Arbor – March CLO Update

Arbor underlying delinquencies continue to compound rapidly, despite significant modifications and reserve drawdowns over the last month.

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March 18, 2024 – Arbor's underlying CLO performance data for March is now live. **66 of Arbor's CLO loans are now delinquent, representing 20% of its CLO book**. Those who have been following this saga now see that we are returning to the mean where Arbor's loan book is becoming distressed at an exponential rate after a window-dressing exercise in February 2024.

Our CLO data was provided by Cred iQ™ for those wishing check our calculations or work, available at: https://cred-iq.com/

Arbor continues its window-dressing exercise, nonetheless, having bought more distressed loans from its CLO and into its own book at par. We note that Arbor has made 9 modifications to loans in its CLO over the last quarter, **many of which are regarded as "credit risk impaired".**

This means that the continued, rapid deterioration of these books comes *despite* Arbor plugging holes in this leaky CLO ship.

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, if not prior. 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/arbor-realty-research/

Ballooning Distressed Portfolio

Arbor's March CLO vintages showed that delinquencies are up ~10% month on month.

Deal Balance All Delinquency $	ARCLO 2021-FL1	ARCLO 2021-FL2	ARCLO 2021-FL3	ARCLO 2021-FL4	ARCLO 2022-FL1	ARCLO 2022-FL2	Total
Nov 23	212	80	293	193	242	133	1,152
Dec 23	175	92	250	270	337	166	1,290
Jan 24	175	172	336	519	450	265	1,917
Feb 24	112	54	299	355	254	209	1,283
Mar 24	**60**	**53**	**262**	**353**	**323**	**383**	**1,434**
m/m change	*-46%*	*-3%*	*-12%*	*0%*	*27%*	*83%*	***12%***

Figure 1 – Viceroy Analysis from CLO trustee data

We note that many loans were cured via modifications, significant drawdowns on reserves, and further loan extensions in February 2024. Clearly, this was a temporary measure as you cannot kick the can down the road forever. This is reflected in this month's report.

Cured delinquencies vs Reserve balance change					Reserve balance		
Property name	Most recent NOI	Current note rate	Interest expense	NOI + Interest expense	Feb-24	Mar-24	Change in reserves
Commons at White Marsh	726,256	8.58%	(1,187,671)	**(461,415)**	540,983	487,251	**(53,732)**
Redstone Vista	90,370	8.78%	(128,017)	**(37,647)**	731,029	601,930	**(129,099)**
Parkview Village Apartments	214,873	9.18%	(227,967)	**(13,094)**	299,083	249,327	**(49,756)**
Kendall Manor	107,445	9.08%	(157,925)	**(50,480)**	454,537	423,626	**(30,911)**
Lakewood Oaks	46,185	8.38%	(101,587)	**(55,403)**	670,138	670,138	-
910 Apartments	(57,385)	9.93%	(248,622)	**(306,008)**	4,531,869	4,531,869	-
Manhattanville Portfolio	279,431	9.23%	(396,273)	**(116,841)**	309,349	-	**(309,349)**

Figure 2 – Viceroy analysis of reserves March 2024

Of the **7 properties with loans cured this month, 5 drew from the reserves including the Manhattanville portfolio which drew them down to zero.**

We also note that Arbor has to date refused to answer whether increased mezzanine finance activity relates to existing clients (we suspect that it does).

We have detailed February 2024 curing methods in our report "Baloney with a side of Flimflam".

Arbor's delinquencies are now well developed, as distressed loans flow from "<30 days" to ">30 days". We note that despite window dressing exercised in February, **the >30-day delinquencies have continued to rise very quickly.**

# of Delinquent Loans > 30 Days	ARCLO 2021-FL1	ARCLO 2021-FL2	ARCLO 2021-FL3	ARCLO 2021-FL4	ARCLO 2022-FL1	ARCLO 2022-FL2	All deals
Jan 2023	0	0	0	1	0	0	1
Feb 2023	0	0	0	2	0	0	2
Mar 2023	0	0	0	2	1	0	3
Apr 2023	0	1	0	1	0	0	2
May 2023	0	1	0	0	1	0	2
Jun 2023	1	0	1	2	0	0	4
Jul 2023	3	0	0	2	2	0	7
Aug 2023	3	0	2	0	2	0	7
Sep 2023	3	0	1	0	3	0	7
Oct 2023	3	2	2	3	3	0	13
Nov 2023	3	2	3	4	4	0	16
Dec 2023	4	0	5	13	7	1	30
Jan 2024	4	0	13	15	7	2	41
Feb 2024	4	0	13	16	5	2	**40**
Mar 2024	4	0	13	23	6	4	**50**
m/m change	***0%***	***N/A***	***0%***	***44%***	***20%***	***100%***	**25.00%**

Figure 3 – Viceroy Analysis from CLO trustee data

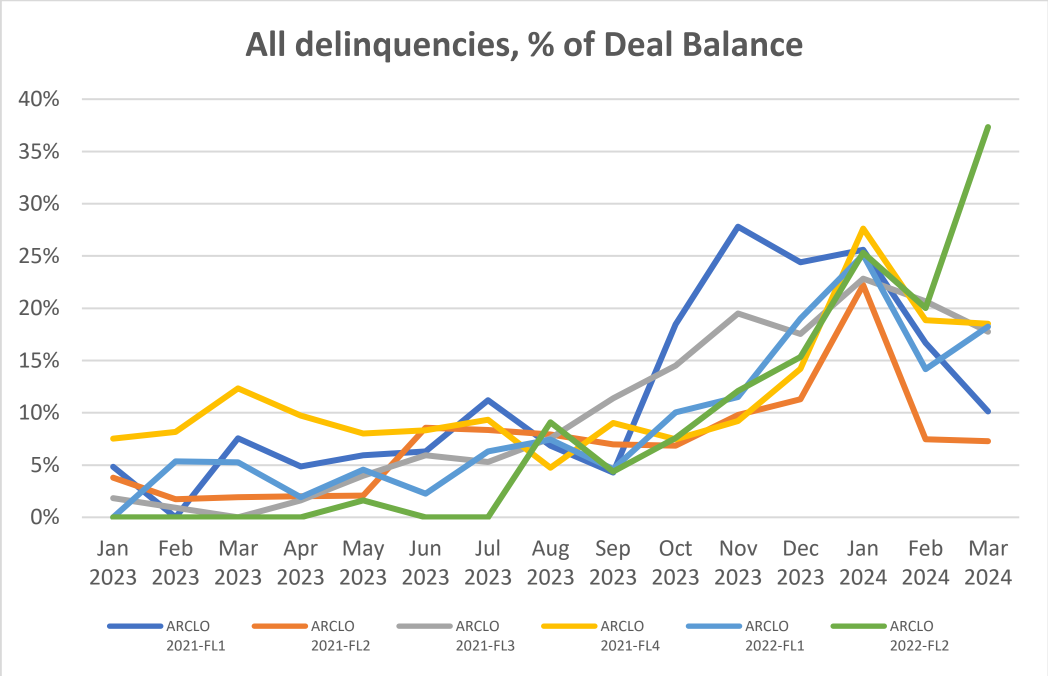

Figure 4 – Viceroy Analysis from CLO trustee data

We anticipate that delinquencies will continue to skyrocket as well over 90% of Arbor's borrowers are operating at significant losses. There is no medium-, short-, or long-term rate cut which can bring clients' books back into the black. We discuss this below:

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

Debt Service Coverage – Underlying Fundamentals Falling

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

A DSCR of 1 implies a property has sufficient operating profit to just meet its debt service costs. **A DSCR below 1 implies negative cash flow where the borrower will have to draw on external sources of funding or modify the loan to meet those costs. Arbor's DSCR's have continued in a negative trend.**

Weighted avg NOI DSCR	ARCLO 2021-FL1	ARCLO 2021-FL2	ARCLO 2021-FL3	ARCLO 2021-FL4	ARCLO 2022-FL1	ARCLO 2022-FL2
Jan-23	0.89x	0.85x	0.92x	0.70x	0.60x	0.83x
Feb-23	0.76x	0.73x	0.88x	0.74x	0.65x	0.69x
Mar-23	0.79x	0.72x	0.84x	0.69x	0.66x	0.70x
Apr-23	0.95x	0.79x	0.99x	0.87x	0.83x	0.86x
May-23	0.87x	0.70x	0.90x	0.79x	0.80x	0.82x
Jun-23	0.85x	0.69x	0.85x	0.69x	0.76x	0.84x
Jul-23	0.75x	0.69x	0.83x	0.72x	0.77x	0.81x
Aug-23	0.76x	0.68x	0.78x	0.67x	0.75x	0.79x
Sep-23	0.73x	0.64x	0.77x	0.63x	0.74x	0.70x
Oct-23	0.64x	0.57x	0.66x	0.56x	0.65x	0.64x
Nov-23	0.66x	0.63x	0.63x	0.57x	0.59x	0.64x
Dec-23	0.65x	0.64x	0.60x	0.60x	0.59x	0.65x
Jan-24	0.63x	0.58x	0.61x	0.63x	0.56x	0.62x
Feb-24	0.63x	0.59x	0.57x	0.57x	0.57x	0.62x
Mar-24	0.65x	0.60x	0.63x	0.59x	0.57x	0.61x

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 and 2022, when SOFR rates were ~0%. An ideal scenario would see improvements in DSCR as borrower progress their business plans.

This deterioration took place during the period when most loans were still subject to interest rate caps according to Arbor management. These caps will expire throughout the year, and we believe this will drive further dramatic portfolio deterioration.

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].

Our CLO compliance tests as of the most recent determination dates in January 2024 are as follows:

Cash Flow Triggers	CLO 14	CLO 15	CLO 16	CLO 17	CLO 18	CLO 19
Overcollateralization (1)						
Current	120.00 %	120.85 %	120.81 %	121.71 %	123.87 %	120.30 %
Limit	118.76 %	119.85 %	120.21 %	121.51 %	123.03 %	119.30 %
Pass / Fail	Pass	Pass	Pass	Pass	Pass	Pass
Interest Coverage (2)						
Current	151.42 %	157.34 %	150.93 %	136.66 %	137.10 %	134.89 %
Limit	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %
Pass / Fail	Pass	Pass	Pass	Pass	Pass	Pass

Figure 6 – Arbor Covenants, extract from 2023 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 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.

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%. This heavily suggests that any sales proceeds will be at a steep discount to the prices paid by borrowers.

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.

[1] There are separate tests for defaulted securities, please refer to the 2023 10-K.

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 $37m across a >$12b multifamily portfolio. This is less than 1%.

Loans Considered Impaired	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	q/q increase
MF Loans Impaired	-	-	36,377	90,070	272,493	*203%*
Carrying Value	-	-	36,202	87,995	260,291	*196%*
Allowance for Loss	-	-	5,000	17,750	37,750	*113%*

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 ~4.3%, down from 4.6% when we began our investigations.
- The 2-year Treasury Bond rate is ~4.7%
- The 1-year Treasury Bond rate is ~5.05%
- 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 of almost exclusively loss-making clients 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. This is sensible given the channel checks conducted by Viceroy into the quality of the underlying assets:

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

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.

[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.

Conclusion

If it was not already obvious in our previous CLO updates, it should be now.

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 13 months.

We believe Arbor is a donut. $0.00.

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

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