23,704 | 1,696 |
| Gain on derivative instruments, net | (7,051) | (298) |
| Stock-based compensation | 5,901 | 6,092 |
| Distributable earnings (1) | <u>\$ 122,182</u> | <u>\$ 92,919</u> |
| Diluted weighted average shares outstanding - GAAP (1) | 214,910,974 | 185,431,404 |
| Less: Convertible notes dilution | (17,230,358) | (15,068,383) |
| Diluted weighted average shares outstanding - distributable earnings (1) | <u>197,680,616</u> | <u>170,363,021</u> |
| Diluted distributable earnings per share (1) | <u>\$ 0.62</u> | <u>\$ 0.55</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 2022 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, 2022.

The following table projects the potential impact on interest (in thousands) for a 12-month period, assuming a hypothetical instantaneous increase or decrease of both 50 and 100 basis points in LIBOR, SOFR, or other applicable index rate (collectively referred to as the “Index Rates” below).

| | Assets (Liabilities) Subject to Interest Rate Sensitivity (1) | 50 Basis Point Increase | 100 Basis Point Increase | 50 Basis Point Decrease | 100 Basis Point Decrease |
|--|--|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
| Interest income from loans and investments | \$ 13,643,724 | \$ 65,843 | \$ 131,687 | \$ (65,360) | \$ (129,746) |
| Interest expense from debt obligations | (12,647,155) | 54,713 | 109,408 | (54,676) | (109,371) |
| Impact to net interest income (2) | | <u>\$ 11,130</u> | <u>\$ 22,279</u> | <u>\$ (10,684)</u> | <u>\$ (20,375)</u> |

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

(2) The impact of hypothetical rate changes to net interest income are further benefited by interest income earned on our cash, restricted cash and escrow balances. At March 31, 2023, we had approximately \$2.8 billion of cash, restricted cash and escrows, which is earning interest at a weighted average blended rate of approximately 4%, or approximately \$100 million annually. Interest income earned on escrows is included as a component of servicing revenue, net and interest income earned on our cash and restricted cash is included as a component of interest income in the consolidated statements of income. The interest earned on our cash, restricted cash and escrows is based on an average daily balance and may be different from the end of period balance. Additionally, the interest rates on these balances are not indexed to an Index Rate and are negotiated periodically with each

corresponding bank, therefore, the interest rates may change frequently and may not necessarily change in conjunction with changes in Index Rates.

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 50 basis point and a 100 basis point increase to the five-year and ten-year swap rates on our interest rate swaps held at March 31, 2023 would have resulted in a gain of \$1.0 million and \$2.0 million, respectively, in the three months ended March 31, 2023, while a 50 basis point and a 100 basis point decrease in the rates would have resulted in a loss of \$1.1 million and \$2.2 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 MSR 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 MSR by \$16.7 million at March 31, 2023, while a 100 basis point decrease would increase the fair value by \$17.6 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 March 31, 2023. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective at March 31, 2023.

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2023 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 2022 Annual Report.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

In March 2023, the Board of Directors authorized a share repurchase program providing for the repurchase of up to \$50.0 million of our outstanding common stock. The repurchase of our common stock may be made from time to time in the open market, through privately negotiated transactions, or otherwise in compliance with Rule 10b-18 and Rule 10b5-1 under the Securities Exchange Act of 1934, based on our stock price, general market conditions, applicable legal requirements and other factors. The program may be discontinued or modified at any time.

The following table includes the purchases made during the three months ended March 31, 2023 (\$ in thousands, except share and per share data):

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program |
|-----------------------|---|-------------------------------------|---|---|
| January 1 - 31, 2023 | — | — | — | — |
| February 1 - 28, 2023 | — | — | — | — |
| March 1 - 31, 2023 | 886,432 | \$ 10.91 | 886,432 | \$ 40,329 |
| Total | <u>886,432</u> | <u>\$ 10.91</u> | <u>886,432</u> | |

Subsequent to March 31, 2023, we repurchased additional shares under this share repurchase program. Through April 30, 2023, we repurchased a total of 3,545,604 shares of our common stock under this program at a total cost of \$37.4 million and an average cost of \$10.56 per share.

Item 6. Exhibits

| <u>Exhibit #</u> | <u>Description</u> | <u>Form</u> | <u>Exhibit #</u> | <u>Filing Date</u> |
|------------------|--|-------------|------------------|--------------------|
| 3.1 | Articles of Incorporation of Arbor Realty Trust, Inc. | S-11 | 3.1 | 11/13/03 |
| 3.2 | Articles of Amendment to Articles of Incorporation of Arbor Realty Trust, Inc. | 10-Q | 3.2 | 08/07/07 |
| 3.3 | Amended and Restated Bylaws of Arbor Realty Trust, Inc. | 8-K | 3.1 | 12/01/20 |
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14, filed herewith | | | |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14, filed herewith | | | |
| 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, filed herewith | | | |
| 101.1 | Financial statements from the Quarterly Report on Form 10-Q of Arbor Realty Trust, Inc. for the quarter ended March 31, 2023, filed on May 5, 2023, formatted in Inline Extensible Business Reporting Language (“XBRL”): (1) the Consolidated Balance Sheets, (2) the Consolidated Statements of Income, (3) the Consolidated Statements of Changes in Equity, (4) the Consolidated Statements of Cash Flows and (5) the Notes to Consolidated Financial Statements. | | | |
| 104 | Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101) | | | |

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: May 5, 2023

By: /s/ Ivan Kaufman

Ivan Kaufman
Chief Executive Officer

Date: May 5, 2023

By: /s/ Paul Elenio

Paul Elenio
Chief Financial Officer

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: May 5, 2023

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: May 5, 2023

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 March 31, 2023 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: May 5, 2023

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

Date: May 5, 2023

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.
