Arbor – January CLO Update

Delinquencies continue to compound at ~50% month/month. Over a quarter of CLO deals are now delinquent.

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January 22, 2024 – Arbor's underlying CLO performance data for January is now live. 107 of Arbor's CLO loans are now delinquent, representing a ~**50% growth in the number of delinquencies month-on-month, and now constituting over a quarter of Arbor's CLO book**. Those who have been following this saga will note that the growth in delinquencies has compounded at around this rate since October 2023.

Delinquent deals represent almost $2b in Arbor deal value, out of a $7.6b CLO book.

We have shown 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.

In January, debt service coverage data has also been updated. The weighted NOI of Arbor deals has continued to fall relative to debt servicing costs.

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.

We believe Arbor management have known about the immediate and extreme risk of delinquencies and impairments since early 2023. It has not communicated any audited, auditable, or verifiable impairment figures to investors to this effect.

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

https://viceroyresearch.org/category/arbor-realty-trust-nyseabr/

Ballooning Distressed Portfolio

Arbor's October CLO vintages showed that delinquencies are up ~40-50% month on month. This trend has continued through January with a 46**% increase** in the number of delinquent loans across CLOs.

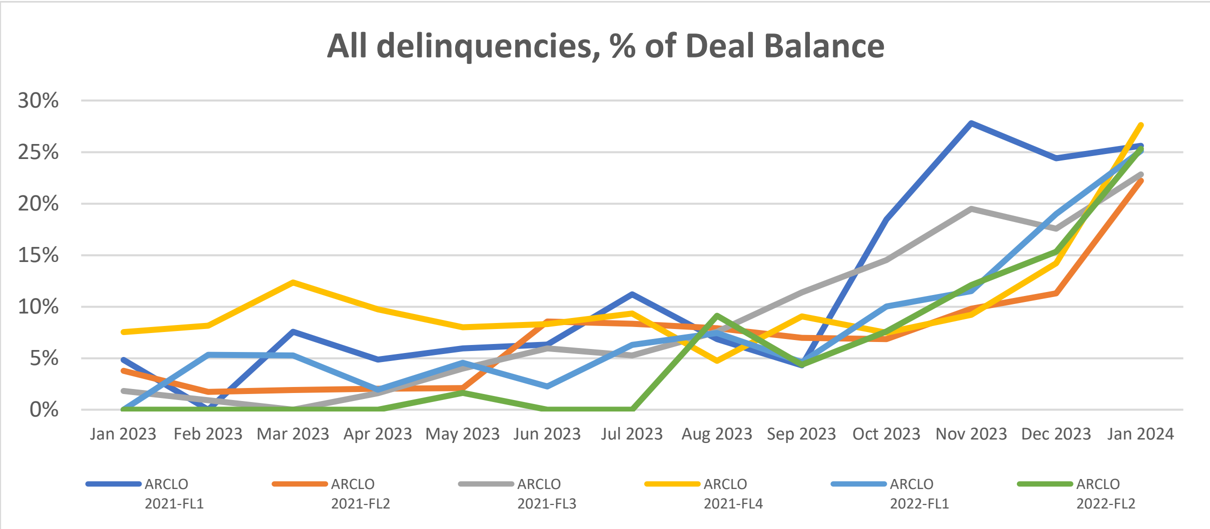
# of Delinquent Loans Total	ARCLO 2021-FL1	ARCLO 2021-FL2	ARCLO 2021-FL3	ARCLO 2021-FL4	ARCLO 2022-FL1	ARCLO 2022-FL2	All deals
Jan 2023	2	2	1	3	0	0	8
Feb 2023	0	1	1	4	2	0	8
Mar 2023	2	1	0	4	2	0	9
Apr 2023	2	1	1	3	1	0	8
May 2023	2	1	3	2	3	1	12
Jun 2023	2	2	3	2	2	0	11
Jul 2023	6	2	3	3	4	0	18
Aug 2023	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*	19	4	12	19	13	6	73
Jan 2024	**19**	**7**	**25**	**30**	**18**	**8**	**107**
m/m change	*0.00%*	*75.00%*	*108.33%*	*57.89%*	*38.46%*	*33.33%*	*46.58%*

Figure 1 – Viceroy Analysis from CLO trustee data

The rate at which Arbor's customers are falling delinquent has not decelerated.

Delinquent deal balances of Arbor's two largest deals, ARCLO 2021-FL4 and ARCLO 2022-FL1, have compounded 94% and 32% ***month on month***, approaching 30%. 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	5%	4%	2%	8%	0%	0%
Feb 2023	0%	2%	1%	8%	5%	0%
Mar 2023	8%	2%	0%	12%	5%	0%
Apr 2023	5%	2%	2%	10%	2%	0%
May 2023	6%	2%	4%	8%	5%	2%
Jun 2023	6%	9%	6%	8%	2%	0%
Jul 2023	11%	8%	5%	9%	6%	0%
Aug 2023	7%	8%	8%	5%	7%	9%
Sep 2023	4%	7%	11%	9%	5%	4%
Oct 2023	18%	7%	15%	7%	10%	8%
Nov 2023	28%	10%	20%	9%	12%	12%
Dec 2023	24%	11%	18%	14%	19%	15%
Jan 2024	**26%**	**22%**	**23%**	**28%**	**25%**	**25%**
m/m change	*5%*	*97%*	*30%*	*94%*	*32%*	*65%*



Figures 2 & 3 – Viceroy Analysis from CLO trustee data

We note that the CLOS which show m/m deceleration of delinquencies are smaller deals and have less weighting on the aggregate delinquencies.

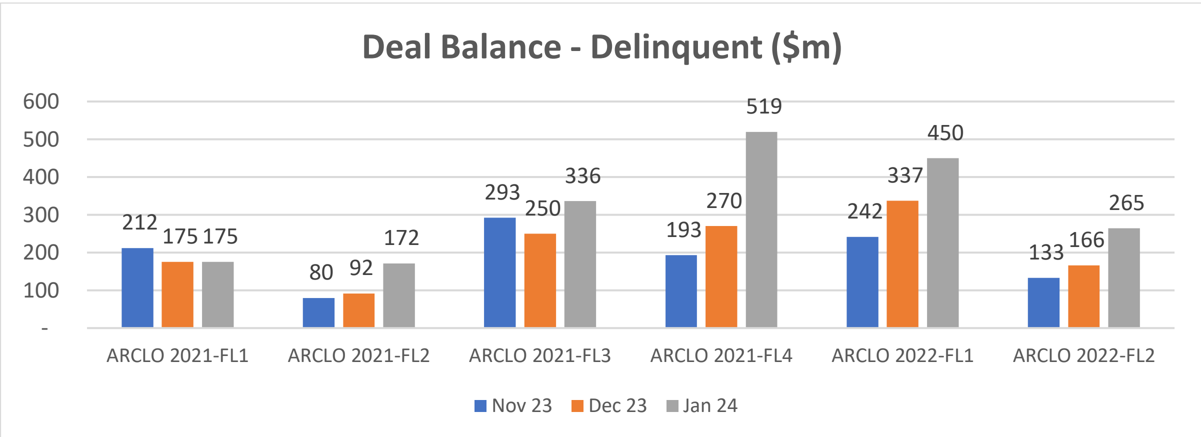


Figure 4 – Viceroy Analysis

Debt Service Coverage – Underlying Fundamentals Falling

The January trustee data provides updated underlying debt service coverage ratio (**DSCR**) for deals. This surveillance report will track Arbor's underlying asset delinquencies and debt service coverage ratios (**DSCR**), which show clear and dangerous negative trends to the downside.

Weighted avg NOI DSCR	ARCLO 2021-FL1	ARCLO 2021-FL2	ARCLO 2021-FL3	ARCLO 2021-FL4	ARCLO 2022-FL1	ARCLO 2022-FL2
1/04/2021	1.18x					
1/07/2021	1.54x	1.44x				
1/10/2021	1.30x	1.68x	1.47x			
1/01/2022	1.39x	1.55x	1.62x	1.39x	1.39x	
1/04/2022	1.33x	1.46x	1.53x	1.35x	1.34x	1.30x
1/07/2022	1.22x	1.42x	1.45x	1.22x	1.14x	1.10x
1/10/2022	1.01x	1.12x	1.35x	0.93x	0.88x	0.93x
1/01/2023	0.82x	0.76x	1.09x	0.72x	0.64x	0.76x
1/04/2023	0.91x	0.72x	0.90x	0.79x	0.82x	0.84x
1/07/2023	0.75x	0.67x	0.78x	0.68x	0.76x	0.78x
1/10/2023	0.66x	0.59x	0.64x	0.57x	0.62x	0.64x
1/01/2024	**0.61x**	**0.61x**	**0.59x**	**0.61x**	**0.56x**	**0.60x**
q/q change	*-8%*	*4%*	*-8%*	*6%*	*-9%*	*-5%*

Figure 5 – Viceroy Analysis

The data suggests that these underlying assets are becoming increasingly unprofitable. It also demonstrates that Arbor management were not playing with an appropriate margin of error at the best of times in 2021-2022, when SOFR rates were ~0%.

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 has 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 meager $90m across a >$12b multifamily portfolio. This is less than 1%. We will address this matter 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
Loans considered impaired											
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 ~4.1%, down from 4.6% when we began our investigations.
- The 2-year Treasury Bond rate is ~4.4%
- The 1-year Treasury Bond rate is ~4.8%
- The implied weighted cap rate of underlying CLO properties is ~3.8%.
- Arbor's loan book is inherently short-term.

There is no conceivable way that Arbor realizes the underlying value of the collateral in the event of mass default at a discount to the 10-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.

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 ($m)	**6,467.05**
Collateral ($m)	8,314.65
LTV	77.78%
NOI	317.96
Implied Cap Rate	3.82%
LTV buffer ($m)	1,848
Collateral @ 7% cap rate	**4,542**
Variance @ 7% cap rate	(3,772)
Net shortfall to $ABR	**(1,925)**

Figure 8 – Viceroy Analysis[2]

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, or the December CLO update, it should be 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.

[2] Adjusted for incomplete data (i.e. non-reported appraisal denominator values) and duplicate data (i.e. removal of duplicate appraisal value denominator from underlying properties with multiple loans) from CLO sample source.

Attention: Whistleblowers

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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