Arbor – December CLO Update

DSCR of the underlying portfolio continues to fall as delinquencies explode.

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December 22, 2023 – Arbor's underlying CLO performance data for December is now live. Sixty-nine of Arbor's CLO loans are now delinquent, representing a **50% growth in the number of delinquencies month-on-month**. Over $1.25b in Arbor deal value in its CLOs alone now delinquent and at risk.

In this December period, we can also show that Arbor has been removing non-performing loans from its CLO and plugged performing loans in the deals. This means that the continued, rapid deterioration of these books comes ***despite*** Arbor plugging holes in this leaky CLO ship.

This surveillance report will track Arbor's underlying asset delinquencies and debt service coverage ratios (**DSCR**), which now show clear and dangerous negative trends to the downside.

We reiterate our belief that Arbor is a donut. $0.00.

There is no rate cut large enough, no rate caps cheap enough, and no investors dumb enough to save Arbor.

Our original report, published on November 16, 2023, together with subsequent notes, can be found here:

https://viceroyresearch.org/2023/11/16/arbor-realty-trust-slumlord-millionaires/

Ballooning Distressed Portfolio

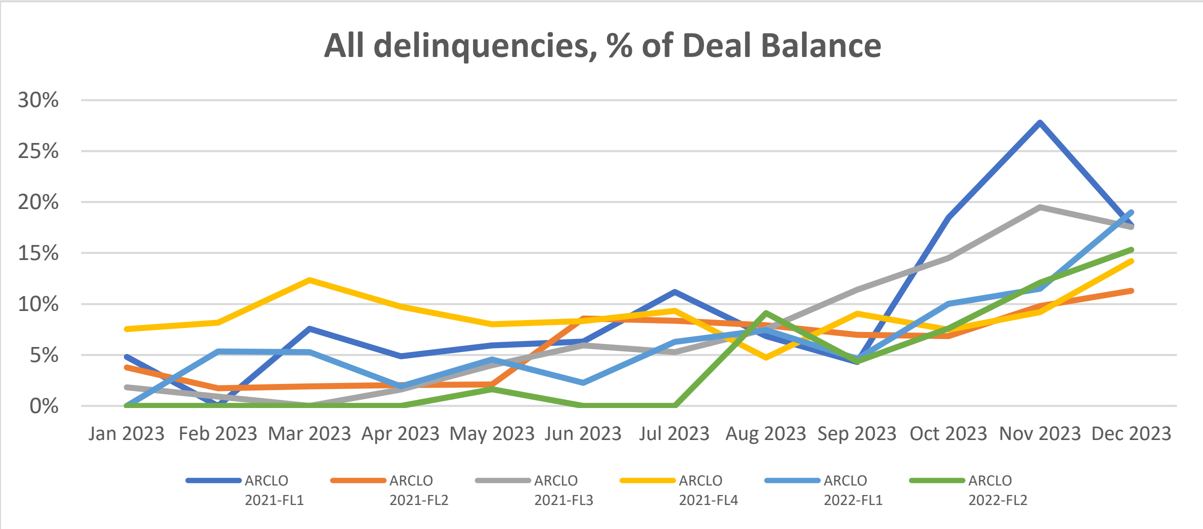
Arbor's November CLO vintages showed that delinquencies are up ~40-50% month on month. This trend has continued through December with a **50% increase** in the number of delinquent loans across CLOs.

# of Delinquent Loans Total	ARCLO 2021-FL1	ARCLO 2021-FL2	ARCLO 2021-FL3	ARCLO 2021-FL4	ARCLO 2022-FL1	ARCLO 2022-FL2	All deals
Jan 2023	2	2	1	3	0	0	8
Feb 2023	0	1	1	4	2	0	8
Mar 2023	2	1	0	4	2	0	9
Apr 2023	2	1	1	3	1	0	8
May 2023	2	1	3	2	3	1	12
Jun 2023	2	2	3	2	2	0	11
Jul 2023	6	2	3	3	4	0	18
Aug 2023	5	2	4	4	6	2	23
Sep 2023	4	2	7	5	4	2	24
Oct 2023	8	2	9	5	5	4	33
Nov 2023	11	5	11	7	8	4	46
Dec 2023	**15**	**4**	**12**	**19**	**13**	**6**	**69**
m/m change	*36.36%*	*-20.00%*	*9.09%*	*171.43%*	*62.50%*	*50.00%*	*50.00%*

Figure 1 – Viceroy Analysis from CLO trustee data

Delinquent deal balances of Arbor's two largest deals, ARCLO 2021-FL4 and ARCLO 2022-FL1, have compounded 54% and 65% ***month on month***, approaching 20%. There is a clear trend showing delinquencies skyrocketing.

Deal Balance All Delinquency %	ARCLO 2021-FL1	ARCLO 2021-FL2	ARCLO 2021-FL3	ARCLO 2021-FL4	ARCLO 2022-FL1	ARCLO 2022-FL2
Jan 2023	4.82%	3.78%	1.82%	7.53%	0.00%	0.00%
Feb 2023	0.00%	1.73%	0.92%	8.16%	5.34%	0.00%
Mar 2023	7.57%	1.91%	0.00%	12.34%	5.27%	0.00%
Apr 2023	4.87%	2.03%	1.61%	9.73%	1.93%	0.00%
May 2023	5.94%	2.09%	3.98%	8.01%	4.56%	1.63%
Jun 2023	6.31%	8.56%	5.95%	8.32%	2.26%	0.00%
Jul 2023	11.19%	8.35%	5.28%	9.34%	6.29%	0.00%
Aug 2023	6.85%	7.91%	7.55%	4.74%	7.44%	9.10%
Sep 2023	4.29%	6.97%	11.39%	9.04%	4.61%	4.37%
Oct 2023	18.46%	6.84%	14.52%	7.47%	10.03%	7.59%
Nov 2023	27.80%	9.80%	19.50%	9.20%	11.50%	12.10%
Dec 2023	**17.71%**	**11.29%**	**17.55%**	**14.21%**	**19.00%**	**15.32%**
m/m change	*-36.30%*	*15.24%*	*-9.98%*	*54.45%*	*65.22%*	*26.63%*



Figures 2 & 3 – Viceroy Analysis from CLO trustee data

We note that the CLOS which show m/m improvement are smaller deals and have less weighting on the aggregate delinquencies. We also note that these "improvements" are merely superficial. We evidence below that underperforming loans are simply transferred out of the CLO into Arbor's book, and replaced with performing loans.

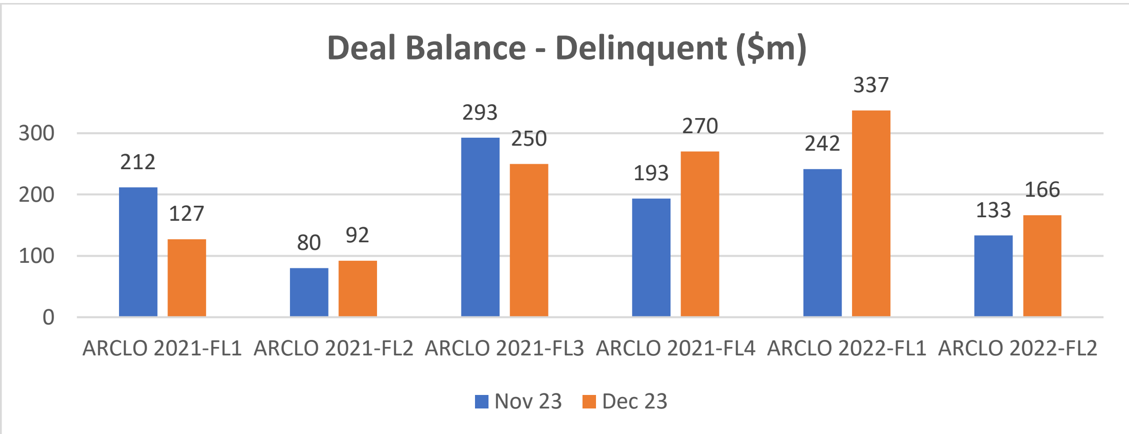


Figure 4 – Viceroy Analysis

Plugging Holes – CLO intra-period deal flow

A comparison of December underlying CLO data against October underlying CLO data shows that Arbor transacts with CLOs frequently. Per our case studies, we can show that Arbor buys several non-performing loan assets from the CLO (seemingly, at par) and plugs performing loans back into the CLOs.

Many delinquent loans remain delinquent, with only one loan over this period rehabilitated "30 day" to "<1 month" delinquency status.

We note that 4 loans that were formerly delinquent have been removed from the CLO. Arbor is adding performing loans to the CLO as the total number of loans has increased to 361 from 357 in our original report.

Loan delinquency change analysis	Number	Original balance	Weighted average DSCR
Existing delinquencies	33	626,991,821	0.43x
add: New delinquencies	39	667,164,230	0.46x
less: Formerly delinquent, removed	4	52,022,340	5.03x
Total current delinquencies	**68**	**1,242,133,711**	**0.46x**
of which:			
Longer delinquency	14	181,879,981	0.39x
Shorter delinquency	1	32,200,000	0.80x

Figure 5 – Viceroy Analysis

We are currently working on case studies on portfolios that have been added to/removed from CLOs.

Maintaining Appearances

The Arbor CLO has, itself, DSCR and LTV covenants which it must meet.

- The interest coverage ratio divides interest income by interest expense for the classes senior to those retained by Arbor.
- The overcollateralization ratio divides the total principal balance of all collateral in the CLO by the total principal balance of the bonds associated with the applicable ratio[1].

Cash Flow Triggers	CLO 12	CLO 13	CLO 14	CLO 15	CLO 16	CLO 17	CLO 18	CLO 19
Overcollateralization (1)								
Current	126.58 %	128.52 %	119.76 %	120.85 %	121.21 %	122.51 %	124.03 %	120.30 %
Limit	117.87 %	118.76 %	118.76 %	119.85 %	120.21 %	121.51 %	123.03 %	119.30 %
Pass / Fail	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Interest Coverage (2)								
Current	197.05 %	180.22 %	148.34 %	145.30 %	145.55 %	140.69 %	159.15 %	120.12 %
Limit	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %
Pass / Fail	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass

Figure 6 – Arbor Covenants, extract from 2022 10-K

If these covenants fail, Arbor will not receive any interest or principal on these loans until the accounts become current. We note that current vintages are already scraping past covenant tests.

The priority of payments given default shows that Arbor would not receive any funds in a default or delinquency situation until the Senior Participation is paid in full for their total interests in the CLO:

1. Senior - in an amount equal to the accrued and unpaid interest on the principal balance of the Senior Participation.
2. Senior - in an amount equal to its pro rata portion of payments of principal received with respect to the commercial real estate loan.
3. Senior - any unreimbursed realized losses previously allocated to the Senior Participation.
4. Junior - any unreimbursed cure payments or any unreimbursed costs (including advances) paid or reimbursed by the holder of the Junior Participation with respect to the commercial real estate loan.

[1] There are separate tests for defaulted securities, please refer to the 2022 10-K.

Like-For-Like

As we have previously reported: we believe the CLO sample data is largely representative of Arbor's book. For all intents and purposes, the structure loans in the CLO share the same metrics with other consolidated structure loans. They are so alike, in fact, that Arbor do not even segment out their wholly owned structure loan assets from consolidated CLO structured loans, for which they only have a residual interest.

- The weighted average interest rate of Arbor's consolidated structured bridge loans was 8.85%. The CLO weighted average rate is about 8.9% in the same period.
- The weighted average loan term of Arbor's consolidated structured bridge loans is 13.8 months. The average loan term in the CLO is about 13.5 months.
- The weighted average LTV of Arbor's consolidated structure bridge loans is 77%. The underlying LTV of the CLO is 77.6%.

Given that Arbor have been replacing delinquent loans in the CLO with performing loans from its own book suggests that, if anything, the CLO sample is a superior portfolio than Arbor's own book.

Impairment Testing

It is an objective truth that a substantial portion of Arbor's book is currently non-performing and has clearly trended this way over the last 12 months.

Despite this, Arbor's aggregate provision for impairments is a measly $90m across a >$12b multifamily portfolio. This is less than 1%. We will address this mater further and in context with GAAP in a letter to EY.

Arbor - Impairment Analysis	Q1-2021	Q2-2021	Q3-2021	Q4-2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022	Q1-2023	Q2-2023	Q3-2023
<u>**Loans considered impaired**</u>											
UPB											
Land	134,215	134,215	134,215	134,215	134,215	134,215	134,215	134,215	134,215	134,215	134,215
Multifamily										36,377	90,070
Office	2,151	2,136	2,096		1,962				44,625	44,625	45,025
Other	146,395	36,370	31,745	25,725	23,745	23,745	23,745	23,745	23,745	23,745	23,745
Total	282,761	172,721	168,056	159,940	159,922	157,960	157,960	157,960	202,585	238,962	293,055
Allowance for loss % of UPB											
Land	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%
Multifamily										13.74%	19.71%
Office	69.74%	70.22%	0.00%		76.45%				17.82%	17.82%	17.66%
Other	18.37%	53.24%	53.61%	35.05%	31.66%	31.66%	31.66%	31.66%	31.66%	31.83%	31.66%
Total	37.58%	57.16%	56.46%	54.32%	54.33%	54.06%	54.06%	54.06%	46.07%	41.17%	37.91%

Figure 7 – Viceroy Analysis

In what we believe is an inevitable wave of defaults across Arbor's books, we believe that Arbor will inevitably rely on recovery from collateral. We note the following:

- The current 10-year Treasury Bond Rate is ~4.0%, down from 4.6% when we began our investigations.
- The 2-year Treasury Bond rate is ~4.3%
- The 1-year Treasury Bond rate is ~4.8%
- The average Arbor book loan term is 13 months.
- The implied weighted cap rate of underlying CLO properties is ~4.7%.

There is no conceivable way that Arbor realizes the underlying value of the collateral in the event of mass default at a 600bps spread to the 10-year risk-free rate, and at a discount to the 1-year rate.

Given the CLO has an equity buffer of 22% it would only take a 5.6% cap rate to eliminate the equity buffer and an 8% cap rate adjustment would leave a $1.9b shortfall.

Further it would take an 87% increase in the NOI of the CLO loan book to justify the current appraisal value at an 8% cap rate.

CLO Valuation Refresher

At a very bullish 7% cap rate valuation, the delta to the true underlying value of this un-financeable portfolio will easily surpass ~22.5% LTV buffer, and destroy Arbor's entire equity tranche in the CLOs.

Residual Shortfall Analysis	
Outstanding Debt ($m)	6,375
Collateral ($m)	8,211
LTV	77.63%
NOI	357
Implied Cap Rate	4.35%
Revenue (i.e. interest income) ($m)	571
DSCR	0.63
LTV Buffer ($m)	1,836
Collateral @ 7% cap rate	5,101
@7% cap rate: variance	(3,110)
Net shortfall to ABR	**(1,274)**

Figure 8 – Viceroy Analysis

Given the case studies we have presented, and many more which we have sighted, this is a blue-sky scenario for several neglected 1970s-1980s units.

Conclusion

If it was not already obvious in our November CLO update, it is now. The writing is on the wall.

Viceroy is short Arbor Realty Trust (**NYSE : ABR**). In this industry plagued with delusion and bad decisions, Arbor stands out **as the worst of the worst**. Viceroy's dive into Arbor's CLOs suggest its entire loan book is distressed and underlying collateral is vastly overstated. These loans do not qualify for refinancing anywhere, and substantially all mature within the next 18 months.

We believe Arbor is a donut. $0.00.

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Viceroy encourage any parties with information pertaining to misconduct within Arbor Realty Trust, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

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