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 June 30, 2011

Or

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

For the transition period from to

Commission file number: 001-32136

Arbor Realty Trust, Inc.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation)	**20-0057959** (I.R.S. Employer Identification No.)
333 Earle Ovington Boulevard, Suite 900 **Uniondale, NY** (Address of principal executive offices)	**11553** (Zip Code)

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common stock, $0.01 par value per share: 25,438,618 outstanding (excluding 1,090,119 shares held in the treasury) as of August 5, 2011.

ARBOR REALTY TRUST, INC.

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CAUTIONARY STATEMENTS

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

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically; adverse changes in the financing markets we access affecting our ability to finance our loan and investment portfolio; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; changes in the markets; legislative/regulatory changes; completion of pending investments; the availability and cost of capital for future investments; competition within the finance and real estate industries; and other risks detailed in our Annual Report on Form 10-K for the year ended December 31, 2010. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries — Significant Accounting Estimates and Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	December 31, 2010
Assets:		
Cash and cash equivalents	$ 42,396,026	$ 101,124,564
Restricted cash (includes $63,885,608 and $21,085,664 from consolidated VIEs, respectively)	65,590,163	21,085,664
Loans and investments, net (includes $1,144,334,679 and $1,301,435,584 from consolidated VIEs, respectively)	1,322,526,435	1,414,225,388
Loan held-for-sale	6,160,000	—
Available-for-sale securities, at fair value (includes $2,000,000 and $1,000,000 from consolidated VIEs, respectively)	4,246,973	3,298,418
Investment in equity affiliates	65,789,451	65,838,885
Real estate owned, net (includes $86,349,540 and $2,707,479 from consolidated VIEs, respectively)	151,904,031	22,839,480
Real estate held-for-sale, net	41,440,000	41,440,000
Due from related party (includes $160,275 and $335,048 from consolidated VIEs, respectively)	1,994,647	335,048
Prepaid management fee — related party	19,047,949	19,047,949
Other assets (includes $11,777,724 and $13,645,594 from consolidated VIEs, respectively)	42,538,558	41,972,532
Total assets	$ 1,763,634,233	$ 1,731,207,928
Liabilities and Equity:		
Repurchase agreements	$ —	$ 990,997
Collateralized debt obligations (includes $1,038,328,166 and $1,070,852,555 from consolidated VIEs, respectively)	1,038,328,166	1,070,852,555
Junior subordinated notes to subsidiary trust issuing preferred securities	158,027,900	157,806,238
Notes payable	85,457,708	51,457,708
Mortgage notes payable — real estate owned	74,501,004	20,750,000
Mortgage note payable — held-for-sale	41,440,000	41,440,000
Due to related party	1,583,030	17,436,986
Due to borrowers (includes $1,019,292 and $1,155,095 from consolidated VIEs, respectively)	1,746,348	2,559,388
Deferred revenue	77,123,133	77,123,133
Other liabilities (includes $29,654,129 and $34,940,192 from consolidated VIEs, respectively)	78,367,295	84,375,680
Total liabilities	1,556,574,584	1,524,792,685
Commitments and contingencies	—	—
Equity:		
Arbor Realty Trust, Inc. stockholders' equity:		
Preferred stock, $0.01 par value: 100,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value: 500,000,000 shares authorized; 26,423,737 shares issued, 25,408,290 shares outstanding at June 30, 2011 and 25,756,810 shares issued, 24,776,213 shares outstanding at December 31, 2010	264,237	257,568
Additional paid-in capital	454,654,595	450,686,382
Treasury stock, at cost — 1,015,447 shares at June 30, 2011 and 980,597 shares at December 31, 2010	(10,825,582)	(10,669,585)
Accumulated deficit	(190,784,443)	(180,689,667)
Accumulated other comprehensive loss	(48,184,229)	(55,169,317)
Total Arbor Realty Trust, Inc. stockholders' equity	205,124,578	204,415,381
Noncontrolling interest in consolidated entity	1,935,071	1,999,862
Total equity	207,059,649	206,415,243
Total liabilities and equity	$ 1,763,634,233	$ 1,731,207,928

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest income	$ 18,572,772	$ 25,866,947	$ 36,580,339	$ 50,085,372
Interest expense	15,792,751	16,177,468	28,833,700	34,264,728
Net interest income	2,780,021	9,689,479	7,746,639	15,820,644
Other revenue:				
Property operating income	8,264,317	815,110	13,684,503	1,028,593
Other income	41,556	224,577	63,432	1,022,624
Total other revenue	8,305,873	1,039,687	13,747,935	2,051,217
Other expenses:				
Employee compensation and benefits	2,285,433	1,995,469	4,373,487	3,900,422
Selling and administrative	1,583,793	2,250,402	2,781,618	3,528,397
Property operating expenses	7,210,374	1,085,143	11,011,595	1,443,573
Depreciation and amortization	1,898,034	134,542	2,330,499	146,710
Other-than-temporary impairment	—	7,004,800	—	7,004,800
Impairment loss on real estate owned	750,000	—	750,000	—
Provision for loan losses (net of recoveries)	7,560,263	24,830,000	8,095,398	49,830,000
Loss on restructured loans	—	825,239	1,000,000	825,239
Management fee - related party	2,050,000	2,000,000	4,000,000	3,900,000
Total other expenses	23,337,897	40,125,595	34,342,597	70,579,141
Loss from continuing operations before gain on extinguishment of debt, loss on sale of securities, net, income (loss) from equity affiliates and provision for income taxes	(12,252,003)	(29,396,429)	(12,848,023)	(52,707,280)
Gain on extinguishment of debt	1,926,700	171,032,651	2,819,200	217,531,130
Loss on sale of securities, net	—	(10,293,063)	—	(6,989,583)
Income (loss) from equity affiliates	24,446	(27,348)	48,811	(72,923)
(Loss) income before provision for income taxes	(10,300,857)	131,315,811	(9,980,012)	157,761,344
Provision for income taxes	—	(1,800,000)	—	(1,800,000)
(Loss) income from continuing operations	(10,300,857)	129,515,811	(9,980,012)	155,961,344
Loss from discontinued operations	—	(373,914)	—	(391,937)
Net (loss) income	(10,300,857)	129,141,897	(9,980,012)	155,569,407
Net income attributable to noncontrolling interest	53,878	53,898	107,574	107,615
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (10,354,735)	$ 129,087,999	$ (10,087,586)	$ 155,461,792
Basic (loss) earnings per common share:				
(Loss) income from continuing operations, net of noncontrolling interest	$ (0.41)	$ 5.08	$ (0.40)	$ 6.13
Loss from discontinued operations	—	(0.01)	—	(0.02)
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (0.41)	$ 5.07	$ (0.40)	$ 6.11
Diluted (loss) earnings per common share:				
(Loss) income from continuing operations, net of noncontrolling interest	$ (0.41)	$ 5.06	$ (0.40)	$ 6.12
Loss from discontinued operations	—	(0.01)	—	(0.02)
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (0.41)	$ 5.05	$ (0.40)	$ 6.10
Dividends declared per common share	$ —	$ —	$ —	$ —
Weighted average number of shares of common stock outstanding:				
Basic	25,440,380	25,477,410	25,202,248	25,432,659
Diluted	25,440,380	25,574,203	25,202,248	25,481,323

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Six Months Ended June 30, 2011
(Unaudited)

	Comprehensive (Loss) Income (1)	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Arbor Realty Trust, Inc. Stockholders' Equity	Non-controlling Interest	Total
Balance — January 1, 2011		25,756,810	$257,568	$450,686,382	(980,597)	$(10,669,585)	$(180,689,667)	$ (55,169,317)	$204,415,381	$1,999,862	$206,415,243
Issuance of common stock for management fee		666,927	6,669	3,968,213					3,974,882		3,974,882
Purchase of treasury stock					(34,850)	(155,997)			(155,997)		(155,997)
Distributions — preferred stock of private REIT							(7,190)		(7,190)		(7,190)
Net (loss) income	$ (9,980,012)						(10,087,586)		(10,087,586)	107,574	(9,980,012)
Distribution to non-controlling interest										(172,365)	(172,365)
Unrealized gain on securities available-for-sale	970,605							970,605	970,605		970,605
Unrealized loss on derivative financial instruments	(8,403,199)							(8,403,199)	(8,403,199)		(8,403,199)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	14,417,682							14,417,682	14,417,682		14,417,682
Balance — June 30, 2011	$ (2,994,924)	26,423,737	$264,237	$454,654,595	(1,015,447)	$(10,825,582)	$(190,784,443)	$ (48,184,229)	$205,124,578	$1,935,071	$207,059,649

(1) Comprehensive income for the six months ended June 30, 2010 was $144,245,699.

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating activities:		
Net (loss) income	$ (9,980,012)	$ 155,569,407
Adjustments to reconcile net (loss) income to net cash (used in) / provided by operating activities:		
Depreciation and amortization	2,330,499	209,853
Stock-based compensation	—	310,500
Other-than-temporary impairment	—	7,004,800
Impairment loss on real estate owned	750,000	—
Gain on extinguishment of debt	(2,819,200)	(217,531,130)
Loss on sale of securities	—	6,989,583
Provision for loan losses (net of recoveries)	8,095,398	49,830,000
Loss on restructured loans	1,000,000	825,239
Amortization and accretion of interest and fees	6,834,928	3,757,052
Change in fair value of non-qualifying swaps	557,842	(800,781)
(Income) loss from equity affiliates	(48,811)	72,923
Changes in operating assets and liabilities:		
Other assets	(1,255,270)	730,279
Distributions of operations from equity affiliates	48,811	46,365
Other liabilities	(2,265,131)	2,204,078
Change in restricted cash	(312,465)	—
Due to/from related party	(13,619,565)	(297,179)
Net cash (used in) / provided by operating activities	$ (10,682,976)	$ 8,920,989
Investing activities:		
Loans and investments funded, originated and purchased, net	(73,028,631)	(12,712,038)
Payoffs and paydowns of loans and investments	67,298,389	77,594,339
Deposits received relating to loan held-for-sale	—	2,250,000
Proceeds from sale of loans	—	14,500,000
Due to borrowers and reserves	(732,148)	1,877,887
Change in restricted cash	(1,050,000)	—
Deferred fees	1,429,610	212,822
Purchase of securities	—	(4,481,719)
Principal collection on securities	—	271,766
Proceeds from sale of available-for-sale securities	—	50,678,631
Investment in real estate, net	(385,636)	(23,745)
Proceeds from investments in real estate owned, net	2,629,138	—
Contributions to equity affiliates	—	(410,540)
Distributions from equity affiliates	49,434	435,937
Net cash (used in) / provided by investing activities	$ (3,789,844)	$ 130,193,340
Financing activities:		
Proceeds from loan participations and notes payable	30,800,000	26,000,000
Paydowns of mortgage notes payable — real estate owned	(1,600,000)	—
Payoffs and paydowns of repurchase agreements and notes payable	(990,997)	(160,156,077)
Payoff of junior subordinated notes to subsidiary trust issuing preferred securities	—	(10,500,122)
Proceeds from collateralized debt obligations	2,357,959	5,500,000
Payoffs and paydowns of collateralized debt obligations	(31,693,684)	(39,936,209)
Change in restricted cash	(42,799,944)	3,075,122
Payments on swaps to hedge counterparties	(9,670,000)	(13,440,000)
Receipts on swaps from hedge counterparties	9,810,000	8,370,000
Purchases of treasury stock	(155,997)	—
Distributions paid to noncontrolling interest	(172,365)	(108,940)
Distributions paid on preferred stock of private REIT	(7,190)	(7,190)
Payment of deferred financing costs	(133,500)	(411,381)
Net cash used in financing activities	$ (44,255,718)	$ (181,614,797)
Net decrease in cash and cash equivalents	$ (58,728,538)	$ (42,500,468)
Cash and cash equivalents at beginning of period	101,124,564	64,624,275
Cash and cash equivalents at end of period	$ 42,396,026	$ 22,123,807

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (*Continued*)
For the Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Supplemental cash flow information:		
Cash used to pay interest	$ 21,364,179	$ 29,020,708
Cash used for taxes	$ 290,090	$ 371,879
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to real estate owned, net	$ 83,099,540	$ 20,750,000
Assumption of mortgage note payable — real estate owned	$ 55,351,004	$ 20,750,000
Issuance of common stock for management incentive fee	$ 3,974,882	$ —
Extinguishment of notes payable	$ —	$ 159,417,756
Extinguishment of trust preferred securities	$ —	$ 102,110,610
Re-issuance of CDO debt	$ —	$ 42,304,391
Accrual of interest on reissued collateralized debt obligations	$ —	$ 22,941,851
Available-for-sale securities exchanged	$ —	$ 400,000
Investments transferred to available-for-sale securities, at fair value	$ —	$ 35,814,344
Loan payoffs and paydowns received by related party	$ —	$ 14,505,791

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

Note 1 —Description of Business/Form of Ownership

Arbor Realty Trust, Inc. (the “Company”) is a Maryland corporation that was formed in June 2003 to invest in a diversified portfolio of multi-family and commercial real estate related assets, primarily consisting of bridge loans, mezzanine loans, junior participating interests in first mortgage loans, and preferred and direct equity. The Company may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. The Company conducts substantially all of its operations through its operating partnership, Arbor Realty Limited Partnership (“ARLP”), and ARLP’s wholly-owned subsidiaries. The Company is externally managed and advised by Arbor Commercial Mortgage, LLC (“ACM”).

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

The Company’s charter provides for the issuance of up to 500 million shares of common stock, par value $0.01 per share, and 100 million shares of preferred stock, par value $0.01 per share. The Company was incorporated in June 2003 and was initially capitalized through the sale of 67 shares of common stock for $1,005.

On July 1, 2003, ACM contributed $213.1 million of structured finance assets and $169.2 million of borrowings supported by $43.9 million of equity in exchange for a commensurate equity ownership in ARLP. In addition, certain employees of ACM were transferred to ARLP. At that time, these assets, liabilities and employees represented a substantial portion of ACM’s structured finance business. The Company is externally managed and advised by ACM and pays ACM a management fee in accordance with a management agreement. ACM also sources originations, provides underwriting services and services all structured finance assets on behalf of ARLP, and its wholly owned subsidiaries.

On July 1, 2003, the Company completed a private equity offering of 1,610,000 units (including an overallotment option), each consisting of five shares of common stock and one warrant to purchase one share of common stock at $75.00 per unit. The Company sold 8,050,000 shares of common stock in the offering. Gross proceeds from the private equity offering totaled $120.2 million. Gross proceeds from the private equity offering combined with the concurrent equity contribution by ACM totaled approximately $164.1 million in equity capital. The Company paid and accrued offering expenses of $10.1 million resulting in Arbor Realty Trust, Inc. stockholders’ equity and noncontrolling interest of $154.0 million as a result of the private placement.

In April 2004, the Company sold 6,750,000 shares of its common stock in a public offering at a price of $20.00 per share, for net proceeds of approximately $124.4 million after deducting the underwriting discount and other estimated offering expenses. The Company used the proceeds to pay down indebtedness. In May 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares. The Company received net proceeds of approximately $9.8 million after deducting the underwriting discount. In October 2004, ARLP received proceeds of approximately $9.4 million from the exercise of warrants for 629,345 operating partnership units. Additionally, in 2004 and 2005, the Company issued 973,354 and 282,776 shares of common stock, respectively, from the exercise of warrants under its Warrant Agreement dated July 1, 2003, the (“Warrant Agreement”) and received net proceeds of $12.9 million and $4.2 million, respectively.

In June 2007, the Company completed a public offering in which it sold 2,700,000 shares of its common stock registered for $27.65 per share, and received net proceeds of approximately $73.6 million after deducting the underwriting discount and the other estimated offering expenses. The Company used the proceeds to pay down debt and finance its loan and investment portfolio.

In June 2008, the Company’s external manager exercised its right to redeem its approximate 3.8 million operating partnership units in the Company’s operating partnership for shares of the Company’s common stock on a one-for-one basis. In addition, the special voting preferred shares paired with each operating partnership unit, pursuant to a pairing agreement, were redeemed simultaneously and cancelled by the Company.

In June 2010, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "1933 Act") with respect to an aggregate of $500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants that may be sold by the Company from time to time pursuant to Rule 415 of the 1933 Act. On June 23, 2010, the SEC declared this shelf registration statement effective.

The Company had 25,408,290 shares of common stock outstanding at June 30, 2011 and 24,776,213 shares of common stock outstanding at December 31, 2010.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification™, the authoritative reference for accounting principles generally accepted in the United States ("GAAP"), for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements, although management believes that the disclosures presented herein are adequate to prevent the accompanying unaudited consolidated interim financial statements presented from being misleading.

The accompanying unaudited consolidated financial statements include the financial statements of the Company, its wholly owned subsidiaries, partnerships or other joint ventures in which the Company owns a voting interest of greater than 50 percent, and Variable Interest Entities ("VIEs") of which the Company is the primary beneficiary. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Updated accounting guidance requires the Company to present a) assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE, and b) liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary. As a result of this guidance, the Company has separately disclosed parenthetically the assets and liabilities of its three collateralized debt obligation ("CDO") subsidiaries on its Consolidated Balance Sheets. Entities in which the Company owns a voting interest of 20 percent to 50 percent are accounted for primarily under the equity method.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All significant inter-company transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current period presentation. One of the Company's real estate investments was reclassified from real estate owned to real estate held-for-sale at September 30, 2010, and was subsequently sold in October 2010, which resulted in a reclassification of its operating activity from property operating income and expenses to discontinued operations for all prior period presentations.

The preparation of consolidated interim financial statements in conformity with GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Interim Financial Statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Further, in connection with preparation of the Consolidated Interim Financial Statements, the Company evaluated events subsequent to the balance sheet date of June 30, 2011 through the issuance of the Consolidated Financial Statements.

The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2011. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated annual financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Cash and Cash Equivalents

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

Restricted Cash

At June 30, 2011 and December 31, 2010, the Company had restricted cash of $65.6 million and $21.1 million, respectively. Restricted cash primarily represents proceeds from loan repayments on deposit with the trustees for the Company's CDOs which will be used to purchase replacement loans as collateral for the CDO that has not reached its replenishment date, unfunded loan commitments, interest payments received from loans and principal repayments for the CDOs that have reached their replenishment dates, and are remitted quarterly to the bond holders and the Company in the month following the quarter. See Note 7 — "Debt Obligations." One of the Company's recently acquired real estate owned assets also has a restricted cash balance of $1.7 million as of June 30, 2011 due to a first mortgage escrow requirement. See Note 6 — "Real Estate Owned and Held-For-Sale."

Loans, Investments and Securities

At the time of purchase, the Company designates a security as held-to-maturity, available-for-sale, or trading depending on the Company's ability and intent to hold it to maturity. The Company does not have any securities designated as trading or held-to-maturity as of June 30, 2011. Securities available-for-sale are reported at fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss. Unrealized losses that are determined to be other-than-temporary are recognized in earnings up to their credit component. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions. The process may include, but is not limited to, assessment of recent market events and prospects for near-term recovery, assessment of cash flows, internal review of the underlying assets securing the investments, credit of the issuer and the rating of the security, as well as the Company's ability and intent to hold the investment to maturity. Management closely monitors market conditions on which it bases such decisions.

The Company also assesses certain of its securities, other than those of high credit quality, to determine whether significant changes in estimated cash flows or unrealized losses on these securities, if any, reflect a decline in value which is other-than-temporary and, accordingly, should be written down to their fair value against earnings. On a quarterly basis, the Company reviews these changes in estimated cash flows, which could occur due to actual prepayment and credit loss experience, to determine if an other-than-temporary impairment is deemed to have occurred. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions and is not necessarily intended to indicate a permanent decline in value. The Company calculates a revised yield based on the current amortized cost of the investment, including any other-than-temporary impairments recognized to date, and the revised yield is then applied prospectively to recognize interest income.

Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. The Company invests in preferred equity interests that, in some cases, allow the Company to participate in a percentage of the underlying property's cash flows from operations and proceeds from a sale or refinancing. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, joint venture or as real estate. To date, management has determined that all such investments are properly accounted for and reported as loans.

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

Impaired Loans, Allowance for Loan Losses, Loss on Restructured Loans and Charge-offs

The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. The Company evaluates each loan in its portfolio on a quarterly basis. The Company's loans are individually specific and unique as it relates to product type, geographic location, and collateral type, as well as to the rights and remedies and the position in the capital structure the Company's loans and investments have in relation to the underlying collateral. The Company evaluates all of this information as well as general market trends related to specific classes of assets, collateral type and geographic locations, when determining the appropriate assumptions such as capitalization and market discount rates, as well as the borrower's operating income and cash flows, in estimating the value of the underlying collateral when determining if a loan is impaired. The Company utilizes internally developed valuation models and techniques primarily consisting of discounted cash flow and direct capitalization models in determining the fair value of the underlying collateral on an individual loan. The Company may also obtain a third party appraisal, which may include "as-is" or "stabilized value". Such appraisals may be used as an additional source of valuation information only and no adjustments are made to appraisals. Included in the evaluation of the capitalization and market discount rates, the Company considers not only assumptions specific to the collateral but also considers geographical and industry trends that could impact the collateral's value.

If upon completion of the valuation, the fair value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level that is believed to be adequate by management to absorb probable losses. The Company had an allowance for loan losses of $171.2 million relating to 26 loans with an aggregate carrying value, before reserves, of approximately $318.9 million at June 30, 2011 and $205.5 million in allowance for loan losses relating to 30 loans with an aggregate carrying value, before reserves, of approximately $530.6 million at December 31, 2010. In addition, during the second quarter of 2011, the Company recorded net recoveries of $3.8 million related to five loans in the Company's portfolio. During the first quarter of 2011, the Company recorded recoveries of $1.0 million related to two loans in the Company's portfolio. These recoveries were recorded in provision for loan losses on the Consolidated Statement of Operations.

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

The Company records interest on modified loans on an accrual basis to the extent that the modified loan is contractually current. To date, the Company has not recorded interest income on a modified loan where the Company has not subsequently received the cash.

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Loss on restructured loans are recorded when the Company has granted a concession to the borrower in the form of principal forgiveness related to the payoff or the substitution or addition of a new debtor for the original borrower or when the Company incurs costs on behalf of the borrower related to the modification, payoff or the substitution or addition of a new debtor for the original borrower. When a loan is restructured, the Company records its investment at net realizable value, taking into account the cost of all concessions at the date of restructuring. The reduction in the recorded investment is recorded as a charge to the Statement of Operations in the period in which the loan is restructured. The Company recorded a loss on restructured loans of $1.0 million for the six months ended June 30, 2011 as a result of the execution of a forbearance agreement in the first quarter of 2011 on a loan modified in the second quarter of 2011. For the three and six months ended June 30, 2010, the Company recorded a loss on restructured loans of $0.8 million.

Charge-offs to the allowance for loan losses occur when losses are confirmed through the receipt of cash or other consideration from the completion of a sale; when a modification or restructuring takes place in which the Company grants a concession to a borrower or agrees to a discount in full or partial satisfaction of the loan; when the Company takes ownership and control of the underlying collateral in full satisfaction of the loan; when loans are reclassified as other investments; or when significant collection efforts have ceased and it is highly likely that a loss has been realized. For the six months ended June 30, 2011 and 2010, the Company recorded charge-offs to the allowance for loan losses of $45.3 million and $46.4 million, respectively.

Real Estate Owned and Held-For-Sale

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

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

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

Real estate assets, including assets acquired by foreclosure or through partial or full settlement of mortgage debt, that are operated for the production of income are depreciated using the straight-line method over their estimated useful lives. Ordinary repairs and maintenance which are not reimbursed by the tenants are expensed as incurred. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their estimated useful life.

The Company's properties are individually reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. The Company recognizes impairment if the undiscounted estimated cash flows to be generated by the assets are less than the carrying amount of those assets. Measurement of impairment is based upon the estimated fair value of the asset. Upon evaluating a property for impairment, many factors are considered, including estimated current and expected operating cash flows from the property during the projected holding period, costs necessary to extend the life or improve the asset, expected capitalization rates, projected stabilized net operating income, selling costs, and the ability to hold and dispose of such real estate owned in the ordinary course of business. Valuation adjustments may be necessary in the event that effective interest rates, rent-up periods, future economic conditions, and other relevant factors vary significantly from those assumed in valuing the property. If future evaluations result in a diminution in the value of the property, the reduction will be recognized as an impairment charge at that time.

Real estate is classified as held-for-sale when management commits to a plan of sale, the asset is available for immediate sale, there is an active program to locate a buyer, and it is probable the sale will be completed within one year. Properties classified as held-for-sale are not depreciated and the results of their operations are shown in discontinued operations. Real estate assets that are expected to be disposed of are valued, on an individual asset basis, at the lower of their carrying amount or their fair value less costs to sell.

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

Revenue Recognition

Interest income — Interest income is recognized on the accrual basis as it is earned from loans, investments, and securities. In certain instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, a prepayment fee and/or deferred interest upon maturity. In some cases, interest income may also include the amortization or accretion of premiums and discounts arising from the purchase or origination of the loan or security. This additional income, net of any direct loan origination costs incurred, is deferred and accreted into interest income on an effective yield or "interest" method adjusted for actual prepayment activity over the life of the related loan or security as a yield adjustment. Income recognition is suspended for loans when, in the opinion of management, a full recovery of all contractual principal is not probable. Income recognition is resumed when the loan becomes contractually current and performance is resumed. The Company records interest income on certain impaired loans to the extent cash is received, in which a loan loss reserve has been recorded, as the borrower continues to make interest payments. The Company recorded loan loss reserves related to these loans as it was deemed that full recovery of principal and interest was not probable.

Several of the Company's loans provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management's determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower. If management cannot make this determination, interest income above the current pay rate is recognized only upon actual receipt. The Company currently has no loans in its portfolio accruing such interest. Therefore, interest income is recorded on all of the Company's loans and investments only to the extent that the current pay rate is received.

Given the transitional nature of some of the Company's real estate loans, the Company may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. The Company will analyze these interest reserves on a periodic basis and determine if any additional interest reserves are needed. Recognition of income on loans with funded interest reserves are accounted for in the same manner as loans without funded interest reserves. The Company will not recognize any interest income on loans in which the borrower has failed to make the contractual interest payment due or has not replenished the interest reserve account. As of June 30, 2011, the Company had total interest reserves of $7.6 million on 31 loans with an aggregate unpaid principal balance of $551.6 million and had three non-performing loans with an aggregate unpaid principal balance of $44.3 million with a funded interest reserve of $0.1 million. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

Additionally, interest income is recorded when earned from equity participation interests, referred to as equity kickers. These equity kickers have the potential to generate additional revenues to the Company as a result of excess cash flow distributions and/or as appreciated properties are sold or refinanced. The Company did not record interest income from such investments for the three and six month periods ended June 30, 2011 and 2010, respectively.

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Property operating income — Property operating income represents income associated with the operations of commercial real estate properties classified as real estate owned. The Company recognizes revenue for these activities when the fees are fixed or determinable, or are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided. For the three and six months ended June 30, 2011, the Company recorded approximately $8.3 million and $13.7 million, respectively, of property operating income relating to its real estate owned properties, as compared to approximately $0.8 million and $1.0 million, respectively, for the three and six months ended June 30, 2010. As of June 30, 2011, the Company had four real estate owned properties including a portfolio of multifamily assets that was purchased by the Company out of bankruptcy and a portfolio of hotel assets that was transferred to the Company by the owner, a creditor trust. Both of these portfolios were acquired in the first quarter of 2011. As of June 30, 2010, the Company had two real estate owned properties. Additionally, another real estate investment was reclassified from real estate owned to real estate held-for-sale in the third quarter of 2010, which resulted in a reclassification of its operating activity from property operating income and expenses into discontinued operations for all prior periods. See Note 6 — "Real Estate Owned and Held-For-Sale" for further details.

Other income — Other income represents loan structuring, defeasance, and miscellaneous asset management fees associated with the Company's loans and investments portfolio. The Company recognizes these forms of income when the fees are fixed or determinable, are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided.

Investment in Equity Affiliates

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

Stock-Based Compensation

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

Income Taxes

The Company is organized and conducts its operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on taxable income which is distributed to its stockholders, provided that the Company distributes at least 90% of its taxable income and meets certain other requirements. Certain REIT income may be subject to state and local income taxes. The Company's assets or operations that would not otherwise comply with the REIT requirements, are owned or conducted by the Company's taxable REIT subsidiaries, the income of which is subject to federal and state income tax. Under current federal tax law, the income and the tax on such income, if any, attributable to certain debt extinguishment transactions realized in 2009 and 2010 may, at the Company's election, be deferred to future periods.

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

Other Comprehensive Income / (Loss)

The Company divides comprehensive income or loss into net income (loss) and other comprehensive income (loss), which includes unrealized gains and losses on available-for-sale securities. In addition, to the extent the Company's derivative instruments qualify as hedges, net unrealized gains or losses are reported as a component of accumulated other comprehensive income/(loss). See "Derivatives and Hedging Activities" below. At June 30, 2011, accumulated other comprehensive loss was $48.2 million and consisted of $49.3 million of net unrealized losses on derivatives designated as cash flow hedges and a $1.1 million unrealized gain related to available-for-sale securities. At December 31, 2010, accumulated other comprehensive loss was $55.2 million and consisted of $55.3 million of net unrealized losses on derivatives designated as cash flow hedges and a $0.1 million unrealized gain related to available-for-sale securities.

Derivatives and Hedging Activities

The Company recognizes all derivatives as either assets or liabilities at fair value and these amounts are recorded in other assets or other liabilities on the Consolidated Balance Sheets. Additionally, the fair value adjustments will affect either accumulated other comprehensive income (loss) until the hedged item is recognized in earnings, or net income (loss) depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The Company utilizes quotations from a third party to assist in the determination of these fair values.

The Company records all derivatives on the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether a company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In the normal course of business, the Company may use a variety of derivative financial instruments to manage, or hedge, interest rate risk. These derivative financial instruments must be effective in reducing its interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income (loss) for each period until the derivative instrument matures or is settled. In cases where a derivative financial instrument is terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income (loss). The Company uses derivatives for hedging purposes rather than speculation. See Note 8 — "Derivative Financial Instruments" for further details.

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Variable Interest Entities

The Company has evaluated its loans and investments, mortgage related securities, investments in equity affiliates, junior subordinated notes and CDOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in the Company determining that its bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CDOs, and investments in debt securities were potential VIEs or variable interests in VIEs. A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 9 — "Variable Interest Entities" for further details.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued updated guidance on comprehensive income which amends U.S. GAAP to conform to the disclosure requirements of International Financial Reporting Standards ("IFRS"). The amendment eliminates the option to present components of other comprehensive income as part of the Statement of Changes in Stockholders' Equity and requires a separate Statement of Comprehensive Income or two consecutive statements in the Statement of Operations and in a separate Statement of Comprehensive Income. This guidance is effective as of the first quarter of 2012, though early adoption is permitted, and its adoption is not expected to have a material effect on the Company's Consolidated Financial Statements.

In May 2011, the FASB issued updated guidance on fair value measurement which amends U.S. GAAP to conform to IFRS measurement and disclosure requirements. The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value, changes certain fair value measurement principles and enhances disclosure requirements. This guidance is effective as of the first quarter of 2012, applied prospectively, and its adoption is not expected to have a material effect on the Company's Consolidated Financial Statements.

In April 2011, the FASB issued updated guidance on a creditor's determination of whether a restructuring will be a troubled debt restructuring, which establishes new guidelines in evaluating whether a loan modification meets the criteria of a troubled debt restructuring. This guidance is effective as of the third quarter of 2011, applied retrospectively to the beginning of the fiscal year as required, and its adoption is not expected to have a material effect on the Company's Consolidated Financial Statements.

In December 2010, the FASB issued updated guidance on business combinations, which clarifies that when pro forma financial information is required, it is to be presented as if the business combination occurred at the beginning of the prior year. The guidance also requires a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination. The guidance is effective for business combinations in fiscal years beginning on or after December 15, 2010 and the adoption of this guidance on January 1, 2011 did not have a material effect on the Company's Consolidated Financial Statements.

In July 2010, the FASB issued updated guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses which requires a greater level of information disclosed about the credit quality of loans and allowance for loan losses, as well as additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. This guidance is effective as of the fourth quarter of 2010, except for the information related to loans modified in a troubled debt restructuring which was postponed by the FASB to the third quarter of 2011. As the guidance only amends existing disclosure requirements, its adoption resulted in additional disclosures and did not have a material effect on the Company's Consolidated Financial Statements.

In January 2010, the FASB issued updated guidance on fair value measurements and disclosures, which requires disclosure of details of significant asset or liability transfers in and out of Level 1 and Level 2 measurements within the fair value hierarchy and inclusion of gross purchases, sales, issuances, and settlements in the roll forward of assets and liabilities valued using Level 3 inputs within the fair value hierarchy. The guidance also clarifies and expands existing disclosure requirements related to the disaggregation of fair value disclosures and inputs used in arriving at fair values for assets and liabilities using Level 2 and Level 3 inputs within the fair value hierarchy. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, and its adoption did not have a material effect on the Company's Consolidated Financial Statements. The gross presentation of the Level 3 roll forward is required for interim and annual reporting periods beginning after December 15, 2010 and its adoption on January 1, 2011 did not have a material effect on the Company's Consolidated Financial Statements.

Note 3 — Loans and Investments

The following table sets forth the composition of the Company's loan and investment portfolio at June 30, 2011 and December 31, 2010:

	June 30, 2011 (1)	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (2)	Wtd. Avg. Remaining Months to Maturity	First Dollar LTV Ratio (3)	Last Dollar LTV Ratio (4)
Bridge loans	$ 899,146,004	59%	54	4.48%	31.2	0%	85%
Mezzanine loans	196,413,974	13%	28	4.47%	37.5	79%	98%
Junior participation loans	328,014,030	22%	11	4.34%	43.2	65%	85%
Preferred equity investments	90,586,631	6%	18	2.83%	65.9	89%	98%
	1,514,160,639	100%	111	4.35%	36.7	29%	87%
Unearned revenue	(14,242,839)						
Allowance for loan losses	(171,231,365)						
Loans and investments, net	$ 1,328,686,435						

	December 31, 2010 (1)	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (2)	Wtd. Avg. Remaining Months to Maturity	First Dollar LTV Ratio (3)	Last Dollar LTV Ratio (4)
Bridge loans	$ 1,070,013,851	66%	54	4.14%	33.0	0%	88%
Mezzanine loans	233,406,411	14%	30	4.83%	32.4	78%	97%
Junior participation loans	240,971,047	15%	12	5.15%	41.5	61%	86%
Preferred equity investments	89,472,959	5%	17	5.68%	72.3	90%	98%
	1,633,864,268	100%	113	4.47%	36.3	30%	89%
Unearned revenue	(14,168,578)						
Allowance for loan losses	(205,470,302)						
Loans and investments, net	$ 1,414,225,388						

(1) Includes a bridge loan with an unpaid principal balance of $6.2 million as of June 30, 2011 classified as held-for-sale due to the Company's intent to sell the loan within one year. There were no loans classified as held-for-sale as of December 31, 2010.

(2) The "Weighted Average Pay Rate" is a weighted average, based on the unpaid principal balances of each loan in the Company's portfolio, of the interest rate that is required to be paid monthly as stated in the individual loan agreements. Certain loans and investments that require an additional rate of interest "Accrual Rate" to be paid at the maturity are not included in the weighted average pay rate as shown in the table. At June 30, 2011 and December 31, 2010 the Company had no such loans in its portfolio that were currently accruing such interest.

(3) The "First Dollar LTV Ratio" is calculated by comparing the total of the Company's 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 the Company will absorb a total loss of its position.

(4) The "Last Dollar LTV Ratio" is calculated by comparing the total of the carrying value of the Company's loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will initially absorb a loss.

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Concentration of Credit Risk

The Company operates in one portfolio segment, commercial mortgage loans and investments. Commercial mortgage loans and investments can potentially subject the Company to concentrations of credit risk. The Company is subject to concentration risk in that, as of June 30, 2011, the unpaid principal balance related to 26 loans with five unrelated borrowers represented approximately 28% of total assets. At December 31, 2010 the unpaid principal balance related to 32 loans with five unrelated borrowers represented approximately 32% of total assets. As of June 30, 2011 and December 31, 2010, the Company had 111 and 113 loans and investments, respectively.

As a result of the loan review process, the Company identified loans and investments that it considers higher-risk loans that had a carrying value, before loan loss reserves, of approximately $329.7 million and a weighted average last dollar loan-to-value ("LTV") ratio of 97%, compared to lower-risk loans with a carrying value, before loan loss reserves, of $1.2 billion and a weighted average last dollar LTV ratio of 85% at June 30, 2011.

The Company measures its relative loss position for its mezzanine loans, junior participation loans, and preferred equity investments by determining the point where the Company will be exposed to losses based on its position in the capital stack as compared to the fair value of the underlying collateral. The Company determines its loss position on both a first dollar LTV and a last dollar LTV basis. First dollar LTV is calculated by comparing the total of the Company's 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 the Company will absorb a total loss of its position. Last dollar LTV is calculated by comparing the total of the carrying value of the Company's loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will initially absorb a loss.

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

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A summary of the loan portfolio's weighted average internal risk ratings and LTV ratios by asset class as of June 30, 2011 and December 31, 2010 is as follows:

	As of June 30, 2011				
Asset Class	**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**First Dollar LTV Ratio**	**Last Dollar LTV Ratio**
Multi-family	$ 613,839,931	40.5%	3.6	22%	87%
Office	533,681,601	35.2%	3.2	44%	85%
Hotel	136,062,453	9.0%	3.8	44%	92%
Land	161,513,780	10.7%	4.1	0%	92%
Commercial	54,412,874	3.6%	3.6	0%	90%
Condo	14,650,000	1.0%	3.9	67%	91%
Total	$ 1,514,160,639	100.0%	3.5	29%	87%

	As of December 31, 2010				
Asset Class	**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**First Dollar LTV Ratio**	**Last Dollar LTV Ratio**
Multi-family	$ 615,788,256	37.7%	3.6	26%	87%
Office	563,914,007	34.5%	3.3	47%	87%
Hotel	220,277,021	13.5%	3.9	25%	95%
Land	164,161,755	10.0%	4.1	0%	94%
Commercial	55,073,229	3.4%	3.6	0%	92%
Condo	14,650,000	0.9%	3.9	66%	90%
Total	$ 1,633,864,268	100.0%	3.6	30%	89%

Geographic Concentration Risk

As of June 30, 2011, 41%, 16%, and 7% of the outstanding balance of the Company's loans and investments portfolio had underlying properties in New York, California, and Florida, respectively. As of December 31, 2010, 38%, 15%, and 12% of the outstanding balance of the Company's loans and investments portfolio had underlying properties in New York, California and Florida, respectively.

Impaired Loans and Allowance for Loan Losses

The Company performs evaluations of the loan portfolio quarterly to assess the performance of its loans and whether a reserve for impairment should be recorded. The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement.

During the three months ended June 30, 2011, the Company determined that the fair value of the underlying collateral securing three impaired loans with an aggregate carrying value of $50.5 million was less than the net carrying value of the loans, resulting in an $11.4 million provision for loan losses. During the six months ended June 30, 2011, the Company determined that the fair value of the underlying collateral securing six impaired loans with an aggregate carrying value of $72.3 million was less than the net carrying value of the loans, resulting in a $12.9 million provision for loan losses. In addition, during the second quarter of 2011, the Company recorded net recoveries of $3.8 million related to five loans in the Company's portfolio. During the first quarter of 2011, the Company recorded recoveries of $1.0 million related to two loans in the Company's portfolio. These recoveries were recorded in provision for loan losses on the Consolidated Statement of Operations. The effect of the recoveries resulted in a provision for loan losses, net of recoveries, of $7.6 million and $8.1 million for the three and six months ended June 30, 2011, respectively. The $11.4 million and $12.9 million of loan loss reserves recorded during the three and six months ended June 30, 2011 was attributable to loans on which the Company had previously recorded reserves. The Company recorded a $25.6 million and $50.6 million provision for loan losses for the three and six months ended June 30, 2010, respectively, when it performed an evaluation of its loan portfolio and determined that the fair value of the underlying collateral securing 12 and 17 impaired loans, respectively, with

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an aggregate carrying value of $284.2 million and $398.3 million, respectively, were less than the net carrying value of the loans. In addition, the Company also recorded a recovery of $0.8 million received in the second quarter of 2010 for a fully reserved loan, the effect of which resulted in a provision for loan losses, net of recoveries, of $24.8 million and $49.8 million for the three and six months ended June 30, 2010, respectively. There were no loans for which the value of the collateral securing the loan was less than the carrying value of the loan for which the Company had not recorded a provision for loan loss.

At June 30, 2011, the Company had a total of 26 loans with an aggregate carrying value, before reserves, of $318.9 million for which impairment reserves have been recorded. At December 31, 2010, the Company had a total of 30 loans with an aggregate carrying value, before reserves, of $530.6 million for which impairment reserves have been recorded.

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

	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010
Allowance at beginning of the period	$ 205,470,302	$ 326,328,039
Provision for loan losses	12,900,000	50,580,000
Charge-offs	(10,724,862)	(40,780,256)
Charge-offs on loans reclassified to real estate owned, net	(31,710,929)	(5,600,000)
Recoveries of reserves	(4,703,146)	—
Allowance at end of the period	$ 171,231,365	$ 330,527,783

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

	For the Six Months Ended	
	June 30, 2011	June 30, 2010
Charge-offs:		
Multi-family	$ (21,971,114)	$ (5,600,000)
Office	(7,114,677)	—
Hotel	(13,350,000)	—
Land	—	(35,350,926)
Condo	—	(5,429,330)
Total	$ (42,435,791)	$ (46,380,256)
Recoveries:		
Multi-family	$ (821,389)	$ —
Office	(3,881,757)	—
Total	$ (4,703,146)	$ —
Net Charge-offs	$ (37,732,645)	$ (46,380,256)
Ratio of net charge-offs during the period to average loans and investments outstanding during the period	2.4%	2.4%

A summary of the Company's impaired loans by asset class is as follows:

	June 30, 2011			Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
Asset Class	Unpaid Principal Balance	Carrying Value (1)	Allowance for Loan Losses	Average Recorded Investment (2)	Interest Income Recognized	Average Recorded Investment (2)	Interest Income Recognized
Multi-family	$ 114,623,249	$ 114,573,683	$ 57,789,180	$ 122,437,326	$ 381,302	$ 152,597,720	$ 1,287,009
Office	34,219,603	29,145,388	17,000,000	59,219,128	506,554	62,712,473	1,599,669
Hotel	33,671,507	35,771,507	28,671,515	33,671,507	242,422	76,171,507	486,209
Land	130,255,660	129,378,936	58,700,000	130,255,660	8,622	130,255,661	16,978
Condo	10,000,000	10,000,000	9,070,670	10,000,000	77,125	10,000,000	137,125
Total	$ 322,770,019	$ 318,869,514	$ 171,231,365	$ 355,583,621	$ 1,216,025	$ 431,737,361	$ 3,526,990

	As of December 31, 2010			Three Months Ended June 30, 2010		Six Months Ended June 30, 2010	
Asset Class	Unpaid Principal Balance	Carrying Value (1)	Allowance for Loan Losses	Average Recorded Investment (2)	Interest Income Recognized	Average Recorded Investment (2)	Interest Income Recognized
Multi-family	$ 190,572,190	$ 189,163,526	$ 77,681,683	$ 274,603,262	$ 2,002,365	$ 269,553,399	$ 4,440,468
Office	91,205,342	86,132,382	27,996,434	41,540,342	499,754	38,418,388	994,026
Hotel	118,671,507	116,643,603	32,021,515	189,657,037	2,513,129	190,631,248	3,547,579
Land	130,255,661	128,686,443	58,700,000	171,650,627	2,433,344	171,273,448	4,588,357
Commercial	—	—	—	38,297,088	—	38,297,088	—
Condo	10,000,000	10,000,000	9,070,670	12,964,665	96,864	12,934,614	187,831
Retail	—	—	—	6,575,636	—	6,580,636	29,425
Total	$ 540,704,700	$ 530,625,954	$ 205,470,302	$ 735,288,657	$ 7,545,456	$ 727,688,821	$ 13,787,686

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

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

During the quarter ended June 30, 2011, the Company entered into a $32.0 million non-recourse junior loan participation, at a discount, on a mezzanine loan with an unpaid principal balance of $50.0 million. The Company received proceeds of $28.8 million and recorded a non-cash recovery of a previously recorded reserve of $3.2 million as well as a $3.2 million charge to interest expense as a result of the amortization of discount on the participation during the second quarter of 2011. See Note 7 — "Debt Obligations." During the quarter ended March 31, 2011, the Company sold a mezzanine loan with a carrying value of $7.0 million, which had been fully reserved for in a prior period, for $0.2 million and wrote down a bridge loan with a carrying value of $44.5 million to $2.9 million, after principal paydowns of $38.0 million, and recorded charge-offs to previously recorded reserves of $10.4 million. The Company also charged-off $31.7 million of loan loss reserves related to two loans with carrying values totaling approximately $77.2 million, net of reserves and assumed debt, on properties that were transferred to the Company by the owner, a creditor trust as well as purchased by the Company out of bankruptcy and recorded to real estate owned, net on the Company's Consolidated Balance Sheet in the first quarter of 2011. See Note 6 — "Real Estate Owned and Held-For-Sale" for further details. A loss on restructured loans of $1.0 million was recorded for the six months ended June 30, 2011 as a result of the execution of a forbearance agreement in the first quarter of 2011on a loan modified in the second quarter of 2011.

During the quarter ended June 30, 2010, the Company sold one of its bridge loans for $35.0 million and recorded a charge-off to previously recorded reserves of $35.4 million to remove the amount of allowance for loan losses that had previously been recorded related to this loan, received $19.9 million in principal payoffs on two bridge loans and a mezzanine loan with an aggregate carrying value of $20.7 million and wrote down a mezzanine loan with a carrying value, after principal paydowns, of $15.4 million to $10.0 million, recording a loss on the restructuring of approximately $0.8 million and a charge-off to previously recorded reserves of $5.4 million, respectively. The Company also reclassified a $5.6 million loan loss reserve related to a junior participation loan on a property that was acquired through deed-in-lieu of foreclosure and recorded to real estate owned, net on the Company's Consolidated Balance Sheet. See Note 6 — "Real Estate Owned and Held-For-Sale" for further details. There were no charge-offs, reclassifications to real estate owned, recoveries of reserves, or loss on restructured loans for the quarter ended March 31, 2010.

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As of June 30, 2011, ten loans with an aggregate net carrying value of approximately $24.6 million, net of related loan loss reserves of $34.9 million, were classified as non-performing and all ten loans had loan loss reserves. Income is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced. As of December 31, 2010, nine loans with an aggregate net carrying value of approximately $25.6 million, net of related loan loss reserves of $54.2 million, were classified as non-performing for which income recognition had been suspended. The Company had previously established loan loss reserves on all of these loans.

A summary of the Company's non-performing loans by asset class as of June 30, 2011 and December 31, 2010 is as follows:

	As of June 30, 2011			As of December 31, 2010		
Asset Class	**Carrying Value**	**Less Than 90 Days Past Due**	**Greater Than 90 Days Past Due**	**Carrying Value**	**Less Than 90 Days Past Due**	**Greater Than 90 Days Past Due**
Multi-family	$ 28,108,151	$ —	$ 28,108,151	$ 41,236,389	$ 1,363,097	$ 39,873,292
Office	2,800,000	—	2,800,000	9,806,298	—	9,806,298
Hotel	3,671,507	—	3,671,507	3,671,507	—	3,671,507
Land	24,999,972	—	24,999,972	24,999,972	—	24,999,972
Total	$ 59,579,630	$ —	$ 59,579,630	$ 79,714,166	$ 1,363,097	$ 78,351,069

At June 30, 2011, the Company did not have any loans contractually past due 90 days or more that are still accruing interest. During the quarter ended June 30, 2011, the Company refinanced and/or modified three loans totaling $112.0 million, none of which were considered by the Company to be troubled debt restructurings. During the six months ended June 30, 2011, the Company refinanced and/or modified 9 loans totaling $208.8 million, of which two loans totaling $17.2 million were considered by the Company to be troubled debt restructurings. In addition, the Company had unfunded commitments totaling $0.2 million on modified loans classified as troubled debt restructurings.

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Note 4 — Available-For-Sale Securities

The following is a summary of the Company's securities classified as available-for-sale at June 30, 2011:

	Face Value	Amortized Cost	Beginning Carrying Value	Amortization of Premium	Unrealized Gain / (Loss)	Estimated Fair Value
Common equity securities	$ —	$ 58,789	$ 176,368	$ —	$ (29,395)	$ 146,973
Collateralized debt obligation bond	10,000,000	1,000,000	1,000,000	—	1,000,000	2,000,000
Commercial mortgage-backed security	2,100,000	2,100,000	2,122,050	(22,050)	—	2,100,000
Total available-for-sale securities	$ 12,100,000	$ 3,158,789	$ 3,298,418	$ (22,050)	$ 970,605	$ 4,246,973

The following is a summary of the Company's securities classified as available-for-sale at December 31, 2010:

	Face Value	Amortized Cost	Beginning Carrying Value	Other-Than-Temporary Impairment	Unrealized Gain / (Loss)	Estimated Fair Value
Common equity securities	$ —	$ 88,184	$ 88,184	$ (29,395)	$ 117,579	$ 176,368
Collateralized debt obligation bond	10,000,000	7,975,405	7,975,405	(6,975,405)	—	1,000,000
Commercial mortgage-backed security	2,100,000	2,122,050	2,122,050	—	—	2,122,050
Total available-for-sale securities	$ 12,100,000	$ 10,185,639	$ 10,185,639	$ (7,004,800)	$ 117,579	$ 3,298,418

The following is a summary of the underlying credit ratings of the Company's CDO bond and CMBS investments available-for-sale at June 30, 2011 and December 31, 2010:

	At June 30, 2011			At December 31, 2010		
Rating (1)	#	Amortized Cost	Percent of Total	#	Amortized Cost	Percent of Total
BB-	—	$ —	—	1	$ 7,975,405	79%
CCC-	2	3,100,000	100%	1	2,122,050	21%
	2	$ 3,100,000	100%	2	$ 10,097,455	100%

(1) Based on the rating published by Standard & Poor's for each security.

The Company owns 2,939,465 shares of common stock of Realty Finance Corporation, formerly CBRE Realty Finance, Inc., a commercial real estate specialty finance company, which it purchased in 2007 for $16.7 million, and which had a fair value of $0.1 million at June 30, 2011. As of June 30, 2011, a net unrealized gain totaling $0.1 million was recorded in accumulated other comprehensive loss related to these securities.

The Company owns a CDO bond security, purchased at a discount in 2008 for $7.5 million, which bears interest at a spread of 30 basis points over LIBOR, has a stated maturity of 40.8 years, but has an estimated remaining life of 4.8 years based on the maturities of the underlying assets. As of the second quarter of 2010, the Company is no longer accreting income on the security which had $2.0 million of original discount and a fair value of $2.0 million at June 30, 2011. As of June 30, 2011, an unrealized gain of $1.0 million was recorded in accumulated other comprehensive loss related to this security.

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The Company owns a CMBS investment, purchased at a premium in 2010 for $2.1 million, which is collateralized by a portfolio of hotel properties. The Company currently has two mezzanine loans with a carrying value before loan loss reserves of $30.0 million related to this portfolio. The CMBS investment bears interest at a spread of 89 basis points over LIBOR, has a stated maturity of 9.0 years, but has an estimated life of 1.0 years based on the extended maturity of the underlying asset and a fair value of $2.1 million at June 30, 2011.

Available-for-sale securities are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive loss. The Company does not intend to sell its available-for-sale investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be at maturity. The Company evaluates these securities periodically to determine whether a decline in their value is other-than-temporary, though such a determination is not intended to indicate a permanent decline in value. The Company's evaluation is based on its assessment of cash flows which is supplemented by third-party research reports, internal review of the underlying assets securing the investments, levels of subordination and the ratings of the securities and the underlying collateral. The Company's estimation of cash flows expected to be generated by the securities portfolio is based upon an internal review of the underlying mortgage loans securing the investments both on an absolute basis and compared to the Company's initial underwriting for each investment and efforts are supplemented by third party research reports, third party market assessments and dialogue with market participants. Management closely monitors market conditions on which it bases such decisions. As of June 30, 2011, the CDO bond security available-for-sale has been in a loss position as compared to its original purchase price for more than twelve months. Based on the Company's analysis in 2010, the Company concluded that this CDO bond investment was other-than-temporarily impaired and recorded a $7.0 million impairment charge in the second quarter of 2010 to the Company's Consolidated Statement of Operations which was reclassified from accumulated other comprehensive loss. The Company also concluded that the common stock securities were other-than-temporarily impaired and recorded $16.2 million, $0.4 million and less than $0.1 million of impairment charges to the Consolidated Statements of Operations in 2008, 2009 and 2010, respectively. No impairment was recorded on the available-for-sale securities for the three and six months ended June 30, 2011.

For the three and six months ended June 30, 2011, the Company amortized less than $0.1 million of premium into interest income from its CMBS investment and no discount was accreted into interest income from its CDO bond investment. For the three and six months ended June 30, 2010, the Company accreted approximately $0.3 million and $0.8 million, respectively, of discount into interest income from its CDO bond investments, representing accretion on approximately $7.5 million of total original discount, and approximately less than $0.1 million and $0.1 million, respectively, of discounts into interest income from its CMBS investments.

In June 2010, the Company sold three investment grade commercial real estate CDO bonds with an aggregate face value of $44.7 million and an amortized cost of $40.4 million, for $29.9 million, and recorded an aggregate realized loss on sale of securities of $10.5 million in its Consolidated Statement of Operations. Additionally, in June 2010, the Company sold two CMBS investments, with an aggregate face value of $6.5 million and an amortized cost of $6.3 million, for $6.5 million, and recorded an aggregate realized gain on sale of securities of $0.2 million in its Consolidated Statement of Operations. Upon the sale of these securities in the second quarter of 2010, the Company reclassified $11.6 million from accumulated other comprehensive loss into loss on sale of securities based on the specific amounts recorded to accumulated other comprehensive loss for each investment. In the first quarter of 2010, the Company also sold two CMBS investments with a combined amortized cost of $11.1 million for $14.4 million and recorded a gain on sale of securities of $3.3 million.

The weighted average yield on the Company's CDO bond and CMBS securities available-for-sale based on their face values was 0.40%, including the amortization of premium and 3.69%, including the accretion of discount, for the three months ended June 30, 2011 and 2010, respectively, and 0.37%, including the amortization of premium and 3.96%, including the accretion of discount, for the six months ended June 30, 2011 and 2010, respectively.

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Note 5 — Investment in Equity Affiliates

The following is a summary of the Company's investment in equity affiliates at June 30, 2011 and December 31, 2010:

Equity Affiliates	Investment in Equity Affiliates at June 30, 2011	Investment in Equity Affiliates at December 31, 2010	Outstanding Loan Balance to Equity Affiliates at June 30, 2011
930 Flushing & 80 Evergreen	$ 554,476	$ 554,476	$ 23,912,875
450 West 33rd Street	—	—	50,000,000
1107 Broadway	5,720,000	5,720,000	—
Alpine Meadows	—	—	33,500,000
St. John's Development	—	—	25,000,000
Lightstone Value Plus REIT L.P	55,988,409	55,988,409	—
JT Prime	851,000	851,000	—
West Shore Café	2,097,566	2,147,000	5,000,000
Issuers of Junior Subordinated Notes	578,000	578,000	—
Total	$ 65,789,451	$ 65,838,885	$ 137,412,875

The Company accounts for the 450 West 33rd Street and Lightstone Value Plus REIT L.P. investments under the cost method and the remaining investments under the equity method.

The following represents a change in the Company's investments in equity affiliates:

West Shore Café

In August 2010, the Company invested approximately $2.1 million in exchange for a 50% non-controlling interest with a 20% preferred return subject to certain conditions in the West Shore Café, a restaurant / inn on an approximate 12,463 square foot lakefront property in Lake Tahoe, California. The Company also provided a $5.5 million first mortgage loan, $5.0 million of which was funded as of June 30, 2011, that matures in August 2013 and bears interest at a yield of 10.5%. During the six months ended June 30, 2011, the Company received distributions of approximately $0.1 million related to the preferred return, which were recorded as a return of investment.

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

The Company had a $29.8 million loan secured by a portfolio of multifamily assets in various locations of the United States that had a maturity date of June 2010 and a weighted average interest rate of approximately 4.26%. In prior years, the Company established an $18.4 million provision for loan loss related to this portfolio reducing its carrying value to $11.4 million as of December 31, 2010. In March 2011, the Company purchased the portfolio of multifamily assets securing this loan out of bankruptcy and assumed a $55.4 million first mortgage loan secured by the portfolio of assets. As of the date of this transaction, as well as at December 31, 2010, the loan was past due and non-performing. The Company recorded this transaction as real estate owned in its first quarter 2011 Consolidated Financial Statements at a fair value of $65.3 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. For the first quarter of 2011, the Company did not record any property operating income or expenses from this portfolio because ownership did not pass to the Company until the end of the quarter and the Company believes that any operating activity that occurred was immaterial to the Company's interim Consolidated Financial Statements. In June 2011, one of the properties in the portfolio was sold to a third party for $1.6 million and the proceeds were used to pay down the first lien mortgage. No gain or loss was recorded on the transaction as the asset was sold for its historical cost basis. For the three and six months ended June 30, 2011, the Company recorded property operating income of $2.5 million, property operating expense of $2.0 million and depreciation of $0.7 million. At June 30, 2011, this investment's balance sheet was comprised of land and building, net of accumulated depreciation, totaling approximately $63.9 million, cash of $0.7 million, restricted cash of $1.7 million due to a first mortgage escrow requirement, other assets of $0.3 million, other liabilities of $0.7 million and a mortgage note payable of $53.8 million. The Company will finalize the purchase price allocation within one year of the acquisition date.

The Company had an $85.0 million loan secured by a portfolio of six hotel assets in Florida that had a maturity date of July 2014 and a weighted average interest rate of approximately 3.75%. During 2010, the Company established a $13.4 million provision for loan loss related to this portfolio reducing its carrying value to $71.6 million as of December 31, 2010. In February 2011, the portfolio of hotel assets securing this loan were transferred to the Company by the owner, a creditor trust. As of the date of this transaction, as well as at December 31, 2010, the loan was contractually current. The Company recorded this transaction as real estate owned in its first quarter 2011 Consolidated Financial Statements at a fair value of $67.3 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. For the three and six months ended June 30, 2011, the Company recorded property operating income of $5.1 million and $9.8 million, respectively, property operating expense of $4.3 million and $7.2 million, respectively, and depreciation of $1.0 million and $1.3 million, respectively. The operating results of the hotels are seasonal with the majority of revenues earned in the first two quarters of the calendar year. At June 30, 2011, this investment's balance sheet was comprised of land and building, net of accumulated depreciation, totaling approximately $66.3 million, cash of $0.6 million, other assets of $1.9 million, receivable from related party of $1.8 million and other liabilities of $1.9 million. The Company will finalize the purchase price allocation within one year of the acquisition date.

The Company had a $5.6 million junior participating interest in a first mortgage loan secured by an apartment building in Tucson, Arizona that had a maturity date of July 2012 and bore interest at a fixed rate of 10%. During 2009, the Company established a $5.6 million provision for loan loss related to this property equal to the carrying value of the loan and in the second quarter of 2010, the Company purchased the property securing this loan by deed-in-lieu of foreclosure and assumed the $20.8 million interest in a first mortgage loan. The Company recorded this transaction as real estate owned in its Consolidated Financial Statements at a fair value of $20.8 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. For the three and six months ended June 30, 2011, the Company recorded property operating income of $0.6 million and $1.2 million, respectively, property operating expense of $0.6 million and $1.2 million, respectively, and depreciation of $0.2 million and $0.4 million, respectively. For the three and six months ended June 30, 2010, the Company recorded property operating income of $0.6 million, property operating expense of $0.7 million and depreciation of $0.1 million. At June 30, 2011, this investment's balance sheet was comprised of land and building, net of accumulated depreciation, totaling approximately $19.8 million, cash of $0.1 million, other assets of $0.6 million, mortgage note payable of $20.8 million and other liabilities of $0.3 million.

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The Company had a $4.0 million bridge loan secured by a hotel located in St. Louis, Missouri that matured in 2009 and bore interest at a variable rate of LIBOR plus 5.00%. In April 2009, the borrower delivered a deed-in-lieu of foreclosure to the Company. As a result, during the second quarter of 2009 the Company recorded this investment on its balance sheet as real estate owned at a fair value of $2.9 million. The carrying value represented the fair value of the underlying collateral at the time of the transfer. For the three and six months ended June 30, 2011, the Company recorded property operating income of $0.1 million and $0.2 million, respectively, property operating expense of $0.3 million and $0.7 million, respectively, and depreciation of less than $0.1 million for both periods. For the three and six months ended June 30, 2010, the Company recorded property operating income of $0.2 million and $0.5 million, respectively, property operating expense of $0.4 million and $0.7 million, respectively, and depreciation of less than $0.1 million for both periods. During the three months ended June 30, 2011, through site visits and discussion with market participants, the Company determined that the asset exhibited indicators of impairment and performed an impairment analysis. As a result of the impairment analysis based on the indicators of value from the market participants, the Company recorded an impairment loss of $0.8 million in the Consolidated Statement of Operations. At June 30, 2011, this investment's balance sheet was comprised of land and building, net of accumulated depreciation, totaling approximately $1.9 million, other assets of $0.1 million and other liabilities of $0.5 million.

The Company had a $9.9 million bridge loan secured by a motel located in Long Beach, California that matured in 2008 and bore interest at a variable rate of LIBOR plus 4.00%. During 2008 and 2009, the Company recorded a $4.3 million provision for loan loss related to this property reducing the carrying amount to $5.6 million. In August 2009, the Company was the winning bidder at a foreclosure sale of the property securing this loan which was recorded as real estate owned. The carrying value represented the then fair value of the underlying collateral at the time of the sale. During the third quarter of 2010, the Company agreed to sell the property to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a value of $5.5 million and reclassified property operating income and expenses for current and prior periods to discontinued operations in the Company's Consolidated Financial Statements. For the three and six months ended June 30, 2010, loss from discontinued operations consisted of property operating income of $0.2 million and $0.3 million, respectively, property operating expense of $0.5 million and $0.6 million, respectively, and depreciation of less than $0.1 million and $0.1 million, respectively. In addition, discontinued operations have not been segregated in the Company's Consolidated Statements of Cash Flows. The Company sold the property to the third party receiving net proceeds of approximately $6.8 million and recording a gain to income from discontinued operations of $1.3 million in October 2010.

The Company had a $5.0 million mezzanine loan secured by an office building located in Indianapolis, Indiana that was scheduled to mature in June 2012 and bore interest at a fixed rate of 10.72%. During the first quarter of 2008, the Company established a $1.5 million provision for loan loss related to this property reducing the carrying value to $3.5 million at March 31, 2008. In April 2008, the Company was the winning bidder at a UCC foreclosure sale of the entity which owns the equity interest in the property securing this loan, subject to a $41.4 million first mortgage on the property. As a result, during the second quarter of 2008, the Company recorded this investment on its Consolidated Balance Sheet as real estate owned at fair value, which included the Company's $3.5 million carrying value of the mezzanine loan and the $41.4 million first lien mortgage note payable. During the third quarter of 2009, the Company mutually agreed with the first mortgage lender to appoint a receiver to operate the property and the Company is working to assist in the transfer of title to the first mortgage lender. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a fair value of $41.4 million, reclassified property operating income and expenses for the current and prior periods to discontinued operations in the Company's Consolidated Financial Statements, and recorded an impairment loss of $4.9 million in 2009. The Company had originally planned to transfer the property to the first mortgage lender within one year of the date of its designation as held-for-sale, however, due to circumstances beyond the Company's control, the transfer has not been completed within the one year time frame. The Company believes it is reasonable to expect the transfer to be completed in 2011. Based on the facts and circumstances related to this property, the Company will continue to account for this investment as real estate held-for-sale.

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As of June 30, 2011, real estate held-for-sale consisted of land and building, net of accumulated depreciation, of approximately $41.4 million. At June 30, 2011, the Company also had a mortgage note payable held-for-sale of $41.4 million and other liabilities of $1.2 million. The Company did not record interest expense related to the note payable, as the interest expense is non-recourse and the Company is in the process of cooperating with the receiver and the first lien holder in order for the first lien holder to take title to the office building. For the three and six months ended June 30, 2011 and 2010, the receiver's issued financial statements reported net income for the office building investment. The Company believes these amounts are not realizable at this time and, as such, did not record any income or loss on this held-for-sale investment.

As of June 30, 2011, the Company's seven hotel properties and eight multifamily properties classified as real estate owned had weighted average occupancy rates of 54.1% and 84.6%, respectively.

Note 7 — Debt Obligations

The Company utilizes collateralized debt obligations, junior subordinated notes, a note payable, loan participations and mortgage notes payable to finance certain of its loans and investments. Borrowings underlying these arrangements are primarily secured by a significant amount of the Company's loans and investments.

Repurchase Agreements

The following table outlines borrowings under the Company's repurchase agreement as of June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Repurchase agreement, financial institution, expiration June 2011, interest was variable based on one-month LIBOR; the weighted average note rate was 2.80%	$ —	$ —	$ 990,997	$ 523,938
Total repurchase agreement	$ —	$ —	$ 990,997	$ 523,938

At December 31, 2010, the weighted average note rate for the Company's repurchase agreement was 2.80%. There were no interest rate swaps on this repurchase agreement at December 31, 2010.

The Company had a repurchase agreement that bore interest at 250 basis points over LIBOR. In June 2009, the Company amended this facility extending the maturity to June 2010, with a one year extension option. In June 2010, the Company exercised the option, extending the maturity to June 2011. In addition, the amendment included the removal of all financial covenants and a reduction of the committed amount reflecting the one asset currently financed in this facility. In June 2011, the Company repaid the facility in full.

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Collateralized Debt Obligations

The following table outlines borrowings and the corresponding collateral under the Company's collateralized debt obligations as of June 30, 2011:

	Debt		Collateral						
			Loans		Securities			Cash	
(Amounts in thousands)	Face Value	Carrying Value	Unpaid Principal (4)	Carrying Value (4)	Face Value	Carrying Value	Fair Value (1)	Restricted Cash (2)	Collateral At-Risk (3)
CDO I — Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.45%	$ 191,891,986	$ 198,079,580	$ 336,920,909	$ 279,866,159	$ —	$ —	$ —	$19,950,943	$149,339,958
CDO II — Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.73%	294,601,364	300,959,462	459,731,163	416,261,497	10,000,000	2,000,000	2,000,000	83,902	103,839,313
CDO III — Issued 10 investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.28%	529,897,960	539,289,124	590,119,224	534,556,563	—	—	—	22,634,124	168,096,486
Total CDOs	$1,016,391,310	$1,038,328,166	$1,386,771,296	$1,230,684,219	$10,000,000	$2,000,000	$2,000,000	$42,668,969	$421,275,757

The following table outlines borrowings and the corresponding collateral under the Company's collateralized debt obligations as of December 31, 2010:

	Debt		Collateral						
			Loans		Securities			Cash	
(Amounts in thousands)	Face Value	Carrying Value	Unpaid Principal (4)	Carrying Value (4)	Face Value	Carrying Value	Fair Value (1)	Restricted Cash (2)	Collateral At-Risk (3)
CDO I — Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.52%	$ 220,475,564	$ 226,770,198	$ 413,724,169	$ 337,901,200	$ —	$ —	$ —	$ 474,669	$171,330,710
CDO II — Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.77%	295,530,671	301,999,004	446,125,317	404,475,017	10,000,000	1,000,000	1,000,000	1,529,307	141,439,540
CDO III — Issued 10 investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.77%	532,540,000	542,083,353	609,849,262	561,766,846	—	—	—	49,810	174,133,105
Total CDOs	$1,048,546,235	$1,070,852,555	$1,469,698,748	$1,304,143,063	$10,000,000	$1,000,000	$1,000,000	$2,053,786	$486,903,355

(1) The security with a fair value of $2,000,000 was rated a CCC- at June 30, 2011 and a BB- at December 31, 2010 by Standard & Poor's.

(2) Represents restricted cash held for reinvestment and/or principal repayments in the CDOs. Does not include restricted cash related to interest payments, delayed fundings and expenses.

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

(4) Amounts include loans to real estate assets consolidated by the Company that were reclassified to real estate owned, net on the Consolidated Financial Statements.

At June 30, 2011 and December 31, 2010, the aggregate weighted average note rate for the Company's collateralized debt obligations, including the cost of interest rate swaps on assets financed in these facilities, was 2.30% and 2.63%, respectively. Excluding the effect of swaps, the weighted average note rate at June 30, 2011 and December 31, 2010 was 0.81%.

As of April 15, 2009, CDO I has reached the end of its replenishment date and will no longer make $2.0 million amortization payments to investors that were made quarterly prior to the replenishment date. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability.

As of April 15, 2011, CDO II has reached the end of its replenishment date and will no longer make $1.2 million amortization payments to investors that were made quarterly prior to the replenishment date. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability.

CDO III has a $100.0 million revolving note class that provides a revolving note facility. The outstanding note balance for CDO III was $539.3 million at June 30, 2011 which included $94.6 million outstanding under the revolving note facility. CDO III is not required to make any amortization payments prior to the end of its replenishment period in January 2012.

In the second quarter of 2011, the Company purchased $3.5 million of investment grade rated Class C and F notes originally issued by its CDO III issuing entity for a price of $1.6 million from third party investors and recorded a net gain on extinguishment of debt of $1.9 million in its 2011 Consolidated Statement of Operations.

In the first quarter of 2011, the Company purchased a $1.5 million investment grade rated Class F note originally issued by its CDO III issuing entity for a price of $0.6 million from a third party investor and recorded a net gain on extinguishment of debt of $0.9 million in its 2011 Consolidated Statement of Operations.

During the three and six months ended June 30, 2010, the Company had purchased approximately $19.0 million and $46.7 million, respectively, of investment grade rated Class A2, B, C, D, E, F and G notes originally issued by its CDO I, CDO II and CDO III issuing entities for a price of $6.2 million and $13.6 million, respectively, from third party investors and recorded a net gain on extinguishment of debt of $12.8 million and $33.0 million, respectively, in its 2010 Consolidated Statements of Operations.

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

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2011		2010		2011		2010	
Class:	Face Amount	Gain	Face Amount	Gain	Face Amount	Gain	Face Amount	Gain
A2	$ —	$ —	$ —	$ —	$ —	$ —	$ 7,375,000	$ 4,683,125
B	—	—	10,000,000	5,525,000	—	—	14,500,000	8,392,344
C	1,630,000	757,950	60,000	46,500	1,630,000	757,950	12,350,132	9,823,405
D	—	—	—	—	—	—	822,216	680,384
E	—	—	—	—	—	—	1,636,457	1,374,624
F	1,870,000	1,168,750	4,936,662	3,968,921	3,370,000	2,061,250	5,936,662	4,828,921
G	—	—	4,030,552	3,254,671	—	—	4,030,552	3,254,671
Total	$ 3,500,000	$ 1,926,700	$ 19,027,214	$ 12,795,092	$ 5,000,000	$ 2,819,200	$ 46,651,019	$ 33,037,474

In February 2010, the Company re-issued its own CDO bonds it had acquired throughout 2009 with an aggregate face amount of approximately $42.8 million as part of an exchange for the retirement of $114.1 million of its junior subordinated notes. This transaction resulted in the recording of $65.2 million of additional CDO debt, of which $42.3 million represents the portion of the Company's CDO bonds that were exchanged and $22.9 million represents the estimated interest due on the reissued bonds through their maturity, of which $21.9 million remains at June 30, 2011. See "Junior Subordinated Notes" below for further details.

The Company intends to own these portfolios of real estate-related assets until their maturities and accounts for these transactions on its Consolidated Balance Sheet as financing facilities. The Company's CDOs are VIEs for which the Company is the primary beneficiary and are consolidated in the Company's Financial Statements accordingly. The investment grade tranches are treated as secured financings, and are non-recourse to the Company.

Junior Subordinated Notes

The following table outlines borrowings under the Company's junior subordinated notes as of June 30, 2011 and December 31, 2010:

	June 30, 2011 Debt Carrying Value	December 31, 2010 Debt Carrying Value
Junior subordinated notes, maturity March 2034, unsecured, face amount of $28.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	$ 25,164,228	$ 25,126,543
Junior subordinated notes, maturity April 2035, unsecured, face amount of $7.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	6,268,571	6,260,453
Junior subordinated notes, maturity March 2034, unsecured, face amount of $28.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	25,164,228	25,126,543
Junior subordinated notes, maturity March 2034, unsecured, face amount of $27.3 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	24,534,431	24,497,690
Junior subordinated notes, maturity June 2036, unsecured, face amount of $14.6 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	13,103,858	13,086,871
Junior subordinated notes, maturity April 2037, unsecured, face amount of $15.7 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	14,081,268	14,062,800
Junior subordinated notes, maturity April 2037, unsecured, face amount of $31.5 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	28,288,262	28,251,162
Junior subordinated notes, maturity April 2035, unsecured, face amount of $21.2 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	19,059,848	19,034,178
Junior subordinated notes, maturity June 2036, unsecured, face amount of $2.6 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	2,363,206	2,359,998
Total junior subordinated notes	$ 158,027,900	$ 157,806,238

The carrying value under these facilities was $158.0 million at June 30, 2011 and $157.8 million at December 31, 2010, which is net of a deferred amount of $17.8 million and $18.1 million, respectively. The current weighted average note rate was 0.50% at June 30, 2011 and December 31, 2010, however, based upon the accounting treatment for the restructuring mentioned below, the effective rate was 3.85% at June 30, 2011 and December 31, 2010. The impact of these variable interest entities with respect to consolidation is discussed in Note 9 — "Variable Interest Entities."

In February 2010, the Company retired $114.1 million of its junior subordinated notes, with a carrying value of $102.1 million, in exchange for the re-issuance of its own CDO bonds it had acquired throughout 2009 with an aggregate face amount of $42.8 million, CDO bonds of other issuers it had acquired in the second quarter of 2008 with an aggregate face amount of $25.0 million and a carrying value of $0.4 million, and $10.5 million in cash. This transaction resulted in the recording of $65.2 million of additional CDO debt, of which $42.3 million represents the portion of the Company's CDO bonds that were exchanged and $22.9 million represents the estimated interest due on the bonds through their maturity, a reduction to securities available-for-sale of $0.4 million representing the fair value of CDO bonds of other issuers, and a gain on extinguishment of debt of $26.3 million, or $1.03 per basic and diluted common share, in the first quarter of 2010.

In 2009, the Company retired $265.8 million of its then outstanding trust preferred securities, primarily consisting of $258.4 million of junior subordinated notes issued to third party investors and $7.4 million of common equity issued to us in exchange for $289.3 million of newly issued unsecured junior subordinated notes, representing 112% of the original face amount. The notes bear a fixed interest rate of 0.50% per annum until March 31, 2012 or April 30, 2012 (the "Modification Period"). Thereafter, interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to three month LIBOR plus a weighted average spread of 2.90%, which was reduced to 2.77% after the exchange in February 2010 mentioned above. The 12% increase to the face amount due upon maturity, which had a balance of $17.8 million at June 30, 2011, is being amortized into expense over the life of the notes.

During the Modification Period, the Company will be permitted to make distributions of up to 100% of taxable income to common shareholders. The Company has agreed that such distributions will be paid in the form of the Company's stock to the maximum extent permissible under the Internal Revenue Service rules and regulations in effect at the time of such distribution, with the balance payable in cash. This requirement regarding distributions in stock can be terminated by the Company at any time, provided that the Company pays the note holders the original rate of interest from the time of such termination.

The junior subordinated notes are unsecured, have original maturities of 25 to 28 years, pay interest quarterly at a fixed rate or floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, are not redeemable during the first two years.

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Notes Payable

The following table outlines borrowings under the Company's notes payable as of June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Note payable relating to investment in equity affiliates, $50.2 million, expiration July 2016, interest is fixed, the weighted average note rate was 4.06%	$ 50,157,708	$ 55,988,411	$ 50,157,708	$ 55,988,411
Junior loan participation, maturity of July 2012, secured by the Company's interest in a mezzanine loan with a principal balance of $32.0 million, participation interest was based on a portion of the interest received from the loan which has a variable rate of LIBOR plus 4.35%	32,000,000	32,000,000	—	—
Junior loan participation, maturity of August 2012, secured by the Company's interest in a mezzanine loan with a principal balance of $11.8 million. The participation has a 0% rate of interest	2,000,000	2,000,000	—	—
Junior loan participation, secured by the Company's interest in a first mortgage loan with a principal balance of $1.3 million, participation interest was based on a portion of the interest received from the loan which has a fixed rate of 9.57%	1,300,000	1,300,000	1,300,000	1,300,000
Total notes payable	$ 85,457,708	$ 91,288,411	$ 51,457,708	$ 57,288,411

At June 30, 2011 and December 31, 2010, the aggregate weighted average note rate for the Company's notes payable was 4.20%. There were no interest rate swaps on the notes payable at June 30, 2011 and December 31, 2010.

In 2008, the Company recorded a $49.5 million note payable after receiving cash related to a transaction with Lightstone Value Plus REIT, L.P. to exchange the Company's profits interest in Prime Outlets Member, LLC ("POM") for operating partnership units in Lightstone Value Plus REIT, L.P. The note, which was paid down to $48.5 million as of December 31, 2008, was initially secured by the Company's interest in POM, matures in July 2016 and bears interest at a fixed rate of 4.06% with payment deferred until the closing of the transaction. Upon the closing of the POM transaction in March 2009, the note balance was increased to $50.2 million and is secured by the Company's investment in common and preferred operating partnership units in Lightstone Value Plus REIT, L.P. In March 2009, the Company also recorded a gain on exchange of profits interest of $56.0 million. At June 30, 2011, the outstanding balance of this note was $50.2 million.

In April 2011, the Company entered into a non-recourse junior loan participation in the amount of $32.0 million on a $50.0 million mezzanine loan. The loan was participated out at a discount and the Company received $28.8 million of proceeds. The subordinate lender will receive its proportionate share of the interest received from the loan, which has a variable rate of LIBOR plus 4.35% and a maturity of July 2012. The Company also has the right to sell its $18.0 million senior participation to the subordinate lender, at face value, in the event of default or if the loan is not repaid by July 9, 2012. In June 2011, the Company entered into a non-recourse junior loan participation in the amount of $2.0 million on an $11.8 million mezzanine loan. The participation has a 0% rate of interest and a maturity of August 2012. The Company also has a junior loan participation with an outstanding balance at June 30, 2011 of $1.3 million on a $1.3 million bridge loan. Participations have a maturity date equal to

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the corresponding mortgage loan and are secured by the participant's interest in the mortgage loan. Interest expense is based on the portion of the interest received from the loan that is paid to the junior participant. The Company's obligation to pay interest on the participation is based on the performance of the related loan.

In the first quarter of 2010, the Company entered into an agreement with Wachovia Bank, National Association, owned by Wells Fargo, National Association ("Wachovia") whereby the Company could retire all of its $335.6 million of debt outstanding at the time the parties began to negotiate the agreement for a discounted payoff amount of $176.2 million, representing 52.5% of the face amount of the debt. The $335.6 million of indebtedness was comprised of $286.1 million of term debt and a $49.5 million working capital facility. Upon closing on the discounted payoff agreement on June 30, 2010, the Company recorded a $158.4 million gain to its 2010 Consolidated Statement of Operations, net of $0.4 million of stock warrant expense and $0.6 million of other various expenses and commissions. Estimated state income taxes were approximately $0.9 million and recorded in provision for income taxes resulting in a net gain of approximately $157.5 million.

In July 2011, the Company entered into a two year, $50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. The facility bears interest at a rate of 275 basis points over LIBOR, has a 1.00% commitment fee upon closing, and has warehousing and non-use fees. The facility also has a maximum advance rate of 75% and contains several restrictions including full repayment of an advance if a loan becomes 60 days past due, is in default or is written down by the Company. The facility also includes various financial covenants including a minimum liquidity requirement of $20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of $150.0 million, total liabilities less subordinate debt of $2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios.

Mortgage Notes Payable — Real Estate Owned

During the first quarter of 2011, the Company assumed a $55.4 million interest-only first lien mortgage in connection with the acquisition of real property pursuant to bankruptcy proceedings for an entity in which the Company had a $29.8 million loan secured by a portfolio of multifamily assets. The real estate investment was classified as real estate owned in the Company's Consolidated Balance Sheet in March 2011. The mortgage bears interest at a variable rate of one-month LIBOR plus 1.23% and has a maturity date of March 2014 with a one year and three month extension option. In June 2011, one of the properties in the portfolio was sold to a third party for $1.6 million and the proceeds were used to pay down the first lien mortgage to a balance of $53.8 million at June 30, 2011.

During the second quarter of 2010, the Company assumed a $20.8 million interest-only first lien mortgage related to a deed in lieu of foreclosure agreement for an entity in which the Company had a $5.6 million junior participation loan secured by an apartment building. The real estate investment was classified as real estate owned in April 2010. The mortgage bears interest at a fixed rate of 6.23% and has a maturity date of December 2013 with a five year extension option.

The total outstanding balance of these mortgages was approximately $74.5 million and $20.8 million at June 30, 2011 and December 31, 2010, respectively.

Mortgage Note Payable - Held-For-Sale

During the second quarter of 2008, the Company assumed a $41.4 million interest-only first lien mortgage related to the foreclosure of an entity in which the Company had a $5.0 million mezzanine loan. The real estate investment was originally classified as real estate owned and was reclassified as real estate held-for-sale at September 30, 2009. The mortgage bears interest at a fixed rate of 6.13% and has a maturity date of June 2012. The outstanding balance of this mortgage was $41.4 million at June 30, 2011 and December 31, 2010.

Debt Covenants

The Company's debt obligations do not contain financial covenants and restrictions at June 30, 2011.

The Company's CDO vehicles contain interest coverage and asset over collateralization covenants that must be met as of the waterfall distribution date in order for the Company to receive such payments. If the Company fails these covenants in any of its CDOs, all cash flows from the applicable CDO would be diverted to repay principal and interest on the outstanding CDO bonds and the Company would not receive any residual payments until that CDO regained compliance with such tests. The Company's CDOs were in compliance with all such covenants as of June 30, 2011, as well as on the most recent determination date in July 2011. In the event of a breach of the CDO covenants that could not be cured in the near-term, the Company would be required to fund its non-CDO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO not in breach of a CDO covenant test, (iii) income from real property and loan assets, (iv) sale of assets, (v) or accessing the equity or debt capital markets, if available. The Company has the right to cure covenant breaches which would resume normal residual payments to it by purchasing non-performing loans out of the CDOs. However, the Company may not have sufficient liquidity available to do so at such time.

The chart below is a summary of the Company's CDO compliance tests as of the most recent determination date in July 2011:

Cash Flow Triggers	CDO I	CDO II	CDO III
Overcollateralization (1)			
Current	196.92%	181.74%	109.50%
Limit	184.00%	169.50%	105.60%
Pass / Fail	Pass	Pass	Pass
Interest Coverage (2)			
Current	427.99%	560.41%	534.29%
Limit	160.00%	147.30%	105.60%
Pass / Fail	Pass	Pass	Pass

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

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

As of the determination dates in July 2011, April 2011, January 2011 and October 2010, the Company's overcollateralization ratios were 196.92%, 185.59%, 185.88% and 184.24%, respectively, for CDO I; 181.74%, 181.74%, 171.81% and 171.00%, respectively, for CDO II; and 109.50%, 109.89%, 109.50% and 109.47%, respectively, for CDO III. The ratio will fluctuate based on the performance of the underlying assets, transfers of assets into the CDOs prior to the expiration of their respective replenishment dates, purchase or disposal of other investments, and loan payoffs.

Also, no payment due under the Junior Subordinated Indentures may be paid if there is a default under any senior debt and the senior lender has sent notice to the trustee. The Junior Subordinated Indentures are also cross-defaulted with each other.

Note 8 — Derivative Financial Instruments

The Company recognizes all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measures those instruments at fair value. Additionally, the fair value adjustments will affect either accumulated other comprehensive loss until the hedged item is recognized in earnings, or net income (loss) attributable to Arbor Realty Trust, Inc., depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The ineffective portion of a derivative's change in fair value is recognized immediately in earnings.

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

Derivative financial instruments must be effective in reducing the Company's interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income for each period until the derivative instrument matures or is settled. In cases where a derivative financial instrument is terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income. The Company does not use derivatives for trading or speculative purposes.

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The following is a summary of the derivative financial instruments held by the Company as of June 30, 2011 and December 31, 2010 (dollars in thousands):

		Notional Value						Fair Value	
Designation\ Cash Flow	Derivative	Count	June 30, 2011	Count	December 31, 2010	Expiration Date	Balance Sheet Location	June 30, 2011	December 31, 2010
Non-Qualifying	Basis Swaps	9	$ 937,812	9	$ 1,056,851	2012 – 2015	Other Assets	$ 751	$ 1,306
Non-Qualifying	LIBOR Caps	2	$ 13,000	1	$ 7,000	2012 - 2013	Other Assets	$ 9	$ 12
Qualifying	LIBOR Cap	1	$ 73,301	—	$ —	2013	Other Assets	$ 13	$ —
Qualifying	Interest Rate Swaps	28	$ 562,715	30	$ 639,696	2011 – 2017	Other Liabilities	$ (45,578)	$ (50,803)

The fair value of Non-Qualifying Basis Swap Hedges was $0.8 million and $1.3 million as of June 30, 2011 and December 31, 2010, respectively, and was recorded in other assets in the Consolidated Balance Sheets. These basis swaps are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet hedge accounting requirements. The Company is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in benchmark interest rates and uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. These interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. The fair value of the Non-Qualifying LIBOR Cap Hedges was less than $0.1 million at June 30, 2011 and December 31, 2010, and is recorded in other assets in the Consolidated Balance Sheets. The Company entered into these hedges in the fourth quarter of 2010 and the first quarter of 2011 due to loan agreements which required LIBOR Caps of 1% to 2%. In addition, during the six months ended June 30, 2011, the notional value on two basis swaps decreased by approximately $119.0 million pursuant to the contractual terms of the respective swap agreements. For the three months ended June 30, 2011 and 2010, the change in fair value of the Non-Qualifying Swaps was $(0.3) million and $1.0 million, respectively, and for the six months ended June 30, 2011 and 2010, the change in fair value of the Non-Qualifying Swaps was $(0.6) million and $0.8 million, respectively, and was recorded in interest expense on the Consolidated Statements of Operations.

The fair value of Qualifying Interest Rate Swap Cash Flow Hedges as of June 30, 2011 and December 31, 2010 was $(45.6) million and $(50.8) million, respectively, and was recorded in other liabilities in the Consolidated Balance Sheets. The change in the fair value of Qualifying Interest Rate Swap Cash Flow Hedges was recorded in accumulated other comprehensive loss in the Consolidated Balance Sheets. These interest rate swaps are used to hedge the variable cash flows associated with existing variable-rate debt, and amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the six months ended June 30, 2011, the Company entered into a LIBOR Cap with a notional value of approximately $73.3 million that qualifies as a cash flow hedge. The fair value of the Qualifying LIBOR Cap Hedge was less than $0.1 million at June 30, 2011 and is recorded in other assets in the Consolidated Balance Sheet. The Company entered into this hedge in the first quarter of 2011 due to a loan agreement which required a LIBOR Cap of 2%. In addition, during the six months ended June 30, 2011, the notional value on three interest rate swaps decreased by approximately $53.5 million pursuant to the contractual terms of the respective swap agreements and two interest rate swaps matured with a combined notional value of approximately $24.8 million. During the six months ended June 30, 2010, the Company entered into two new interest rate swaps that qualify as cash flow hedges with a combined notional value of approximately $7.5 million, the notional value of one interest rate swap decreased by approximately $17.1 million pursuant to the contractual terms of the swap agreement, and two interest rate swaps matured with a combined notional of approximately $12.5

million. As of June 30, 2011, the Company expects to reclassify approximately $(21.7) million of other comprehensive loss from Qualifying Cash Flow Hedges to interest expense over the next twelve months assuming interest rates on that date are held constant.

Gains and losses on terminated swaps are being deferred and recognized in earnings over the original life of the hedged item. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. As of June 30, 2011 and December 31, 2010, the Company has a net deferred loss of $3.7 million and $4.5 million, respectively, in accumulated other comprehensive loss. The Company recorded $0.4 million as additional interest expense related to the amortization of the loss for the three months ended June 30, 2011 and 2010, respectively, and less than $0.1 million and $0.1 million as a reduction to interest expense related to the accretion of the net gains for the three months ended June 30, 2011 and 2010, respectively. The Company recorded $0.9 million as additional interest expense related to the amortization of the loss for the six months ended June 30, 2011 and 2010, respectively, and $0.1 million and $0.2 million as a reduction to interest expense related to the accretion of the net gains for the six months ended June 30, 2011 and 2010, respectively. The Company expects to record approximately $1.2 million of net deferred loss to interest expense over the next twelve months.

The following table presents the effect of the Company's derivative financial instruments on the Statements of Operations as of June 30, 2011 and 2010 (dollars in thousands):

		Amount of Gain or (Loss) Recognized in Other Comprehensive Loss (Effective Portion) For the Six Months Ended		Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Six Months Ended		Amount of (Loss) or Gain Recognized in Interest Expense (Ineffective Portion) For the Six Months Ended	
Designation \Cash Flow	Derivative	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Non-Qualifying	Basis Swaps / Caps	$ —	$ —	$ —	$ —	$ (344)	$ 816
Qualifying	Interest Rate Swaps / Cap	$ 6,015	$ (11,324)	$ (14,418)	$ (15,812)	$ —	$ —

The cumulative amount of other comprehensive loss related to net unrealized losses on derivatives designated as Cash Flow Hedges as of June 30, 2011 and December 31, 2010 of approximately $(49.3) million and approximately $(55.3) million, respectively, is a combination of the fair value of qualifying cash flow hedges of $(45.6) million and $(50.8) million, respectively, deferred losses on terminated interest swaps of $(4.6) million and $(5.5) million as of June 30, 2011 and December 31, 2010, respectively, and deferred net gains on termination of interest swaps of $0.9 million and $1.0 million as of June 30, 2011 and December 31, 2010, respectively.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. As of June 30, 2011 and December 31, 2010, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was $(20.1) million and $(21.1) million, respectively. As of June 30, 2011 and December 31, 2010, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $21.1 million and $21.3 million, which is recorded in other assets in the Company's Consolidated Balance Sheets.

Note 9 — Variable Interest Entities

The Company has evaluated its loans and investments, mortgage related securities, investments in equity affiliates, junior subordinated notes and CDOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in the Company determining that its bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CDOs, and investments in mortgage related securities are potential VIEs. A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties.

A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company's involvement with VIEs primarily affects its financial performance and cash flows through amounts recorded in interest income, interest expense, provision for loan losses and through activity associated with its derivative instruments.

Consolidated VIEs

The Company consolidates its three CDO subsidiaries, which qualify as VIEs, of which the Company is the primary beneficiary. These CDOs invest in real estate and real estate-related securities and are financed by the issuance of CDO debt securities. The Company, or one of its affiliates, is named collateral manager, servicer, and special servicer for all CDO collateral assets which the Company believes gives it the power to direct the most significant economic activities of the entity. The Company also has exposure to CDO losses to the extent of its equity interests and also has rights to waterfall payments in excess of required payments to CDO bond investors. As a result of consolidation, equity interests in these CDOs have been eliminated, and the balance sheet reflects both the assets held and debt issued by the CDOs to third parties. The Company's operating results and cash flows include the gross amounts related to CDO assets and liabilities as opposed to the Company's net economic interests in the CDO entities.

Assets held by the CDOs are restricted and can be used only to settle obligations of the CDOs. The liabilities of the CDOs are non-recourse to the Company and can only be satisfied from each CDO's respective asset pool. Assets and liabilities related to the CDOs are disclosed parenthetically, in the aggregate, in the Company's Consolidated Balance Sheets. See Note 7 — "Debt Obligations" for further details.

The Company is not obligated to provide, has not provided, and does not intend to provide financial support to any of the consolidated CDOs.

Unconsolidated VIEs

The Company determined that it is not the primary beneficiary of 41 VIEs as of June 30, 2011 because it does not have the ability to direct the activities of the VIEs that most significantly impact each entity's economic performance. VIEs, of which the Company is not the primary beneficiary, have an aggregate carrying amount of $630.4 million and exposure to real estate debt of approximately $4.1 billion at June 30, 2011.

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The following is a summary of the Company's variable interests in identified VIEs, of which the Company is not the primary beneficiary, as of June 30, 2011:

Type	Origination Date	Carrying Amount (1)	Property	Location
Loan and investment	Dec – 03	$ 50,000,000	Office	New York
Loan	Aug – 05	17,050,000	Office	New York
Loan	Jan – 06	1,350,000	Multifamily	New York
Loan	Mar – 06	9,885,212	Office	Pennsylvania
Loan	Jun – 06	105,255,660	Land	California
Loan	Aug – 06	5,452,137	Multifamily	Indiana
Loan	Sep – 06	2,800,000	Office	Rhode Island
Loan	Oct – 06	1,349,992	Multifamily	South Carolina
Loan	Oct – 06	2,031,012	Multifamily	North Carolina
Loan	May – 08	12,492,789	Multifamily	Florida
Loan	Dec – 06	63,885,000	Multifamily	New York
Loan	Jan – 07	4,123,938	Multifamily	Texas
Loan	Mar – 07	1,960,000	Office	South Carolina
Loan	Mar – 07	67,000,000	Office	New York
Loan	Apr – 08	5,924,306	Multifamily	Indiana
Loan	Feb – 07	53,250,000	Multifamily	Florida
Loan	Mar – 07	2,000,000	Multifamily	Florida
Loan	Mar – 07	6,625,103	Multifamily	Indiana
Loan	Mar – 07	3,671,507	Hotel	Arizona
Loan	Mar – 07	4,779,630	Multifamily	Michigan
Loan	Jul – 07	10,557,122	Multifamily	Texas
Loan	Jul – 07	9,141,866	Multifamily	Texas
Loan	Jul – 07	4,492,811	Multifamily	Texas
Loan	Feb – 08	56,799,999	Multifamily	California
Loan	May – 06	10,000,000	Condo	California
Loan	Aug – 07	6,000,000	Multifamily	Florida
Loan	Dec - 04	7,200,000	Multifamily	Indiana
Loan	Dec – 06	32,000,000	Multifamily	Various
Loan	Dec – 06	25,000,000	Land	Florida
Loan	Jun – 06	1,870,000	Multifamily	Texas
Loan	Aug – 10	7,147,000	Hotel	California
Loan	Dec – 10	15,180,779	Multifamily	New York
Loan	Dec – 10	7,000,000	Multifamily	Texas
Loan	Jan – 11	2,000,000	Multifamily	Texas
Loan	Apr – 11	2,400,000	Multifamily	New York
Loan	Feb – 06	1,903,094	Multifamily	Indiana
Loan	Jun – 11	6,160,000	Multifamily	Texas
Investment	May – 08	2,000,000	CDO bond	N/A
Investment	Dec – 10	2,100,000	CMBS	N/A
Investment	Apr – 05	187,000	Junior subordinated notes (2)	N/A
Investment	Jun – 06	391,000	Junior subordinated notes (2)	N/A
Total		$ 630,416,957		

(1) Represents the carrying amount of loans and investments before reserves. The Company's maximum exposure to loss would not exceed the carrying amount of its investment. At June 30, 2011, $246.8 million of loans to VIEs had corresponding loan loss reserves of approximately $121.2 million and $57.9 million of loans to VIEs were related to loans classified as non-performing. See Note 3 — "Loans and Investments" for further details.

(2) These entities that issued the junior subordinated notes are VIEs. It is not appropriate to consolidate these entities as equity interests are variable interests only to the extent that the investment is considered to be at risk. Since the Company's investments were funded by the entities that issued the junior subordinated notes, it is not considered to be at risk.

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Note 10 — Fair Value

Fair Value of Financial Instruments

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The following table summarizes the carrying values and the estimated fair values of the Company's financial instruments as of June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Loans and investments, net (1)	$ 1,328,686,435	$ 1,097,958,668	$ 1,414,225,388	$ 1,185,144,418
Available-for-sale securities, net	4,246,973	4,246,973	3,298,418	3,298,418
Derivative financial instruments	772,836	772,836	1,317,895	1,317,895
Financial liabilities:				
Repurchase agreements	$ —	$ —	$ 990,997	$ 984,662
Collateralized debt obligations	1,038,328,166	663,883,299	1,070,852,555	613,631,643
Junior subordinated notes	158,027,900	48,402,850	157,806,238	48,328,132
Notes payable	85,457,708	78,218,218	51,457,708	44,612,375
Mortgage notes payable - real estate owned	74,501,004	72,950,376	20,750,000	20,280,173
Mortgage note payable - held-for-sale	41,440,000	40,934,990	41,440,000	40,781,746
Derivative financial instruments	45,577,609	45,577,609	50,802,533	50,802,533

(1) Includes a bridge loan with an unpaid principal balance of $6.2 million as of June 30, 2011 that was classified as held-for-sale. There were no loans classified as held-for-sale as of December 31, 2010.

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument:

Loans and investments, net: Fair values of loans and investments, including loans held-for-sale, that are not impaired are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Fair values of loans and investments that are impaired are estimated by the Company using significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. For such loans that are impaired, carrying value approximates fair value.

Available-for-sale securities, net: Fair values are approximated 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. The fair values of certain CMBS securities that are impaired are estimated by the Company using significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management.

Derivative financial instruments: Fair values are approximated based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions. These items are included in other assets and other liabilities on the Consolidated Balance Sheets.

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The Company incorporates credit valuation adjustments in the fair values of its derivative financial instruments to reflect counterparty nonperformance risk.

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

Collateralized debt obligations: Fair values are estimated based on broker quotations, representing the discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Junior subordinated notes: Fair values are estimated based on broker quotations, representing the discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Fair Value Measurement

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

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

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

- Level 2 — Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Level 2 inputs include quoted market prices in markets that are not active for an identical or similar asset or liability, and quoted market prices in active markets for a similar asset or liability. Fair valued assets and liabilities that are generally included in this category are non-government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset-backed securities, certain corporate debt, certain commitments and guarantees, certain private equity investments and certain derivatives.

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

Determining which category an asset or liability falls within the hierarchy requires significant judgment and the Company evaluates its hierarchy disclosures each quarter.

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The Company measures certain financial assets and financial liabilities at fair value on a recurring basis, including available—for—sale securities and derivative financial instruments. The fair value of these financial assets and liabilities was determined using the following inputs as of June 30, 2011:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy Level 1	Level 2	Level 3
Financial assets:					
Available-for-sale securities (1)	$ 4,246,973	$ 4,246,973	$ 146,973	$ —	$ 4,100,000
Derivative financial instruments	772,836	772,836	—	772,836	—
Financial liabilities:					
Derivative financial instruments	45,577,609	45,577,609	—	45,577,609	—

(1) For the six months ended June 30, 2011, the Company's equity securities available-for-sale were measured using Level 1inputs and the Company's CDO bond and CMBS investments available-for-sale were measured using Level 3 inputs.

Available-for-sale securities: Fair values are approximated based on current market quotes received from financial sources that trade such securities. The fair values of available-for-sale securities traded in active markets are approximated using Level 1 inputs, while the fair values of available-for-sale securities that are approximated using current, non-binding market quotes received from financial sources that trade such investments are valued using Level 3 inputs. The fair values of certain CMBS securities that are impaired are estimated by the Company using Level 3 inputs that require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management.

Derivative financial instruments: Fair values are approximated on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions. These items are included in other assets and other liabilities on the Consolidated Balance Sheet. The Company incorporates credit valuation adjustments in the fair values of its derivative financial instruments to reflect counterparty nonperformance risk.

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

	Available-for-sale Securities
Balance as of December 31, 2010	$ 3,122,050
Adjustments to fair value:	
Amortization of premium (1)	(22,050)
Unrealized gain (2)	1,000,000
Balance as of June 30, 2011	$ 4,100,000

(1) Amortization of premium is recorded in interest expense on the Consolidated Statements of Operations.

(2) Unrealized gain is recorded in accumulated other comprehensive loss on the Consolidated Balance Sheet.

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The Company measures certain financial assets at fair value on a nonrecurring basis, such as impaired loans. The fair value of these financial assets was determined using the following inputs as of June 30, 2011:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy Level 1	Level 2	Level 3
Financial assets:					
Impaired loans, net (1)	$ 147,638,149	$ 152,068,873	$ —	$ —	$ 152,068,873
Impaired real estate owned investment	$ 1,948,709	$ 1,948,709	$ —	$ —	$ 1,948,709

(1) The Company had an allowance for loan losses of $171.2 million relating to 26 loans with an aggregate carrying value, before loan loss reserves, of approximately $318.9 million at June 30, 2011.

Loan impairment assessments: Loans held for investment are intended to be held-to-maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. The Company performs evaluations of its loans to determine if the value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, which may result in an allowance and corresponding charge to the provision for loan losses. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. The table above includes all impaired loans, regardless of the period in which impairment was recognized.

Impaired real estate owned investment assessments: Impaired real estate owned investments are carried at the lower of cost or fair value, which is net of impairment loss. The Company considers a real estate owned investment impaired if the undiscounted estimated future cash flows to be generated by the asset are less than its carrying amount. Measurement of impairment is based upon the estimated fair value of the asset. These valuations require significant judgments, which include assumptions regarding cash flows, capitalization rates, occupancy rates, availability of financing, exit plan, and other factors deemed necessary by management as well as discussions with active market participants.

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Note 11 — Commitments and Contingencies

Contractual Commitments

As of June 30, 2011, the Company had the following material contractual obligations (dollars in thousands):

Contractual Obligations	Payments Due by Period (1) 2011	2012	2013	2014	2015	Thereafter	Total
Notes payable	$ 1,300	$ 34,000	$ —	$ —	$ —	$ 50,158	$ 85,458
Collateralized debt obligations (2)	62,939	232,138	164,465	198,074	81,670	299,042	1,038,328
Junior subordinated notes (3)	—	—	—	—	—	175,858	175,858
Mortgage notes payable — real estate owned (4)	—	—	20,750	53,751	—	—	74,501
Mortgage note payable — held-for-sale (5)	—	41,440	—	—	—	—	41,440
Totals	$ 64,239	$ 307,578	$ 185,215	$ 251,825	$ 81,670	$ 525,058	$ 1,415,585

(1) Represents principal amounts due based on contractual maturities.

(2) Comprised of $198.1 million of CDO I debt, $301.0 million of CDO II debt and $539.3 million of CDO III debt with a weighted average remaining maturity of 1.83, 3.20 and 2.70 years, respectively, as of June 30, 2011. The balance of estimated interest due through maturity on CDO bonds reissued in 2010, which is included in the carrying values of the CDOs, totaled $21.9 million at June 30, 2011. During the six months ended June 30, 2011, the Company repurchased, at a discount, $5.0 million of investment grade notes originally issued by the Company's CDO III issuer and recorded a reduction of the outstanding debt balance of $5.0 million.

(3) Represents the face amount due upon maturity. The carrying value is $158.0 million, which is net of a deferred amount of $17.8 million.

(4) Represents a $20.8 million mortgage note payable with a contractual maturity in 2013, related to a real estate investment acquired through deed in lieu of foreclosure in April 2010 and a $55.4 million mortgage note payable with a contractual maturity in 2014, related to a real estate investment purchased out of bankruptcy in the first quarter of 2011, which was paid down in June 2011 and had a balance of $53.8 million at June 30, 2011.

(5) Represents a mortgage note payable with a contractual maturity in 2012, related to a real estate investment held-for-sale that is expected to be transferred to the first mortgage lender in 2011.

In accordance with certain loans and investments, the Company has outstanding unfunded commitments of $19.3 million as of June 30, 2011, that the Company is obligated to fund as the borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements. In relation to the $19.3 million outstanding balance at June 30, 2011, the Company's restricted cash balance and CDO III revolver capacity contained approximately $18.3 million available to fund the portion of the unfunded commitments for loans financed by the Company's CDO vehicles.

Litigation

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

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

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York, New York County. There are 73 defendants in the aggregate in the three lawsuits, including 55 corporate and partnership entities and 18 individuals. A subsidiary of the Company and certain other entities that are affiliates of the Company are included as defendants.

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

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

The complaints seek among other things, damages of not less than $2.1 billion, plus punitive damages, on a joint and several basis, from each defendant in connection with the Fiduciary Duty Claims and the return of in excess of $50.0 million which is alleged to have been wrongfully received by the holders of the Series A1 Preferred Units, including Arbor ESH II, LLC. The Company intends to vigorously defend against all of the referenced actions.

Note 12 — Equity

Common Stock

The Company's charter provides for the issuance of up to 500 million shares of common stock, par value $0.01 per share, and 100 million shares of preferred stock, par value $0.01 per share.

The Company paid an incentive management fee for the twelve month period ending December 31, 2010 to ACM in a combination of cash and shares of common stock during the first quarter of 2011. The Company issued 666,927 shares of common stock in March 2011 for the portion of the incentive management fee paid in common stock.

In June 2010, the Company filed a shelf registration statement on Form S-3 with the SEC under the 1933 Act with respect to an aggregate of $500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants that may be sold by the Company from time to time pursuant to Rule 415 of the 1933 Act. On June 23, 2010, the SEC declared this shelf registration statement effective.

In June 2011, the Board of Directors authorized a stock repurchase plan that enables the Company to buy up to 1.5 million shares of its common stock. At management's discretion, shares may be acquired from time to time on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits the Company to repurchase shares at times when it might otherwise be prevented from doing so. There is no guarantee as to the exact number of shares that will be repurchased by the Company, the program may be terminated at any time and will expire on December 15, 2011. As of June 30, 2011, the Company repurchased 34,850 shares of its common stock at a total cost of $0.2 million and an average cost of $4.48 per share.

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The Company had 25,408,290 and 24,776,213 shares of common stock outstanding at June 30, 2011 and December 31, 2010, respectively.

Deferred Compensation

There was no stock-based compensation recorded for the six months ended June 30, 2011. On July 22, 2011, the Company issued an aggregate of 105,000 shares of restricted common stock under the 2003 Stock Incentive Plan, as amended and restated in 2009 (the "Plan) to the non-management members of the Board of Directors. The 105,000 common shares underlying the restricted stock awards granted were fully vested as of the date of grant and the Company will record approximately $0.5 million of expense to its Consolidated Statement of Operations in the third quarter of 2011. On April 1, 2010, the Company issued an aggregate of 90,000 shares of restricted common stock under the Plan to the independent members of the Board of Directors. The 90,000 common shares underlying the restricted stock awards granted were fully vested as of the date of grant and the Company recorded $0.3 million to selling and administrative expense in its Consolidated Statement of Operations in the second quarter of 2010.

Warrants

In connection with a debt restructuring with Wachovia Bank in the third quarter of 2009, the Company issued Wachovia 1.0 million warrants at an average strike price of $4.00. 500,000 warrants were exercisable immediately at a price of $3.50, 250,000 warrants are exercisable after July 23, 2010 at a price of $4.00 and 250,000 warrants are exercisable after July 23, 2011 at a price of $5.00. All of the warrants expire on July 23, 2015 and no warrants have been exercised to date. The warrants were valued at approximately $0.6 million upon issuance using the Black-Scholes method. In the first quarter of 2010, the Company partially amortized approximately $0.1 million into interest expense in the Company's Consolidated Statement of Operations. The remaining portion totaling $0.4 million was expensed in the second quarter of 2010 upon closing a discounted payoff agreement with Wachovia Bank.

Noncontrolling Interest

Noncontrolling interest in a consolidated entity on the Company's Consolidated Balance Sheet as of June 30, 2011 and December 31, 2010 was $1.9 million and $2.0 million, respectively, representing a third party's interest in the equity of a consolidated subsidiary that owns an investment and carries a note payable related to the exchange of POM profits interest transaction discussed in Note 7 — "Debt Obligations". For the three months ended June 30, 2011 and 2010, the Company recorded income of $0.1 million as well as distributions of $0.1 million attributable to noncontrolling interest. For the six months ended June 30, 2011 and 2010, the Company recorded income of $0.1 million as well as distributions of $0.2 million and $0.1 million, respectively, attributable to noncontrolling interest.

Note 13 — Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to Arbor Realty Trust, Inc. by the weighted average number of shares of common stock outstanding during each period inclusive of unvested restricted stock with full dividend participation. Diluted EPS is calculated by dividing income by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period using the treasury stock method. The Company's common stock equivalents include the dilutive effect of warrants outstanding and the potential settlement of incentive management fees in common stock.

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The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations for the three months ended June 30, 2011 and 2010.

	For the Three Months Ended June 30, 2011		For the Three Months Ended June 30, 2010	
	Basic	Diluted (1)	Basic	Diluted
(Loss) income from continuing operations, net of noncontrolling interest	$ (10,354,735)	$ (10,354,735)	$ 129,461,913	$ 129,461,913
Loss from discontinued operations	—	—	(373,914)	(373,914)
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (10,354,735)	$ (10,354,735)	$ 129,087,999	$ 129,087,999
Weighted average number of common shares outstanding	25,440,380	25,440,380	25,477,410	25,477,410
Dilutive effect of warrants	—	—	—	96,793
Weighted average number of common shares outstanding	25,440,380	25,440,380	25,477,410	25,574,203
(Loss) income from continuing operations, net of noncontrolling interest, per common share	$ (0.41)	$ (0.41)	$ 5.08	$ 5.06
Loss from discontinued operations per common share	—	—	(0.01)	(0.01)
Net (loss) income attributable to Arbor Realty Trust, Inc. per common share	$ (0.41)	$ (0.41)	$ 5.07	$ 5.05

(1) For the three months ended June 30, 2011, the Company had a net loss and thus did not have a dilutive effect from one million warrants.

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations for the six months ended June 30, 2011 and 2010.

	For the Six Months Ended June 30, 2011		For the Six Months Ended June 30, 2010	
	Basic	Diluted (1)	Basic	Diluted
(Loss) income from continuing operations, net of noncontrolling interest	$ (10,087,586)	$ (10,087,586)	$ 155,853,729	$ 155,853,729
Loss from discontinued operations	—	—	(391,937)	(391,937)
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (10,087,586)	$ (10,087,586)	$ 155,461,792	$ 155,461,792
Weighted average number of common shares outstanding	25,202,248	25,202,248	25,432,659	25,432,659
Dilutive effect of warrants	—	—	—	48,664
Weighted average number of common shares outstanding	25,202,248	25,202,248	25,432,659	25,481,323
(Loss) income from continuing operations, net of noncontrolling interest, per common share	$ (0.40)	$ (0.40)	$ 6.13	$ 6.12
Loss from discontinued operations per common share	—	—	(0.02)	(0.02)
Net (loss) income attributable to Arbor Realty Trust, Inc. per common share	$ (0.40)	$ (0.40)	$ 6.11	$ 6.10

(1) For the six months ended June 30, 2011, the Company had a net loss and thus did not have a dilutive effect from one million warrants.

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Note 14 — Related Party Transactions

Due from related party was approximately $2.0 million at June 30, 2011, and consisted primarily of escrows held by an affiliate of ACM related to a real estate owned transaction. At December 31, 2010, due from related party was approximately $0.3 million which consisted of escrows held by ACM related to real estate transactions.

At June 30, 2011, due to related party was $1.6 million and consisted primarily of base management fees due to ACM, of which $0.6 million will be remitted by the Company in the third quarter of 2011. At December 31, 2010, due to related party was $17.4 million and consisted primarily of an incentive management fee for the twelve month period ended December 31, 2010 of approximately $18.8 million, offset by a $3.6 million related party receivable, and base management fees of $2.3 million due to ACM, all of which were remitted by the Company in the first quarter of 2011.

During the second quarter of 2011, the Company originated a mortgage loan to a third party borrower secured by property purchased from ACM, the Company's manager. The loan has an unpaid principal balance of $6.2 million, a maturity date of May 2014 and a variable interest rate of LIBOR plus 6.00%. Upon approving the transaction, the independent directors committee of the Board of Directors required the Company to sell the loan in 90 days and ACM agreed to guarantee the loan until it is sold.

During the second quarter of 2011, the Company originated a loan to a third party borrower for a portfolio of properties with an unpaid principal balance of $24.4 million, of which one property in the portfolio was previously financed with a $11.7 million loan that was purchased by ACM, the Company's manager. The $11.7 million loan was repaid as part of the $24.4 million loan on the portfolio. The new loan has a maturity date of May 2016 and a variable interest rate of LIBOR plus 4.75%.

During the first quarter of 2011, the Company originated four mortgage loans totaling $28.4 million to borrowers which were secured by property purchased from ACM, the Company's manager, or its affiliate. Two of the loans totaling $22.4 million have maturity dates of March 2014 and a combined weighted average variable interest rate of 6.18% as of June 30, 2011 and were secured by the same property. The third was a $2.0 million bridge loan with a maturity date of February 2013 and an interest rate of one-month LIBOR plus 6.00%. The fourth was a $4.0 million bridge loan with a maturity date in April 2013 and an interest rate of one-month LIBOR plus 6.00%.

In October 2010, the Company purchased, at par, a $4.7 million bridge loan from ACM. The loan was originated by ACM in June 2010 to a joint venture that acquired a condo development property in Brooklyn, New York. The loan bears interest at a rate of one-month LIBOR plus 8% with a LIBOR floor of 0.5% and a LIBOR cap of 1.5% and has a maturity date of June 2012. In addition, ACM contributed $0.9 million for a 50% non-controlling interest in an entity, which owns 28% of this joint venture. As of June 30, 2011, ACM's investment balance in this joint venture was $0.8 million. Interest income recorded from this loan for the three and six months ended June 30, 2011 was approximately $0.1 million and $0.2 million, respectively.

The Company is dependent upon its manager (ACM), with whom it has a conflict of interest, to provide services to the Company that are vital to its operations. The Company's chairman, chief executive officer and president, Mr. Ivan Kaufman, is also the chief executive officer and president of ACM, and, the Company's chief financial officer, Mr. Paul Elenio, is the chief financial officer of ACM. In addition, Mr. Kaufman and his affiliated entities ("the Kaufman Entities") together beneficially own approximately 91% of the outstanding membership interests of ACM and certain of the Company's employees and directors also hold an ownership interest in ACM. Furthermore, one of the Company's directors is general counsel to ACM and another of the Company's directors also serves as the trustee of one of the Kaufman Entities that holds a majority of the outstanding membership interests in ACM and co-trustee of another Kaufman Entity that owns an equity interest in ACM. ACM currently holds approximately 5.3 million of the Company's common shares, representing 21.1% of the voting power of the Company's outstanding stock as of June 30, 2011. The Company's Board of Directors approved a resolution under the Company's charter allowing Ivan Kaufman and ACM, (which Mr. Kaufman has a controlling equity interest in), to own more than a 7% ownership interest in the Company.

Note 15 — Distributions

Under the terms of the Company's junior subordinated note agreements, annual dividends are limited to 100% of taxable income to common shareholders and are required to be paid in the form of the Company's stock to the maximum extent permissible (currently 90%), with the balance payable in cash. The Company will be permitted to pay 100% of its taxable income in cash if the Company pays the note holders the original rate of interest upon termination of the agreement. See Note 7 — "Debt Obligations" for further details. The Board of Directors has elected not to pay a common stock dividend for the quarter ended June 30, 2011.

The Company is organized and conducts its operations to qualify as a REIT for federal income tax purposes. As a REIT, the Company is generally not subject to federal income tax on its REIT—taxable income that it distributes to its stockholders, provided that it distributes at least 90% of its REIT—taxable income and meets certain other requirements. Also, under current federal tax law, the income and the tax on such income, if any, attributable to certain debt extinguishment transactions realized in 2009 or 2010 may, at the Company's election, be deferred to future periods. As of June 30, 2011 and 2010, the Company was in compliance with all REIT requirements and, therefore, has not provided for income tax expense for the three and six months ended June 30, 2011 and 2010, with the exception of $1.8 million of estimated state income taxes due to the gain of $158.4 million from closing on the Wachovia discounted payoff agreement in the second quarter of 2010, incurred in those states that did not adopt the federal tax law that allows the Company to elect to defer income generated from certain debt extinguishment transactions. The estimated tax amount was reduced to $0.9 million in the fourth quarter of 2010.

Note 16 — Management Agreement

The Company, ARLP and Arbor Realty SR, Inc. have a management agreement with ACM, pursuant to which ACM provides certain services and the Company pays ACM a base management fee and under certain circumstances, an annual incentive fee. On August 6, 2009, the Company amended its management agreement with ACM effective as of January 1, 2009. The amendment was negotiated by a special committee of the Company's Board of Directors, consisting solely of independent directors and approved unanimously by all of the independent directors.

The base management fee is an arrangement whereby the Company reimburses ACM for its actual costs incurred in managing the Company's business based on the parties' agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. The Company's 2009 and 2010 base management fees were $8.0 million and $7.6 million, respectively. The 2011 base management fee was estimated to be approximately $8.0 million, which was approved by the audit committee of the Company's Board of Directors. All origination fees on investments are retained by the Company.

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

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

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

The incentive fee is measured on an annual basis. However, when applicable, the Company will pay the annual incentive fee in quarterly installments, each within 60 days of each fiscal quarter. The quarterly installments are calculated based on the results for the period of twelve months ending on the last day of each quarter with respect to which such installment is payable. Each quarterly installment payment is deemed to be an advance of a portion of the incentive fee payable for the year, with an adjustment at year end to reflect the full year's results. At least 25% of any incentive fee is paid to ACM in shares of the Company's common stock, subject to ownership limitations in the Company's charter. For purposes of determining the number of shares that are paid to ACM to satisfy the common stock portion of the incentive fee from and after the date the Company's common shares are publicly traded, each common share shall have a value equal to the average closing price per common share based on the last 20 days of the fiscal quarter with respect to which the incentive fee is being paid. The incentive fee is accrued as it is earned. The expense incurred for incentive fee paid in common stock is determined using the amount of stock calculated as noted above and the quoted market price of the stock on the last day of each quarter. At December 31 of each year, the Company remeasures the incentive fee expense paid to ACM in shares of the Company's common stock in accordance with current accounting guidance, which discusses how to determine the expense when certain terms are not known prior to the measurement date. Accordingly, any expense recorded related to common stock issued as a portion of incentive fee is adjusted to reflect the fair value of the stock on the measurement date when the final calculation of the total incentive fee is determined. In the event the calculated incentive fee for the full year is an amount less than the total of the installment payments made to ACM for the year, ACM will refund to the Company the amount of such overpayment in cash regardless of whether such installments were paid in cash or common stock. In such a case, the Company would record a negative incentive fee expense in the quarter when such overpayment is determined.

The following table sets forth the Company's base management fees and incentive fees for the periods indicated:

Management Fees:	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010
Base	$ 2,050,000	$ 2,000,000	$ 4,000,000	$ 3,900,000
Incentive	—	—	—	—
Total management fee	$ 2,050,000	$ 2,000,000	$ 4,000,000	$ 3,900,000

For the three months ended June 30, 2011 and 2010, the Company recorded $2.1 million and $2.0 million, respectively, of base management fee expenses, of which $1.0 million and $1.5 million was included in due to related party as of June 30, 2011 and 2010, respectively. For the six months ended June 30, 2011 and 2010, the Company recorded $4.0 million and $3.9 million, respectively, of base management fee expenses, of which $1.6 million and $1.4 million was included in due to related party as of June 30, 2011 and 2010, respectively. For the three and six months ended June 30, 2011 and 2010, ACM did not earn an incentive fee installment and no success-based payments were made.

Additionally, in 2007, ACM received an incentive fee installment totaling $19.0 million which was recorded as a prepaid management fee related to the incentive fee on $77.1 million of deferred revenue recognized on the transfer of control of the 450 West 33rd Street property, which is one of the Company's equity affiliates.

Note 17 — Due to Borrowers

Due to borrowers represents borrowers' funds held by the Company to fund certain expenditures or to be released at the Company's 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.

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 included herein.

Overview

We are a Maryland corporation formed in June 2003 to invest in multi-family and commercial real estate-related bridge loans, junior participating interests in first mortgages, mezzanine loans, preferred and direct equity and, in limited cases, discounted mortgage notes and other real estate-related assets, which we refer to collectively as structured finance investments. We have also invested in mortgage-related securities. We conduct substantially all of our operations through our operating partnership and its wholly-owned subsidiaries.

Our operating performance is primarily driven by the following factors:

- *Net interest income earned on our investments* — Net interest income represents the amount by which the interest income earned on our assets exceeds the interest expense incurred on our borrowings. If the yield earned on our assets decreases or the cost of borrowings increases, this will have a negative impact on earnings. However, if the yield earned on our assets increases or the cost of borrowings decreases, this will have a positive impact on earnings. Net interest income is also directly impacted by the size and performance of our asset portfolio. See "Current Market Conditions, Risks and Recent Trends" below for risks and trends of our net interest income.

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

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

We are organized and conduct our operations to qualify as a real estate investment trust ("REIT") for federal income tax purposes. A REIT is generally not subject to federal income tax on its REIT—taxable income that it distributes to its stockholders, provided that at least 90% of its REIT—taxable income is distributed and provided that certain other requirements are met. Additionally, under the terms of our junior subordinated note agreements, annual dividends are limited to 100% of taxable income to common shareholders and are required to be paid in the form of our stock to the maximum extent permissible (currently 90%), with the balance payable in cash. Certain REIT income may be subject to state and local income taxes. Our assets or operations that would not otherwise comply with the REIT requirements, are owned or conducted by our taxable REIT subsidiaries, the income of which is subject to federal and state income tax. Under current federal tax law, the gain and the tax on the gain of certain debt extinguishment transactions realized in 2009 or 2010 may, at our election, be deferred to future periods. We did not record a provision for income taxes related to the assets that are held in our taxable REIT subsidiaries for the six months ended June 30, 2011 and 2010, with the exception of $1.8 million of estimated state income taxes due to the gain of $158.4 million from closing on the discounted payoff agreement with Wachovia Bank, National Association, owned by Wells Fargo, National Association ("Wachovia") in the second quarter of 2010, incurred in those states that did not adopt the federal tax law that allows us to elect to defer income generated from certain debt extinguishment transactions. The estimated tax amount was reduced to $0.9 million in the fourth quarter of 2010.

Current Market Conditions, Risks and Recent Trends

Global stock and credit markets have experienced prolonged price volatility, dislocations and liquidity disruptions over the past several periods which have caused market prices of many stocks to fluctuate substantially. Commercial real estate has been particularly adversely affected by the prolonged economic downturn. Although we have seen some improvements, the overall market recovery remains uncertain. Should the market regress, the commercial real estate sector may experience additional losses, difficulty in raising capital, and challenges in obtaining investment financing with attractive terms or at all.

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

This environment has had a significant impact on our business, our borrowers and real estate values throughout all asset classes and geographic locations. Continued declining real estate values may continue to limit our new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase or investment in additional properties. Borrowers may also be less able to pay principal and interest on our loans if the real estate economy deteriorates further. Continued declining real estate values may also significantly increase the likelihood that we will continue to incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as well as our ability to originate, sell and securitize loans, which would significantly impact our revenues, results of operations, financial condition, business prospects and our ability to make distributions to our stockholders. In addition, our investments are also subject to the risks described above with respect to commercial real estate loans and mortgage-backed securities and similar risks, including risks of delinquency and foreclosure, the dependence upon the successful operation of, and net income from, real property, risks generally related to interests in real property, and risks that may be presented by the type and use of a particular commercial property.

During the first and second quarters of fiscal year 2011 we recorded $1.6 million and $11.4 million, respectively, of new provisions for loan losses due to declining collateral values; net recoveries of reserve of $3.8 million related to five loans in our portfolio in the second quarter of 2011; $1.0 million of recoveries of reserve related to two loans in our portfolio in the first quarter of 2011; accrued a $1.0 million loss on a restructured loan in the first quarter of 2011; and recorded an impairment loss of $0.8 million on a real estate owned investment in the second quarter of 2011. During the first, second, third and fourth quarters of fiscal year 2010 we recorded $25.0 million, $25.6 million, $15.2 million and $35.2 million, respectively, of new provisions for loan losses due to declining collateral values; a $0.8 million recovery from one fully reserved loan in the second quarter of 2010, a recovery of $2.7 million from two loans in the third quarter of 2010, and a recovery of $14.6 million from two loans in the fourth quarter of 2010; and $0.8 million, $5.4 million and $1.0 million of losses on restructured loans in the second, third and fourth quarters of 2010, respectively. In addition, we acquired two new real estate owned properties through a transfer from a creditor trust and a purchase out of bankruptcy, respectively, in the first quarter of 2011. We also acquired one new real estate owned property through deed in lieu of foreclosure and sold a real estate property held-for-sale in 2010. We have made, and continue to make modifications and extensions to loans when it is economically feasible to do so. In some cases, a modification is a more viable alternative to foreclosure proceedings when a borrower can not comply with loan terms. In doing so, lower borrower interest rates, combined with non-performing loans, will lower our net interest margins when comparing interest income to our costs of financing. These trends may persist with a prolonged economic downturn and we feel if they do, there will be continued modifications and delinquencies in the foreseeable future, which may result in reduced net interest margins and additional losses throughout our sector.

Commercial real estate financing companies were severely impacted by the economic downturn and until relatively recently have had very little access to the capital markets or the debt markets in order to meet their existing obligations or to refinance maturing debt. We responded to these troubled times by decreasing investment activity for capital preservation, aggressively managing our assets through restructuring and extending our debt facilities and repurchasing our previously issued debt at discounts when economically feasible. In order to accomplish these goals, we have worked closely with our borrowers in restructuring our loans, receiving payoffs and paydowns and monetizing our investments as appropriate. Additionally, based on available liquidity and market opportunities, we have from time to time repurchased our debt at discounts. We will continue to remain focused on executing these strategies when appropriate and where available if this significant economic downturn persists.

Refer to our Annual Report on Form 10-K for the year ending December 31, 2010 as well as Item 3. “Quantitative and Qualitative Disclosures About Market Risk” herein for additional risk factors.

Sources of Operating Revenues

We derive our operating revenues primarily through interest received from making real estate-related bridge, mezzanine and junior participation loans and preferred equity investments. For the three and six months ended June 30, 2011, interest income earned on these loans and investments represented approximately 69% and 73% of our total revenues, respectively. For the three and six months ended June 30, 2010, interest income earned on these loans and investments represented approximately 94% and 93% of our total revenues, respectively.

Interest income may also be derived from profits of equity participation interests. No such interest income was recognized for the three and six months ended June 30, 2011 and 2010.

We also derive interest income from our investments in commercial real estate collateralized debt obligation (“CDO”) bond securities and commercial mortgage-backed securities (“CMBS”). For the three and six months ended June 30, 2011, interest on these investments represented approximately less than 1% of our total revenues. For the three and six months ended June 30, 2010, interest on these investments represented approximately 2% and 3% of our total revenues, respectively.

Property operating income is derived from our real estate owned assets. For the three and six months ended June 30, 2011, property operating income represented approximately 31% and 27% of our total revenues, respectively. For the three and six months ended June 30, 2010, property operating income represented approximately 3% and 2% of our total revenues, respectively. The operation of a portfolio of hotel properties that we own is seasonal with the majority of revenues earned in the first two quarters of the calendar year.

Additionally, we derive operating revenues from other income that represents loan structuring and defeasance fees, and miscellaneous asset management fees associated with our loans and investments portfolio. For the three and six months ended June 30, 2011, revenue from other income represented approximately less than 1% of our total revenues. For the three and six months ended June 30, 2010, revenue from other income represented approximately 1% and 2% of our total revenues, respectively.

Income or Loss from Equity Affiliates and Gain or Loss on Sale of Loans and Real Estate

We derive income or loss from equity affiliates relating to joint ventures that were formed with equity partners to acquire, develop and/or sell real estate assets. These joint ventures are not majority owned or controlled by us, and are not consolidated in our financial statements. These investments are recorded under either the equity or cost method of accounting as appropriate. We record our share of net income and losses from the underlying properties of our equity method investments and any other-than-temporary impairment of these investments on a single line item in the Consolidated Statements of Operations as income or loss from equity affiliates. For the three months ended June 30, 2011, income from equity affiliates was less than $0.1 million, while for the three months ended June 30, 2010, loss from equity affiliates was less than $0.1 million. For the six months ended June 30, 2011, income from equity affiliates was $0.1 million, while for the six months ended June 30, 2010, loss from equity affiliates was $0.1 million.

We also may derive income or loss from the sale of loans and real estate. We may acquire real estate by foreclosure or through partial or full settlement of mortgage debt or for investment in order to stabilize the property and dispose of it for a future anticipated return. We may also acquire real estate notes generally at a discount from lenders in situations where the borrower wishes to restructure and reposition its short term debt and the lender wishes to divest certain assets from its portfolio. No such income or loss on the sale of loans or real estate was recorded during the three and six months ended June 30, 2011 and 2010.

Critical Accounting Policies

Please refer to the section of our Annual Report on Form 10-K for the year ended December 31, 2010 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Accounting Estimates and Critical Accounting Policies" for a discussion of our critical accounting policies. During the six months ended June 30, 2011, there were no material changes to these policies.

Impaired Loans, Allowance for Loan Losses, Loss on Restructured Loans and Charge-offs

Loans are considered impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. We evaluate each loan in our portfolio on a quarterly basis. Our loans are individually specific and unique as it relates to product type, geographic location, and collateral type, as well as to the rights and remedies and the position in the capital structure our loans and investments have in relation to the underlying collateral. We evaluate all of this information as well as general market trends related to specific classes of assets, collateral type and geographic locations, when determining the appropriate assumptions such as capitalization and market discount rates, as well as the borrower's operating income and cash flows, in estimating the value of the underlying collateral when determining if a loan is impaired. We utilize internally developed valuation models and techniques primarily consisting of discounted cash flow and direct capitalization models in determining the fair value of the underlying collateral on an individual loan. We may also obtain a third party appraisal, which may include "as-is" or "stabilized value". Such appraisals may be used as an additional source of valuation information only and no adjustments are made to appraisals. Included in the evaluation of the capitalization and market discount rates, we consider not only assumptions specific to the collateral but also geographical and industry trends that could impact the collateral's value.

If upon completion of the valuation, the fair value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level that is believed to be adequate by management to absorb probable losses. We had an allowance for loan losses of $171.2 million relating to 26 loans with an aggregate carrying value, before reserves, of approximately $318.9 million at June 30, 2011 and $205.5 million in allowance for loan losses relating to 30 loans with an aggregate carrying value, before reserves, of approximately $530.6 million at December 31, 2010. In addition, during the second quarter of 2011, we recorded net recoveries of $3.8 million related to five loans in our portfolio. During the first quarter of 2011, we recorded recoveries of $1.0 million related to two loans in our portfolio.

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

If we receive a benefit, either monetary or strategic, and the above criteria are not met, the modification is not considered to be a troubled debt restructuring.

We record interest on modified loans on an accrual basis to the extent that the modified loan is contractually current. To date, we have not recorded interest income on a modified loan where we have not subsequently received the cash.

Loss on restructured loans are recorded when we grant a concession to the borrower in the form of principal forgiveness related to the payoff or the substitution or addition of a new debtor for the original borrower or when we incur costs on behalf of the borrower related to the modification, payoff or the substitution or addition of a new debtor for the original borrower. When a loan is restructured, we record the investment at net realizable value, taking into account the cost of all concessions at the date of restructuring. The reduction in the recorded investment is recorded as a charge to the Consolidated Statement of Operations in the period in which the loan is restructured. We recorded a loss on restructured loans of $1.0 million for the six months ended June 30, 2011 as a result of the execution of a forbearance agreement in the first quarter of 2011 on a loan modified in the second quarter of 2011. For the three and six months ended June 30, 2010, we recorded loss on restructured loans of $0.8 million.

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

Revenue Recognition

Interest income. Interest income is recognized on the accrual basis as it is earned from loans, investments and securities. In certain instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, a prepayment fee and/or deferred interest upon maturity. In some cases, interest income may also include the amortization or accretion of premiums and discounts arising from the purchase or origination of the loan or security. This additional income, net of any direct loan origination costs incurred, is deferred and accreted into interest income on an effective yield or “interest” method adjusted for actual prepayment activity over the life of the related loan or security as a yield adjustment. Income recognition is suspended for loans when, in the opinion of management, a full recovery of all contractual principal is not probable. Income recognition is resumed when the loan becomes contractually current and performance is resumed. We record interest income on certain impaired loans to the extent cash is received, in which a loan loss reserve has been recorded, as the borrower continues to make interest payments. We recorded loan loss reserves related to these loans as it was deemed that full recovery of principal and interest was not probable.

Several of our loans provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management’s determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower. If management cannot make this determination, interest income above the current pay rate is recognized only upon actual receipt. We currently have no loans in our portfolio accruing such interest. Therefore, interest income is recorded on all of our loans and investments only to the extent that the current pay rate is received.

Given the transitional nature of some of our real estate loans, we may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. We will analyze these interest reserves on a periodic basis and determine if any additional interest reserves are needed. Recognition of income on loans with funded interest reserves are accounted for in the same manner as loans without funded interest reserves. We will not recognize any interest income on loans in which the borrower has failed to make the contractual interest payment due or has not replenished the interest reserve account. As of June 30, 2011, we had total interest reserves of $7.6 million on 31 loans with an aggregate unpaid principal balance of $551.6 million and had three non-performing loans with an aggregate unpaid principal balance of $44.3 million with a funded interest reserve of $0.1 million. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received.

Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

Additionally, interest income is recorded when earned from equity participation interests, referred to as equity kickers. These equity kickers have the potential to generate additional revenues to us as a result of excess cash flows being distributed and/or as appreciated properties are sold or refinanced. We did not record interest income on such investments for the three and six months ended June 30, 2011 and 2010.

Property operating income. Property operating income represents income associated with the operations of commercial real estate properties classified as real estate owned. We recognize revenue for these activities when the fees are fixed or determinable, or are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided. For the three and six months ended June 30, 2011, we recorded approximately $8.3 million and $13.7 million, respectively, of property operating income relating to real estate owned properties. As of June 30, 2011, we had four real estate owned properties including a portfolio of multifamily assets that was purchased by us out of bankruptcy and a portfolio of hotel assets that was transferred to us by the owner, a creditor trust. Both of these portfolios were acquired in the first quarter of 2011. For the three and six months ended June 30, 2010, we recorded approximately $0.8 million and $1.0 million, respectively, of property operating income relating to real estate owned properties. As of June 30, 2010, we had two real estate owned properties. Additionally, another real estate investment that was reclassified from real estate owned to real estate held-for-sale in the third quarter of 2010, which resulted in a reclassification of its operating activity from property operating income and expenses into discontinued operations for all prior periods. For more details see Note 6 of the "Notes to Consolidated Financial Statements" set forth in Item 1 hereof.

Derivatives and Hedging Activities

The carrying values of interest rate swaps and the underlying hedged liabilities are reflected at their fair value. Changes in the fair value of these derivatives are either offset against the change in the fair value of the hedged liability through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Derivatives that do not qualify for cash flow hedge accounting treatment are adjusted to fair value through earnings.

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

During the six months ended June 30, 2011 we entered into a LIBOR Cap with a notional value of approximately $73.3 million that was designated as a cash flow hedge and a LIBOR Cap with a notional value of approximately $6.0 million that was not designated as a cash flow hedge. In addition, the notional value on two basis swaps decreased by approximately $119.0 million pursuant to the contractual terms of the respective swap agreements, the notional value on three interest rate swaps decreased by approximately $53.5 million pursuant to the contractual terms of the respective swap agreements, and two basis swaps matured with a combined notional value of approximately $24.8 million. During the six months ended June 30, 2010 we entered into two new interest rate swaps that qualify as cash flow hedges with a combined notional value of approximately $7.5 million. In addition, the notional value of one interest rate swap decreased by approximately $17.1 million pursuant to the contractual terms of the swap agreement and two interest rate swaps matured with a combined notional value of approximately $12.5 million. Gains and losses on terminated swaps are deferred and recognized in interest expense over the original life of the hedged item. The fair value of our qualifying hedge portfolio has increased by approximately

$5.2 million from December 31, 2010 as a result of a change in the projected LIBOR rates and credit spreads of both parties, net of the amortized notional value of swaps.

Because the valuations of our hedging activities are based on estimates, the fair value may change if our estimates are inaccurate. For the effect of hypothetical changes in market interest rates on our interest rate swaps, see “Interest Rate Risk” in “Quantitative and Qualitative Disclosures About Market Risk”, set forth in Item 3 hereof.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued updated guidance on comprehensive income which amends U.S. GAAP to conform to the disclosure requirements of International Financial Reporting Standards (“IFRS”). The amendment eliminates the option to present components of other comprehensive income as part of the Statement of Changes in Stockholders’ Equity and requires a separate Statement of Comprehensive Income or two consecutive statements in the Statement of Operations and in a separate Statement of Comprehensive Income. This guidance is effective as of the first quarter of 2012, though early adoption is permitted, and its adoption is not expected to have a material effect on our Consolidated Financial Statements.

In May 2011, the FASB issued updated guidance on fair value measurement which amends U.S. GAAP to conform to IFRS measurement and disclosure requirements. The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value changes certain fair value measurement principles and enhances disclosure requirements. This guidance is effective as of the first quarter of 2012, applied prospectively, and its adoption is not expected to have a material effect on our Consolidated Financial Statements.

In April 2011, the FASB issued updated guidance on a creditor’s determination of whether a restructuring will be a troubled debt restructuring, which establishes new guidelines in evaluating whether a loan modification meets the criteria of a troubled debt restructuring. This guidance is effective as of the third quarter of 2011, applied retrospectively to the beginning of the fiscal year as required, and its adoption is not expected to have a material effect on our Consolidated Financial Statements.

In December 2010, the FASB issued updated guidance on business combinations, which clarifies that when pro forma financial information is required, it is to be presented as if the business combination occurred at the beginning of the prior year. The guidance also requires a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination. The guidance is effective for business combinations in fiscal years beginning on or after December 15, 2010 and its adoption on January 1, 2011 did not have a material effect on our Consolidated Financial Statements.

In July 2010, the FASB issued updated guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses which requires a greater level of information disclosed about the credit quality of loans and allowance for loan losses, as well as additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. This guidance is effective as of the fourth quarter of 2010, except for the information related to loans modified in a troubled debt restructuring which was postponed by the FASB to the third quarter of 2011. As the guidance only amends existing disclosure requirements, its adoption resulted in additional disclosures and did not have a material effect on our Consolidated Financial Statements.

In January 2010, the FASB issued updated guidance on fair value measurements and disclosures, which requires disclosure of details of significant asset or liability transfers in and out of Level 1 and Level 2 measurements within the fair value hierarchy and inclusion of gross purchases, sales, issuances, and settlements in the rollforward of assets and liabilities valued using Level 3 inputs within the fair value hierarchy. The guidance also clarifies and expands existing disclosure requirements related to the disaggregation of fair value disclosures and inputs used in arriving at fair values for assets and liabilities using Level 2 and Level 3 inputs within the fair value hierarchy. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, and its adoption did not have a material effect on our Consolidated Financial Statements. The gross presentation of the Level 3 rollforward is required for interim and annual reporting periods beginning after December 15, 2010 and its adoption on January 1, 2011 did not have a material effect on our Consolidated Financial Statements.

Changes in Financial Condition

Our loan and investment portfolio balance, including our loans held-for-sale and our available-for-sale securities, at June 30, 2011 was $1.3 billion, with a weighted average current interest pay rate of 4.32% compared to $1.4 billion, with a weighted average current interest pay rate of 4.44% at December 31, 2010. At June 30, 2011, advances on our financing facilities totaled $1.3 billion, with a weighted average funding cost of 3.35% as compared to $1.3 billion, with a weighted average funding cost of 3.55% at December 31, 2010.

During the quarter ended June 30, 2011, we originated five loans totaling $43.6 million that had an aggregate weighted average rate of interest of 7.09%, as well as received full satisfaction of one loan for $19.9 million that had a rate of interest of 9.35%. We also received partial repayment on one loan of $3.2 million, entered into a $32.0 million non-recourse junior loan participation, at a discount, on a mezzanine loan with an unpaid principal balance of $50.0 million, receiving proceeds of $28.8 million and recording a non-cash recovery to a previously recorded reserve of $3.2 million, and entered into a $2.0 million non-recourse junior loan participation on a mezzanine loan with an unpaid principal balance of $11.8 million. See "Sources of Liquidity — Notes Payable" below. We also refinanced and/or modified three loans totaling $112.0 million which decreased the aggregate weighted average rate of interest on the modified loans from 2.59% to 2.56%, and 13 loans totaling approximately $162.9 million were extended during the quarter, of which four loans totaling approximately $35.5 million were in accordance with the extension option of the corresponding loan agreement.

Cash and cash equivalents decreased $58.7 million, or 58%, to $42.4 million at June 30, 2011 compared to $101.1 million at December 31, 2010. All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The decrease was primarily due to funding new loan originations, paying related party payables and purchasing three of our own CDO bonds. This was partially offset by $28.8 million of proceeds from a loan participation in the second quarter of 2011 as well as loan paydowns.

Restricted cash increased $44.5 million to $65.6 million at June 30, 2011 compared to $21.1 million at December 31, 2010. Restricted cash is kept on deposit with the trustees for our CDOs, and primarily represents proceeds from loan repayments which will be used to purchase replacement loans as collateral for the CDO that has not reached its replenishment date and principal repayments for the CDOs that have reached their replenishment dates, as well as the sale of investment securities owned by the CDOs, unfunded loan commitments and interest payments received from loans. The increase was primarily due to loan payoffs and partial paydowns, net of originations and the transfer of loans into the CDOs. Subsequent to June 30, 2011, proceeds from a $19.0 million payoff were used for principal repayment of a CDO. One of our recently acquired real estate owned assets also has a restricted cash balance of $1.7 million as of June 30, 2011 due to a first mortgage escrow requirement.

Real estate owned increased $129.1 million to $151.9 million at June 30, 2011 compared to $22.8 million at December 31, 2010. This was primarily due to a portfolio of hotel assets that was transferred to us by the owner, a creditor trust, and a portfolio of multifamily assets that was purchased by us out of bankruptcy in the first quarter of 2011. See Note 6 of the "Notes to the Consolidated Financial Statements" set forth in Item 1 hereof for a further description of these transactions.

Due from related party increased $1.7 million to $2.0 million at June 30, 2011 compared to $0.3 million at December 31, 2010. The increase was due to escrows held by an affiliate of ACM related to a real estate owned transaction in the first quarter of 2011.

Other assets increased $0.6 million, or 1%, to $42.5 million at June 30, 2011 compared to $42.0 million at December 31, 2010. The increase was primarily due to a $2.2 million increase in other assets held by our real estate owned investments and a $0.5 million increase in interest receivable, net of a $1.5 million decrease in deferred financing fees, which includes amortization, a $0.5 million decrease in the fair value of our non-qualifying CDO basis swaps and a $0.1 million decrease due to the effect of LIBOR rates on a portion of our interest rate swaps. See Item 3 "Quantitative and Qualitative Disclosures About Market Risk" for further information relating to our derivatives.

Due to related party decreased $15.9 million, or 91%, to $1.6 million at June 30, 2011 compared to $17.4 million at December 31, 2010. The decrease was due to our payment of the incentive management fee for the twelve month period ended December 31, 2010 of $18.8 million, net of a $3.6 million related party receivable, and 2010 base management fees of $2.3 million due to ACM, net of $1.6 million of base management fees incurred in the first quarter of 2011 due to ACM. See "Contractual Commitments — Management Agreement" below for further details.

Notes payable increased $34.0 million, or 66%, to $85.5 million at June 30, 2011 compared to $51.5 million at December 31, 2010 due to entering into a non-recourse junior loan participation of $32.0 million on a $50.0 million mezzanine loan and a non-recourse junior loan participation of $2.0 million on an $11.8 million mezzanine loan in the second quarter of 2011. See "Sources of Liquidity — Notes Payable" below.

Mortgage notes payable — real estate owned increased $53.8 million to $74.5 million at June 30, 2011 compared to $20.8 million at December 31, 2010 due to our assumption of a $55.4 million interest-only first lien mortgage in connection with the acquisition of real property pursuant to the bankruptcy proceedings of a portfolio of multifamily assets. In the second quarter of 2011, one of the properties in the portfolio was sold to a third party for $1.6 million and the proceeds were used to pay down the first lien mortgage to a balance of $53.8 million at June 30, 2011. See "Sources of Liquidity — Mortgage Notes Payable — Real Estate Owned" below for further details.

Other liabilities decreased $6.0 million, or 7%, to $78.4 million at June 30, 2011 compared to $84.4 million at December 31, 2010. The decrease was primarily due to the use of $4.1 million of deposits on the transfer of a loan to real estate owned, payment of a $1.1 million payable to a lender as a result of a loan modification in 2010, a $5.4 million decrease in accrued interest payable primarily due to the increase in value of our interest rate swaps and the timing of reset dates, net of $2.5 million of effective yield amortization on our junior subordinated notes, a $1.1 million increase in accrued expenses and a $1.0 million increase in various other deposits and deferred fees.

On July 22, 2011, we issued an aggregate of 105,000 shares of restricted common stock under the 2003 Stock Incentive Plan, as amended and restated in 2009, to the non-management members of the Board of Directors. The 105,000 common shares underlying the restricted stock awards granted were fully vested as of the date of grant and we will record approximately $0.5 million of expense to our Consolidated Statement of Operations in the third quarter of 2011.

In June 2011, the Board of Directors authorized a stock repurchase plan that enables us to buy up to 1.5 million shares of our common stock. At management's discretion, shares may be acquired from time to time on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits us to repurchase shares at times when it might otherwise be prevented from doing so. There is no guarantee as to the exact number of shares that will be repurchased by us, the program may be terminated at any time and will expire on December 15, 2011. As of June 30, 2011, we repurchased 34,850 shares of our common stock at a total cost of $0.2 million and an average cost of $4.48 per share.

During the second quarter of 2011, we purchased, at a discount, $3.5 million of investment grade rated Class C and F notes originally issued by our CDO III issuing entity for a price of $1.6 million from third party investors and recorded a gain on extinguishment of debt of approximately $1.9 million in our 2011 Consolidated Statement of Operations.

During the first quarter of 2011, we purchased, at a discount, a $1.5 million investment grade rated Class F note originally issued by our CDO III issuing entity for a price of $0.6 million from a third party investor and recorded a gain on extinguishment of debt of approximately $0.9 million in our 2011 Consolidated Statement of Operations.

We issued 666,927 shares of common stock in the first quarter of 2011 to ACM for the portion of the incentive management fee for the twelve month period ending December 31, 2010 that was paid in common stock.

Comparison of Results of Operations for the Three Months Ended June 30, 2011 and 2010

The following table sets forth our results of operations for the three months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Increase/(Decrease)	
	2011	2010	Amount	Percent
	(Unaudited)			
Interest income	$ 18,572,772	$ 25,866,947	$ (7,294,175)	(28)%
Interest expense	15,792,751	16,177,468	(384,717)	(2)%
Net interest income	2,780,021	9,689,479	(6,909,458)	(71)%
Other revenue:				
Property operating income	8,264,317	815,110	7,449,207	nm
Other income	41,556	224,577	(183,021)	(81)%
Total other revenue	8,305,873	1,039,687	7,266,186	nm
Other expenses:				
Employee compensation and benefits	2,285,433	1,995,469	289,964	15%
Selling and administrative	1,583,793	2,250,402	(666,609)	(30)%
Property operating expenses	7,210,374	1,085,143	6,125,231	nm
Depreciation and amortization	1,898,034	134,542	1,763,492	nm
Other-than-temporary impairment	—	7,004,800	(7,004,800)	(100)%
Impairment loss on real estate owned	750,000	—	750,000	nm
Provision for loan losses (net of recoveries)	7,560,263	24,830,000	(17,269,737)	(70)%
Loss on restructured loans	—	825,239	(825,239)	(100)%
Management fee — related party	2,050,000	2,000,000	50,000	3%
Total other expenses	23,337,897	40,125,595	(16,787,698)	(42)%
Loss from continuing operations before gain on extinguishment of debt, loss on sale of securities, net, and income (loss) from equity affiliates	(12,252,003)	(29,396,429)	17,144,426	(58)%
Gain on extinguishment of debt	1,926,700	171,032,651	(169,105,951)	(99)%
Loss on sale of securities, net	—	(10,293,063)	10,293,063	(100)%
Income (loss) from equity affiliates	24,446	(27,348)	51,794	nm
(Loss) income before provision for income taxes	(10,300,857)	131,315,811	(141,616,668)	nm
Provision for income taxes	—	(1,800,000)	1,800,000	(100)%
(Loss) income from continuing operations	(10,300,857)	129,515,811	(139,816,668)	nm
Loss from discontinued operations	—	(373,914)	373,914	(100)%
Net (loss) income	(10,300,857)	129,141,897	(139,442,754)	nm
Net income attributable to noncontrolling interest	53,878	53,898	(20)	nm
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (10,354,735)	$ 129,087,999	$ (139,442,734)	nm

nm — not meaningful

Net Interest Income

Interest income decreased $7.3 million, or 28%, to $18.6 million for the three months ended June 30, 2011 from $25.9 million for the three months ended June 30, 2010. This decrease was primarily due to a 20% decrease in average loans and investments from $2.0 billion for the three months ended June 30, 2010 to $1.6 billion for the three months ended June 30, 2011 due to payoffs, paydowns, modifications and the reclassification of loans to real estate owned in the first quarter of 2011, as well as an 11% decrease in the average yield on assets from 5.20% for the three months ended June 30, 2010 to 4.64% for the three months ended June 30, 2011. This decrease in yield was the result of a decrease in average LIBOR over the same period, along with the suspension of interest on our non-performing loans, and lower rates on refinanced and modified loans. Interest income from cash equivalents was $0.2 million for both the three months ended June 30, 2011 and 2010.

Interest expense decreased $0.4 million, or 2%, to $15.8 million for the three months ended June 30, 2011 from $16.2 million for the three months ended June 30, 2010. The decrease was primarily due to a 19% decrease in the average balance of our debt facilities from $1.6 billion for the three months ended June 30, 2010 to $1.3 billion for the three months ended June 30, 2011. The decrease in the average balance was primarily due to closing on a discounted payoff agreement with Wachovia Bank on June 30, 2010 as well as the repayment of certain debt resulting from loan payoffs and paydowns and the transfer of assets into our CDO vehicles. The decrease in interest expense was offset by a 20% increase in the average cost of these borrowings from 4.04% for the three months ended June 30, 2010 to 4.86% for the three months ended June 30, 2011 primarily due to recording a $3.2 million non-cash charge related to the amortization of a discount on a loan that was participated out to a subordinate lender as well as a $1.3 million decrease in the market value of certain interest rate swaps in the three months ended June, 30, 2011, which is recorded as an increase of interest expense, net of closing on the discounted payoff agreement with Wachovia Bank in the second quarter of 2010, which carried a higher rate of interest than our other debt financing. See “Sources of Liquidity — Notes Payable” below for further details.

Other Revenue

Property operating income was $8.3 million for the three months ended June 30, 2011 compared to $0.8 million for the three months ended June 30, 2010. This was due to the operations of four real estate investments recorded as real estate owned as of June 30, 2011. A portfolio of multifamily assets was purchased by us out of bankruptcy and a portfolio of hotel assets was transferred to us by the owner, a creditor trust, in the first quarter of 2011. We owned two real estate owned investments as of June 30, 2010.

Other income decreased $0.2 million, or 81%, to less than $0.1 million for the three months ended June 30, 2011 from $0.2 million for the three months ended June 30, 2010. This is primarily due to a fee received during the second quarter of 2010 related to the sale of a loan.

Other Expenses

Employee compensation and benefits expense increased $0.3 million, or 15%, to $2.3 million for the three months ended June 30, 2011 from $2.0 million for the three months ended June 30, 2010. These expenses represent salaries and benefits for those employed by us during these periods.

Selling and administrative expense decreased $0.7 million, or 30%, to $1.6 million for the three months ended June 30, 2011 from $2.3 million for the three months ended June 30, 2010. These costs include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, travel and placement fees, director’s fees, licensing fees and stock-based compensation related to our directors. This decrease was primarily due to grants of fully vested restricted stock awards to our independent directors as well as an increase in general legal expenses in the second quarter of 2010. No stock-based compensation expense for directors was recorded in the second quarter of 2011.

Property operating expense was $7.2 million for the three months ended June 30, 2011 compared to $1.1 million for the three months ended June 30, 2010. This was due to the operations of four real estate investments recorded as real estate owned as of June 30, 2011. A portfolio of multifamily assets was purchased by us out of bankruptcy and a portfolio of hotel assets was transferred to us by the owner, a creditor trust, in the first quarter of 2011. We owned two real estate owned investments as of June 30, 2010.

Depreciation and amortization expense was $1.9 million for the three months ended June 30, 2011 compared to $0.1 million for the three months ended June 30, 2010. This is due to depreciation expense associated with four real estate investments recorded as real estate owned as of June 30, 2011. A portfolio of multifamily assets was purchased by us out of bankruptcy and a portfolio of hotel assets was transferred to us by the owner, a creditor trust, in the first quarter of 2011. We had two real estate owned investments as of June 30, 2010.

Other-than-temporary impairment charges of $7.0 million for the three months ended June 30, 2010 represent the recognition of additional impairments to the fair market value of our available-for-sale securities at June 30, 2010 that were considered other-than-temporarily impaired. GAAP accounting standards require that investments are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. There were no other-than-temporary impairment charges for the three months ended June 30, 2011. See Note 4 of the “Notes to the Consolidated Financial Statements” set forth in Item 1 hereof for further details.

Impairment loss on real estate owned of $0.8 million for the three months ended June 30, 2011 resulted from our determination of an impairment based on an analysis of one of our real estate owned investments. No such impairment loss was recorded for the three months ended June 30, 2010.

Provision for loan losses (net of recoveries) totaled $7.6 million for the three months ended June 30, 2011, and $24.8 million for the three months ended June 30, 2010. At June 30, 2011, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing three impaired loans with an aggregate carrying value of $50.5 million was less than the net carrying value of the loans, resulting in us recording an additional $11.4 million provision for loan losses. We also recorded net recoveries of $3.8 million related to five loans in our portfolio in the second quarter of 2011, which were recorded in provision for loan losses on the Consolidated Statement of Operations netting the provision to $7.6 million. At June 30, 2011 we had a total of 26 loans with an aggregate carrying value of $318.9 million, before loan loss reserves, for which impairment reserves have been recorded. At June 30, 2010, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing 12 impaired loans with an aggregate carrying value of $284.2 million was less than the net carrying value of the loans, resulting in us recording an additional $25.6 million provision for loan losses. We also had a recovery of $0.8 million received for a loan that was fully reserved, netting the provision to $24.8 million for the three months ended June 30, 2010. At June 30, 2010, we had a total of 33 loans with an aggregate carrying value of $738.7 million, before loan loss reserves, for which impairment reserves were recorded.

Loss on restructured loans was $0.8 million for the three months ended June 30, 2010, which represents the settlement of two bridge loans and one mezzanine loan with an aggregate carrying value of $20.7 million at a discount, for $19.9 million. There were no losses on restructuring for the three months ended June 30, 2011.

Management fees increased $0.1 million, or 3%, to $2.1 million for the three months ended June 30, 2011 from $2.0 million for the three months ended June 30, 2010. These amounts represent compensation in the form of base management fees as provided for in the management agreement with our manager. Refer to “Management Agreement” below for further details including information related to our amended management agreement with ACM. No incentive or success-based management fees were earned for the three months ended June 30, 2011 and 2010.

Gain on extinguishment of debt decreased $169.1 million, or 99%, to $1.9 million for the three months ended June 30, 2011 from $171.0 million for the three months ended June 30, 2010. During the three months ended June 30, 2011, we purchased, at a discount, $3.5 million of investment grade rated Class C and F notes originally issued by our CDO III issuing entity from third party investors and recorded a gain on early extinguishment of debt of $1.9 million. On June 30, 2010 we closed on our discounted payoff agreement with Wachovia and in doing so, recorded a $158.4 million gain to our Consolidated Statement of Operations, net of $0.4 million of warrant expense and $0.6 million of other various expenses and commissions. Also, during the second quarter of 2010, we purchased, at a discount, approximately $19.0 million of investment grade rated Class B, C, F and G notes originally issued by our three CDO issuing entities and recorded a net gain on early extinguishment of debt of $12.8 million related to these transactions.

Loss on sale of securities was $10.3 million for the three months ended June 30, 2010 as a result of selling three investment grade CDO bonds, with an aggregate face value of $44.7 million and an amortized cost of $40.4 million, for $29.9 million, resulting in a realized loss of $10.5 million, and two CMBS investments, with an aggregate face value of $6.5 million and an amortized cost of $6.3 million, for $6.5 million, resulting in a realized gain of $0.2 million. See Note 4 of the "Notes to the Consolidated Financial Statements" set forth in Item 1 hereof for a further description of these transactions. There were no losses or gains on sale of securities for the three months ended June 30, 2011.

Income from equity affiliates was less than $0.1 million for the three months ended June 30, 2011 and loss from equity affiliates was less than $0.1 million for the three months ended June 30, 2010, which reflects a portion of the income and losses from our equity affiliates.

Provision for Income Taxes

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As a REIT, we are generally not subject to federal income tax on our REIT—taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT—taxable income and meet certain other requirements. As of June 30, 2011 and 2010, we were in compliance with all REIT requirements and, therefore, have not recorded a provision for income taxes on our REIT— taxable income for the three months ended June 30, 2011 and 2010, with the exception of $1.8 million of estimated state taxes due to the gain of $158.4 million from closing on the Wachovia discounted payoff agreement in the second quarter of 2010. While the gain on the Wachovia transaction results in taxable income, under current federal tax law, the gain and the tax on the gain may, at our election, be deferred to future periods. The estimated tax amount was reduced to $0.9 million in the fourth quarter of 2010.

Certain of our assets that produce non-qualifying income are owned by our taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. During the three months ended June 30, 2011 and 2010, we did not record any provision for income taxes from these taxable REIT subsidiaries.

Loss from Discontinued Operations

During the third quarter of 2010, we agreed to sell one of our real estate owned investments to a third party. As a result, this investment was reclassified from real estate owned to real estate held-for-sale at a fair value of $5.5 million and property operating income and expenses, which netted to a loss of $0.4 million for the three months ended June 30, 2010, were reclassified to discontinued operations.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest totaled $0.1 million for the three months ended June 30, 2011 and 2010, representing the portion of income allocated to a third party's interest in a consolidated subsidiary, which holds an investment in operating partnership units that are accruing interest and dividend income as well as a note payable that is accruing interest expense. See Note 12 of the "Notes to the Consolidated Financial Statements" set forth in Item 1 hereof.

Comparison of Results of Operations for the Six Months Ended June 30, 2011 and 2010

The following table sets forth our results of operations for the six months ended June 30, 2011 and 2010:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
	(Unaudited)			
Interest income	$ 36,580,339	$ 50,085,372	$ (13,505,033)	(27)%
Interest expense	28,833,700	34,264,728	(5,431,028)	(16)%
Net interest income	7,746,639	15,820,644	(8,074,005)	(51)%
Other revenue:				
Property operating income	13,684,503	1,028,593	12,655,910	nm
Other income	63,432	1,022,624	(959,192)	(94)%
Total other revenue	13,747,935	2,051,217	11,696,718	nm
Other expenses:				
Employee compensation and benefits	4,373,487	3,900,422	473,065	12%
Selling and administrative	2,781,618	3,528,397	(746,779)	(21)%
Property operating expenses	11,011,595	1,443,573	9,568,022	nm
Depreciation and amortization	2,330,499	146,710	2,183,789	nm
Other-than-temporary impairment	—	7,004,800	(7,004,800)	(100)%
Impairment loss on real estate owned	750,000	—	750,000	nm
Provision for loan losses (net of recoveries)	8,095,398	49,830,000	(41,734,602)	(84)%
Loss on restructured loans	1,000,000	825,239	174,761	21%
Management fee — related party	4,000,000	3,900,000	100,000	3%
Total other expenses	34,342,597	70,579,141	(36,236,544)	(51)%
Loss from continuing operations before gain on extinguishment of debt, loss on sale of securities, net, and income (loss) from equity affiliates	(12,848,023)	(52,707,280)	39,859,257	(76)%
Gain on extinguishment of debt	2,819,200	217,531,130	(214,711,930)	(99)%
Loss on sale of securities, net	—	(6,989,583)	6,989,583	(100)%
Income (loss) from equity affiliates	48,811	(72,923)	121,734	nm
(Loss) income before provision for income taxes	(9,980,012)	157,761,344	(167,741,356)	nm
Provision for income taxes	—	(1,800,000)	1,800,000	(100)%
(Loss) income from continuing operations	(9,980,012)	155,961,344	(165,941,356)	nm
Loss from discontinued operations	—	(391,937)	391,937	(100)%
Net (loss) income	(9,980,012)	155,569,407	(165,549,419)	nm
Net income attributable to noncontrolling interest	107,574	107,615	(41)	nm
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (10,087,586)	$ 155,461,792	$ (165,549,378)	nm

nm — not meaningful

Net Interest Income

Interest income decreased $13.5 million, or 27%, to $36.6 million for the six months ended June 30, 2011 from $50.1 million for the six months ended June 30, 2010. This decrease was primarily due to a 21% decrease in average loans and investments from $2.0 billion for the six months ended June 30, 2010 to $1.6 billion for the six months ended June 30, 2011 due to payoffs, paydowns, modifications and the reclassification of loans to real estate owned, as well as an 8% decrease in the average yield on assets from 4.93% for the six months ended June 30, 2010 to 4.56% for the six months ended June 30, 2011. This decrease in yield was the result of a decrease in average LIBOR over the same period, along with the suspension of interest on our non-performing loans, and lower rates on refinanced and modified loans, partially offset by the reversal of $1.2 million of accrued exit fees in the first quarter of 2010. Interest income from cash equivalents was $0.4 million for both the six months ended June 30, 2011 and 2010.

Interest expense decreased $5.4 million, or 16%, to $28.8 million for the six months ended June 30, 2011 from $34.3 million for the six months ended June 30, 2010. The decrease was primarily due to a 22% decrease in the average balance of our debt facilities from $1.7 billion for the six months ended June 30, 2010 to $1.3 billion for the six months ended June 30, 2011. The decrease in the average balance was primarily due to closing on a discounted payoff agreement with Wachovia Bank in the second quarter of 2010 as well as the repayment of certain debt resulting from loan payoffs and paydowns and the transfer of assets into our CDO vehicles. The decrease in interest expense was partially offset by a 7% increase in the average cost of these borrowings from 4.16% for the six months ended June 30, 2010 to 4.47% for the six months ended June 30, 2011 primarily due to recording a $3.2 million non-cash charge in the second quarter of 2011 related to the amortization of a discount on a loan that was participated out to a subordinate lender as well as a $1.3 million decrease in the market value of certain interest rate swaps in the six months ended June 30, 2011, which is recorded as an increase of interest expense, net of closing on the discounted payoff agreement with Wachovia Bank on June 30, 2010, which carried a higher rate of interest than our other debt financing. See “Notes Payable” below for further details.

Other Revenue

Property operating income was $13.7 million for the six months ended June 30, 2011 compared to $1.0 million for the six months ended June 30, 2010. This was due to the operations of four real estate investments recorded as real estate owned as of June 30, 2011. A portfolio of multifamily assets was purchased by us out of bankruptcy and a portfolio of hotel assets was transferred to us by the owner, a creditor trust, in the first quarter of 2011. We owned two real estate owned investments as of June 30, 2010.

Other income decreased $1.0 million, or 94%, to $0.1 million for the six months ended June 30, 2011 from $1.0 million for the six months ended June 30, 2010. This is primarily due to fees received during the six months ended June 30, 2010 related to a loan that was classified as held-for-sale and was sold during the quarter ended June 30, 2010.

Other Expenses

Employee compensation and benefits expense increased $0.5 million, or 12%, to $4.4 million for the six months ended June 30, 2011 from $3.9 million for the six months ended June 30, 2010. These expenses represent salaries and benefits for those employed by us during these periods.

Selling and administrative expense decreased $0.7 million, or 21%, to $2.8 million for the six months ended June 30, 2011 from $3.5 million for the six months ended June 30, 2010. These costs include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, travel and placement fees, director’s fees, licensing fees and stock-based compensation related to our directors. This decrease was primarily due to grants of fully vested restricted stock awards to our independent directors as well as an increase in general legal expenses in the second quarter of 2010. No stock-based compensation expense for directors was recorded in the second quarter of 2011.

Property operating expense was $11.0 million for the six months ended June 30, 2011 compared to $1.4 million for the six months ended June 30, 2010. This was due to the operations of four real estate investments recorded as real estate owned as of June 30, 2011. A portfolio of multifamily assets was purchased by us out of bankruptcy and a portfolio of hotel assets was transferred to us by the owner, a creditor trust, in the first quarter of 2011. We owned two real estate owned investments as of June 30, 2010.

Depreciation and amortization expense was $2.3 million for the six months ended June 30, 2011 compared to $0.1 million for the six months ended June 30, 2010. This is due to depreciation expense associated with four real estate investments recorded as real estate owned as of June 30, 2011. A portfolio of multifamily assets was purchased by us out of bankruptcy and a portfolio of hotel assets was transferred to us by the owner, a creditor trust, in the first quarter of 2011. We had two real estate owned investments as of June 30, 2010.

Other-than-temporary impairment charges of $7.0 million for the six months ended June 30, 2010 represent the recognition of additional impairments to the fair market value of our available-for-sale securities at June 30, 2010 that were considered other-than-temporarily impaired. GAAP accounting standards require that investments are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. There were no other-than-temporary impairment charges for the six months ended June 30, 2011. See Note 4 of the “Notes to the Consolidated Financial Statements” set forth in Item 1 hereof for further details.

Impairment loss on real estate owned of $0.8 million for the six months ended June 30, 2011 resulted from our determination of an impairment based on an analysis of one of our real estate owned investments in the second quarter of 2011. No such impairment loss was recorded for the six months ended June 30, 2010.

Provision for loan losses (net of recoveries) totaled $8.1 million for the six months ended June 30, 2011, and $49.8 million for the six months ended June 30, 2010. During the six months ended June 30, 2011, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing six impaired loans with an aggregate carrying value of $72.3 million was less than the net carrying value of the loans, resulting in us recording an additional $12.9 million provision for loan losses. We also recorded net recoveries of $3.8 million related to five loans in our portfolio in the second quarter of 2011 and recoveries of $1.0 million related two loans in our portfolio in the first quarter of 2011, which were recorded in provision for loan losses on the Consolidated Statement of Operations netting the provision to $8.1 million. At June 30, 2011 we had a total of 26 loans with an aggregate carrying value of $318.9 million, before loan loss reserves, for which impairment reserves have been recorded. During the six months ended June 30, 2010, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing 17 impaired loans with an aggregate carrying value of $398.3 million was less than the net carrying value of the loans, resulting in us recording an additional $50.6 million provision for loan losses. We also had a recovery of $0.8 million received in the second quarter of 2010 for a loan that was fully reserved in the second quarter of 2010, netting the provision to $49.8 million for the six months ended June 30, 2010. At June 30, 2010, we had a total of 33 loans with an aggregate carrying value of $738.7 million, before loan loss reserves, for which impairment reserves have been recorded.

Loss on restructured loans increased $0.2 million, or 21%, to $1.0 million for the six months ended June 30, 2011 from $0.8 million for the six months ended June 30, 2010. The loss of $1.0 million for the six months ended June 30, 2011 resulted from the execution of a forbearance agreement in the first quarter of 2011 for a loan modified in the second quarter of 2011, while the loss of $0.8 million for the six months ended June 30, 2010 represents the settlement of two bridge loans and one mezzanine loan with an aggregate carrying value of $20.7 million at a discount, for $19.9 million.

Management fees increased $0.1 million, or 3%, to $4.0 million for the six months ended June 30, 2011 from $3.9 million for the six months ended June 30, 2010. These amounts represent compensation in the form of base management fees as provided for in the management agreement with our manager. Refer to “Management Agreement” below for further details including information related to our amended management agreement with ACM. No incentive or success-based management fees were earned for the six months ended June 30, 2011 and 2010.

Gain on extinguishment of debt decreased $214.7 million, or 99%, to $2.8 million for the six months ended June 30, 2011 from $217.5 million for the six months ended June 30, 2010. During the six months ended June 30, 2011, we purchased, at a discount, approximately $5.0 million of investment grade rated Class C and F notes originally issued by our CDO III issuing entity from third party investors and recorded a gain on early extinguishment of debt of $2.8 million related to these transactions. On June 30, 2010 we closed on our discounted payoff agreement with Wachovia and in doing so, recorded a $158.4 million gain to our Consolidated Statement of Operations, net of $0.4 million of warrant expense and $0.6 million of other various expenses and commissions. During the six months ended June 30, 2010, we also purchased, at a discount, approximately $46.7 million of investment grade rated Class A2, B, C, D, E, F and G notes originally issued by our three CDO issuing entities from third party investors for a price of $13.6 million and recorded a net gain on early extinguishment of debt of approximately $33.0 million related to these transactions. We also recorded a $26.3 million gain on the partial settlement of our junior subordinated notes in February 2010. See "Junior Subordinated notes" below for further details.

Loss on sale of securities was $7.0 million for the six months ended June 30, 2010 as a result of selling three investment grade CDO bonds, with an aggregate face value of $44.7 million and an amortized cost of $40.4 million, for $29.9 million, resulting in a realized loss of $10.5 million, and four CMBS investments, with an aggregate face value of $21.5 million and an amortized cost of $17.4 million, for $20.9 million, resulting in a realized gain $3.5 million. See Note 4 of the "Notes to the Consolidated Financial Statements" set forth in Item 1 hereof for a further description of these transactions. There were no losses or gains on sale of securities for the six months ended June 30, 2011.

Income from equity affiliates was $0.1 million for the six months ended June 30, 2011 and loss from equity affiliates was $0.1 million for the six months ended June 30, 2010, which reflects a portion of the income and losses from our equity affiliates.

Provision for Income Taxes

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As a REIT, we are generally not subject to federal income tax on our REIT—taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT—taxable income and meet certain other requirements. As of June 30, 2011 and 2010, we were in compliance with all REIT requirements and, therefore, have not recorded a provision for income taxes on our REIT— taxable income for the six months ended June 30, 2011 and 2010, with the exception of $1.8 million of estimated state taxes due to the gain of $158.4 million from closing on the Wachovia discounted payoff agreement in the second quarter of 2010. While the gain on the Wachovia transaction results in taxable income, under current federal tax law, the gain and the tax on the gain may, at our election, be deferred to future periods. The estimated tax amount was reduced to $0.9 million in the fourth quarter of 2010.

Certain of our assets that produce non-qualifying income are owned by our taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. During the six months ended June 30, 2011 and 2010, we did not record any provision for income taxes from these taxable REIT subsidiaries.

Loss from Discontinued Operations

During the third quarter of 2010, we agreed to sell one of our real estate owned investments to a third party. As a result, this investment was reclassified from real estate owned to real estate held-for-sale at a fair value of $5.5 million and property operating income and expenses, which netted to a loss of $0.4 million for the six months ended June 30, 2010, were reclassified to discontinued operations.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest totaled $0.1 million for the six months ended June 30, 2011 and 2010, representing the portion of income allocated to a third party's interest in a consolidated subsidiary, which holds an investment in operating partnership units that are accruing interest and dividend income as well as a note payable that is accruing interest expense. See Note 12 of the "Notes to the Consolidated Financial Statements" set forth in Item 1 hereof.

Liquidity and Capital Resources

Sources of Liquidity

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

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

Current conditions in the capital and credit markets have made certain forms of financing less attractive and, in certain cases, less available. Therefore we will continue to rely on cash flows provided by operating and investing activities for working capital.

To maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our REIT—taxable income. These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. However, we believe that our capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements. Under recently issued IRS guidance, a listed REIT may offer shareholders elective stock dividends, which are paid in a combination of cash and common stock with at least 10% of the total distribution paid in cash, to satisfy the future dividend requirements.

Cash Flows

As of June 30, 2011 and 2010, we had cash and cash equivalents of $42.4 million and $22.1 million, respectively. The following table shows our cash flow components (in thousands):

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net cash (used in) provided by operating activities	$ (10,683)	$ 8,921
Net cash (used in) provided by investing activities	(3,790)	130,193
Net cash used in financing activities	(44,256)	(181,614)
Net decrease in cash and cash equivalents	(58,729)	(42,500)
Cash and cash equivalents at beginning of period	101,125	64,624
Cash and cash equivalents at end of period	$ 42,396	$ 22,124

Our cash flows from operating activities decreased by $19.6 million for the six months ended June 30, 2011 compared to the comparable period in 2010 primarily due to the payment of a related party payable as well as a decrease in net interest income.

Cash flows from investing activities decreased by $134.0 million for the six months ended June 30, 2011 compared to the comparable period in 2010 primarily due to an increase in the origination of loans compared to 2010 as well as proceeds received from the sale of available-for-sale securities and loans in 2010.

Cash used in financing activities decreased by $137.4 million for the six months ended June 30, 2011 compared to the comparable period in 2010 mainly due to the closing of the discounted payoff agreement with Wachovia and paydowns of our junior subordinated notes in 2010, as well as a decrease in the purchase of our own CDO bonds and a decrease in restricted cash in 2011.

Equity Offerings

Our authorized capital provides for the issuance of up to 500 million shares of common stock, par value $0.01 per share, and 100 million shares of preferred stock, par value $0.01 per share.

We paid an incentive management fee for the twelve month period ending December 31, 2010 to ACM in a combination of cash and shares of common stock during the first quarter of 2011. We issued 666,927 shares of common stock in March 2011 for the portion of the incentive management fee paid in common stock.

In June 2010, we filed a shelf registration statement on Form S-3 with the SEC under the 1933 Act with respect to an aggregate of $500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants, that may be sold by us from time to time pursuant to Rule 415 of the 1933 Act. On June 23, 2010, the SEC declared this shelf registration statement effective.

At June 30, 2011, we had 25,408,290 common shares outstanding.

Debt Facilities

We also maintain liquidity through a note payable and three junior loan participations with four different financial institutions or companies. In addition, we have issued three collateralized debt obligations or CDOs and nine separate junior subordinated notes. London inter-bank offered rate, or LIBOR, refers to one-month LIBOR unless specifically stated. As of June 30, 2011, these facilities had aggregate borrowings of approximately $1.3 billion.

The following is a summary of our debt facilities as of June 30, 2011:

	At June 30, 2011			
Debt Facilities	**Commitment**	**Debt Carrying Value**	**Available**	**Maturity Dates**
Collateralized debt obligations. Interest is variable based on pricing over three-month LIBOR **(1)**	$ 1,043,770,206	$ 1,038,328,166	$ 5,442,040	2013 – 2014
Junior subordinated notes. Interest is at a fixed rate **(2)**	158,027,900	158,027,900	—	2034 – 2037
Notes payable. Interest is variable based on pricing over Prime or LIBOR	85,457,708	85,457,708	—	2011 – 2016
	$ 1,287,255,814	$ 1,281,813,774	$ 5,442,040	

(1) Maturity dates represent the weighted average remaining maturity based on the underlying collateral as of June 30, 2011.

(2) Represents a total face amount of $175.9 million less a total deferred amount of $17.8 million.

These debt facilities are described in further detail in Note 7 of the “Notes to the Consolidated Financial Statements” set forth in Item 1 hereof.

Repurchase Agreements

Repurchase obligation financings provide us with a revolving component to our debt structure. Repurchase agreements provide stand alone financing for certain assets and interim, or warehouse financing, for assets that we plan to contribute to our CDOs.

We had one repurchase agreement with a financial institution that bore interest at 250 basis points over LIBOR and had a term expiring in June 2011. This facility did not have financial covenants and had a committed amount of $0.7 million at March 2011, reflecting the one asset that was financed. In June 2011, we repaid the facility in full.

CDOs

We completed the formation of three separate CDO entities since 2005 by issuing to third party investors, tranches of investment grade collateralized debt obligations through newly-formed wholly-owned subsidiaries (the “Issuers”). The Issuers hold assets, consisting primarily of real-estate related assets and cash which serve as collateral for the CDOs. The assets pledged as collateral for the CDOs were contributed from our portfolio of assets. By contributing these real estate assets to the various CDOs, these transactions resulted in a decreased cost of funds relating to the corresponding CDO assets and created capacity in our debt facilities.

The Issuers issued tranches of investment grade floating-rate notes of approximately $305.0 million, $356.0 million and $447.5 million for CDO I, CDO II and CDO III, respectively. CDO III also has a $100.0 million revolving note which was not drawn upon at the time of issuance. The revolving note facility has a commitment fee of 0.22% per annum on the undrawn portion of the facility. The tranches were issued with floating rate coupons based on three-month LIBOR plus pricing of 0.44% - 0.77%. Proceeds from the sale of the investment grade tranches issued in CDO I, CDO II and CDO III of $267.0 million, $301.0 million and $317.1 million, respectively, were used to repay higher costing outstanding debt under our repurchase agreements and notes payable. The CDOs may be replenished with substitute collateral for loans that are repaid during the first four years for CDO I and the first five years for CDO II and CDO III, subject to certain customary provisions. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Proceeds from the repayment of assets which serve as collateral for the CDOs must be retained in its structure as restricted cash until such collateral can be replaced and therefore are not available to fund current cash needs. If such cash is not used to replenish collateral, it could have a negative impact on our anticipated returns. CDO II reached the end of its replenishment date on April 15, 2011 and will no longer make quarterly amortization payments of $1.2 million to investors as a reduction of the CDO liability. As of April 15, 2009, CDO I reached the end of its replenishment date and will no longer make quarterly amortization payments of $2.0 million to investors. Investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed will be recorded as a reduction of the CDO liability. Our CDO vehicles are VIEs for which we are the primary beneficiary and are consolidated in our Financial Statements.

In the second quarter of 2011, we purchased, at a discount, $3.5 million of investment grade rated Class C and F notes originally issued by our CDO III issuing entity for a price of $1.6 million from third party investors. We recorded a gain on extinguishment of debt of $1.9 million from these transactions in our second quarter 2011 Consolidated Statement of Operations.

In the first quarter of 2011, we purchased, at a discount, a $1.5 million investment grade rated Class F note originally issued by our CDO III issuing entity for a price of $0.6 million from a third party investor. We recorded a net gain on extinguishment of debt of $0.9 million from this transaction in our first quarter 2011 Consolidated Statement of Operations.

During the three and six months ended June 30, 2010, we purchased, at a discount, approximately $19.0 million and $46.7 million, respectively, of investment grade rated Class A2, B, C, D, E, F and G notes originally issued by our CDO I, CDO II and CDO III issuing entities for a price of $6.2 million and $13.6 million, respectively, from third party investors and recorded a net gain on extinguishment of debt of $12.8 million and $33.0 million, respectively, from these transactions in our 2010 Consolidated Statement of Operations.

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

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2011		2010		2011		2010	
Class:	Face Amount	Gain	Face Amount	Gain	Face Amount	Gain	Face Amount	Gain
A2	$ —	$ —	$ —	$ —	$ —	$ —	$ 7,375,000	$ 4,683,125
B	—	—	10,000,000	5,525,000	—	—	14,500,000	8,392,344
C	1,630,000	757,950	60,000	46,500	1,630,000	757,950	12,350,132	9,823,405
D	—	—	—	—	—	—	822,216	680,384
E	—	—	—	—	—	—	1,636,457	1,374,624
F	1,870,000	1,168,750	4,936,662	3,968,921	3,370,000	2,061,250	5,936,662	4,828,921
G	—	—	4,030,552	3,254,671	—	—	4,030,552	3,254,671
Total	$ 3,500,000	$ 1,926,700	$ 19,027,214	$ 12,795,092	$ 5,000,000	$ 2,819,200	$ 46,651,019	$ 33,037,474

In February 2010, we re-issued our own CDO bonds we had acquired throughout 2009 with an aggregate face amount of $42.8 million, as well as CDO bonds from other issuers acquired in the second quarter of 2008 with an aggregate face amount of $25.0 million and a carrying value of $0.4 million, and $10.5 million in cash, as part of an exchange for the retirement of $114.1 million of our junior subordinated notes. This transaction resulted in the recording of $65.2 million of additional CDO debt, of which $42.3 million represents the portion of our CDO bonds that were exchanged and $22.9 million represents the estimated interest due on the reissued bonds through their maturity, of which $21.9 million remains at June 30, 2011. See "Junior Subordinated Notes" below.

At June 30, 2011, the outstanding note balance under CDO I, CDO II and CDO III was $198.1 million, $301.0 million and $539.3 million, respectively.

The economic difficulties over the last several years in the structured finance markets has negatively impacted the credit markets generally, and, as a result, investor demand for commercial real estate collateralized debt obligations has been substantially curtailed. In recent years, we have relied to a substantial extent on CDO financings to obtain match funded financing for our investments. Until the market for commercial real estate CDOs recovers, we may be unable to utilize CDOs to finance our investments and we may need to utilize less favorable sources of financing to finance our investments on a long-term basis. There can be no assurance as to when demand for commercial real estate CDOs will return or the terms of such securities investors will demand or whether we will be able to issue CDOs to finance our investments on terms beneficial to us.

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The following table outlines borrowings and the corresponding collateral under our collateralized debt obligations as of June 30, 2011:

	Debt		Collateral						
			Loans		Securities			Cash	
(Amounts in thousands)	Face Value	Carrying Value	Unpaid Principal (4)	Carrying Value (4)	Face Value	Carrying Value	Fair Value (1)	Restricted Cash (2)	Collateral At-Risk (3)
CDO I — Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.45%	$ 191,891,986	$ 198,079,580	$ 336,920,909	$ 279,866,159	$ —	$ —	$ —	$19,950,943	$149,339,958
CDO II — Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.73%	294,601,364	300,959,462	459,731,163	416,261,497	10,000,000	2,000,000	2,000,000	83,902	103,839,313
CDO III — Issued 10 investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.28%	529,897,960	539,289,124	590,119,224	534,556,563	—	—	—	22,634,124	168,096,486
Total CDOs	$1,016,391,310	$1,038,328,166	$1,386,771,296	$1,230,684,219	$10,000,000	$2,000,000	$2,000,000	$42,668,969	$421,275,757

The following table outlines borrowings and the corresponding collateral under our collateralized debt obligations as of December 31, 2010:

	Debt		Collateral						
			Loans		Securities			Cash	
(Amounts in thousands)	Face Value	Carrying Value	Unpaid Principal (4)	Carrying Value (4)	Face Value	Carrying Value	Fair Value (1)	Restricted Cash (2)	Collateral At-Risk (3)
CDO I — Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.52%	$ 220,475,564	$ 226,770,198	$ 413,724,169	$ 337,901,200	$ —	$ —	$ —	$ 474,669	$171,330,710
CDO II — Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.77%	295,530,671	301,999,004	446,125,317	404,475,017	10,000,000	1,000,000	1,000,000	1,529,307	141,439,540
CDO III — Issued 10 investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.77%	532,540,000	542,083,353	609,849,262	561,766,846	—	—	—	49,810	174,133,105
Total CDOs	$1,048,546,235	$1,070,852,555	$1,469,698,748	$1,304,143,063	$10,000,000	$1,000,000	$1,000,000	$2,053,786	$486,903,355

(1) The security with a fair value of $2,000,000 was rated a CCC- at June 30, 2011 and a BB- at December 31, 2010 by Standard & Poor's.
(2) Represents restricted cash held for reinvestment and/or principal repayments in CDOs. Does not include restricted cash related to interest payments, delayed fundings and expenses.
(3) Amounts represent the face value of collateral in default, as defined by the CDO indenture, as well as assets deemed to be "credit risk". Credit risk assets are reported by each of the CDOs and are generally defined as one that, in the CDO collateral manager's reasonable business judgment, has a significant risk of declining in credit quality or, with a passage of time, becoming a defaulted asset.
(4) Amounts include loans to real estate assets consolidated by us that were reclassified to real estate owned, net on the Consolidated Financial Statements.

Our CDO vehicles contain interest coverage and asset over collateralization covenants that must be met as of the waterfall distribution date in order for us to receive such payments. If we fail these covenants in any of our CDOs, all cash flows from the applicable CDO would be diverted to repay principal and interest on the outstanding CDO bonds and we would not receive any residual payments until that CDO regained compliance with such tests. Our CDOs were in compliance with all such covenants as of June 30, 2011 as well as on the most recent determination date in July 2011. In the event of a breach of the CDO covenants that could not be cured in the near-term, we would be required to fund our non-CDO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, (v) or accessing the equity or debt capital markets, if available. We have the right to cure covenant breaches which would resume normal residual payments to us by purchasing non-performing loans out of the CDOs. However, we may not have sufficient liquidity available to do so at such time.

The chart below is a summary of our CDO compliance tests as of the most recent determination date in July 2011:

Cash Flow Triggers	CDO I	CDO II	CDO III
Overcollateralization (1)			
Current	196.92%	181.74%	109.50%
Limit	184.00%	169.50%	105.60%
Pass / Fail	Pass	Pass	Pass
Interest Coverage (2)			
Current	427.99%	560.41%	534.29%
Limit	160.00%	147.30%	105.60%
Pass / Fail	Pass	Pass	Pass

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

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

As of the determination dates in July 2011, April 2011, January 2011 and October 2010, our overcollateralization ratios were 196.92%, 185.59%, 185.88% and 184.24%, respectively, for CDO I; 181.74%, 181.74%, 171.81% and 171.00%, respectively, for CDO II; and 109.50%, 109.89%, 109.50% and 109.47%, respectively, for CDO III. The ratio will fluctuate based on the performance of the underlying assets, transfers of assets into the CDOs prior to the expiration of their respective replenishment dates, purchase or disposal of other investments, and loan payoffs.

Junior Subordinated Notes

In February 2010, we retired $114.1 million of our junior subordinated notes, with a carrying value of $102.1 million in exchange for the re-issuance of our own CDO bonds we had acquired throughout 2009 with an aggregate face amount of $42.8 million, CDO bonds from other issuers acquired in the second quarter of 2008 with an aggregate face amount of $25.0 million and a carrying value of $0.4 million, and $10.5 million in cash. In the first quarter of 2010, this transaction resulted in recording $65.2 million of additional CDO debt, of which $42.3 million represents the portion of our CDO bonds that were exchanged and $22.9 million represents the estimated interest due on the bonds through their maturity, a reduction to securities available-for-sale of $0.4 million representing the fair value of CDO bonds of other issuers, and a gain on extinguishment of debt of approximately $26.3 million.

In 2009, we retired $265.8 million of our then outstanding trust preferred securities, primarily consisting of $258.4 million of junior subordinated notes issued to third party investors and $7.4 million of common equity issued to us in exchange for $289.4 million of newly issued unsecured junior subordinated notes, representing 112% of the original face amount. The notes bear a fixed interest rate of 0.50% per annum until March 31, 2012 or April 30, 2012 (the "Modification Period"), and then interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to a weighted average three month LIBOR plus 2.90%, which was reduced to 2.77% after the exchange in February 2010 mentioned above. The 12% increase to the face amount due upon maturity, which had a balance of $17.8 million at June 30, 2011, is being amortized into interest expense over the life of the notes.

During the Modification Period, we will be permitted to make distributions of up to 100% of taxable income to common shareholders. We have agreed that such distributions will be paid in the form of our stock to the maximum extent permissible under the Internal Revenue Service rules and regulations in effect at the time of such distribution, with the balance payable in cash. This requirement regarding distributions in stock can be terminated by us at any time, provided that we pay the note holders the original rate of interest from the time of such termination.

The junior subordinated notes are unsecured, have maturities of 25 to 28 years, pay interest quarterly at a fixed rate or floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, are not redeemable during the first two years.

At June 30, 2011, the aggregate carrying value under these facilities was $158.0 million with a current weighted average pay rate of 0.50%, however, based upon the accounting treatment for the restructuring mentioned above, the effective rate was 3.85% at June 30, 2011.

Notes Payable

We have a $50.2 million non-recourse note payable at June 30, 2011 related to a prior year exchange of profits interest transaction. During 2008, we recorded a $49.5 million note payable related to the exchange of our POM profits interest for operating partnership units in Lightstone Value Plus REIT, L.P. The note was initially secured by our interest in POM, matures in July 2016 and bears interest at a fixed rate of 4% with payment deferred until the closing of the transaction. Upon the closing of the POM transaction in March 2009, the note balance was increased to $50.2 million and is secured by our investment in common and preferred operating partnership units in Lightstone Value Plus REIT, L.P.

In April 2011, we entered into a non-recourse junior loan participation in the amount of $32.0 million on a $50.0 million mezzanine loan. The loan was participated out at a discount and we received $28.8 million of proceeds. The subordinate lender will receive its proportionate share of the interest received from the loan which has a variable rate of LIBOR plus 4.35% and a maturity of July 2012. We also have the right to sell our $18.0 million senior participation to the subordinate lender, at face value, in the event of default or if the loan is not repaid by July 9, 2012. In June 2011, we entered into a non-recourse junior loan participation in the amount of $2.0 million at June 30, 2011 on an $11.8 million mezzanine loan. The participation has a 0% rate of interest and a maturity of August 2012. We also have a junior loan participation with a total outstanding balance at June 30, 2011 of $1.3 million on a $1.3 million bridge loan. Participations have a maturity date equal to the corresponding mortgage loans and are secured by the participant's interest in the mortgage loans. Interest expense is based on the portion of the interest received from the loan that is paid to the junior participant. Our obligation to pay interest on the participation is based on the performance of the related loan.

In the first quarter of 2010, we entered into an agreement with Wachovia whereby we could retire all of our $335.6 million of debt outstanding at the time the parties began to negotiate the agreement for a discounted payoff amount of $176.2 million, representing 52.5% of the face amount of the debt. The $335.6 million of indebtedness was comprised of $286.1 million of term debt and a $49.5 million working capital facility. The maturity date of the facility was in December 2010 and the facility bore an Interest rate of LIBOR plus 500 basis points or Prime plus 500 basis points. Upon closing on the discounted payoff agreement on June 30, 2010, we recorded a $158.4 million gain to our 2010 Consolidated Statement of Operations, net of $0.4 million of stock warrant expense and $0.6 million of other various expenses and commissions. Estimated state income taxes were approximately $1.8 million and recorded in provision for income taxes resulting in a net gain of approximately $157.5 million.

In July 2011, we entered into a two year, $50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. The facility bears interest at a rate of 275 basis points over LIBOR, has a 1.00% commitment fee upon closing, and has warehousing and non-use fees. The facility also has a maximum advance rate of 75% and contains several restrictions including full repayment of an advance if a loan becomes 60 days past due, is in default or is written down by us. The facility also includes various financial covenants including a minimum liquidity requirement of $20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of $150.0 million, total liabilities less subordinate debt of $2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios.

Mortgage Notes Payable — Real Estate Owned

During the first quarter of 2011, we assumed a $55.4 million interest-only first lien mortgage in connection with the acquisition of real property pursuant to bankruptcy proceedings for an entity in which we had a $29.8 million loan secured by a portfolio of multifamily assets. The real estate investment was classified as real estate owned in our Consolidated Balance Sheet in March 2011. The mortgage bears interest at a variable rate of one-month LIBOR plus 1.23% and has a maturity date of March 2014 with a one year and three month extension option. In June 2011, one of the properties in the portfolio was sold to a third party for $1.6 million and the proceeds were used to pay down the first lien mortgage. The outstanding balance of this mortgage was $53.8 million at June 30, 2011.

During the second quarter of 2010, we assumed a $20.8 million interest-only first lien mortgage related to a deed in lieu of foreclosure agreement for an entity in which we had a $5.6 million junior participation loan secured by an apartment building. The real estate investment was classified as real estate owned in April 2010. The mortgage bears interest at a fixed rate of 6.23% and has a maturity date of December 2013 with a five year extension option. The outstanding balance of this mortgage was $20.8 million at June 30, 2011.

Mortgage Note Payable - Held-For-Sale

During the second quarter of 2008, we assumed a $41.4 million first lien mortgage related to the foreclosure of an entity in which we had a $5.0 million mezzanine loan. The real estate investment was originally classified as real estate owned and was reclassified as real estate held-for-sale in September 2009. The mortgage bears interest at a fixed rate of 6.13% and has a maturity date of June 2012. The outstanding balance of this mortgage was $41.4 million at June 30, 2011.

Restrictive Covenants

Our debt obligations do not contain financial covenants and restrictions at June 30, 2011.

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.

Cash Flow From Operations

We continually monitor our cash position to determine the best use of funds to both maximize our return on funds and maintain an appropriate level of liquidity. Historically, in order to maximize the return on our funds, cash generated from operations has generally been used to temporarily pay down borrowings under credit facilities whose primary purpose is to fund our new loans and investments. Consequently, when making distributions in the past, we have borrowed the required funds by drawing on credit capacity available under our credit facilities. Since we have reduced substantially all of our short-term debt, we may have to maintain adequate liquidity from operations to make any future distributions.

Share Repurchase Plan

In June 2011, the Board of Directors authorized a stock repurchase plan that enables us to buy up to 1.5 million shares of our common stock. At management's discretion, shares may be acquired from time to time on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits us to repurchase shares at times when it might otherwise be prevented from doing so. There is no guarantee as to the exact number of shares that will be repurchased by us, the program may be terminated at any time and will expire on December 15, 2011. As of June 30, 2011, we repurchased 34,850 shares of our common stock at a total cost of less than $0.2 million and an average cost of $4.48 per share.

Contractual Commitments

As of June 30, 2011, we had the following material contractual obligations (payments in thousands):

Contractual	Payments Due by Period (1)						
Obligations	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**	**Total**
Notes payable	$ 1,300	$ 34,000	$ —	$ —	$ —	$ 50,158	$ 85,458
Collateralized debt obligations (2)	62,939	232,138	164,465	198,074	81,670	299,042	1,038,328
Junior subordinated notes (3)	—	—	—	—	—	175,858	175,858
Mortgage note payable — real estate owned (4)	—	—	20,750	53,751	—	—	74,501
Mortgage note payable — held-for-sale (5)	—	41,440	—	—	—	—	41,440
Outstanding unfunded commitments (6)	11,939	4,366	1,028	872	872	240	19,317
Totals	$ 76,178	$ 311,944	$ 186,243	$ 252,697	$ 82,542	$ 525,298	$ 1,434,902

(1) Represents principal amounts due based on contractual maturities. Does not include total projected interest payments on our debt obligations of $13.8 million in 2011, $28.6 million in 2012, $23.0 million in 2013, $19.1 million in 2014, $14.4 million in 2015 and $110.3 million thereafter based on current LIBOR rates.

(2) Comprised of $198.1 million of CDO I debt, $301.0 million of CDO II debt and $539.3 million of CDO III debt with a weighted average remaining maturity of 1.83, 3.20 and 2.70 years, respectively, as of June 30, 2011. The balance of estimated interest due through maturity on CDO bonds reissued in 2010, which is included in the carrying values of the CDOs, totaled $21.9 million at June 30, 2011. During the six months ended June 30, 2011, we repurchased, at a discount, $5.0 million of investment grade notes originally issued by our CDO III issuer and recorded a reduction of the outstanding debt balance of $5.0 million.

(3) Represents the face amount due upon maturity. The carrying value is $158.0 million, which is net of a deferred amount of $17.8 million.

(4) Represents a $20.8 million mortgage note payable with a contractual maturity in 2013, related to a real estate investment acquired through deed in lieu of foreclosure in April 2010 and a $55.4 million mortgage note payable with a contractual maturity in 2014, related to a real estate investment purchased out of bankruptcy in the first quarter of 2011, which was paid down in June 2011 and had a balance of $53.8 million at June 30, 2011.

(5) Represents a mortgage note payable with a contractual maturity in 2012, related to a real estate investment held-for-sale that is expected to be transferred to the first mortgage lender in 2011.

(6) In accordance with certain loans and investments, we have outstanding unfunded commitments of $19.3 million as of June 30, 2011, that we are obligated to fund as the borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements. In relation to the $19.3 million outstanding balance at June 30, 2011, our restricted cash balance and CDO III revolver capacity contained approximately $18.3 million available to fund the portion of the unfunded commitments for loans financed by our CDO vehicles.

Management Agreement

We, ARLP and Arbor Realty SR, Inc. have a management agreement with ACM, pursuant to which ACM provides certain services and we pay ACM a base management fee and under certain circumstances, an annual incentive fee. On August 6, 2009, we amended our management agreement with ACM effective as of January 1, 2009. The amendment was negotiated by a special committee of our Board of Directors, consisting solely of independent directors and was approved unanimously by all of the independent directors.

The base management fee is an arrangement whereby we reimburse ACM for its actual costs incurred in managing our business based on the parties' agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. The 2009 and 2010 base management fees were $8.0 million and $7.6 million, respectively. The 2011 base management fee was estimated to be approximately $8.0 million, which was approved by the audit committee of our Board of Directors. All origination fees on investments are retained by us.

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

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

The management agreement also allows us to consider, from time to time, the payment of additional "success-based" fees to ACM for accomplishing certain specified corporate objectives; has a termination fee of $10.0 million; and is renewable automatically for successive one-year terms, unless terminated with six months prior written notice.

We incurred $2.1 million and $4.0 million of base management fees for services rendered in the three and six months ended June 30, 2011, respectively, and $2.0 million and $3.9 million of base management fees for services rendered in the three and six months ended June 30, 2010, respectively. For the three and six months ended June 30, 2011 and 2010, ACM did not earn an incentive fee installment and no success-based payments were made.

Additionally, in 2007, ACM received an incentive fee installment totaling $19.0 million which was recorded as a prepaid management fee related to the incentive fee on $77.1 million of deferred revenue recognized on the transfer of control of the 450 West 33rd Street property, one of our equity affiliates.

The incentive fee is measured on an annual basis. However, when applicable, we will pay the annual incentive fee in quarterly installments, each within 60 days of the end of each fiscal quarter. The calculation of each installment is based on results for the twelve months ending on the last day of the fiscal quarter for which the installment is payable. These installments of the annual incentive fee are deemed to be an advance subject to potential reconciliation at the end of such fiscal year, and any overpayments are required to be repaid in accordance with the amended management agreement. Subject to the ownership limitations in our charter, at least 25% of this incentive fee is payable to our manager in shares of our common stock having a value equal to the average closing price per share for the last 20 days of the fiscal quarter for which the incentive fee is being paid.

The incentive fee is accrued as it is earned. The expense incurred for the incentive fee paid in common stock is determined using the valuation method described above at the quoted market price of our common stock on the last day of each quarter. At December 31 of each year, we remeasure the incentive fee paid to ACM in the form of common stock in accordance with current accounting guidance, which discusses how to determine the expense when certain terms are not known prior to the measurement date. Accordingly, the expense recorded for such common stock is adjusted to reflect the fair value of the common stock on the measurement date when the final calculation of the total incentive fee is determined. In the event that the incentive fee for the full year is an amount less than the total of the installment payments made to ACM for the year, ACM will refund the amount of such overpayment to us in cash regardless of whether such installments were paid in cash or common stock. In such a case, we would record a negative incentive fee expense in the quarter when such overpayment is determined.

Related Party Transactions

Due from related party was $2.0 million at June 30, 2011 and consisted primarily of escrows held by an affiliate of ACM related to a real estate owned transaction. Due from related party was $0.3 million at December 31, 2010 and consisted of escrows held by ACM related to real estate transactions.

Due to related party was $1.6 million at June 30, 2011 and consisted primarily of base management fees due to ACM, of which $0.6 million will be remitted by us in the third quarter of 2011. At December 31, 2010, due to related party was $17.4 million and consisted primarily of an incentive management fee for the twelve month period ended December 31, 2010 of $18.8 million, offset by a $3.6 million related party receivable, and base management fees of $2.3 million due to ACM, all of which were remitted by us in the first quarter of 2011.

During the second quarter of 2011, we originated a mortgage loan to a third party borrower secured by property purchased from ACM, our manager. The loan has an unpaid principal balance of $6.2 million, a maturity date of May 2014 and a variable interest rate of LIBOR plus 6.00%. Upon approving the transaction, the independent directors committee of the Board of Directors required us to sell the loan in 90 days and ACM agreed to guarantee the loan until it is sold.

During the second quarter of 2011, we originated a loan to a third party borrower for a portfolio of properties with an unpaid principal balance of $24.4 million, of which, one property in the portfolio was previously financed with a $11.7 million loan that was purchased by ACM, our manager. The $11.7 million loan was repaid as part of the $24.4 million loan on the portfolio. The new loan has a maturity date of May 2016 and a variable interest rate of LIBOR plus 4.75%.

During the first quarter of 2011, we originated four mortgage loans totaling $28.4 million to borrowers which were secured by property purchased from ACM, our manager, or its affiliate. Two of the loans totaling $22.4 million have maturity dates of March 2014 and a combined weighted average variable interest rate of 6.18% as of June 30, 2011 and were secured by the same property. The third was a $2.0 million bridge loan with a maturity date of February 2013 and an interest rate of one-month LIBOR plus 6.00%. The fourth was a $4.0 million bridge loan with a maturity date in April 2013 and an interest rate of one-month LIBOR plus 6.00%.

In October 2010, we purchased, at par, a $4.7 million bridge loan from ACM. The loan was originated by ACM in June 2010 to a joint venture that acquired a condo development property in Brooklyn, New York. The loan bears interest at a rate of one-month LIBOR plus 8% with a LIBOR floor of 0.5% and a LIBOR cap of 1.5% and has a maturity date of June 2012. In addition, ACM contributed $0.9 million for a 50% non-controlling interest in an entity, which owns 28% of this joint venture. As of June 30, 2011, ACM's investment balance in this joint venture was $0.8 million. Interest income recorded from this loan for the three and six months ended June 30, 2011 was approximately $0.1 million and $0.2 million, respectively.

We are dependent upon our manager, ACM, with whom we have a conflict of interest, to provide services to us that are vital to our operations. Our chairman, chief executive officer and president, Mr. Ivan Kaufman, is also the chief executive officer and president of our manager, and, our chief financial officer and treasurer, Mr. Paul Elenio, is the chief financial officer of our manager. In addition, Mr. Kaufman and his affiliated entities (the "Kaufman Entities") together beneficially own approximately 91% 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 is general counsel to ACM and another of our directors also serves as the trustee of one of the Kaufman Entities that holds a majority of the outstanding membership interests in ACM and co-trustee of another Kaufman Entity that owns an equity interest in our manager. ACM currently holds approximately 5.3 million of our common shares, representing 21.1% of the voting power of our outstanding stock as of June 30, 2011.

Non-GAAP Financial Measures

Funds from Operations

We are presenting funds from operations ("FFO") because we believe it to be an important supplemental measure of our operating performance in that it is frequently used by analysts, investors and other parties in the evaluation of real estate investment trusts (REITs). The revised White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in April 2002 defines FFO as net income (loss) attributable to Arbor Realty Trust, Inc. (computed in accordance with generally accepted accounting principles in the United States ("GAAP")), excluding gains (losses) from sales of depreciated real properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We consider gains and losses on the sales of undepreciated real estate investments to be a normal part of our recurring operating activities in accordance with GAAP and should not be excluded when calculating FFO. For the six months ended June 30, 2011 and 2010, we have not sold any previously depreciated operating properties, which would be excluded from the FFO calculation. In accordance with the revised white paper, losses from discontinued operations are not excluded when calculating FFO.

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

FFO for the three and six months ended June 30, 2011 and 2010 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	**2011**	**2010**	**2011**	**2010**
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (10,354,735)	$ 129,087,999	$ (10,087,586)	$ 155,461,792
Add:				
Depreciation — real estate owned	1,898,034	166,114(1)	2,330,499	209,853(1)
Funds from operations ("FFO")	$ (8,456,701)	$ 129,254,113	$ (7,757,087)	$ 155,671,645
Diluted FFO per common share	$ (0.33)	$ 5.05	$ (0.31)	$ 6.11
Diluted weighted average shares outstanding	25,440,380	25,574,203	25,202,248	25,481,323

(1) Includes discontinued operations.

Adjusted Book Value

We believe that adjusted book value per share is an additional appropriate measure given the magnitude and the deferral structure of the 450 West 33rd Street transaction from 2007, as well as the changes in the fair value of certain derivative instruments. Adjusted book value per share currently reflects the future impact of the 450 West 33rd Street transaction on our financial condition as well as the evaluation of our operating results without the effects of unrealized losses from certain of our derivative instruments. We consider this non-GAAP financial measure to be an effective indicator of our financial performance for both us and our investors. We do not advocate that investors consider this non-GAAP financial measure in isolation from, or as a substitute for, financial measures prepared in accordance with GAAP. In addition, GAAP book value per share and adjusted book value per share calculations do not take into account any dilution from the potential exercise of the warrants issued to Wachovia as part of the 2009 debt restructuring.

GAAP book value per share and adjusted book value per share as of June 30, 2011 and December 31, 2010 is as follows:

	June 30, 2011	December 31, 2010
GAAP Arbor Realty Trust, Inc. Stockholders' Equity	$ 205,124,578	$ 204,415,381
Add: 450 West 33rd Street transaction — deferred revenue	77,123,133	77,123,133
Unrealized loss on derivative instruments	45,564,826	50,802,533
Subtract: 450 West 33rd Street transaction — prepaid management fee	(19,047,949)	(19,047,949)
Adjusted Arbor Realty Trust, Inc. Stockholders' Equity	$ 308,764,588	$ 313,293,098
Adjusted book value per share	$ 12.15	$ 12.64
GAAP book value per share	$ 8.07	$ 8.25
Common shares outstanding	25,408,290	24,776,213

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Market Conditions

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

Current conditions in the debt markets include reduced liquidity and increased risk adjusted premiums. These conditions may increase the cost and reduce the availability of debt. We attempt to mitigate the impact of debt market disruptions by obtaining adequate debt facilities from a variety of financing sources. There can be no assurance, however, that we will be successful in these efforts, that such debt facilities will be adequate or that the cost of such debt facilities will be at similar terms.

The secondary mortgage markets are still experiencing disruptions resulting from reduced investor demand for collateralized debt obligations and increased investor yield requirements for these obligations. In light of these conditions, we currently expect to finance a majority of our loan and investment portfolio with our current capital and debt facilities.

Real Estate Risk

Commercial mortgage assets may be viewed as exposing an investor to greater risk of loss than residential mortgage assets since such assets are typically secured by larger loans to fewer obligors than residential mortgage assets. Multi-family and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, events such as natural disasters including hurricanes and earthquakes, acts of war and/or terrorism (such as the events of September 11, 2001) and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investment; national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction delays, construction cost, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event net operating income decreases, a borrower may have difficulty repaying our loans, which could result in losses to us. In addition, decreases in property values reducing the value of collateral, and a lack of liquidity in the market, could reduce the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses. Even when the net operating income is sufficient to cover the related property's debt service, there can be no assurance that this will continue to be the case in the future.

Interest Rate Risk

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

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

One month LIBOR approximated 0.19% at June 30, 2011 and 0.26 % at December 31, 2010.

Based on our loans, securities available-for-sale and liabilities as of June 30, 2011, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% increase in LIBOR would increase our annual net income and cash flows by approximately $0.8 million. This is partially offset by various interest rate floors that are in effect at a rate that is above a 0.25% increase in LIBOR which would limit the effect of a 0.25% increase, and increased expense on variable rate debt, partially offset by our interest rate swaps that effectively convert a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% increase. Based on the loans, securities available-for-sale and liabilities as of June 30, 2011, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% decrease in LIBOR would decrease our annual net income and cash flows by approximately $0.4 million. This is partially offset by various interest rate floors which limit the effect of a decrease on interest income and decreased expense on variable rate debt, partially offset by our interest rate swaps that effectively converted a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% decrease.

Based on our loans, securities available-for-sale and liabilities as of December 31, 2010, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% increase in LIBOR would increase our annual net income and cash flows by approximately $0.7 million. This is partially offset by various interest rate floors that are in effect at a rate that is above a 0.25% increase in LIBOR which would limit the effect of a 0.25% increase, and increased expense on variable rate debt, partially offset by our interest rate swaps that effectively convert a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% increase. Based on the loans, securities available-for-sale and liabilities as of December 31, 2010, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% decrease in LIBOR would decrease our annual net income and cash flows by approximately $0.7 million. This is partially offset by various interest rate floors which limit the effect of a decrease on interest income and decreased expense on variable rate debt, partially offset by our interest rate swaps that effectively converted a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% decrease.

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

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

As of June 30, 2011 and December 31, 2010, we had nine of these interest rate swap agreements outstanding that had combined notional values of $0.9 billion and $1.1 billion, respectively. The market value of these interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. If there were a 25 basis point increase in forward interest rates as of June 30, 2011 and December 31, 2010, respectively, the value of these interest rate swaps would have decreased by less than $0.1 million for both periods. If there were a 25 basis point decrease in forward interest rates as of June 30, 2011 and December 31, 2010, respectively, the value of these interest rate swaps would have increased by less than $0.1 million for both periods.

We also have interest rate swap agreements outstanding to hedge current and outstanding LIBOR based debt relating to certain fixed rate loans within our portfolio. We had 28 of these interest rate swap agreements outstanding that had a combined notional value of $562.7 million as of June 30, 2011 compared to 30 interest rate swap agreements outstanding with combined notional values of $639.7 million as of December 31, 2010. The fair market value of these interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. If there had been a 25 basis point increase in forward interest rates as of June 30, 2011 and December 31, 2010, respectively, the fair market value of these interest rate swaps would have increased by approximately $3.9 million and $4.6 million, respectively. If there were a 25 basis point decrease in forward interest rates as of June 30, 2011 and December 31, 2010, respectively, the fair market value of these interest rate swaps would have decreased by approximately $4.0 million and $4.7 million, respectively.

We also had three LIBOR Caps with a combined notional value of $86.3 million as of as of June 30, 2011 compared to one LIBOR Cap with a notional value of $7.0 million as of December 31, 2010. If there were a 25 basis point increase in forward interest rates as of June 30, 2011 and December 31, 2010, respectively, the value of the LIBOR Caps would have increased by less than $0.1 million for both periods. If there were a 25 basis point decrease in forward interest rates as of June 30, 2011 and December 31, 2010, respectively, the value of the LIBOR Caps would have decreased by less than $0.1 million for both periods.

Certain of our interest rate swaps, which are designed to hedge interest rate risk associated with a portion of our loans and investments, could require the funding of additional cash collateral for changes in the market value of these swaps. Due to the prolonged volatility in the financial markets that began in 2007, the value of these interest rate swaps have declined substantially. As a result, at June 30, 2011 and December 31, 2010, we funded approximately $21.1 million and $21.3 million, respectively, in cash related to these swaps. If we continue to experience significant changes in the outlook of interest rates, these contracts could continue to decline in value, which would require additional cash to be funded. However, at maturity the value of these contracts return to par and all cash will be recovered. If we do not have available cash to meet these requirements, this could result in the early termination of these interest rate swaps, leaving us exposed to interest rate risk associated with these loans and investments, which could adversely impact our financial condition.

Our hedging transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to our derivative arrangements are major financial institutions with high credit ratings with which we and our affiliates may also have other financial relationships. As a result, we do not anticipate that any of these counterparties will fail to meet their obligations. There can be no assurance that we will be able to adequately protect against the foregoing risks and will ultimately realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging strategies.

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

Item 4. CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon such evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act of 1934 is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

There have not been any changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control 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 following:

On June 15, 2011, three related lawsuits were filed by the Extended Stay Litigation Trust (the "Trust"), a post-bankruptcy litigation trust alleged to have standing to pursue claims previously held by Extended Stay, Inc. and the Homestead Village L.L.C. family of companies (together "ESI") (formerly Chapter 11 debtors, together the "Debtors") which have now emerged from bankruptcy. Two of the lawsuits were filed in the United States Bankruptcy Court for the Southern District of New York, and the third in the Supreme Court of the State of New York, New York County. There are 73 defendants in the aggregate in the three lawsuits, including 55 corporate and partnership entities and 18 individuals. A subsidiary of ours and certain other entities that are affiliates of ours are included as defendants.

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

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

The complaints seek among other things, damages of not less than $2.1 billion, plus punitive damages, on a joint and several basis, from each defendant in connection with the Fiduciary Duty Claims and the return of in excess of $50.0 million which is alleged to have been wrongfully received by the holders of the Series A1 Preferred Units, including Arbor ESH II, LLC. We intend to vigorously defend against all of the referenced actions.

Item 1A. RISK FACTORS

There have been no material changes to the risk factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 other than the following:

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

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

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchases

During the three months ended June 30, 2011, we made the following purchases of shares of our common stock that are registered pursuant to Section 12(b) of the Securities Exchange Act of 1934.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan (1)
April 1, 2011 through April 30, 2011	—	—	—	—
May 1, 2011 through May 31, 2011	—	—	—	—
June 1, 2011 through June 30, 2011	34,850	4.48	34,850	1,465,150

(1) On June 14, 2011, the Company announced that the Board of Directors authorized a stock repurchase plan that enables the Company to buy up to 1.5 million shares of its common stock. At management's discretion, shares may be acquired from time to time on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits the Company to repurchase shares at times when it might otherwise be prevented from doing so. There is no guarantee as to the exact number of shares that will be repurchased by the Company. The program may be terminated at any time and will expire on December 15, 2011. All of the 34,850 shares were purchased in the open market.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. RESERVED

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Arbor or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Arbor may be found elsewhere in this report and Arbor's other public filings, which are available without charge through the SEC's website at http://www.sec.gov.

Exhibit Number	Description
3.1	Articles of Incorporation of Arbor Realty Trust, Inc. *
3.2	Articles of Amendment to Articles of Incorporation of Arbor Realty Trust, Inc. (▲)
3.3	Articles Supplementary of Arbor Realty Trust, Inc. *
3.4	Amended and Restated Bylaws of Arbor Realty Trust, Inc. (▲▲)
4.1	Form of Certificate for Common Stock. *
4.2	Common Stock Purchase Warrant, Certificate No. W-1, dated July 23, 2009, issued to Wachovia Bank, National Association. •
4.3	Common Stock Purchase Warrant, Certificate No. W-2, dated July 23, 2009, issued to Wachovia Bank, National Association. •
4.4	Common Stock Purchase Warrant, Certificate No. W-3, dated July 23, 2009, issued to Wachovia Bank, National Association. •
10.1	Second Amended and Restated Management Agreement, dated August 6, 2009, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership and Arbor Realty SR, Inc. ❖❖❖
10.2	Services Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Limited Partnership. *
10.3	Non-Competition Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Ivan Kaufman. *
10.4	Second Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated January 18, 2005, by and among Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc. †
10.5	Registration Rights Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Commercial Mortgage, LLC. *
10.6	Pairing Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc. *
10.7	2003 Omnibus Stock Incentive Plan, (as amended and restated on June 18, 2009). ❖❖❖
10.8	Form of Restricted Stock Agreement. *
10.9	Benefits Participation Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor

	Management, LLC. *
10.10	Form of Indemnification Agreement. *
10.11	Structured Facility Warehousing Credit and Security Agreement, dated July 1, 2003, between Arbor Realty Limited Partnership and Residential Funding Corporation. *
10.12	Amended and Restated Loan Purchase and Repurchase Agreement, dated July 12, 2004, by and among Arbor Realty Funding LLC, as seller, Wachovia Bank, National Association, as purchaser, and Arbor Realty Trust, Inc., as guarantor. **
10.13	Master Repurchase Agreement, dated as of November 18, 2002, by and between Nomura Credit and Capital, Inc. and Arbor Commercial Mortgage, LLC. *
10.14	Revolving Credit Facility Agreement, dated as of December 7, 2004, by and between Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Watershed Administrative LLC and the lenders named therein. †
10.15	Indenture, dated January 19, 2005, by and between Arbor Realty Mortgage Securities Series 2004-1, Ltd., Arbor Realty Mortgage Securities Series 2004-1 LLC, Arbor Realty SR, Inc. and LaSalle Bank National Association. †
10.16	Indenture, dated January 11, 2006, by and between Arbor Realty Mortgage Securities Series 2005-1, Ltd., Arbor Realty Mortgage Securities Series 2005-1 LLC, Arbor Realty SR, Inc. and LaSalle Bank National Association. ‡
10.17	Master Repurchase Agreement, dated as of October 26, 2006, by and between Column Financial, Inc. and Arbor Realty SR, Inc. and Arbor TRS Holding Company Inc., as sellers, Arbor Realty Trust, Inc., Arbor Realty Limited Partnership, as guarantors, and Arbor Realty Mezzanine LLC. ‡‡
10.18	Note Purchase Agreement, dated January 19, 2005, by and between Arbor Realty Mortgage Securities Series 2004-1, Ltd., Arbor Realty Mortgage Securities Series 2004-1 LLC and Wachovia Capital Markets, LLC. †
10.19	Note Purchase Agreement, dated January 11, 2006, by and between Arbor Realty Mortgage Securities Series 2005-1, Ltd., Arbor Realty Mortgage Securities Series 2005-1 LLC and Wachovia Capital Markets, LLC. ‡
10.20	Indenture, dated December 14, 2006, by and between Arbor Realty Mortgage Securities Series 2006-1, Ltd., Arbor Realty Mortgage Securities Series 2006-1 LLC, Arbor Realty SR, Inc. and Wells Fargo Bank, National Association. ◆
10.21	Note Purchase and Placement Agreement, dated December 14, 2006, by and between Arbor Realty Mortgage Securities Series 2006-1, Ltd., Arbor Realty Mortgage Securities Series 2006-1 LLC and Wachovia Capital Markets, LLC and Credit Suisse Securities (USA) LLC. ◆
10.22	Note Purchase Agreement, dated December 14, 2006, by and between Arbor Realty Mortgage Securities Series 2006-1, Ltd., Arbor Realty Mortgage Securities Series 2006-1 LLC and Wells Fargo Bank, National Association. ◆
10.23	Master Repurchase Agreement, dated as of March 30, 2007, by and between Variable Funding Capital Company LLC, as purchaser, Wachovia Bank, National Association, as swingline purchaser, Wachovia Capital Markets, LLC, as deal agent, Arbor Realty Funding LLC, Arbor Realty Limited Partnership and ARSR Tahoe, LLC, as sellers, Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Arbor Realty SR, Inc., as guarantors. ◆◆
10.24	Credit Agreement, dated November 6, 2007, by and between Arbor Realty Funding, LLC, ARSR Tahoe, LLC, Arbor Realty Limited Partnership, and ART 450 LLC, as Borrowers, Arbor Realty Trust, Inc., Arbor Realty Limited Partnership, and Arbor Realty SR, Inc., as Guarantors, and Wachovia Bank, National Association, as Administrative Agent. ◆◆◆
10.25	Equity Placement Program Sales Agreement, dated August 15, 2008, between Arbor Realty Trust, Inc. and JMP Securities LLC. ❖
10.26	Junior Subordinated Indenture, dated May 6, 2009, between Arbor Realty SR, Inc. and The Bank of New York Mellon Trust Company, National Association, as Trustee relating to $29,400,000 aggregate principal amount of Junior Subordinated Notes due 2034. ❖❖
10.27	Junior Subordinated Indenture, dated May 6, 2009, between Arbor Realty SR, Inc. and The Bank of New York Mellon Trust Company, National Association, as Trustee relating to $168,000,000 aggregate principal amount of Junior Subordinated Notes due 2034. ❖❖
10.28	Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to $21,224,000 aggregate principal amount of Junior Subordinated Notes due 2035. ❖❖

10.29	Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to $2,632,000 aggregate principal amount of Junior Subordinated Notes due 2036. ❖❖
10.30	Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to $47,180,000 aggregate principal amount of Junior Subordinated Notes due 2037. ❖❖
10.31	Exchange Agreement, dated May 6, 2009, among Arbor Realty Trust, Inc., Arbor Realty SR, Inc., Kodiak CDO II, Ltd., Attentus CDO I, Ltd. and Attentus CDO III, Ltd. ❖❖
10.32	Exchange Agreement, dated May 6, 2009, among Arbor Realty SR, Inc., Arbor Realty Trust, Inc., Taberna Preferred Funding I, Ltd., Taberna Preferred Funding II, Ltd., Taberna Preferred Funding III, Ltd., Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VII, Ltd. and Taberna Preferred Funding VIII, Ltd. ❖❖
10.33	First Amended and Restated Credit Agreement, dated as of July 23, 2009, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder.❖❖❖
10.34	First Amended and Restated Revolving Loan Agreement, dated as of July 23, 2009, among Arbor Realty Trust, Inc., a Maryland corporation, Arbor Realty GPOP, Inc., a Delaware corporation, Arbor Realty LPOP, Inc., a Delaware corporation, Arbor Realty Limited Partnership, a Delaware limited partnership, Arbor Realty SR, Inc., a Maryland corporation, Arbor Realty Collateral Management, LLC, as Borrowers, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder and initial lender. ❖❖❖
10.35	Registration Rights Agreement, dated as of July 23, 2009, by and between Arbor Realty Trust, Inc. and Wachovia Bank, National Association, a national banking association. •
10.36	First Amendment to First Amended and Restated Credit Agreement, dated as of December 16, 2009, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder. •
10.37	Second Amendment to First Amended and Restated Credit Agreement, dated as of December 24, 2009, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders and Wells Fargo Bank, National Association, a national banking association, as the custodian. •
10.38	First Amendment to First Amended and Restated Revolving Loan Agreement, dated as of December 24, 2009, among Arbor Realty Trust, Inc., a Maryland corporation, Arbor Realty GPOP, Inc., a Delaware corporation, Arbor Realty LPOP, Inc., a Delaware corporation, Arbor Realty Limited Partnership, a Delaware limited partnership, Arbor Realty SR, Inc., a Maryland corporation, Arbor Realty Collateral Management, LLC, as Borrowers, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder and initial lender. •

10.39	Third Amendment and Waiver to First Amended and Restated Credit Agreement, dated as of January 20, 2010, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder. •
10.40	Waiver to First Amended and Restated Revolving Loan Agreement, dated as of January 20, 2010, among Arbor Realty Trust, Inc., a Maryland corporation, Arbor Realty GPOP, Inc., a Delaware corporation, Arbor Realty LPOP, Inc., a Delaware corporation, Arbor Realty Limited Partnership, a Delaware limited partnership, Arbor Realty SR, Inc., a Maryland corporation, Arbor Realty Collateral Management, LLC, as Borrowers, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder and initial lender. •
10.41	Second Amendment and Waiver to First Amended and Restated Revolving Loan Agreement, dated as of February 2, 2010, among Arbor Realty Trust, Inc., a Maryland corporation, Arbor Realty GPOP, Inc., a Delaware corporation, Arbor Realty LPOP, Inc., a Delaware corporation, Arbor Realty Limited Partnership, a Delaware limited partnership, Arbor Realty SR, Inc., a Maryland corporation, Arbor Realty Collateral Management, LLC, as Borrowers, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder and initial lender. •
10.42	Fourth Amendment and Waiver to First Amended and Restated Credit Agreement, dated as of February 2, 2010, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder. •
10.43	Exchange Agreement, dated as of February 26, 2010, among Arbor Realty SR, Inc. and Taberna Preferred Funding I, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VII, Ltd. and Taberna Preferred Funding VIII, Ltd. •
10.44	Revolving Bridge Loan and Security Agreement dated as of July 22, 2011, by and between Capital One, National Association as lender and Arbor Realty SR, Inc. as borrower, and Arbor Realty Trust, Inc. as guarantor.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	Financial statements from the Quarterly Report on Form 10-Q of Arbor Realty Trust, Inc. for the quarter ended June 30, 2011, filed on August 5, 2011, formatted in XBRL: (i) the Consolidated Balance Sheet, (ii) the Consolidated Statement of Operations, (iii) the Consolidated Statement of Changes in Equity, (iv) the Consolidated Statement of Cash Flows and (v) the Notes to Consolidated Financial Statements.

Exhibit Index

▲	Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.
▲▲	Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K (No. 001-32136) which was filed with the Securities and Exchange Commission on December 11, 2007.
*	Incorporated by reference to the Registrant's Registration Statement on Form S-11 (Registration No. 333-110472), as amended. Such registration statement was originally filed with the Securities and Exchange Commission on November 13, 2003.

**	Incorporated by reference to the Registrant's Quarterly Report of Form 10-Q for the quarter ended September 30, 2004.
†	Incorporated by reference to the Registrant's Annual Report of Form 10-K for the year ended December 31, 2004.
‡	Incorporated by reference to the Registrant's Annual Report of Form 10-K for the year ended December 31, 2005.
‡‡	Incorporated by reference to the Registrant's Quarterly Report of Form 10-Q for the quarter ended September 30, 2006.
◆	Incorporated by reference to the Registrant's Annual Report of Form 10-K for the year ended December 31, 2006.
◆◆	Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
◆◆◆	Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
❖	Incorporated by reference to Exhibit 1.1 of the Registrant's Current Report on Form 8-K (No. 001-32136) which was filed with the Securities and Exchange Commission on August 15, 2008.
❖❖	Incorporated by reference to the Registrant's Quarterly Report of Form 10-Q for the quarter ended March 31, 2009.
❖❖❖	Incorporated by reference to the Registrant's Quarterly Report of Form 10-Q for the quarter ended June 30, 2009.
●	Incorporated by reference to the Registrant's Annual Report of Form 10-K for the year ended December 31, 2009.

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Arbor or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Arbor may be found elsewhere in this report and Arbor's other public filings, which are available without charge through the SEC's website at http://www.sec.gov.

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.
(Registrant)

By: /s/ Ivan Kaufman

Name: Ivan Kaufman
Title: Chief Executive Officer

By: /s/ Paul Elenio

Name: Paul Elenio
Title: Chief Financial Officer

Date: August 5, 2011

Exhibit 10.44

REVOLVING BRIDGE LOAN AND SECURITY AGREEMENT

between

ARBOR REALTY SR, INC.,
as Borrower,

and

CAPITAL ONE, NATIONAL ASSOCIATION,
as Lender

Dated as of July 22, 2011

TABLE OF CONTENTS

EXHIBITS

(Omitted)

Exhibit A	Advance Request
Exhibit B	Procedures and Documentation for Warehousing Eligible Loans
Exhibit C	Eligible Loans
Exhibit D	Authorized Representatives
Exhibit E	Subsidiaries
Exhibit F	Litigation
Exhibit G	Organizational Chart
Exhibit H	Compliance Certificate
Exhibit I	Miscellaneous Fees and Charges Schedule
Exhibit J	Forms of Collateral Documents
Exhibit K	Forms of Assignment Documents

REVOLVING BRIDGE LOAN AND SECURITY AGREEMENT

THIS REVOLVING BRIDGE LOAN AND SECURITY AGREEMENT (this "Agreement") is dated as of July 22, 2011, between ARBOR REALTY SR, INC., a Maryland corporation (the "Borrower"), CAPITAL ONE, NATIONAL ASSOCIATION, a national banking association (the "Lender").

A. The Borrower intends to originate from time to time certain Mortgage Loans (defined below);

B. The Borrower desires to fund such originations, in part, through Advances (defined below) from the Lender on the terms and conditions set forth herein; and

C. The Lender is willing to make Advances (defined below) to the Borrower on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Lender and the Borrower hereby agree as follows:

1. THE CREDIT

1.1 The Commitment

1.1(a) On the terms and subject to the conditions and limitations of this Agreement, including Exhibit C, Lender agrees to make Advances to Borrower from the Closing Date to the Business Day immediately preceding the Maturity Date, during which period Borrower may borrow, repay and reborrow subject to and in accordance with the provisions of this Agreement. Lender has no obligation to make Advances if (i) the conditions to advance described herein are not satisfied; (ii) after giving effect to such Advance, the aggregate outstanding principal amount of all Advances would exceed the Line of Credit Limit; or (iii) a Default or Event of Default exists.

1.1(b) The proceeds of Advances shall be used solely to originate Eligible Loans, or to re-finance Eligible Loans previously closed by Borrower.

1.2 Expiration of Commitment

1.2(a) The Commitment expires on the earlier of: (i) July 22, 2013 (the "Initial Maturity Date") or, if the Initial Maturity Date is extended in accordance with Section 1.6, July 22, 2014 (the "Extended Maturity Date"), on which date the Commitment will expire of its own term and the Advances will become due and payable without the necessity of Notice or action by Lender, or (ii) the date the Commitment is terminated and the Advances become due and payable under Section 10.2(b) or (c).

1.2(b) As used in this Agreement, the term "Maturity Date" means the earlier of (i) the Initial Maturity Date or, if the Initial Maturity Date is extended in accordance with Section 1.6, the Extended Maturity Date; *provided, however*, as long as no Event of Default has occurred and is continuing, the "Maturity Date" with respect to any Advance, and all associated accrued and unpaid interest and costs and expenses, shall be the date on which such Advance is due under Section 3.3 of this Agreement, or (ii) the date as of which the Obligations are accelerated pursuant to Section 10.2(b) or (c) as provided therein.

1.2(c) On the Maturity Date (or on each Maturity Date, in the case of Advances which are subject to the proviso set forth in clause (i) of Section 1.2(b)), all applicable Advances, together will all associated accrued and unpaid interest and costs and expenses will become due and payable without the necessity of Notice or action by Lender.

1.3 Line of Credit Note

Advances by Lender are evidenced by Borrower's promissory note payable to Lender on the form prescribed by Lender ("Line of Credit Note"). The term "Line of Credit Note" as used in this Agreement includes all amendments, restatements, renewals or replacements of an original Line of Credit Note and all substitutions for it. All terms and provisions of the Line of Credit Note are incorporated into this Agreement.

1.4 Replacement Notes

Upon receipt of an affidavit of an officer of Lender as to the loss, theft, destruction or mutilation of any Line of Credit Note, and, in the case of any such mutilation, upon receipt of such Line of Credit Note, the Borrower will issue, in lieu thereof, a replacement note in the same principal amount thereof and otherwise of like tenor. If Lender obtains a replacement note in exchange for a lost, stolen or destroyed Line of Credit Note, Lender will indemnify Borrower against any loss or damage suffered by Borrower as a result of the lost, stolen or destroyed Line of Credit Note.

1.5 Nature of Obligations; The Loan

All Advances under this Agreement to the Borrower constitute a single Indebtedness of Borrower, and all of the Collateral granted by the Borrower is security for the payment and performance of the Obligations to the extent provided in Section 4.1. The aggregate amount of all Advances outstanding from time to time under this Agreement may hereinafter collectively be referred to as the "Loan".

1.6 Conditions to Extending the Initial Maturity Date

Upon satisfaction of each of the following conditions, Borrower may extend the Initial Maturity Date until the Extended Maturity Date (such period is referred to herein as the "Extension Term"):

1.6(a) No Default. No Default or Event of Default exists.

1.6(b) Notice From Borrower. Lender receives written notice of Borrower's request to exercise its extension right at least sixty (60) days, but not more than ninety (90) days, before the Initial Maturity Date. Such request for extension shall be accompanied by all other documents and information required to be delivered pursuant to this Section 1.6 to the extent then available.

1.6(c) Principal Payment. On the Initial Maturity Date, Borrower delivers to Lender a principal payment on the Loan in an amount equal to five percent (5%) of the outstanding principal amount of all Advances (the "Principal Paydown"), which shall be applied to the outstanding principal balance of the Loan.

1.6(d) Loan Fee. On the Initial Maturity Date, Borrower pays Lender an extension fee in an amount equal to one-half of one percent (0.50%) of the outstanding principal amount of all Advances after giving effect to the Principal Paydown paid by Borrower pursuant to Section 1.6(c) (the "Extension Fee").

1.6(e) Additional Documents. Borrower executes and delivers to Lender such agreements and documents as Lender may reasonably require incident to the extension.

1.6(f) Before End of Term. Each of the foregoing conditions is satisfied not later than, and on, the Initial Maturity Date.

Within fifteen (15) days following receipt by Lender of Borrower's written notice under Section 1.6(b) above requesting the extension, Lender shall notify Borrower in writing if all of the conditions precedent to extension, other than payment of the Principal Paydown and the Extension Fee and no Default or Event of Default on the Initial Maturity Date (which cannot be determined until the Initial Maturity Date), have been satisfied, or if further information or certificates are required. If Lender determines that the conditions to extension have been satisfied, other than payment of the Principal Paydown and the Extension Fee and no Default or Event of Default on the Initial Maturity Date (which cannot be determined until the Initial Maturity Date), Lender shall so notify Borrower and upon Lender's receipt of the Principal Paydown and the Extension Fee no later than the Initial Maturity Date, as long as no Default or Event of Default exists as of the Initial Maturity Date (unless waived by Lender in writing in its sole discretion), the Initial Maturity Date shall be extended until the Extended Maturity Date.

All of the terms and conditions of the Loan Documents shall continue to apply to the Extension Term of the Loan, except as follows: (i) no Advances shall be made during the Extension Term, and (ii) on the date that is six (6) months after the Initial Maturity Date, Borrower shall deliver to Lender a principal payment on the Loan in an amount equal to five percent (5%) of the then outstanding principal amount of all Advances, which shall be applied to the outstanding principal balance of the Loan. Failure to make such principal payment on the Loan in accordance with this paragraph shall constitute an Event of Default pursuant to Section 10.1(a).

End of Article 1

2. PROCEDURES FOR OBTAINING ADVANCES

2.1 Advances

Subject to the terms and conditions hereof, Borrower may request Advances from time to time by delivering to the Lender a complete and signed request therefor (an "Advance Request"), in the form of Exhibit A annexed hereto. Provided that after giving effect to such Advance, the Line of Credit Limit shall not be exceeded, and subject to the satisfaction of the conditions set forth in Sections 5.1, 5.2 and 5.3 and Exhibit B and Exhibit C, an Advance so requested by Borrower shall be made by the transfer of the proceeds of such Advance, at the Borrower's option (A) to a Person designated by the Borrower; (B) to the Lender to be applied toward any Obligation hereunder; or (C) as otherwise instructed by the Borrower. Upon not less than five (5) Business Days' prior Notice to Borrower, Lender may modify its form of Advance Request and any other Exhibit or document referred to in this Section to conform to current legal requirements or Lender's practices and, as so modified, those Exhibits and documents will become part of this Agreement (provided that any such modification does not materially alter the obligations of the Borrower or the requirements of Lender).

End of Article 2

3. INTEREST, PRINCIPAL AND FEES

3.1 Interest

3.1(a) Except as otherwise provided in this Agreement, the outstanding principal amount of the Loan from time to time shall bear interest at one of the following rates as designated by Borrower in the applicable Advance Request: (i) the Applicable Libor Rate or (ii) the Applicable Base Rate. If the Borrower fails to elect whether any Advance shall bear interest at the Applicable Libor Rate or the Applicable Base Rate, such Advance shall bear interest at the Applicable Libor Rate.

3.1(b) All interest shall be: (i) payable monthly, in arrears, in the amount of the Interest Payment for such calendar month, commencing on the first day of the calendar month immediately following the Closing Date, and on the first day of each month thereafter until the principal, together with all interest and other charges payable with respect to the Advances, shall be fully paid and on the Maturity Date; and (ii) calculated on the basis of a 360 day year and the actual number of days elapsed. Lender's determination of such rates of interest as of any date of determination are conclusive and binding, absent manifest error.

3.1(c) If, for any reason, (1) a Borrower repays an Advance on the same day that it was made, or (2) a Borrower instructs Lender not to make a previously requested Advance after Lender has reserved funds or made other arrangements necessary to enable Lender to fund that Advance, Borrower shall pay to Lender an administrative fee equal to one (1) day of interest on that Advance at the rate of one and one-half percent (1.50%) per annum. All administrative fees are due and payable within ten (10) days after notice from Lender. In addition to the foregoing administrative fee, and notwithstanding any other provision of this Agreement, any such Advance that is repaid on the same day that it was made shall bear interest for such day at the same rate as all other Advances, and otherwise shall be subject to all other provisions of this Agreement generally applicable to Advances, except to the extent that (i) such payment is received by the Lender by the time specified in Section 3.7(a)(x) or (y), as may be applicable, and (ii) such Advance was not used by Borrower for any purpose (for example, because the transaction to be funded by the Borrower utilizing the proceeds of such Advance did not close).

3.1(d) After either (x) an Event of Default occurs and upon Notice to the Borrower by Lender, unless and until such Event of Default is waived or cured as provided in this Agreement, or (y) the Maturity Date, the unpaid amount of each Advance to the Borrower will bear interest at the Default Rate until paid in full.

3.2 Interest Limitation

If, at any time, the rate of interest, together with all amounts which constitute or are deemed under any applicable law to constitute interest and which are reserved, charged or taken by a Lender as compensation for fees, services or expenses incidental to the making, negotiating or collecting of Advances, shall be deemed by any competent court of law, governmental agency or tribunal to exceed the maximum rate of interest permitted to be charged by a Lender to Borrower under applicable law, then, during such time as such rate of interest would be deemed excessive, that portion of each sum paid attributable to that portion of such interest rate that exceeds the maximum rate of interest so permitted shall be deemed a voluntary prepayment of principal. As used herein, the term "applicable law" shall mean the law in effect as of the date hereof; provided, however, that in the event there is a change in the law which results in a higher permissible rate of interest, then this Agreement shall be governed by such new law as of its effective date.

3.3 Principal Payments

3.3(a) On the Maturity Date, Borrower must pay Lender the outstanding principal balance of all Advances maturing on such Maturity Date, together with all accrued and unpaid interest thereon and any unpaid costs and expenses related thereto.

3.3(b) Borrower may prepay any portion of the Loan without premium or penalty at any time, subject to payment of amounts specifically provided for herein resulting from such payment.

3.3(c) Upon telephonic or written Notice to the Borrower by Lender, the Borrower must pay to Lender, and Borrower authorizes Lender to charge the Bridge Clearing Account for, the amount of any outstanding Advance against a specific Pledged Loan of Borrower upon the earliest occurrence of any of the following events:

(1) On the date an Advance was made if the Pledged Loan to be funded by that Advance is not closed and funded.

(2) At the option of the Lender, in its sole discretion, one (1) Business Day elapses from the date an Advance was made against a Pledged Loan, without receipt of the Collateral Documents relating to that Pledged Loan required to be delivered on that date.

(3) At the option of Lender, in its sole discretion, ten (10) Business Days elapse without the return of one (1) or more Collateral Documents delivered by Lender to Borrower under a Trust Receipt for correction or completion.

(4) On the date on which a Pledged Loan is determined to have been originated based on material untrue, incomplete or inaccurate information or otherwise to be subject to fraud, whether or not the Borrower had knowledge of the misrepresentation, incomplete or incorrect information or fraud.

(5) On the date on which the Borrower knows or receives Notice from Lender, that (A) one or more of the representations and warranties set forth in Article 9 were inaccurate or incomplete in any material respect on any date when made or deemed made, or (B) the Borrower has failed to perform or comply with any covenant, term or condition applicable to it set forth in Article 9.

(6) Upon the sale, other disposition or prepayment of any Pledged Loan.

(7) With respect to any Pledged Loan, any of the Collateral Documents relating to such Pledged Loan, upon examination by Lender, are found not to be in compliance with the requirements of this Agreement.

3.3(d) In addition to the payments required by Section 3.3(a) and 3.3(c), the Borrower must pay to Lender, without the necessity of prior demand or Notice from Lender, and Borrower authorizes Lender, upon Notice to the Borrower, to charge the Bridge Clearing Account for, the following amounts, which shall be applied to the Advance outstanding against the specific respective Pledged Loan:

(1) If the principal amount of any Pledged Loan is paid in whole or in part while an Advance is outstanding against such Pledged Loan, the amount of such principal payment shall be paid within three (3) Business Days after receipt by Borrower of such payment.

(2) The Advance outstanding against any Pledged Loan shall be paid on the final maturity date of such Pledged Loan (after giving effect to any right to extend the term of such Pledged Loan exercised by the borrower under such Pledged Loan).

(3) If a Pledged Loan is in default and remains in default for a period of sixty (60) days or more, the Advance outstanding against such Pledged Loan shall be paid within three (3) Business Days following the expiration of such sixty (60) period.

(4) If the Borrower writes-down, charges off or sets up a reserve against a Pledged Loan, the Advance outstanding against such Pledged Loan shall be paid within three (3) Business Days following such occurrence.

(5) If, on the date of reporting in accordance with Section 7.3(b)(3), a Property fails to satisfy a minimum Debt Service Coverage Ratio of 1.00 to 1.00, the Advance outstanding against such Pledged Loan shall be paid within ten (10) Business Days following such occurrence, provided that no such payment shall be due as long as a cash interest reserve for such Pledged Loan (i) was funded in an amount acceptable to Lender (a) at the closing of such Pledged Loan, or (b) within three (3) Business Days from the date of notice that the Property fails to satisfy the minimum Debt Service Coverage Ratio of 1.00 to 1.00, (ii) is held at the Lender, and (iii) is used to pay interest and principal due on the Pledged Loan to the extent net cash flow from the Property is insufficient.

(6) If, on the date of reporting in accordance with Section 7.3(b)(4), a Property fails to satisfy a minimum Debt Yield of nine and one-half percent (9.5%), the Advance outstanding against such Pledged Loan shall be paid within ten (10) Business Days following such occurrence.

(7) If the Initial Maturity Date is extended pursuant to Section 1.6, an amount equal to five percent (5%) of the then outstanding principal amount of all Advances shall be paid on the date that is six (6) months after the Initial Maturity Date in accordance with Section 1.6.

3.3(e) The proceeds of the refinancing, sale, other disposition or repayment of Pledged Loans must be paid directly by the Person providing such proceeds to the Bridge Lender Only Account. If the proceeds of the refinancing, sale, other disposition or repayment of payment of any Pledged Loan are less than the outstanding Advance against such Pledged Loan, Borrower must pay to Lender, and Borrower authorizes Lender to charge the Bridge Clearing Account in, an amount equal to that deficiency. As long as no Default or Event of Default exists, Lender will promptly transfer from the Bridge Lender Only Account to the Bridge Clearing Account any excess proceeds of Pledged Loans.

3.4 Non-Usage Fees

At the end of each Calendar Quarter during the term of this Agreement, Lender will determine the average usage of the Commitment by calculating the arithmetic daily average of the Advances outstanding during such Calendar Quarter ("Used Portion"). Lender will then subtract the Used Portion from the arithmetic daily average of the Line of Credit Limit during such Calendar Quarter, and the result, if positive, will be known as the "Unused Portion." Borrower must pay to Lender a fee ("Non-Usage Fee") in the amount of 0.50% per annum of the Unused Portion during such Calendar Quarter. The Non-Usage Fee, to the extent required to be paid hereunder, is payable quarterly, in arrears on the tenth (10th) day of the month following the last day of each Calendar Quarter. Lender computes the Non-Usage Fee on the basis of the actual number of days in each Calendar Quarter and a year of 360 days. If the date set forth in clause (i) of the definition of Maturity Date occurs on a day other than the last day of a Calendar Quarter, Borrower must pay the prorated portion of the Non-Usage Fee due from the beginning of the then current Calendar Quarter to and including that date. Borrower is not entitled to a reduction in the amount of the Non-Usage Fee under any circumstances. If the Commitment terminates as a result of an Event of Default, Borrower must pay, on the date of termination, a Non-Usage Fee in the amount of 0.50% per annum of the Unused Portion in effect immediately prior to the date of termination, for the period from the date of termination to and including the date set forth in clause (i) of the definition of Maturity Date. Lender's determination of the Non-Usage Fee for any period is conclusive and binding, absent manifest error.

3.5 Commitment Fee

On the Closing Date, Borrower shall pay Lender a fee ("Commitment Fee") in an amount equal to one percent (1.0%) of the Line of Credit Limit. The Commitment Fee is fully earned as of the date hereof, and is non-refundable. Borrower is not entitled to a reduction in the amount of the Commitment Fee if (i) the Line of Credit Limit is reduced or (ii) the Commitment is terminated at the request of Borrower or as a result of an Event of Default.

3.6 Miscellaneous Fees and Charges

Borrower must reimburse Lender for all Miscellaneous Fees and Charges, which such Miscellaneous Fees and Charges shall be in such amounts which are consistent with the amount of similar fees and charges which the Borrower has agreed to pay to the Lender in connection with other banking services which the Lender provides to the Borrower (e.g., fees associated with cash management agreements and the like). Borrower must pay all Miscellaneous Fees and Charges within ten (10) days after the date of Lender's invoice or, if applicable, within ten (10) days after the date of Lender's account analysis statement.

3.7 Method of Making Payments

3.7(a) All payments of interest, principal and fees shall be made in lawful money of the United States of America in immediately available funds, without counterclaim or setoff and free and clear of, and without any deduction or withholding for, any taxes or other payments: (i) by direct charge to the Bridge Clearing Account, or (ii) by wire transfer to Lender from the Borrower, or (iii) by transfer from the Bridge Lender Only Account as provided herein. Payments shall be credited on the Business Day on which immediately available funds are received prior to 2:00 P.M.; payments received after the times referred to in the preceding clause shall be credited to the Loan on the next Business Day. Payments which are by check, which Lender may at its option accept or reject, or which are not in the form of immediately available funds shall not be credited to the Loan until such funds become immediately available to Lender, and, with respect to payments by check, such credit shall be provisional until the item is finally paid by the payor bank. All payments shall be applied first to the payment of all fees, expenses, and other amounts due to the Lender (excluding principal and interest), then to accrued interest, and the balance on account of outstanding principal, provided, however, that after the occurrence and during the continuation of an Event of Default, payments will be applied to the Obligations as the Lender determines.

3.7(b) Borrower authorizes Lender to charge the Bridge Clearing Account for any interest or fees due and payable to Lender on or after the date such interest or fee became due and payable. Prior to the occurrence of an Event of Default, Lender will provide Borrower with reasonable Notice of any such charge. From and after the occurrence of an Event of Default, Lender may charge the Bridge Clearing Account without the necessity of prior demand or Notice from Lender.

3.7(c) While a Default or Event of Default exists, Borrower authorizes Lender to charge the Bridge Clearing Account, or the Bridge Lender Only Account, but no Third Party Custodial Deposit Account, for any Obligations due and payable to Lender, without the necessity of prior demand or Notice from Lender.

3.7(d) All payments made on account of the Obligations shall be made by the Borrower to Lender. No principal payments resulting from the refinancing, sale or other disposition of Pledged Loans shall be deemed to have been received by Lender until Lender has also received the Notice required under Section 3.3(c).

3.8 Billings

Lender may submit monthly billings reflecting payments due; provided, however, that any changes in the interest rate and in the outstanding amount of the Loan which occur between the date of billing and the due date may be reflected in adjustments in the billing for a subsequent month. Neither the failure of Lender to submit a bill, nor any error in any such bill shall excuse Borrower from the obligation to make full payment of all of Borrower's payment obligations when due.

3.9 Late Charges

Borrower shall pay, upon billing therefor, a "Late Charge" equal to five (5%) of the amount of any payment of principal, other than principal due at the Maturity Date (or the date on which Lender accelerates the time for payment of the Loan after the occurrence of an Event of Default), interest, or fees, which are not paid by Borrower within ten (10) days of the due date thereof. Late Charges are: (a) payable in addition to, and not in limitation of, the Default Rate; (b) intended to compensate The Lender for administrative and processing costs incident to late payments; (c) not interest; and (d) not subject to refund or rebate or credit against any other amount due.

3.10 Additional Costs; Capital Adequacy

Borrower shall promptly pay to Lender from time to time such amounts as Lender may determine to be necessary to compensate Lender for any costs incurred by Lender that it determines are attributable to its making or maintaining of any Libor Rate Advances to Borrower, any reduction in any amount receivable by Lender from Borrower under this Agreement or any of the other Loan Documents in respect of any of such Libor Rate Advances or such obligation or the maintenance by Lender of capital in respect of the Loan (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Change that: (i) changes the basis of taxation of any amounts payable to Lender under this Agreement or any of the other Loan Documents in respect of the Loan (other than taxes, fees, duties, levies, imposts, charges, deductions, withholdings or other charges which are excluded from the definition of Taxes pursuant to the first sentence of Section 3.11(a)); or (ii) imposes or modifies any reserve, special deposit or similar requirements (other than Regulation D of the Board of Governors of the Federal Reserve System or other reserve requirement to the extent utilized in the determination of the Applicable Libor Rate for the Loan) relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, Lender, or any commitment of Lender; or (iii) has or would have the effect of reducing the rate of return on capital of Lender to a level below that which Lender could have achieved but for such Regulatory Change (taking into consideration Lender's policies with respect to capital adequacy).

3.11 Concerning Libor Rate Advances

3.11(a) Regulatory Change. Without limiting the effect of the provisions of Section 3.10, if, by reason of any Regulatory Change, Lender either (i) incurs

Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of Lender that includes deposits by reference to which the interest rate on Libor Rate Advances is determined as provided in this Agreement or a category of extensions of credit or other assets of Lender that includes Libor Rate Advances or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets that it may hold, then, if Lender so elects by notice to the Borrower, the obligation of Lender to continue Libor Rate Advances hereunder shall be suspended until such Regulatory Change ceases to be in effect (in which case the provisions of Section 3.12 shall apply).

3.11(b) Suspension of Libor Rate Advances. Anything herein to the contrary notwithstanding, if, on or prior to the determination of the Applicable Libor Rate for any day:

(A) Lender reasonably determines (which determination shall be conclusive) that by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Applicable Libor Rate for such day, or

(B) Lender reasonably determines (which determination shall be conclusive) that the BBA LIBOR Daily Floating Rate will not adequately and fairly reflect the cost to Lender of making or maintaining Advances;

then Lender shall give Borrower prompt notice thereof, and, so long as such condition remains in effect, the Loan (and all Advances under the Loan) shall bear interest at the Applicable Base Rate.

3.11(c) Illegality. Notwithstanding any other provision of this Agreement, if Lender shall reasonably determines (which determination shall be conclusive and binding) that it has become unlawful for Lender to honor its obligation to make or maintain Libor Rate Advances hereunder, then Lender shall promptly notify the Borrower thereof, and Lender's obligation to continue Libor Rate Advances shall be suspended until such time as Lender determines that it may again maintain Libor Rate Advances (in which case the provisions of Section 3.12 shall be applicable).

3.12 Treatment of Suspended Libor Rate Advances

If the obligation of Lender to make or continue Libor Rate Advances shall be suspended pursuant to Section 3.10, then all outstanding Libor Rate Advances shall be automatically converted into, and all subsequent Advances will be made as, Domestic Rate Advances. Upon the termination of the circumstances that gave rise to such suspension, Lender shall give Notice to the Borrower that such circumstances have been terminated, and all outstanding Advances shall convert to, and all subsequent Advances will be made as, Libor Rate Advances.

3.13 Taxes

3.13(a) Any and all payments by Borrower to or for the account of Lender hereunder shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on Lender's income, and franchise taxes imposed on it, by the jurisdiction under the laws of which Lender is organized or qualified to do business or any political subdivision thereof (all such non-excluded taxes, duties, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as "Taxes"). If Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable under this Agreement to Lender, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.13)) Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions, (iii) Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law, and (iv) Borrower shall furnish to Lender, at its address referred to in Section 11.1, the original or a certified copy of a receipt evidencing payment thereof.

3.13(b) Borrower also agrees to pay any and all present or future stamp or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made by Borrower under this Agreement or from the execution or delivery of, or otherwise with respect to, this Agreement (hereinafter referred to as "Other Taxes"). Further, if Borrower shall be required to deduct or pay any Taxes or Other Taxes from or in respect of any sum payable under this Agreement to Lender, Borrower shall also pay to Lender, at the time interest is paid, such additional amount that Lender specifies is necessary to preserve the after-tax yield (after factoring in all taxes, including taxes imposed on or measured by net income) that Lender would have received if such Taxes or Other Taxes had not been imposed.

3.13(c) Borrower agrees to indemnify Lender for (i) the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 3.13 by Borrower) paid by Lender and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto; (ii) any other amounts payable under Section 3.7(d), and (iii) any liability (including additions to tax, penalties, interest and expenses) arising therefrom or with respect thereto, in each case whether or not such Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Payment under this Section 3.13 shall be made within 30 days after the date Lender makes a demand therefor.

3.14 Continuing Authority of Authorized Representatives

Lender is authorized to rely upon the continuing authority of the Persons hereafter designated by Borrower ("Authorized Representatives") to bind Borrower with respect to all matters pertaining to the Loan and the Loan Documents, including, but not limited to, the submission of requests for Advances, and certificates with regard thereto, instructions with regard to the Bridge Clearing Account and, to the extent permitted under this Agreement, the Collateral, and matters pertaining to the procedures and documentation for Advances. Such authorization may be changed only upon written Notice to Lender accompanied by evidence, reasonably satisfactory to Lender, of the authority of the Person giving such Notice and such Notice shall be effective not sooner than five (5) Business Days following receipt thereof by Lender. The Authorized Representatives as of the Closing Date are listed on Exhibit D. Lender shall have a right of approval, not to be unreasonably withheld or delayed, over the identity of the Authorized Representatives so as to assure Lender that each Authorized Representative is a responsible and senior official of Borrower.

End of Article 3

4. COLLATERAL

4.1 Grant of Security Interest

As security for the payment of its obligations under the Line of Credit Note and for the payment and performance of Borrower's other Obligations (including all associated interest, fees, costs and expenses), Borrower hereby pledges, assigns and grants a security interest to the Lender in all of Borrower's right, title and interest in and to the following described property, whether now existing or hereafter acquired ("Collateral"):

4.1(a) All amounts advanced by Lender to or for the account of the Borrower under this Agreement to fund a Mortgage Loan, until that Mortgage Loan is closed and those funds disbursed;

4.1(b) All Mortgage Loans, including all Mortgage Notes, Mortgages and Security Agreements and other documents and instruments evidencing or securing those Mortgage Loans, that are delivered or caused to be delivered to Lender (including delivery to a third party on behalf of Lender), or that otherwise come into the possession, custody or control of Lender in connection with this Agreement, or in respect of which an Advance has been made under this Agreement (collectively, "Pledged Loans");

4.1(c) All indebtedness from time to time owed to Borrower by the obligors (including borrowers and guarantors) of the Pledged Loans, the instruments evidencing such indebtedness, interest, and all cash and other property received, receivable or otherwise distributed in respect of or in exchange therefore and all contract rights pertaining thereto;

4.1(d) All accounts, deposit accounts, escrows, reserves and other amounts assigned to, deposited with and/or collected by the Borrower or its Affiliates from time to time regarding the Properties and the Pledged Loans, including, without limitation, to the extent of Borrower's interest therein, escrow deposits for real estate taxes and other municipal charges, insurance, and repair reserves;

4.1(e) All escrow accounts, documents, instruments, files, servicing records, surveys, certificates, correspondence, appraisals, computer programs, tapes, discs, cards, accounting records (including all information, records, tapes, data, programs, discs and cards necessary or helpful in the administration or servicing of the Collateral) and other information and data of Borrower relating to the Collateral;

4.1(f) All books, records, ledger cards, files, correspondence, computer programs, tapes, disks and related data processing software that at any time evidence or contain information relating to any of the Collateral or are otherwise necessary or helpful in the collection thereof or realization thereupon;

4.1(g) All cash of Borrower delivered to or otherwise in the possession of Lender, or Lender's agent, bailee or custodian or designated on the books and records of Borrower as assigned and pledged to Lender, other than cash on deposit with Lender in a trust or escrow account, including all cash deposited in the Bridge Lender Only Account or Bridge Clearing Account; and

4.1(h) All proceeds of any or all of the foregoing Collateral. For purposes of this Agreement, the term "proceeds" includes whatever is receivable or received when Collateral or proceeds are sold, exchanged, collected or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes, without limitation, proceeds of insurance, condemnation proceeds, and proceeds of any indemnity or guaranty payable to Pledgor from time to time with respect to any of the Collateral.

4.2 Maintenance of Collateral Records

As long as the Commitment is outstanding, or there remain any Obligations to be paid or performed under this Agreement or under any other Loan Document, Borrower must preserve and maintain, at its chief executive office and principal place of business or in a regional office approved by Lender, or in the office of a computer service bureau engaged by the Borrower and approved by Lender, and upon the Lender's request, Borrower shall make available to Lender, the originals, or copies in any case where the originals have been delivered to Lender, of the Mortgage Notes, Mortgages and Security Agreements included in Pledged Loans, and all related Mortgage Loan documents and instruments, and all files, servicing records, surveys, certificates, correspondence, appraisals, computer programs, tapes, discs, cards, accounting records and other information and data relating to the Collateral.

4.3 Release of Security Interest in Pledged Loans

4.3(a) Lender will release its security interest in the Pledged Loans and all of the Collateral related to the Pledged Loans only against payment to Lender of the Release Amount in connection with those Pledged Loans.

4.3(b) If no Default or Event of Default exists, Borrower may redeem a Pledged Loan of Borrower and all of the Collateral related to such Pledged Loan, from Lender's security interest by notifying Lender of its intention to redeem the such Pledged Loan from pledge and paying to Lender, for application as a prepayment on the principal balance of the Line of Credit Note, the Release Amount in connection with such Pledged Loan.

4.3(c) After a Default or Event of Default occurs, Lender may, with no liability to Borrower or any Person, continue to release its security interest in any Pledged Loan and all of the Collateral related to the Pledged Loan against payment of the Release Amount for that Pledged Loan.

4.3(d) The amount to be paid by Borrower to obtain the release of Lender's security interest in a Pledged Loan and all of the Collateral related to such Pledged Loan ("Release Amount") will be (1) in connection with the sale of such Pledged Loan by Lender while an Event of Default exists, the amount paid to Lender in a commercially reasonable disposition of that Pledged Loan, and (2) otherwise, until an

Event of Default occurs, the principal amount of the Advance outstanding against such Pledged Loan.

4.4 Collection and Servicing Rights

4.4(a) As long as no Event of Default exists, except as otherwise provided in this Agreement, including without limitation Sections 3.2 and 3.3, Borrower may service and receive and collect directly all sums payable to Borrower in respect of the Collateral.

4.4(b) After an Event of Default, Lender or its designee is entitled to service and receive and collect all sums payable to the Borrower in respect of its Collateral, and, in such case (1) Lender or its designee in its discretion may, in its own name, in the name of the Borrower or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for any of the Collateral, but Lender has no obligation to do so, (2) the Borrower must, if Lender requests it to do so, hold in trust for the benefit of Lender and immediately pay to Lender at its office designated by Notice, all amounts received by the Borrower upon or in respect of any of the Collateral, advising Lender as to the source of those funds and (3) all amounts so received and collected by Lender will be held by it as part of the Collateral.

4.5 Return of Collateral at End of Commitment

If (a) the Commitment has expired, and (b) no Advances, or associated interest, costs, fees or other amounts hereunder are outstanding and unpaid, Lender will release its security interest in the Collateral and will deliver all Collateral in its possession to the Borrower at Borrower's expense. Borrower's acknowledgement or receipt for any Collateral released or delivered to Borrower under any provision of this Agreement is a complete and full acquittance for the Collateral so returned, and Lender is discharged from any liability or responsibility for that Collateral. Nothing in this Section 4.5 shall limit Lender's obligation to release its security interest in specific items of Collateral as provided elsewhere in this Agreement.

4.6 Delivery of Collateral Documents

4.6(a) Lender may deliver documents relating to the Collateral to Borrower for correction or completion under a Trust Receipt.

4.6(b) Upon payment of the Release Amount with respect to any Pledged Loan, Lender will deliver the Mortgage Notes evidencing such Pledged Loan, together with all related loan documents previously received by Lender to Borrower.

4.7 Borrower Remains Liable

Anything herein to the contrary notwithstanding, Borrower shall remain liable under each item of the Collateral granted by it to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms thereof and any other agreement giving rise thereto, and in accordance with and pursuant to the terms and provisions thereof. Whether or not the Lender has exercised any rights in any of the Collateral, the Lender shall have no obligation or liability under any of the Collateral (or any agreement giving rise thereto) by reason of or arising out of this Agreement or the receipt by the Lender of any payment relating thereto, nor shall the Lender be obligated in any manner to perform any of the obligations of Borrower under or pursuant to any of the Collateral (or any agreement giving rise thereto) to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any of the Collateral (or any agreement giving rise thereto), to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

4.8 Further Assurance

Borrower authorizes Lender to file financing statements to perfect and continue Lender's security interest in its Collateral. Borrower will execute and cooperate with Lender in obtaining from third parties control agreements in form satisfactory to Lender with respect to its Collateral consisting of investment property, deposit accounts, letter-of-credit rights, and electronic chattel paper (each within the meaning of the UCC).

4.9 Authenticated Record.

This Agreement constitutes an authenticated record which authorizes the Lender to file such financing statements as the Lender determines as appropriate to perfect or protect the security interests created by this Agreement and any other Loan Document.

End of Article 4

5. CONDITIONS PRECEDENT

5.1 Closing the Loan

The effectiveness of this Agreement is subject to the satisfaction, in the sole discretion of Lender, of the following conditions precedent:

5.1(a) Lender must receive the following, all of which must be satisfactory in form and content to Lender, in its sole discretion:

(1) The Line of Credit Note payable to Lender and this Agreement duly executed by the Borrower.

(2) The Guaranty duly executed by the Guarantor.

(3) The Environmental Indemnity duly executed by the Borrower and the Guarantor.

(4) Borrower's certificate of incorporation, together with all amendments, as certified by the Secretary of State of Maryland, Borrower's By-Laws, together with all amendments, certified by the Secretary or other authorized representative of Borrower, and certificates of good standing dated within thirty (30) days of the date of this Agreement.

(5) A resolution, consent or approval of the board of directors or other governing body of Borrower authorizing the execution, delivery and performance of this Agreement and the other Loan Documents, each Advance Request and all other agreements, instruments or documents to be delivered by Borrower under this Agreement.

(6) A certificate as to the incumbency and authenticity of the signatures of the officers of Borrower executing this Agreement and the other Loan Documents, and of the Authorized Representatives (Lender being entitled to rely on that certificate until a new incumbency certificate has been furnished to Lender).

(7) Guarantor's certificate of incorporation, together with all amendments, as certified by the Secretary of State of Maryland, Borrower's By-Laws, together with all amendments, certified by the Secretary or other authorized representative of Guarantor, and certificates of good standing dated within thirty (30) days of the date of this Agreement.

(8) A resolution, consent or approval of the board of directors or other governing body of Guarantor authorizing the execution, delivery and performance of the Guaranty, the other Loan Documents to which it is a party and all other agreements, instruments or documents to be delivered by Guarantor under this Agreement.

(9) A certificate as to the incumbency and authenticity of the signatures of the officers of Guarantor executing the Guaranty and the other Loan Documents to which it is a party.

(10) A certificate of a senior officer of the Borrower and the Guarantor (i) that, subject to exceptions acceptable to the Lender, all representations and warranties contained herein and in the other Loan Documents are true as of the Closing Date, (ii) that, subject to exceptions acceptable to the Lender, there has been no material adverse change in the Borrower's or the Guarantor's financial condition from the financial statements submitted to the Lender, and such financial statements fairly present in all material respects the financial condition of the Borrower and Guarantor, respectively, in accordance with GAAP as of the date thereof, (iii) that the Borrower is in compliance with the covenants set forth in this Agreement, (iv) that the Guarantor is in compliance with the covenants set forth in this Agreement that are applicable to the Guarantor and in the Guaranty, that, as of the Closing Date, there have occurred no Defaults under this Agreement or the other Loan Documents that have not been cured or waived, and (v) certifying as to the identity of the holders of the Equity Interests in the Borrower.

(11) Uniform Commercial Code, federal and state tax lien, bankruptcy and judgment searches of the appropriate public records for Borrower and Guarantor that do not disclose the existence of any prior Lien on the Collateral other than in favor of Lender or as permitted under this Agreement and that are otherwise satisfactory to Lender.

(12) Copies of Borrower's errors and omissions insurance policy or mortgage impairment insurance policy, and blanket bond coverage policy, or certificates in lieu of policies, showing compliance by Borrower as of the date of this Agreement with the provisions of Section 7.9.

(13) Receipt by Lender of any fees due on the date of this Agreement.

(14) An opinion from counsel for Borrower and Guarantor in form and substance satisfactory to Lender concerning, among other matters (i) the legal existence, good standing and qualification to do business of Borrower and Guarantor, (ii) the power and authority of Borrower and Guarantor to enter into and perform the Loan Documents to which they respectively are a party, (iv) the authorization of the individuals executing and delivering Loan Documents on behalf of Borrower and Guarantor to do so, (v) the enforceability of Borrower's and Guarantor's respective obligations under the Loan Documents, (vi) the absence of any pending or threatened material litigation against Borrower or Guarantor, (vii) the validity and perfection of the Lender's security interest in the Collateral, (viii) the non-contravention of Borrower's and Guarantor's obligations under the Loan Documents under Borrower's and Guarantor's charter documents or under any agreements or legal proceedings to which they are a party or by which they are bound, and (ix) such other matters as Lender reasonably shall

request consistent with loan facilities similar to the loan facility established by this Agreement.

(15) If not previously opened and established, the execution of all required authorizing resolutions and other forms to establish the Bridge Lender Only Account and the Bridge Clearing Account at the Lender.

(16) Such financial statements and other information and projections as the Lender shall have reasonably requested, including without limitation, financial statements of the Borrower and the Guarantor for the period ending on March 31, 2011.

(17) A certificate of compliance from the Guarantor in the form required under the Guaranty setting forth reasonably detailed calculations and other related information and documentation demonstrating compliance with the financial covenants contained in Section 10 of the Guaranty for the period ending on March 31, 2011.

(18) Such other documents as Lender reasonably may require, including, without limitation, any other Loan Document, duly executed and delivered, and evidence satisfactory to Lender of the occurrence of any further conditions precedent to the closing of the credit facility established hereby.

5.1(b) If, as of the date of this Agreement, Borrower has any Indebtedness for borrowed money to (i) Guarantor, or (ii) any Affiliate of Borrower or Guarantor, or (iii) any director, officer or shareholder of Borrower, Guarantor or such Affiliate, which Indebtedness has a term of more than one (1) year or is in excess of $25,000, the Person to whom Borrower is indebted must have executed a subordination of debt agreement, on a form prescribed by the Lender (each, a "Subordination of Debt Agreement"); and Lender must have received an executed copy of that Subordination of Debt Agreement, certified by the Secretary or other authorized representative of Borrower to be true and complete and in full force and effect as of the date of the Advance.

5.1(c) Neither Borrower nor Guarantor shall have incurred any material liabilities, direct or contingent, other than in the ordinary course of its business, since the Audited Statement Date.

5.1(d) Lender shall be satisfied that the Loan and all transactions contemplated hereby shall be in material compliance with, and Borrower shall have obtained all material and appropriate approvals pertaining to, all applicable laws, rules, regulations and orders, including, without limitation, all governmental, environmental, ERISA retiree health benefits, workers' compensation and other requirements, regulations and laws and shall not contravene any charter, by-law, debt instrument or other material contractual obligation of Borrower and its Subsidiaries.

5.1(e) Lender shall have filed such Uniform Commercial Code financing statements, in such jurisdictions, as Lender shall have determined to be appropriate in order to perfect the security interest in the Collateral granted by Borrower pursuant to this Agreement or any other Loan Document.

5.2 Each Advance

The effectiveness of this Agreement, including Lender's and Lender's obligation to make the initial and each subsequent Advance is subject to the satisfaction, in the sole discretion of Lender, as of the date of each Advance, of the following additional conditions precedent:

5.2(a) Borrower must have delivered to Lender the Advance Request and Collateral Documents required by, and must have satisfied the requirements and procedures set forth in Article 2 and Exhibit B and Exhibit C. All items delivered to Lender must be satisfactory to Lender in form and content, and Lender may reject any item that does not satisfy the requirements of this Agreement.

5.2(b) Borrower must have paid to Lender a non-refundable property review fee in the amount of Five Thousand Dollars ($5,000) for each Mortgage Loan for which an Advance is requested by Borrower under this Agreement (each such fee is referred to herein as a "Property Review Fee"). If Lender makes such Advance, Borrower shall pay to Lender on or prior to the date of such Advance a non-refundable warehousing fee in an amount equal to the greater of (i) one quarter of one percent (0.25%) of the amount of such Advance, or (ii) Five Thousand Dollars ($5,000) (each such fee is referred to herein as a "Warehousing Fee"). The Property Review Fee shall be credited against the Warehousing Fee to the extent such Warehousing Fee is paid to Lender.

5.2(c) Lender must have received evidence satisfactory to it as to the making or continuation of any book entry or the due filing and recording in all appropriate offices of all financing statements and other instruments necessary to perfect the security interest of Lender in the Collateral under the applicable Uniform Commercial Code or other applicable law.

5.2(d) The representations and warranties of Borrower contained in Article 6 and Article 9 and all of the representations and warranties of Guarantor contained in the Guaranty must be accurate and complete in all material respects as if made on and as of the date of each Advance, except for those representations and warranties made as of a certain date.

5.2(e) Borrower must have performed all agreements to be performed by it under this Agreement, all proceedings in connection with the transactions contemplated by this Agreement, the other Loan Documents and all other documents incident thereto shall be reasonably satisfactory in substance and in form to Lender. Guarantor must have performed all agreements to be performed by it under the Guaranty and the other Loan Documents to which it is a party and all other documents incident thereto shall be reasonably satisfactory in substance and in form to Lender. Lender shall have received all information and such counterpart originals or certified or other copies of such documents as Lender may reasonably request, and after giving effect to the requested Advance, no Default or Event of Default will exist under this Agreement.

5.2(f) There shall not have been any material adverse change in the financial condition, business, affairs of the Borrower or the Guarantor since the date of this Agreement which in Lender's judgment may jeopardize in a material manner the ability of the Borrower or the Guarantor to perform fully their respective obligations under each applicable Loan Document.

5.2(g) Lender shall have received and approved such other documents, and certificates as Lender reasonably may request, in form and substance reasonably satisfactory to Lender.

Delivery of an Advance Request by Borrower will be deemed a representation by Borrower that all conditions set forth in this Section have been satisfied as of the date of the Advance.

5.3 Force Majeure

Notwithstanding Borrower's satisfaction of the conditions set forth in this Agreement, Lender shall have no obligation to make an Advance if Lender is prevented from obtaining the funds necessary to make an Advance or is otherwise unable to deliver such funds as a result of any fire or other casualty, failure of power, strike, lockout or other labor trouble, banking moratorium, embargo, sabotage, confiscation, condemnation, riot, civil disturbance, insurrection, act of terrorism, war or other activity of armed forces, act of God or other similar reason beyond the control of Lender. Lender will make the requested Advance as soon as reasonably possible following the occurrence of such an event (provided that all applicable terms and conditions relating to such Advance continue to be satisfied).

End of Article 5

6. GENERAL REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender, as of the date of this Agreement and as of the date of each Advance Request and the making of each Advance, that:

6.1 Place of Business

Borrower's chief executive office and principal place of business is 333 Earle Ovington Boulevard, Suite 900, Uniondale, NY, 11553-3617.

6.2 Organization; Good Standing; Subsidiaries

Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland, and has the full legal power and authority to own its property and to carry on its business as currently conducted. Borrower is duly qualified as a foreign limited liability company to do business and is in good standing in each jurisdiction in which the transaction of its business makes qualification necessary, except in jurisdictions, if any, where a failure to be in good standing has no material adverse effect on Borrower's business, operations, assets or financial condition as a whole. For the purposes of this Agreement, good standing includes qualification for all licenses and payment of all taxes required in the jurisdiction of its formation and in each jurisdiction in which Borrower transacts business. Except for bankruptcy remote single purpose entity Subsidiaries formed in connection with the financing of a particular transaction by Borrower or any of its Subsidiaries, Borrower has no Subsidiaries other than as set forth on Exhibit E, which sets forth with respect to each such Subsidiary, its name, address, jurisdiction of organization, each state in which it is qualified to do business, and the percentage ownership of its Equity Interests by Borrower. Each of Borrower's Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, and has the full legal power and authority to own its property and to carry on its business as currently conducted.

6.3 Authorization and Enforceability

Borrower has the power and authority to execute, deliver and perform this Agreement, the Line of Credit Note and other Loan Documents to which Borrower is party and to make the borrowings under this Agreement. The execution, delivery and performance by Borrower of this Agreement, the Line of Credit Note and the other Loan Documents to which Borrower is party and the making of the borrowings under this Agreement and the Line of Credit Note, have been duly and validly authorized by all necessary company action on the part of Borrower (none of which actions has been modified or rescinded, and all of which actions are in full force and effect) and do not and will not (a) conflict with or violate any provision of law, of any judgments binding upon Borrower, or of the articles of organization, bylaws or other organizational documents of Borrower, or (b) conflict with or result in a breach of, constitute a default or require any consent under, or result in or require the acceleration of any indebtedness of Borrower under any agreement, instrument or indenture to which Borrower is a party or by which Borrower or its property may be bound or affected, or result in the creation of any Lien upon any property or assets of Borrower (other than the Lien on the Collateral granted by Borrower under this Agreement). This Agreement, the Line of Credit Note and the other Loan Documents to which Borrower is a party constitute the legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency or other such laws affecting the enforcement of creditors' rights and by general principles of equity.

6.4 Approvals

The execution and delivery of this Agreement, the Line of Credit Note and the other Loan Documents by Borrower, and the performance of Borrower's obligations under this Agreement, the Line of Credit Note and the other Loan Documents by Borrower, and the validity and enforceability of this Agreement, the Line of Credit Note and the other Loan Documents do not require any license, consent, approval or other action of any state or federal agency or governmental or regulatory authority other than those that have been obtained and remain in full force and effect. Borrower has obtained all necessary licenses and permits required by Applicable Law so as to permit Borrower to conduct a mortgage banking activity and related activities in accordance therewith, and such licenses remain in full force and effect and have not otherwise lapsed or been suspended.

6.5 Financial Condition

The balance sheet of Borrower (and, if applicable, Borrower's respective Subsidiaries, on a consolidated basis) as of each Statement Date, and the related statement of income for the fiscal period ended on each Statement Date, furnished to Lender, fairly present the financial condition of Borrower (and, if applicable, Borrower's Subsidiaries) as at that Statement Date and the results of its operations for the fiscal period ended on that Statement Date. Borrower had, on each Statement Date, no known material liabilities, direct or indirect, fixed or contingent, matured or unmatured, or liabilities for taxes, long-term leases or unusual forward or long-term commitments not disclosed by, or reserved against in, those financial statements, and, at the present time, there are no material unrealized or anticipated losses from any loans, advances or other commitments of Borrower except as previously disclosed to Lender in writing. Those financial statements were prepared in accordance with GAAP applied on a consistent basis throughout the periods involved. Since the Audited Statement Date, there has been no material adverse change in the business, operations, assets or financial condition of Borrower (and, if applicable, Borrower's Subsidiaries), nor is Borrower aware of any state of facts that (with or without notice or lapse of time or both) is reasonably likely to result in any such material adverse change. All schedules and reports furnished by Borrower to Lender, including, without limitation, schedules of contingent liabilities and off balance sheet transactions, were materially true, accurate and complete, and did not omit any information necessary in order to make any provided information not misleading in any material respect.

6.6 Litigation; Judgments

6.6(a) Except as set forth on Exhibit F, there are no actions, claims, suits or proceedings pending or, to Borrower's knowledge, threatened or reasonably anticipated against or affecting any Control Person, Borrower or any Subsidiary of Borrower in any court or before any arbitrator or before any government commission, board, bureau or other administrative agency that, if adversely determined, may reasonably be expected to result in a material adverse change in such Person's business, operations, assets or financial condition as a whole, or that would affect the validity or enforceability of this Agreement, the Line of Credit Note or any other Loan Document to which such Person is party.

6.6(b) Except as set forth on Exhibit F, there is no money judgment, writ or warrant of attachment or similar process which is not fully covered by insurance (without any reservation of rights by the insurance carrier) which has been entered or filed against Borrower, any of its Borrower's Subsidiaries, any Control Person, or any of their respective assets.

6.7 Compliance with Laws

Neither Borrower, nor any Subsidiary of Borrower is in violation of any provision of any law, or of any judgment, award, rule, regulation, order, decree, writ or injunction of any court or public regulatory body or authority that is reasonably likely to result in a material adverse change in Borrower's business, operations, assets or financial condition as a whole or that would affect the validity or enforceability of this Agreement, the Line of Credit Note or any other Loan Document.

6.8 Regulation U

Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock, and no part of the proceeds of any Line of Credit Note made under this Agreement will be used by Borrower to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

6.9 Investment Company Act

Borrower is not an "investment company" or controlled by an "investment company" within the meaning of the Investment Company Act.

6.10 Payment of Taxes

Borrower and each of its Subsidiaries has filed or caused to be filed all federal, state and local income, excise, property and other tax returns that are required to be filed with respect to the operations of Borrower and its Subsidiaries, all such returns are true and correct and Borrower and each of its Subsidiaries has paid or caused to be paid all taxes shown on those returns or on any assessment, to the extent that those taxes have become due, including all FICA payments and withholding taxes, if appropriate. The amounts reserved as a liability for income and other taxes payable in the financial statements described in Section 6.5 are sufficient for payment of all unpaid federal, state and local income, excise, property and other taxes, whether or not disputed, of the Borrower and its Subsidiaries accrued for or applicable to the period and on the dates of those financial statements and all years and periods prior to those financial statements and for which Borrower and its Subsidiaries may be liable in their own right or as transferee of the assets of, or as successor to, any other Person. No tax Liens have been filed and no material claims are being asserted against Borrower, any Subsidiary of Borrower or any property of Borrower or any of its Subsidiaries with respect to any taxes, fees or charges.

6.11 Agreements

Neither Borrower, nor any Subsidiary of Borrower is a party to any agreement, instrument or indenture or subject to any restriction materially and adversely affecting its business, operations, assets or financial condition, except as disclosed in the financial statements described in Section 6.5. Neither Borrower, nor any Subsidiary of Borrower is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement, instrument, or indenture which default is reasonably likely to result in a material adverse change in Borrower's business, operations, properties or financial condition as a whole. No holder of any indebtedness of Borrower or of any of its Subsidiaries has given notice of any asserted default under that indebtedness, and no liquidation or dissolution of Borrower or of any of its Subsidiaries and no receivership, insolvency, bankruptcy, reorganization or other similar proceedings relative to Borrower or of any of its Subsidiaries or any of its or their properties is pending, or to the knowledge of Borrower, threatened.

6.12 Title to Properties

Borrower and each of its Subsidiaries has good, valid, insurable (in the case of tangible property) and (in the case of real property) marketable title to all of its properties and assets (whether real or personal, tangible or intangible) reflected on the financial statements described in Section 6.5, except for those properties and assets that Borrower has disposed of since the date of those financial statements either in the ordinary course of business or because they were no longer used or useful in the conduct of Borrower's or its Subsidiaries' business. All of Borrower's properties and assets are free and clear of all Liens except as disclosed in Borrower's financial statements.

6.13 ERISA

Each Plan of Borrower is in substantial compliance with all applicable requirements of ERISA and the Internal Revenue Code and with all material applicable rulings and regulations issued under the provisions of ERISA and the Internal Revenue Code setting forth those requirements, except where any failure to comply is not reasonably likely to result in a material loss to Borrower or any ERISA Affiliate. All of the minimum funding standards or other contribution obligations applicable to each Plan of Borrower have been satisfied. No Plan of Borrower is a defined-benefit pension plan subject to Title IV of ERISA, and there is no Multiemployer Plan.

6.14 No Retiree Benefits

Except as required under Section 4980B of the Internal Revenue Code, Section 601 of ERISA or applicable state law, neither Borrower, or, if applicable, any of its Subsidiaries, is obligated to provide post-retirement medical or insurance benefits with respect to employees or former employees.

6.15 Organizational Chart

The organizational chart attached hereto as Exhibit G accurately reflects the ownership interests and structure of Borrower and Guarantor.

6.16 Fiscal Year

The fiscal year of Borrower, Guarantor and each of their Subsidiaries presently ends on December 31 of each year. If Borrower or Guarantor shall change its fiscal year end, Borrower shall promptly furnish the Lender with written notice thereof.

6.17 Identification Numbers

6.17(a) Borrower's taxpayer identification number is 20-2133699.

6.17(b) Guarantor's taxpayer identification number is 20-0057959.

6.17(c) In the event the Borrower or Guarantor elects to change any of the foregoing numbers, Borrower shall provide the Lender with written Notice (x) of such intention, and (y) the replacement numbers upon the Borrower or Guarantor obtaining same.

6.18 Foreign Asset Control Regulations.

Neither the making of the Advances nor the use of the proceeds of any thereof (or any other Loan) will violate the Trading With the Enemy Act (50 U.S.C. § 1 et seq., as amended) (the "Trading With the Enemy Act") or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) (the "Foreign Assets Control Regulations") or any enabling legislation or executive order relating thereto (which for the avoidance of doubt shall include, but shall not be limited to (a) Executive Order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the "Executive Order") and (b) the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Public Law 107-56)). Furthermore, neither the Borrower nor, to the Borrower's knowledge, any Person owning a direct or indirect interest of ten percent (10%) or more in the Borrower (a) is or will become a "blocked person" as described in the Executive Order, the Trading With the Enemy Act or the Foreign Assets Control Regulations or (b) engages or will engage in any dealings or transactions, or be otherwise associated, with any such "blocked person."

End of Article 6

7. AFFIRMATIVE COVENANTS

As long as the Commitment is outstanding or there remain any Obligations to be paid or performed under this Agreement or under any other Loan Document, Borrower shall, unless Lender consents in writing:

7.1 Payment of Obligations

Punctually pay or cause to be paid all of its Obligations payable under this Agreement and under the Line of Credit Note, in accordance with their terms.

7.2 Financial Statements

Deliver to Lender:

7.2(a) As soon as available and in any event within ninety (90) days after the end of each Calendar Quarter, including the last Calendar Quarter of Borrower's fiscal year, an interim statement of income of Borrower (and of Borrower's Subsidiaries, on a consolidated basis) for that Calendar Quarter and the period from the beginning of the fiscal year to the end of that Calendar Quarter, and the related balance sheet (on a consolidated basis) as at the end of that Calendar Quarter, all in reasonable detail, subject, however, to year-end audit adjustments, and upon the Lender's request, acting reasonably, together with such additional schedules, supporting materials, and reports with respect to such Calendar Quarter.

7.2(b) Together with each delivery of financial statements required by this Section, a Compliance Certificate substantially in the form of Exhibit H.

7.2(c) Copies of all regular or periodic financial and other reports that Borrower or Guarantor files with the Securities and Exchange Commission or any successor governmental agency or other entity.

7.3 Other Borrower Reports

Borrower shall deliver to Lender:

7.3(a) As soon as available and in any event within fifteen (15) days after the end of each calendar month, a status report indicating which Pledged Loans (1) are current and in good standing, and (2) are past due or otherwise in material default, and the numbers of days such Pledged Loans are past due or otherwise in material default.

7.3(b) As soon as available and in any event within sixty (60) days after the end of each Calendar Quarter:

(1) Operating statements, rent roll and occupancy statistics with respect to each Property and, to the extent the same has been provided to Borrower, other information reasonably requested by Lender with respect to each Property.

Borrower shall have thirty (30) days after Lender's request to provide such other information requested by Lender.

(2) Status report indicating the progress of each Property in achieving the Fannie Mae or FHA permanent loan program criteria that was not initially satisfied, and a description of any criteria that the Property initially satisfied, but no longer satisfies.

(3) With respect to each Property, calculation of the Debt Service Coverage Ratio.

(4) With respect to each Property, calculation of the Debt Yield.

(5) Update on any other material developments with respect to each Property, the Pledged Loans and the Collateral.

7.3(c) With reasonable promptness, all further information regarding the business, operations, properties or financial condition of Borrower, the Guarantor and the Collateral as Lender may reasonably request.

7.4 Maintenance of Existence; Conduct of Business

Preserve and maintain its existence as a corporation in good standing and all of its rights, privileges, licenses and franchises necessary or desirable in the normal conduct of its business; conduct its business in an orderly and efficient manner; and make no material change in the nature or character of its business or engage in any business in which it was not engaged as of the Closing Date.

7.5 Compliance with Applicable Laws

Comply with the requirements of all applicable laws, rules, regulations and orders of any Governmental Authority, a breach of which could reasonably be expected to result in a material adverse change in Borrower's business, operations, assets, or financial condition as a whole or on the enforceability of this Agreement, the Line of Credit Note, any other Loan Document or any Collateral, except where contested in good faith and by appropriate proceedings.

7.6 Inspection of Properties and Books; Operational Reviews

7.6(a) Permit Lender (and its authorized representatives) to discuss the business, operations, assets and financial condition of Borrower and its Subsidiaries with Borrower's officers, agents and employees, and to examine and make copies or extracts of Borrower's and its Subsidiaries' books of account, all at such reasonable times and at Borrower's cost and expense and, as long as no Default or Event of Default has occurred and is continuing, (x) on such reasonable Notice, as Lender may request, and (y) Lender may only exercise the foregoing rights once during each one (1) consecutive twelve (12) month period.

7.6(b) Provide its accountants with a copy of this Agreement promptly after its execution and authorize and instruct them to answer candidly, at Borrower's cost and expense, all questions that the officers of Lender or any authorized representatives of Lender may address to them in reference to the financial condition or affairs of Borrower and its Subsidiaries. As long as no Default or Event of Default has occurred and is continuing with respect to Borrower, (x) the Lender shall provide Borrower with advance notice of any such inquiry to Borrower's accountants, and (y) Lender may only exercise the foregoing rights once during each one (1) consecutive twelve (12) month period.

7.6(c) Borrower may have its representatives in attendance at any meetings held between the officers or other representatives of Lender and Borrower's accountants under this authorization.

7.6(d) Permit Lender (and its authorized representatives) access to Borrower's premises and records for the purpose of conducting a review of Borrower's general mortgage business methods, policies and procedures, auditing its loan files, and reviewing the financial and operational aspects of Borrower's business.

7.7 Notice

Give prompt Notice to Lender of (a) any action, suit or proceeding instituted by or against Borrower or any of its Subsidiaries in any federal or state court or before any commission or other regulatory body (federal, state or local, domestic or foreign), which action, suit or proceeding has at issue in excess of $500,000 (or, in the case of a personal injury claim fully covered by insurance, $1,000,000), or any such proceedings threatened against Borrower or any of its Subsidiaries in a writing containing the details of that action, suit or proceeding; (b) the filing, recording or assessment of any federal, state or local tax Lien against Borrower, or any of its assets or any of its Subsidiaries; (c) an Event of Default; (d) a Default that continues for more than 5 days; (e) any Prohibited Transaction with respect to any Plan of Borrower, specifying the nature of the Prohibited Transaction and what action Borrower proposes to take with respect to it; and (f) any other action, event or condition of any nature that may lead to or result in a material adverse change in the business, operations, assets or financial condition of Borrower or any of its Subsidiaries.

7.8 Payment of Indebtedness, Taxes and Other Obligations

Pay, perform and discharge, or cause to be paid, performed and discharged, all taxes, assessments and governmental charges or levies imposed upon Borrower or its Subsidiaries or upon their respective income, receipts or properties before those taxes, assessments and governmental charges or levies become past due, and all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might become a Lien or charge upon any of their respective properties or assets. Borrower and its Subsidiaries are not required to pay, however, any taxes, assessments and governmental charges or levies or claims for labor, materials or supplies for which Borrower or its Subsidiaries have obtained an adequate bond or adequate insurance or that are being contested in good faith and by proper proceedings that are being reasonably and diligently pursued and for which proper reserves have been created.

7.9 Insurance

Maintain blanket bond coverage and errors and omissions insurance or mortgage impairment insurance, with such companies and in such amounts as reasonably required by Lender, and liability insurance and fire and other hazard insurance on its tangible properties, in each case with responsible insurance companies acceptable to Lender, in such amounts and against such risks as is customarily carried by similar businesses operating in the same vicinity.

7.10 Closing Instructions

Indemnify and hold harmless Lender from and against any loss, including reasonable attorneys' fees and costs, attributable to the failure of any title insurance company, agent or attorney to comply with the Borrower's disbursement or instruction letter relating to any Mortgage Loan. Lender has the right to pre-approve, such approval not to be unreasonably withheld or delayed, Borrower's choice of title insurance company, agent or attorney and Borrower's disbursement or instruction letter to them in any case in which Borrower intends to obtain an Advance against the Mortgage Loan to be created at settlement or to pledge that Mortgage Loan as Collateral under this Agreement.

7.11 Subordination of Certain Indebtedness

Cause any Indebtedness of Borrower for borrowed money to (i) Guarantor, or (ii) any Affiliate of Borrower or Guarantor, or (iii) any director, officer or shareholder of Borrower, Guarantor or such Affiliate, which Indebtedness has a term of more than one (1) year or is in excess of $25,000, to be subordinated to the Obligations of Borrower by the execution and delivery to Lender of a Subordination of Debt Agreement, on the form prescribed by Lender, certified by the corporate secretary or other authorized representative of Borrower to be true and complete and in full force and effect.

7.12 Payment of Indebtedness and Performance of Other Loan Obligations

Pay, perform and discharge, or cause to be paid, performed and discharged, all of the obligations and Indebtedness of Borrower and its Subsidiaries, and perform all material obligations under the terms of each loan agreement, note, mortgage, security agreement or debt instrument by which Borrower is bound or to which any of its property is subject, and promptly notify Lender in writing of a declared default under or the termination, cancellation, reduction or nonrenewal of any of its other lines of credit or agreements with any other Lender.

7.13 ERISA

Maintain (and, if applicable, cause each ERISA Affiliate to maintain) each Plan of Borrower in compliance with all material applicable requirements of ERISA and of the Internal Revenue Code and with all applicable rulings and regulations issued under the provisions of ERISA and of the Internal Revenue Code, and not (and, if applicable, not permit any ERISA Affiliate to), (a) engage in any transaction in connection with which Borrower or any ERISA Affiliate would be subject to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Internal Revenue Code, in either case in an amount exceeding $25,000 or (b) fail to make full payment when due of all amounts that, under the provisions of any Plan of Borrower, Borrower or any ERISA Affiliate is required to pay as contributions to that Plan, or permit to exist any accumulated funding deficiency (as such term is defined in Section 302 of ERISA and Section 412 of the Internal Revenue Code), whether or not waived, with respect to any Plan of Borrower in an aggregate amount exceeding $25,000.

7.14 Use of Proceeds of Advances

Use the proceeds of each Advance solely for the purposes set forth in Section 1 hereof.

7.15 Minimum Deposits

The Borrower shall at all times maintain aggregate deposits of the Borrower, the Guarantor, their respective Subsidiaries and/or their Affiliates of at least $50,000,000 with Lender (the "Minimum Deposit Requirement"). Any sums deposited with Lender that are required to comply with any minimum deposit requirement under the CONA Warehouse Agreement or any other agreement between the Borrower, the Guarantor, their respective Subsidiaries and/or their Affiliates and Lender shall not count towards satisfying the Minimum Deposit Requirement.

7.16 Ownership and Control of Borrower

Guarantor shall at all times directly or indirectly own 100% of the Equity Interests of, and shall control, Borrower. Arbor Commercial Mortgage, LLC, a New York limited liability company ("ACM") shall at all times be the sole manager of the Borrower and Guarantor. Ivan Kaufman, members of his immediate family and/or trusts for the benefit of, or controlled by, any of them shall at all times directly or indirectly own not less than 66.67% of the Equity Interests of ACM and Ivan Kaufman shall control ACM.

End of Article 7

8. NEGATIVE COVENANTS

As long as the Commitment is outstanding or there remain any Obligations to be paid or performed, Borrower shall not, nor shall it permit its Subsidiaries to, without the prior written consent of Lender:

8.1 Restrictions on Liens, Etc.

Borrower will not, and will not permit any of its Subsidiaries to, (a) create or incur or suffer to be created or incurred or to exist any lien, encumbrance, mortgage, pledge, charge, restriction or other security interest of any kind upon any Pledged Loan or upon the income or profits therefrom; or (b) transfer any Pledged Loan without paying the related Advance in full.

8.2 Restrictions on Fundamental Changes

8.2(a) Consolidate with, merge with or into, or enter into any analogous reorganization or transaction with any Person.

8.2(b) Amend or otherwise modify Borrower's articles of organization, by-laws or other organizational documents.

8.2(c) Liquidate, wind up or dissolve (or suffer any liquidation or dissolution).

8.2(d) Engage in any material line of business substantially different from those lines of businesses carried on by it as of the date of this Agreement or make any other material change in the nature or scope of the business in which Borrower engages as of the date of this Agreement.

8.2(e) Sell, assign, lease, convey, transfer or otherwise dispose of (whether in one transaction or a series of transactions) all or any substantial part of Borrower's business or assets, whether now owned or acquired after the Closing Date, other than, in the ordinary course of business and to the extent not otherwise prohibited by this Agreement.

8.2(f) Acquire by purchase or in any other transaction all or substantially all of the business or property of, or all or substantially all of the stock or other ownership interests of, any Person, except in connection with the collection or restructuring of any loan made or Equity Interest acquired by Borrower in the ordinary course of its business.

8.3 Subsidiaries

8.3(a) Form or acquire, or permit any Subsidiary of Borrower to form or acquire, any Person that would thereby become a Subsidiary (other than bankruptcy remote single purpose entity Subsidiaries formed in connection with the financing of a particular transaction by Borrower or any of its Subsidiaries) without providing at least thirty (30) days' prior Notice to Lender.

8.3(b) Permit any Subsidiary of Borrower to do or take any of the actions referred to in Section 8.22.

8.4 Deferral of Subordinated Debt

Pay any Subordinated Debt of Borrower in advance of its stated maturity or, after a Default or Event of Default under this Agreement has occurred with respect to Borrower, make any payment of any kind on any Subordinated Debt of Borrower until all of the Obligations of Borrower have been paid and performed in full and any applicable preference period has expired.

8.5 Accounting Changes

Make, or permit any Subsidiary of Borrower to make, any significant change in accounting treatment or reporting practices, except as required by GAAP, or change its fiscal year or the fiscal year of any Subsidiary of Borrower. If any changes in GAAP would result in any material deviation in the method of calculating and results of testing Borrower's compliance with any financial covenant hereunder, such financial covenant shall continue to be calculated and tested as if such change in GAAP had not occurred, unless otherwise specifically agreed in writing by Lender after full disclosure by Borrower.

8.6 Debt Yield

Permit the Debt Yield of each Property at any time to be less than nine and one-half percent (9.5%), tested quarterly as of the last day of each Calendar Quarter. If a Property fails to satisfy such minimum Debt Yield, Borrower shall pay the Advance outstanding against the related Pledged Loan in accordance with Section 3.3(d)(6).

8.7 Debt Service Coverage Ratio

Permit the Debt Service Coverage Ratio of each Property at any time to be less than 1.00 to 1.00, tested quarterly as of the last day of each Calendar Quarter. If a Property fails to satisfy such minimum Debt Service Coverage Ratio, Borrower shall pay the Advance outstanding against the related Pledged Loan to the extent required in Section 3.3(d)(5).

8.8 Distributions

Make any Distributions if a Default or Event of Default exists or would occur as a result of such Distribution, except to the extent required to maintain Guarantor's status as a real estate investment trust.

8.9 Transactions with Affiliates

Directly or indirectly merge or consolidate with or purchase or acquire substantially all assets from Affiliates, except for the merger of any Subsidiary into the Borrower or any other Subsidiary.

End of Article 8

9. SPECIAL REPRESENTATIONS, WARRANTIES AND COVENANTS CONCERNING COLLATERAL

9.1 Special Representations and Warranties Concerning Collateral

The Borrower represents and warrants to Lender, as of the date of this Agreement and as of the date of each Advance Request and the making of each Advance to Borrower, that:

9.1(a) The Borrower has not selected the Collateral in a manner so as to affect adversely Lender's interests.

9.1(b) The Borrower is the legal and equitable owner and holder, free and clear of all Liens (other than Liens granted under this Agreement), of the Pledged Loans. All Pledged Loans have been duly authorized and validly issued to Borrower, and all of the Collateral complies with all of the requirements of this Agreement, and have been and will continue to be validly pledged or assigned to Lender, subject to no other Liens.

9.1(c) The Borrower has, and will continue to have, the full right, power and authority to pledge the Collateral pledged and to be pledged by it under this Agreement.

9.1(d) Each Pledged Loan and each related document included in the Pledged Loans (i) has been duly executed and delivered by the parties to that Pledged Loan and that related document, (ii) has been made in compliance with all applicable laws, rules and regulations (including all laws, rules and regulations relating to usury), (iii) is and will continue to be a legal, valid and binding obligation, enforceable in accordance with its terms, without setoff, counterclaim or defense in favor of the mortgagor under the Pledged Loan or any other obligor on the related Mortgage Note, (iv) has not been modified, amended or any requirements of which waived, except in a writing that is part of the Collateral Documents, and (v) complies and will continue to comply with the terms of this Agreement and otherwise, with the standard practice in the secondary market for similar Mortgage Loans.

9.1(e) Each Pledged Loan is secured by a Mortgage on real property and improvements located in one of the states of the United States or the District of Columbia.

9.1(f) Each Pledged Loan of Borrower has been closed within three (3) months prior to the Advance Request for such Pledged Loan or will be closed and funded with the Advance made against it.

9.1(g) Each Pledged Loan of Borrower has been fully advanced in the face amount of its Mortgage Note, except for any reserves required by the Collateral Documents.

9.1(h) Each Pledged Loan of Borrower is a First Mortgage Loan on the real property and improvements described in or covered by that Mortgage.

9.1(i) Each First Mortgage Loan of Borrower has or will have a title insurance policy, in ALTA form or equivalent, from a recognized title insurance company, insuring the priority of the Lien of the Mortgage.

9.1(j) Each Pledged Loan has been evaluated or appraised in accordance with Title Xl of FIRREA and in accordance with USPAP.

9.1(k) The Mortgage Note for each Pledged Loan is (i) payable to the order of Borrower, (ii) an “instrument” within the meaning of Article 9 of the Uniform Commercial Code of all applicable jurisdictions, and (iii) denominated and payable in United States dollars.

9.1(l) No default exists under any Pledged Loan.

9.1(m) No party to a Pledged Loan of Borrower or any related document is in violation of any applicable law, rule or regulation that would impair the collectability of such Mortgage Loan, the enforceability of any insurance policy or claim or the performance by the mortgagor or any other obligor of its obligations under the Mortgage Note or any related document.

9.1(n) All fire and casualty policies covering the real property and improvements encumbered by each Mortgage included in the Pledged Loans (i) name and will continue to name Borrower and its successors and assigns as the insured under a standard mortgagee clause, (ii) are and will continue to be in full force and effect and (iii) afford and will continue to afford insurance against fire and such other risks as are usually insured against in the broad form of extended coverage insurance from time to time generally available.

9.1(o) Pledged Loans secured by real property and improvements located in a special flood hazard area designated as such by the Director of the Federal Emergency Management Agency are and will continue to be covered by special flood insurance under the National Flood Insurance Program.

9.1(p) None of the Pledged Loans of Borrower is a graduated payment Mortgage Loan or has a shared appreciation or other contingent interest feature, and each Pledged Loan provides for periodic payments of all accrued interest on the Mortgage Loan on at least a monthly basis.

9.1(q) Neither Borrower nor any of Borrower’s Affiliates has any ownership interest, right to acquire any ownership interest or equivalent economic interest in any Property securing a Pledged Loan of Borrower or the mortgagor under the Pledged Loan or any other obligor on the Mortgage Note for such Pledged Loan.

9.1(r) The original assignments of Mortgage delivered to Lender for each Pledged Loan of Borrower are in recordable form and comply with all applicable laws and regulations governing the filing and recording of such documents.

9.1(s) None of the mortgagors, guarantors or other obligors of any Pledged Loan of Borrower is a Person named in any Restriction List and to whom the provision of financial services is prohibited or otherwise restricted by applicable law.

9.2 Special Affirmative Covenants Concerning Collateral

As long as the Commitment is outstanding or there remain any Obligations to be paid or performed under this Agreement or under any other Loan Document, the Borrower must:

9.2(a) Warrant and defend the right, title and interest of Lender in and to the Collateral of Borrower against the claims and demands of all Persons.

9.2(b) Execute and deliver to Lender with respect to the Collateral those further instruments of sale, pledge, assignment or transfer, and those powers of attorney, as required by Lender, and do and perform all matters and things necessary or desirable to be done or observed, for the purpose of effectively creating, maintaining and preserving the security and benefits intended to be afforded Lender under this Agreement.

9.2(c) Compare the names of every mortgagor, guarantor and other obligor of every Mortgage Loan of Borrower, together with appropriate identifying information concerning those Persons obtained by Borrower, against every Restriction List, and make certain that none of the mortgagors, guarantors or other obligors of any Mortgage Loan of Borrower is a Person named in any Restriction List and to whom the provision of financial services is prohibited or otherwise restricted by applicable law.

9.2(d) All accounts, deposit accounts, escrows, reserves and other amounts assigned to, deposited with and/or collected by the Borrower or its Affiliates from time to time regarding the Properties and the Pledged Loans shall be held at the Lender.

9.3 Special Negative Covenants Concerning Collateral

As long as the Commitment is outstanding or there remain any Obligations to be paid or performed, the Borrower shall not, either directly or indirectly, without the prior written consent of Lender:

9.3(a) Amend or modify, or waive any of the terms and conditions of, or settle or compromise any claim in respect of, any Pledged Loans.

9.3(b) Sell, transfer or assign, or grant any option with respect to, or pledge (except under this Agreement) any of the Collateral or any interest in any of the Collateral.

9.3(c) Make any compromise, adjustment or settlement in respect of any of the Collateral or accept other than cash in payment or liquidation of the Collateral.

End of Article 9

10. DEFAULTS; REMEDIES

10.1 Events of Default

The occurrence of any of the following is an event of default (“Event of Default”):

10.1(a) The Borrower fails to pay

(1) the interest of the Loan or any fees required to be paid hereunder or under any other Loan Document within ten (10) days when the same shall become due and payable; or

(2) the principal of the Loan or any other Obligation not described in clause (1) above, when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise.

10.1(b) Borrower, Guarantor or any of their Subsidiaries fails to pay, or defaults in the payment of any principal or interest on, any other Indebtedness or any contingent obligation within any applicable grace period; breaches or defaults with respect to any other material term of any other Indebtedness or of any loan agreement, mortgage, indenture or other agreement relating to that Indebtedness, if the effect of that breach or default is to cause, or to permit the holder or holders of that indebtedness (or a trustee on behalf of such holder or holders) to cause, Indebtedness of Borrower, Guarantor or their Subsidiaries in the aggregate amount of $2,000,000 or more to become or be declared due before its stated maturity (upon the giving or receiving of notice, lapse of time, both, or otherwise).

10.1(c) Borrower fails to perform or comply with any term or condition applicable to it contained in Sections 7.4, 7.8, 7.13, 7.14, 7.15, 7.16 or in any Section of Article 8 or Article 9.

10.1(d) Any representation or warranty made or deemed made by Borrower, or on its behalf, by Borrower, Guarantor or any other Person in any other Loan Document or in any written statement or certificate at any time given by Borrower or Guarantor is inaccurate or incomplete in any material respect on the date as of which it is made or deemed made.

10.1(e) Borrower defaults in the performance of or compliance with any term contained in this Agreement or any other Loan Document other than those referred to in this Section 10.1 and such default has not been remedied or waived within thirty (30) days after the earliest of (1) receipt by Borrower of Notice from Lender of that default, (2) receipt by Lender of Notice from Borrower of that default or (3) the date Borrower should have notified Lender of that default under Section 7.7(c) or 7.7(d).

10.1(f) There shall occur an event of default under any other agreement, understanding or credit accommodation between or among Lender, on one hand, and one or more of either Borrower, Guarantor or any Subsidiary of Borrower or Guarantor, on the other hand.

10.1(g) A case (whether voluntary or involuntary) is filed by or against Borrower, Guarantor or any Subsidiary of Borrower or Guarantor under any applicable bankruptcy, insolvency or other similar federal or state law and in the case of an involuntary case, such case remains undismissed or unstayed for a period of sixty (60) days or more; or a court of competent jurisdiction appoints a receiver (interim or permanent), liquidator, sequestrator, trustee, custodian or other officer having similar powers over Borrower, Guarantor or any Subsidiary of Borrower or Guarantor, or over all or a substantial part of their respective properties or assets and such appointment remains undischarged for a period of sixty (60) days or more; or Borrower, Guarantor or any Subsidiary of Borrower or Guarantor (1) consents to the appointment of or possession by a receiver (interim or permanent), liquidator, sequestrator, trustee, custodian or other officer having similar powers over Borrower, Guarantor or any Subsidiary of Borrower or Guarantor, or over all or a substantial part of their respective properties or assets, (2) makes an assignment for the benefit of creditors, or (3) fails, or admits in writing its inability, to pay its debts as those debts become due.

10.1(h) Any money judgment, writ or warrant of attachment or similar process involving an amount in excess of $2,000,000 and not fully covered by insurance (without any reservation of rights by the insurance carrier) is entered or filed against Borrower, Guarantor any of their Subsidiaries, any Control Person, or any of their respective assets and remains undischarged, unvacated, unbonded or unstayed for a period of thirty (30) days or five (5) days before the date of any proposed sale under that money judgment, writ or warrant of attachment or similar process.

10.1(i) Any order, judgment or decree decreeing the dissolution of Borrower or Guarantor is entered and remains undischarged or unstayed for a period of twenty (20) days.

10.1(j) Borrower or Guarantor purports to disavow its obligations under the Loan Documents or contests the validity or enforceability of any Loan Document.

10.1(k) Lender’s security interest on any material portion of the Collateral of Borrower becomes unenforceable or otherwise impaired.

10.1(l) Any Lien for any taxes, assessments or other governmental charges (i) is filed against Borrower or any of its property, or is otherwise enforced against Borrower or any of its property, or (ii) obtains priority that is equal to or greater than the priority of Lender’s security interest in any of the Collateral of Borrower, and, in any case, has not been released, bonded-over or subordinated within five (5) Business Days.

10.1(m) Guarantor terminates its existence or suspends or discontinues its business, or any event described in Section 8.2 occurs with respect to Guarantor.

10.1(n) Guarantor fails to perform or comply with any term or condition applicable to it contained in Section 10 of the Guaranty; or Guarantor defaults in the performance of or compliance with any other term contained in the Guaranty or any other Loan

Document to which Guarantor is a party and such default has not been remedied or waived within thirty (30) days after the occurrence of such default.

10.2 Remedies

10.2(a) If an Event of Default described in Section 10.1(g) occurs with respect to Borrower, the Commitment will automatically terminate as to the Borrower, and the unpaid principal amount of and accrued interest on Borrower's Line of Credit Note and all other Obligations of Borrower will automatically become due and payable, without presentment, demand or other Notice or requirements of any kind, all of which Borrower expressly waives.

10.2(b) If any other Event of Default occurs, Lender, by Notice to the Borrower, may terminate all or any portion of the Commitment and declare the Obligations to be immediately due and payable.

10.2(c) If any Event of Default occurs, Lender, may, also take any of the following actions:

(1) Foreclose upon or otherwise enforce its security interest in any Lien on the Collateral to secure all payments and performance of the Obligations in any manner permitted by law or provided for in the Loan Documents.

(2) Notify all obligors under any of the Collateral that the Collateral has been assigned to Lender (or to another Person designated by Lender) and that all payments on that Collateral are to be made directly to Lender (or such other Person); settle, compromise or release, in whole or in part, any amounts any obligor owes on any of the Collateral on terms acceptable to Lender; enforce payment and prosecute any action or proceeding involving any of the Collateral; and where any Collateral is in default, foreclose on and enforce any Liens securing that Collateral in any manner permitted by law and sell any property acquired as a result of those enforcement actions.

(3) Prepare and submit for filing Uniform Commercial Code amendment statements evidencing the assignment to Lender or its designee of any Uniform Commercial Code financing statement filed in connection with any item of Collateral.

(4) Act, or contract with a third party to act, at Borrower's expense, as servicer or subservicer of Collateral of Borrower requiring servicing, and perform all obligations required under any Collateral of Borrower, including Servicing Contracts.

(5) Require Borrower to assemble and make available to Lender the Collateral and all related books and records at a place designated by Lender.

(6) Enter onto property where any Collateral or related books and records are located and take possession of those items with or without judicial process; and

obtain access to Borrower's data processing equipment, computer hardware and software relating to the Collateral and use all of the foregoing and the information contained in the foregoing in any manner Lender deems necessary for the purpose of effectuating its rights under this Agreement and any other Loan Document.

(7) Before the disposition of the Collateral, prepare it for disposition in any manner and to the extent Lender deems appropriate.

(8) Exercise all rights and remedies of a secured creditor under the Uniform Commercial Code of Massachusetts or other applicable law, including selling or otherwise disposing of all or any portion of the Collateral at one or more public or private sales, whether or not such Collateral is present at the place of sale, for cash or credit or future delivery, on terms and conditions and in the manner as Lender may determine. Borrower waives any right it may have to prior notice of the sale of all or any portion of the Collateral to the extent allowed by applicable law. If notice is required under applicable law, Lender will give Borrower not less than ten (10) days' notice of any public sale or of the date after which any private sale may be held. Borrower agrees that ten (10) days' notice is reasonable notice. Lender may, without notice or publication, adjourn any public or private sale one or more times by announcement at the time and place fixed for the sale, and the sale may be held at any time or place announced at the adjournment. In the case of a sale of all or any portion of the Collateral on credit or for future delivery, such Collateral sold on those terms may be retained by Lender until the purchaser pays the selling price or takes possession of such Collateral. Lender has no liability to Borrower if a purchaser fails to pay for or take possession of Collateral sold on those terms, and in the case of any such failure, Lender may sell the Collateral again upon notice complying with this Section.

(9) Instead of or in conjunction with exercising the power of sale authorized by Section 10.2(c)(8), Lender may proceed by suit at law or in equity to collect all amounts due on the Collateral, or to foreclose Lender's Lien on and sell all or any portion of such Collateral pursuant to a judgment or decree of a court of competent jurisdiction.

(10) Proceed against Borrower on the Line of Credit Note.

(11) Retain all excess proceeds from the sale or other disposition of the Collateral, and apply them to the payment of the Obligations of Borrower under Section 10.3.

10.2(d) Lender will incur no liability as a result of the commercially reasonable sale or other disposition of all or any portion of the Collateral at any public or private sale or other disposition. Borrower waives (to the extent permitted by law) any claims they may have against Lender arising by reason of the fact that the price at which the Collateral may have been sold at a private sale was less than the price that Lender might have obtained at a public sale, or was less than the aggregate amount of the outstanding Advances, accrued and unpaid interest on those Advances, and unpaid fees, even if Lender accepts the first offer received and does not offer the Collateral to more than one offeree. Borrower agrees that any sale of Collateral by Lender, or any other disposition of Collateral arranged by Lender, whether before or after the occurrence of an Event of Default, will be deemed to have been made in a commercially reasonable manner.

10.2(e) Borrower acknowledges that Mortgage Loans are collateral of a type that is the subject of widely distributed standard price quotations. Borrower agrees that Lender may purchase Pledged Loans at a private sale of such Collateral.

10.2(f) Borrower specifically waives and releases (to the extent permitted by law) any equity or right of redemption, stay or appraisal that Borrower has or may have under any rule of law or statute now existing or adopted after the date of this Agreement, and any right to require Lender to (1) proceed against any Person, (2) proceed against or exhaust any of the Collateral or pursue its rights and remedies against the Collateral in any particular order, or (3) pursue any other remedy within its power. Lender is not required to take any action to preserve any rights of Borrower against holders of mortgages having priority to the Lien of any Mortgage or Security Agreement included in the Collateral or to preserve Borrower's rights against other prior parties.

10.2(g) Lender may, but is not obligated to, advance any sums or do any act or thing necessary to uphold or enforce the Lien and priority of, or the security intended to be afforded by, any Mortgage or Security Agreement included in the Collateral, including payment of delinquent taxes or assessments and insurance premiums. All advances, charges, costs and expenses, including reasonable attorneys' fees and disbursements, incurred or paid by Lender in exercising any right, power or remedy conferred by this Agreement, or in the enforcement of this Agreement, together with interest on those amounts at the Default Rate, from the time paid by Lender until repaid by Borrower, are deemed to be principal outstanding under this Agreement and the Line of Credit Note.

10.2(h) No failure or delay on the part of Lender to exercise any right, power or remedy provided in this Agreement or under any other Loan Document, at law or in equity, will operate as a waiver of that right, power or remedy. No single or partial exercise by Lender of any right, power or remedy provided under this Agreement or any other Loan Document, at law or in equity, precludes any other or further exercise of that right, power, or remedy by Lender, or Lender's exercise of any other right, power or remedy. Without limiting the foregoing, Borrower waive all defenses based on the statute of limitations to the extent permitted by law. The remedies provided in this Agreement and the other Loan Documents are cumulative and are not exclusive of any remedies provided at law or in equity.

10.2(i) Borrower grants Lender a license or other right to use, without charge, Borrower's computer programs, other programs, labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in advertising for sale and selling any of the Collateral and Borrower's rights under all licenses and all other agreements related to the foregoing inure to Lender's benefit until the Obligations are paid in full.

10.3 Application of Proceeds

Lender may apply the proceeds of any sale, disposition or other enforcement of Lender's Lien on all or any portion of the Collateral to the payment of the Obligations in the order Lender determines in its sole discretion. From and after the indefeasible payment to Lender of all of the Obligations, any remaining proceeds of the Collateral will be paid to Borrower, or to its successors or assigns, or as a court of competent jurisdiction may direct. If the proceeds of any sale, disposition or other enforcement of the Collateral are insufficient to cover the costs and expenses of that sale, disposition or other enforcement and payment in full of all Obligations, Borrower is liable for the deficiency.

10.4 Lender Appointed Attorney-in-Fact

Borrower appoints Lender its attorney-in-fact, with full power of substitution, for the purpose of carrying out the provisions of this Agreement, the Line of Credit Note and the other Loan Documents and taking any action and executing any instruments that Lender deems necessary or advisable to accomplish that purpose. Borrower's appointment of Lender as attorney-in-fact is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, Lender may give notice of its Lien on the Collateral of Borrower to any Person, either in Borrower's name or in its own name, endorse all Pledged Loans or Pledged Securities payable to the order of Borrower, change or cause to be changed the book-entry registration or name of subscriber on any Pledged Security, prepare and submit for filing Uniform Commercial Code amendment statements with respect to any Uniform Commercial Code financing statements filed in connection with any item of Collateral of Borrower or receive, endorse and collect all checks made payable to the order of Borrower representing payment on account of the principal of or interest on, or the proceeds of sale of, any of the Pledged Loans or Pledged Securities of Borrower and give full discharge for those transactions. Except as set forth in the preceding sentence, Lender agrees not to exercise the foregoing power of attorney except after the occurrence and during the continuance of an Event of Default.

10.5 Right of Set-Off

Borrower hereby grants to Lender, a continuing lien, security interest and right of setoff as security for all liabilities and obligations of Borrower to Lender, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property of Borrower, now or hereafter in the possession, custody safekeeping or control of Lender or any entity under the control of Lender (and with respect to the Lender, all deposits, credits, collateral and property, now or hereafter in the possession, custody safekeeping or control Lender or any other entity under control of Lender) and its successors and assigns or in transit to any of them, except for any accounts being held by Borrower in trust or in escrow solely for the benefit of one or more third parties that are not Affiliates of Borrower and in which Borrower has no ownership or beneficial interest. At any time upon or after the occurrence and during the continuance of an Event of Default, without demand or notice (any such notice being expressly waived by Borrower), Lender may setoff the same or any part thereof and apply the same to any liability or obligation of Borrower even though unmatured and regardless of the adequacy of any other Collateral of Borrower securing the Loan. ANY AND ALL RIGHTS TO REQUIRE LENDER TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL OF BORROWER WHICH SECURES THE LOAN, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

End of Article 10

11. MISCELLANEOUS

11.1 Notices

Except where telephonic, facsimile or electronic mail notice is expressly authorized by this Agreement, all communications required or permitted to be given or made under this Agreement ("Notices") must be in writing and must be sent by manual delivery, facsimile, overnight courier or United States mail (postage prepaid), addressed as follows (or at such other address as may be designated by it in a Notice to the other):

If to Borrower:	Arbor Realty SR, Inc. 333 Earle Ovington Boulevard, Suite 900 Uniondale, NY 11553-3617 Attention: John Natalone, Treasurer Facsimile: (516) 832-6409
With a copy to:	Arbor Realty SR, Inc. 333 Earle Ovington Boulevard, Suite 900 Uniondale, NY 11553-3617 Attention: John J. Bishar, Esq., General Counsel
If to Lender:	Capital One, National Association Ten Post Office Square 11th Floor Boston, MA 02109 Attention: Peter D. Leahy, Senior Vice President Lein H. Tung, Senior Vice President Facsimile: (617) 788-2190
With a copy to:	Rackemann, Sawyer & Brewster 160 Federal Street Boston, MA 02110 Attention: Francesco A. De Vito, Esq. Facsimile: (617) 542-7437

All periods of Notice will be measured from the date of delivery if delivered manually or by facsimile, from the first Business Day after the date of sending if sent by overnight courier or from four (4) days after the date of mailing if sent by United States mail, except that Notices to Lender under Article 2 shall be deemed to have been given only when actually received by Lender. Borrower authorize Lender to accept Borrower's Advance Requests, shipping requests, wire transfer instructions and security delivery instructions transmitted to Lender by facsimile or electronic mail (portable document format) and those documents, when transmitted to Lender by facsimile have the same force and effect as the originals.

11.2 Reimbursement Of Expenses; Indemnity

11.2(a) Whether or not the transactions contemplated hereby shall be consummated, Borrower agree to pay promptly: (i) all the actual and reasonable out-of-pocket costs and expenses of preparation of the Loan Documents and any consents, amendments, waivers, or other modifications thereto; (ii) the reasonable fees, expenses, and disbursements of counsel to Lender in connection with the negotiation, preparation, execution, and administration of the Loan Documents and any consents, amendments, waivers, or other modifications thereto and any other documents or matters requested by Borrower; (iii) all other actual and reasonable out-of-pocket costs and expenses incurred by Lender in connection with the establishment of the facility, and the negotiation, preparation, and execution of the Loan Documents and any consents, amendments, waivers, or other modifications thereto and the transactions contemplated thereby; (iv) all costs and expenses incurred by Lender in connection with an Advance Request, the supporting documentation and proposed Collateral relating to an Advance Request and in monitoring the Collateral, including, without limitation, all fees and expenses associated with site inspections made by Lender and other costs relating to any appraisals or examinations conducted in connection with the Loan or any Collateral; and (v) all reasonable out-of-pocket expenses (including reasonable attorney's fees and costs, which attorneys may be employees of Lender and the fees and costs of appraisers, brokers, investment bankers or other experts retained by Lender) incurred by such Persons in connection with (x) the enforcement of or preservation of rights under any of the Loan Documents against the Borrower, or any other Person, or the administration thereof, (y) any refinancing or restructuring of the credit arrangements provided under this Agreement in the nature of a "work-out" or pursuant to any insolvency or bankruptcy proceedings, and (z) any litigation, proceeding or dispute whether arising hereunder or otherwise, in any way related to Lender's relationship with Borrower, except to the extent arising out of such Person's bad faith, gross negligence, willful misconduct or material breach of this Agreement or any other Loan Document, as finally determined by a court of competent jurisdiction. The covenants of this Section shall survive payment or satisfaction of payment of amounts owing with respect to the Line of Credit Note. The amount of all such expenses shall, until paid, bear interest at the rate applicable to principal hereunder (including the Default Rate) and be an Obligation secured by any Collateral.

11.2(b) Borrower shall indemnify and hold harmless Lender and Lender's Affiliates, officers, directors, employees or agents or any subsequent holder of the Line of Credit Note, and all those claiming by, through or under Lender (each an "Indemnified Party") from and against any and all claims, actions and suits whether groundless or otherwise, and from and against any and all liabilities, losses, damages and expenses of every nature and character arising out of this Agreement or any of the other Loan Documents or the transactions contemplated hereby ("Damages") including, without limitation (i) any actual or proposed use by Borrower or any of its Subsidiaries of the proceeds of the Loan, (ii) Borrower or any of their Subsidiaries entering into or performing this Agreement or any of the other Loan Documents, or (iii) with respect to Borrower and its Subsidiaries and their respective properties and assets, the violation of any applicable law, in each case including, without limitation, the reasonable fees and disbursements of external counsel incurred in connection with any such investigation, litigation or other proceeding; provided, however, that no Indemnified Party shall be entitled to indemnification if a court of competent jurisdiction finally determines (all appeals having been exhausted or waived) that such Indemnified Party acted in bad faith, with willful misconduct, gross negligence, or material breach of this Agreement or any other Loan Document, as finally determined by a court of competent jurisdiction. In litigation, or the preparation therefor, Lender shall be entitled to select its own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable fees and expenses of such counsel. If, and to the extent that the obligations of Borrower under this Section 11.2(b) are unenforceable for any reason, Borrower hereby agrees to make the maximum contribution to the payment in satisfaction of such obligations which is permissible under applicable law. The provisions of this Section 11.2(b) shall survive the repayment of the Loan and the termination of the obligations of Lender hereunder.

11.3 Financial Information

All financial statements and reports furnished to Lender under this Agreement must be prepared in accordance with GAAP, applied on a basis consistent with that applied in preparing the financial statements as at the end of and for Borrower's most recent fiscal year (except to the extent otherwise required to conform to good accounting practice).

11.4 Terms Binding Upon Successors; Survival of Representations

The terms and provisions of this Agreement are binding upon and inure to the benefit of Borrower, Lender and their respective successors and assigns. All of Borrower's representations, warranties, covenants and agreements survive the making of any Advance, and except where a longer period is set forth in this Agreement, remain effective for as long as the Commitment is outstanding or there remain any Obligations to be paid or performed.

11.5 Governing Law

This Agreement and the other Loan Documents are governed by the laws of the Commonwealth of Massachusetts, without reference to its principles of conflicts of laws.

11.6 Confidentiality

Lender shall use reasonable efforts to assure that information about Borrower and its operations, affairs and financial condition, not generally disclosed to the public or to trade and other creditors, which is furnished to Lender pursuant to the provisions hereof is used only for the purposes of this Agreement and any other relationship between Lender and Borrower and not divulged to any Person other than the Lender, its Affiliates and their respective officers, directors, employees and agents, except: (a) to their attorneys and accountants, (b) in connection with the enforcement of the rights of Lender hereunder and under the other Loan Documents or otherwise in connection with applicable litigation, (c) in connection with assignments and participations and the solicitation of prospective assignees and participants (provided such assignees, participants and prospecting assignees and participants agree to be bound by this Section 11.6) and (d) as may otherwise be required or requested by any regulatory authority having jurisdiction over Lender or by any applicable law, rule, regulation or judicial process, the opinion of Lender's counsel concerning the making of such disclosure to be binding on the parties hereto.

11.7 Assignment

11.7(a) Borrower shall have no right to assign this Agreement. Lender shall have the unrestricted right at any time or from time to time, and without Borrower's consent, to assign all or any portion of its rights and obligations hereunder to one or more banks or other financial institutions (each, an "Assignee"), and Borrower agrees that it shall execute, or cause to be executed, such documents, including without limitation, amendments to this Agreement and to any other documents, instruments and agreements executed in connection herewith as Lender shall deem necessary to effect the foregoing. In addition, at the request of Lender and any such Assignee, Borrower shall issue one or more new promissory notes, as applicable, to any such Assignee and, if Lender has retained any of its rights and obligations hereunder following such assignment, to Lender, which new promissory notes shall be issued in replacement of but not in discharge of, the liability evidenced by the Line of Credit Note held by Lender prior to such assignment and shall reflect the amount of the respective commitments and loans held by such Assignee and Lender after giving effect to such assignment. Upon the execution and delivery of appropriate assignment documentation, amendments and any other documentation required by Lender in connection with such assignment, and the payment by Assignee of the purchase price agreed to by Lender, and such Assignee, such Assignee shall be a party to this Agreement and shall have all of the rights and obligations of Lender hereunder (and under any and all other guaranties, documents, instruments and agreements executed in connection herewith) to the extent that such rights and obligations have been assigned by Lender pursuant to the assignment documentation between Lender and such Assignee, and Lender shall be released from its obligations hereunder and thereunder to a corresponding extent. Borrower may furnish any information concerning Borrower in its possession from time to time to prospective Assignees, subject to Section 11.6 hereof. Borrower shall not be responsible for any costs or expenses of Lender or of any Assignee in connection with any such assignment hereunder, and Lender or Assignee shall reimburse Borrower for the reasonable costs and expenses incurred by Borrower in connection with any such assignment, including its reasonable attorneys' fees and expenses.

11.7(b) Lender may at any time pledge or assign all or any portion of its rights under the Loan Documents (including, without limitation, any portion of the Line of Credit Note) to any of the twelve (12) Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. No such pledge or assignment or enforcement thereof shall release Lender from its obligations under any of the Loan Documents.

11.8 Participations

Lender shall have the unrestricted right at any time and from time to time, and without the consent of or notice to Borrower, to grant to one or more banks or other financial institutions (each, a "Participant") participating interests in Lender's obligation to lend hereunder and/or any or all of the Loans held by Lender hereunder. In the event of any such grant by Lender of a participating interest to a Participant, whether or not upon notice to Borrower, Lender shall remain responsible for the performance of its obligations hereunder and Borrower shall continue to deal solely and directly with Lender in connection with Lender's rights and obligations hereunder. Lender may furnish any information concerning Borrower in its possession from time to time to prospective Participants, subject to Section 11.6 hereof.

11.9 Relationship of the Parties

This Agreement provides for the making of Advances by Lender (in their capacities as Lender) to Borrower (in their respective capacities as Borrower), for the payment of interest on those Advances and for the payment of certain fees by Borrower to Lender. The relationship between Lender and Borrower is limited to that of creditor and secured party on the part of Lender and of debtor on the part of Borrower. The provisions of this Agreement and the other Loan Documents for compliance with financial covenants and the delivery of financial statements and other operating reports are intended solely for the benefit of Lender and for Lender to protect its interest as a creditor and secured party. Nothing in this Agreement creates or may be construed as permitting or obligating Lender to act as a financial or business advisor or consultant to either Borrower, as permitting or obligating Lender to control either Borrower or to conduct either Borrower's operations, as creating any fiduciary obligation on the part of Lender to either Borrower, or as creating any joint venture, agency, partnership or other relationship between Lender and either Borrower other than as explicitly and specifically stated in the Loan Documents. Borrower acknowledge that they have had the opportunity to obtain the advice of experienced counsel of their own choice in connection with the negotiation and execution of the Loan Documents and to obtain the advice of that counsel with respect to all matters contained in the Loan Documents, including the waivers of jury trial and of punitive, consequential, special or indirect damages contained in Sections 12.18 and 12.19, respectively. Borrower further acknowledge that they are experienced with respect to financial and credit matters and has made their own independent decisions to apply to Lender for credit and to execute and deliver this Agreement.

11.10 Amendments

Except as otherwise provided in this Agreement, this Agreement may not be amended, modified or supplemented unless the amendment, modification or supplement is set forth in a writing signed by both Borrower and Lender.

11.11 Severability

If any provision of this Agreement is declared to be illegal or unenforceable in any respect, that provision is null and void and of no force and effect to the extent of the illegality or unenforceability, and does not affect the validity or enforceability of any other provision of the Agreement.

11.12 Counterparts

This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together constitute but one and the same instrument.

11.13 Headings/Captions

The captions or headings in this Agreement and the other Loan Documents are for convenience only and in no way define, limit or describe the scope or intent of any provision of this Agreement or any other Loan Document.

11.14 Entire Agreement

This Agreement, the Line of Credit Note and the other Loan Documents represent the final agreement among the parties with respect to their subject matter, and may not be contradicted by evidence of prior or contemporaneous oral agreements among the parties. There are no oral agreements among the parties with respect to the subject matter of this Agreement, the Line of Credit Note and the other Loan Documents.

11.15 Consent to Jurisdiction

BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON EITHER BORROWER BY MAIL AT THE ADDRESS SET FORTH HEREIN. BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT FORUM.

11.16 Waiver of Jury Trial

BORROWER AND LENDER (BY ACCEPTANCE OF THIS AGREEMENT) MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR

ACTIONS OF ANY PARTY, INCLUDING, WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF LENDER RELATING TO THE ADMINISTRATION OF THE LOAN OR ENFORCEMENT OF THE LOAN DOCUMENTS, AND AGREE THAT NO PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED.

11.17 Waiver of Punitive, Consequential, Special or Indirect Damages

BORROWER WAIVES ANY RIGHT IT MAY HAVE TO SEEK PUNITIVE, CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES FROM LENDER OR ANY OF ITS AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS WITH RESPECT TO ANY AND ALL ISSUES PRESENTED IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM BROUGHT BY BORROWER AGAINST LENDER OR ANY OF ITS AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS WITH RESPECT TO ANY MATTER ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT. THIS WAIVER OF THE RIGHT TO SEEK PUNITIVE, CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES IS KNOWINGLY AND VOLUNTARILY GIVEN BY BORROWER, AND IS INTENDED TO ENCOMPASS EACH INSTANCE AND EACH ISSUE FOR WHICH THE RIGHT TO SEEK PUNITIVE, CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES WOULD OTHERWISE APPLY. LENDER IS AUTHORIZED AND DIRECTED TO SUBMIT THIS AGREEMENT TO ANY COURT HAVING JURISDICTION OVER THE SUBJECT MATTER AND THE PARTIES TO THIS AGREEMENT AS CONCLUSIVE EVIDENCE OF THIS WAIVER OF THE RIGHT TO SEEK PUNITIVE, CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES.

11.18 U.S. Patriot Act Lender hereby notifies Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of Borrower and other information that will allow Lender to identify Borrower in accordance with the Act.

End of Article 11

12. DEFINITIONS

12.1 Defined Terms

In addition to terms which are defined elsewhere in this Agreement capitalized terms defined below have the following meanings when used in this Agreement or in any other Loan Document (and including, unless otherwise defined therein, in any Schedules or Exhibits hereto or thereto):

"ACM" has the meaning set forth in Section 7.16.

"Additional Costs" has the meaning set forth in Section 3.10.

"Advance" means a disbursement by Lender under Section 1.1.

"Advance Amount" means, with respect to any Eligible Loan, the Advance Amount set forth in Exhibit C.

"Advance Request" means a request for an Advance in the form attached hereto as Exhibit A, as modified from time to time.

"Affiliate" means, when used with reference to any Person, (a) each Person that, directly or indirectly, controls, is controlled by or is under common control with, the Person referred to, (b) each Person that beneficially owns or holds, directly or indirectly, 5% or more of any class of voting Equity Interests of the Person referred to, (c) each Person, 5% or more of the voting Equity Interests of which is beneficially owned or held, directly or indirectly, by the Person referred to, and (d) each of such Person's officers, directors, joint venturers and partners. For these purposes, the term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the Person in question.

"Agreement" means this Revolving Bridge Loan and Security Agreement between the Borrower and the Lender, as the same from time to time may be amended, restated, renewed or replaced, and includes all Exhibits and Schedules hereto.

"Applicable Base Rate" means, on any day, a simple rate per annum equal to the sum of the Base Rate for that day, plus two and three-quarters percent (2.75%). Without notice to Borrower or anyone else, the Base Rate shall automatically fluctuate upward and downward as and in the amount by which the Prime Rate or Fed Funds Rate fluctuates, as applicable.

"Applicable Law" means all applicable provisions of constitutions, statutes, rules, regulations and orders of all governmental bodies and all orders and decrees of all courts, tribunals and arbitrators.

"Applicable Libor Rate" means, for any day, a rate per annum equal to the BBA LIBOR Daily Floating Rate for such day, plus two and three-quarters percent (2.75%).

"Audited Statement Date" means the date of Guarantor's most recent audited financial statements (and Guarantor's Subsidiaries, on a consolidated basis) delivered to Lender under this Agreement.

"Authorized Representatives" has the meaning set forth in Section 3.14.

"Base Rate" means, on any day, the greater of (a) the Prime Rate in effect for such day, and (b) the sum of (i) the Federal Funds Rate for such day, plus (ii) 0.50%.

"BBA LIBOR" is defined within the definition of "BBA LIBOR Daily Floating Rate."

"BBA LIBOR Daily Floating Rate" means, for any day, a fluctuating rate of interest per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR") as published by Reuters (or other commercially available sources providing quotations of BBA LIBOR as selected by Lender from time to time) as determined for each such day at approximately 11:00 a.m. London time on the date in question, for U.S. dollar deposits (for delivery on the date in question, or, if not a London Banking Day, on the immediately preceding London Banking Day) with a one month term, as adjusted from time to time in Lender's sole discretion for reserve requirements, deposit insurance assessment rates and other regulatory costs. If such rate is not published by Reuters or any other such commercially available source at such time for any reason, then such rate will be determined by such alternate method as reasonably selected by Lender.

"Borrower" has the meaning set forth in the Preamble to this Agreement.

"Bridge Clearing Account" means the demand deposit account maintained at the Lender in Borrower's name and designated for funding that portion of each Eligible Loan funded by an Advance made against that Eligible Loan and for returning any excess payment for a Pledged Loan. The Bridge Clearing Account is account no. 7047919767.

"Bridge Lender Only Account" means the demand deposit account maintained at the Lender in Borrower's name and designated for receipt of the proceeds of the sale or other disposition of Borrower's Collateral. The Bridge Lender Only Account is account no. 7047919775.

"Business Day" means any day that is not a Saturday, Sunday or a public holiday or the equivalent for banks under the applicable Federal law and if no applicable Federal law exists then the applicable State law, provided that, when used in connection with a loan at the Applicable LIBOR Rate, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Calendar Quarter" means the 3 month period beginning on each January 1, April 1, July 1 or October 1.

"Closing Date" means, subject to the Borrower' satisfaction of the conditions set forth in Article 5, the date as of which this Agreement is executed, as specified in the Preamble to this Agreement.

"Collateral" has the meaning set forth in Section 4.1.

"Collateral Documents" means, with respect to each Mortgage Loan of the Borrower, (a) the Mortgage Note, the Mortgage and all other documents including, if applicable, any Security Agreement, executed in connection with or relating to the Mortgage Loan; (b) as applicable, the original lender's ALTA Policy of Title Insurance or its equivalent, or private mortgage insurance, the appraisal, the environmental assessment, the engineering report, certificates of casualty or hazard insurance, credit information on the maker of the Mortgage Note; and (c) any other document listed in Exhibit B.

"Commitment" means the right and obligation of Lender to make Advances to Borrower under Section 1.1.

"Commitment Fee" has the meaning set forth in Section 3.5.

"Compliance Certificate" means a certificate executed on behalf of Borrower by its manager having principal financial accounting responsibilities, substantially in the form of Exhibit H.

"CONA Warehouse Agreement" means that certain Mortgage Warehouse Loan and Security Agreement dated as of August 25, 2010, among Arbor Commercial Mortgage, LLC, Arbor Commercial Funding, LLC, Capital One, National Association, as agent, and Capital One, National Association, as lender, as from time to time amended, supplemented, modified or restated.

"Control Person" means, Ivan Kaufman, and, at any time, any other Person who, directly or indirectly, has the power to vote 50% or more of the voting securities of Borrower or to direct or cause the direction of the management or policies of Borrower, whether through the ownership of voting securities, by contract, or otherwise.

"Damages" has the meaning set forth in Section 11.2(b).

"Debt Service Coverage Ratio" means, for any period of determination with respect to a Pledged Loan, the ratio of (i) the Property NOI for such period for such Pledged Loan, to (ii) the Property Debt Service for such period for such Pledged Loan.

"Debt Yield" means, as of any date of determination with respect to a Property, the ratio (expressed as a percentage) of (i) Property NOI, to (ii) the outstanding principal balance of the Lender's Advance against the Pledged Loan that is secured by such Property.

"Default" means the occurrence of any event or existence of any condition that, but for the giving of Notice or the lapse of time, would constitute an Event of Default.

"Default Rate" means, for any Advance, the per annum rate which is five percent (5%) greater than rate of interest otherwise applicable to such Advance.

"Distribution" means any declaration to make, any making of, any payment of, or any incurrence of any liability to make (i) any distribution on account of any membership interests in any Borrower, or (ii) any distribution through loans, or any other method, of cash, capital, funds or other assets of any Borrower, to the holder of any equity or membership interest in Borrower.

"Domestic Rate Advance" means any Advance during such time as it bears interest at the Applicable Base Rate.

"Eligible Loan" means a Mortgage Loan that satisfies the conditions and requirements set forth in Exhibit C.

"Equity Interests" means all shares, interests, participations or other equivalents, however, designated, of or in a Person (other than a natural person), whether or not voting, including common stock, membership interests, warrants, preferred stock, convertible debentures and all agreements, instruments and documents convertible, in whole or in part, into any one or more of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974 and all rules and regulations promulgated under that statute, as amended, and any successor statute, rules, and regulations.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is a member of a group of which the Borrower is a member and that is treated as a single employer under Section 414 of the Internal Revenue Code.

"Estimated Interest Payment" means for any period of calculation, the amount of interest estimated by the Lender to accrue on the unpaid principal balance of the Loan for such period.

"Event of Default" means any of the conditions or events set forth in Section 10.1.

"Executive Order" has the meaning set forth in Section 6.18.

"Fannie Mae" means Fannie Mae, a corporation created under the laws of the United States, and any successor corporation or other entity.

"Federal Funds Rate" means, for any day, the rate per annum (rounded upward to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate quoted to the Lender by federal funds dealers selected by the Lender on such day on such transaction as determined by the Lender.

"FHA" means the Federal Housing Administration and any successor agency or other entity.

“FICA” means the Federal Insurance Contributions Act and all rules and regulations promulgated under that statute, as amended, and any successor statute, rules and regulations.

“FIRREA” means the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all rules and regulations promulgated under that statute, as amended, and any successor statute, rules, and regulations.

“First Mortgage” means a Mortgage that constitutes a first Lien on the real property and improvements described in or covered by that Mortgage.

“First Mortgage Loan” means a Mortgage Loan secured by a First Mortgage.

“Foreign Assets Control Regulations” has the meaning set forth in Section 6.18.

“GAAP” means generally accepted accounting principles set forth in opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and in statements and pronouncements of the Financial Accounting Standards Board, or in opinions, statements or pronouncements of any other entity approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

“Ginnie Mae” means the Government National Mortgage Association, an agency of the United States government, and any successor agency or other entity.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, and any Person exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to government.

“Guarantor” means Arbor Realty Trust, Inc., a Maryland corporation.

“Hedging Arrangements” means, with respect to any Person, any agreements or other arrangements (including interest rate swap agreements, interest rate cap agreements and forward sale agreements) entered into to protect that Person against changes in interest rates or the market value of assets.

“HUD” means the Department of Housing and Urban Development, and any successor agency or other entity.

“Indebtedness” means, as to any Person, all obligations, contingent and otherwise, that in accordance with GAAP should be classified upon the consolidated balance sheet of such Person and such Person’s Subsidiaries as liabilities, or to which reference should be made by footnotes thereto, including in any event and whether or not so classified: (a) all obligations for borrowed money or other extensions of credit whether secured or unsecured, absolute or contingent, including, without limitation, unmatured reimbursement obligations with respect to letters of credit or guarantees issued for the account of or on behalf of such Person and its Subsidiaries and all obligations representing the deferred purchase price of property; (b) all obligations evidenced by bonds, notes, debentures or other similar instruments; (c) all liabilities secured by any mortgage, pledge, security interest, lien, charge, or other encumbrance existing on property owned or acquired subject thereto, whether or not the liability secured thereby shall have been assumed; (d) all guarantees, endorsements and other contingent obligations whether direct or indirect, in respect of indebtedness of others or otherwise, including any obligations under Hedging Arrangements and otherwise with respect to puts, swaps, and other similar undertakings, any obligation to supply funds to or in any manner to invest in, directly or indirectly, the debtor, to purchase indebtedness, or to assure the owner of indebtedness against loss, through an agreement to purchase goods, supplies, or services for the purpose of enabling the debtor to make payment of the indebtedness held by such owner or otherwise, and the obligations to reimburse the issuer in respect of any letters of credit; and (e) that portion of all obligations arising under capital leases that is required to be capitalized on the consolidated balance sheet of such Person and its Subsidiaries; but excluding, in all events obligations arising under operating leases and accounts payable arising in the ordinary course of business.

"Indemnified Parties" has the meaning set forth in Section 11.2(b).

"Interest Adjustment Payment" means for any period of calculation, the difference between (x) the amount of interest actually accrued on the unpaid principal balance of the Loan for such period, and (y) the Estimated Interest Payment paid to the Lender for such period.

"Interest Payment" means the Estimated Interest Payment, plus or minus, as the case may be, the Interest Adjustment Payment.

"Interim Statement Date" means the date of the most recent unaudited financial statements of the Borrower (or the Guarantor, as applicable) (and, if applicable, Borrower's (or Guarantor's, as applicable) Subsidiaries, on a consolidated basis) delivered to Lender under this Agreement.

"Internal Revenue Code" means the Internal Revenue Code of 1986, Title 26 of the United States Code, and all rules, regulations and interpretations issued under those statutory provisions, as amended, and any subsequent or successor federal income tax law or laws, rules, regulations and interpretations.

"Investment Company Act" means the Investment Company Act of 1940 and all rules and regulations promulgated under that statute, as amended, and any successor statute, rules, and regulations.

"Late Charges" has the meaning provided in Section 3.9.

"Lender" has the meaning set forth in the Preamble to this Agreement.

"Libor Rate Advance" means any Advance during such time as it bears interest at the Applicable Libor Rate."

"Lien" means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature of such an agreement and any agreement to give any security interest).

"Line of Credit Limit" means Fifty Million Dollars ($50,000,000).

"Line of Credit Note" has the meaning set forth in Section 1.3.

"Loan" has the meaning set forth in Section 1.5.

"Loan Documents" means this Agreement, the Line of Credit Note, the Guaranty, the Environmental Indemnity, and any agreement of Borrower or Guarantor for the benefit of the Lender relating to Subordinated Debt, and each other document, instrument or agreement executed by the Borrower and/or Guarantor in connection with any of those documents, instruments and agreements, as originally executed or as any of the same may be amended, restated, renewed or replaced.

"London Banking Day" means any Business Day that is also a day on which dealings in Dollar deposits are conducted in the London interbank market and commercial banks are open for international business in London.

"Margin Stock" has the meaning assigned to that term in Regulation U of the Board of Governors of the Federal Reserve System, as amended.

"Maturity Date" has the meaning set forth in Section 1.2.

"Miscellaneous Fees and Charges" means the miscellaneous fees set forth on Lender's fee schedule attached as Exhibit I and all miscellaneous disbursements, charges and expenses incurred by or on behalf of Lender for the handling and administration of Advances and Collateral, including costs for Uniform Commercial Code, tax lien and judgment searches conducted by Lender, filing fees, charges for wire transfers and check processing charges, charges for security delivery fees, charges for overnight delivery of Collateral to Investors, recording fees, Lender's treasury, management and other service fees and overdraft charges. Upon not less than 3 Business Days' prior Notice to Borrower, Lender may modify Exhibit I and the fees set forth in it to conform to current Lender practices and, as so modified, the revised Exhibit I will become part of this Agreement.

"Minimum Deposit Requirement" has the meaning set forth in Section 7.15.

"Mortgage" means a mortgage or deed of trust on real property that is improved and substantially completed.

"Mortgage-backed Securities" means securities that are secured or otherwise backed by Mortgage Loans.

"Mortgage Loan" means any loan evidenced by a Mortgage Note and secured by a Mortgage and, if applicable, a Security Agreement.

"Mortgage Note" means a promissory note secured by one or more Mortgages and, if applicable, one or more Security Agreements.

"Mortgage Note Amount" means, as of any date of determination, the then outstanding and unpaid principal amount of a Mortgage Note (whether or not an additional amount is available to be drawn under that Mortgage Note).

"Mortgage Pool" means a pool of one or more Pledged Loans on the basis of which a Mortgage-backed Security is to be issued.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA, to which either Borrower or any ERISA Affiliate of Borrower has any obligation with respect to its employees.

"Multifamily Property" means real property that contains or that will contain more than 4 dwelling units.

"Net Income (or Deficit)" means, with respect to any fiscal period, the consolidated net income (or deficit) of the subject Borrower, after deduction of all expenses, taxes, and other proper charges, determined in accordance with GAAP.

"Non-Usage Fee" has the meaning set forth in Section 3.4.

"Notices" has the meaning set forth in Section 11.1.

"Obligations" means all Indebtedness, obligations and liabilities of Borrower to the Lender (whether now existing or arising after the date of this Agreement, voluntary or involuntary, joint or several, direct or indirect, absolute or contingent, liquidated or unliquidated, or decreased or extinguished and later increased and however created or incurred), including Borrower's obligations and liabilities to Lender (a) under the Loan Documents, (b) for disbursements made by Lender for Borrower's account, (c) for overdrafts, (d) for automated clearinghouse exposure, and (e) under any Hedging Arrangement to which Lender is a counterparty.

"Other Taxes" has the meaning set forth in Section 3.13(b).

"Overnight Federal Funds Rate" means for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 1:00 p.m. (New York time) on such day on such transactions received by the Lender from three Federal funds brokers of recognized standing selected by the Lender in its sole discretion.

"Participant" has the meaning set forth in Section 11.8.

"Person" means and includes natural persons, corporations, limited liability companies, limited liability partnerships, limited partnerships, general partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governments and agencies and political subdivisions of those governments.

"Plan" means each employee benefit plan (whether in existence on the date of this Agreement or established after that date), as that term is defined in Section 3 of ERISA, maintained for the benefit of directors, officers or employees of Borrower or any ERISA Affiliate.

"Pledged Loans" has the meaning set forth in Section 4.1(b).

"Prime Rate" means on any day, the rate of interest per annum then most recently established by Lender as its "prime rate," it being understood and agreed that such rate is set by Lender as a general reference rate of interest, taking into account such factors as Lender may deem appropriate, that it is not necessarily the lowest or best rate actually charged to any customer or a favored rate, that it may not correspond with future increases or decreases in interest rates charged by other Lender or market rates in general, and that Lender may make various business or other loans at rates of interest having no relationship to such rate. If Lender ceases to exist or to establish or publish a prime rate from which the Prime Rate is then determined, the applicable variable rate from which the Prime Rate is determined thereafter shall be instead the prime rate reported in The Wall Street Journal (or the average prime rate if a high and a low prime rate are therein reported), and the Prime Rate shall change without notice with each change in such prime rate as of the date such change is reported.

"Prohibited Transaction" has the meanings set forth for such term in Section 4975 of the Internal Revenue Code and Section 406 of ERISA.

"Property" means a Multifamily Property securing a Mortgage Loan.

"Property Debt Service" means, for any period of determination, the sum of (i) the expenses of the borrower under a Pledged Loan for such period for interest payable with respect to such Pledged Loan and all fees paid on account of or with respect thereto, plus (ii) regularly scheduled principal amortization payments made or required to be made on account of such Pledged Loan for such period, in each case determined in accordance with GAAP. Property Debt Service shall be calculated on an actual basis for any period of determination.

"Property NOI" means, for any period of determination, all revenues (except extraordinary revenues) derived from a Property minus all operating expenses incurred by the owner of such Property. Property NOI shall be calculated on an annualized basis using (i) a trailing 3-month Property NOI for the first three (3) months following the Advance, (ii) a trailing 6-month Property NOI for the six (6) months following the Advance, (iii) a trailing 9-month Property NOI for the nine (9) months following the

Advance, (iv) a trailing 12-month Property NOI for the twelve (12) months after the Advance and (v) a trailing 12-month Property NOI ending on any date of determination occurring later than twelve (12) months after the Advance. Property NOI shall in any event be subject to adjustments approved by the Lender for real estate taxes and insurance premiums accrued but not paid during any calculation period and extraordinary expenses incurred during any calculation period, and the calculation of Property NOI shall be subject to the reasonable approval of the Lender.

"Property Review Fee" has the meaning set forth in Section 5.2(b).

"Regulatory Change" means, with respect to Lender, any change effective after the Closing Date in Applicable Law (including, without limitation, Regulation D of the Board of Governors of the Federal Reserve System) or the adoption or making after such date of any interpretation, directive or request applying to a class of banks, including Lender, of or under any Applicable Law (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) by any Governmental Authority or monetary authority charged with the interpretation or administration thereof or compliance by Lender with any request or directive regarding capital adequacy.

"Release Amount" has the meaning set forth in Section 4.3(d).

"Restriction List" and "Restriction Lists" means each and every list of Persons to whom the Government of the United States prohibits or otherwise restricts the provision of financial services. For the purposes of this Agreement, Restriction Lists include the list of Specifically Designated Nationals and Blocked Persons established pursuant to Executive Order 13224 (September 23, 2001) and maintained by the Office of Foreign Assets Control, U.S. Department of the Treasury, current as of the day the Restriction List is used for purposes of comparison in accordance with the requirements of this Agreement.

"Security Agreement" means a security agreement or other agreement that creates a Lien on personal property, including furniture, fixtures and equipment, to secure repayment of a Mortgage Loan.

"Servicing Contract" means, with respect to any Person, the arrangement, whether or not in writing, under which that Person has the right to service Mortgage Loans including, without limitation, the right to service Mortgage Loans originated by Borrower.

"Statement Date" means the Audited Statement Date or the Interim Statement Date, as applicable.

"Subordinated Debt" means (a) all Indebtedness of the Borrower for borrowed money that is effectively subordinated in right of payment to all present and future Obligations of Borrower either (1) under a Subordination of Debt Agreement on the form prescribed by Lender or (2) otherwise on terms acceptable to Lender, and (b) solely for purposes of Section 8.4, all Indebtedness of Borrower that is required to be subordinated by Sections 5.1(b) and 7.11.

"Subordination of Debt Agreement" has the meaning set forth in Section 5.1(b).

“Subsidiary” means any corporation, partnership, association or other business entity in which more than 50% of the shares of stock or other ownership interests having voting power for the election of directors, managers, trustees or other Persons performing similar functions is at the time owned or controlled by any Person either directly or indirectly through one or more Subsidiaries of that Person.

“Taxes” has the meaning set forth in Section 3.13(c).

“Third Party Custodial Deposit Account” means any account maintained by Borrower at the Lender, the proceeds of which have been designated by the Borrower for the benefit of third parties, including, without limitation, the Borrower’s payroll accounts or pension fund accounts for the benefit of the Borrower’s employees.

“Trading With the Enemy Act” has the meaning set forth in Section 6.18.

“Trust Receipt” means a trust receipt in a form approved by and under which Lender may deliver any document relating to the Collateral to Borrower for correction or completion.

“UCC” means the Uniform Commercial Code as presently in effect in Massachusetts (Mass. Gen. Laws, Ch. 106), or any applicable jurisdiction.

“Unused Portion” has the meaning set forth in Section 3.4.

“Used Portion” has the meaning set forth in Section 3.4.

“Warehousing Fee” has the meaning set forth in Section 5.2(b).

12.2 Other Definitional Provisions; Terms of Construction

12.2(a) Accounting terms not otherwise defined in this Agreement have the meanings given to those terms under GAAP.

12.2(b) Defined terms may be used in the singular or the plural, as the context requires.

12.2(c) All references to time of day mean the then applicable time in Boston, Massachusetts, unless otherwise expressly provided.

12.2(d) References in Loan Documents to Sections, Exhibits, Schedules and like references are to Sections, Exhibits, Schedules and the like in and to such Loan Document unless otherwise expressly provided.

12.2(e) References in a Loan Document to any document, instrument, or agreement (i) shall include all exhibits, schedules, and other attachments thereto, (ii) shall include all documents, instruments, or agreements issued or executed in replacement thereof, to the extent permitted hereby or thereby, and (iii) shall mean such document, instrument, or agreement, or replacement thereof, as amended, supplemented, restated, or otherwise modified from time to time to the extent permitted hereby or thereby and in effect at any given time.

12.2(f) The words “include,” “includes” and “including” are deemed to be followed by the phrase “without limitation.”

12.2(g) Unless the context in which it is used otherwise clearly requires, the word “or” has the inclusive meaning represented by the phrase “and/or.”

12.2(h) All incorporations by reference of provisions from other agreements are incorporated as if such provisions were fully set forth into this Agreement, and include all necessary definitions and related provisions from those other agreements. All provisions from other agreements incorporated into this Agreement by reference survive any termination of those other agreements until the Obligations of Borrower under this Agreement and the Line of Credit Note are irrevocably paid in full and the Commitment is terminated.

12.2(i) All references to the Uniform Commercial Code shall be deemed to be references to the Uniform Commercial Code in effect on the date of this Agreement in the applicable jurisdiction.

12.2(j) Unless explicitly set forth to the contrary, a reference to a “Subsidiary” means a Subsidiary of the Borrower or a Subsidiary of such Subsidiary, and a reference to an “Affiliate” means an Affiliate of the Borrower.

12.2(k) All references to money (including the symbol “$”) are to lawful currency of the United States.

12.2(l) References to any Person include that Person’s heirs, personal representatives, successors, trustees, receivers, and permitted assigns.

12.2(m) Unless the context in which it is used otherwise clearly requires, all references to days, weeks and months mean calendar days, weeks and months.

END OF ARTICLE 12

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as an instrument under seal of the date first above written.

BORROWER:

ARBOR REALTY SR, INC.,
a Maryland corporation

By: /s/ John Natalone
Name: John Natalone
Title: Executive Vice President

LENDER:

CAPITAL ONE, NATIONAL ASSOCIATION,
a national banking association

By: /s/ Peter D. Leahy
Name: Peter D. Leahy
Title: Senior Vice President

EXHIBIT 31.1

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: August 5, 2011

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

EXHIBIT 31.2

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: August 5, 2011

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

EXHIBIT 32.1

CERTIFICATION OF CEO 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 quarterly period ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ivan Kaufman, as Chief Executive Officer 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 his 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.

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

Date: August 5, 2011

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, 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 written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 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.

EXHIBIT 32.2

CERTIFICATION OF CFO 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 quarterly period ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Paul Elenio, as Chief Financial Officer 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 his 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.

By: /s/ Paul Elenio

Name: Paul Elenio
Title: Chief Financial Officer

Date: August 5, 2011

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, 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 written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 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.