Arbor – April CLO Update

Arbor has modified 56 loans, many of which are severely distressed, in an attempt to superficially improve CLO delinquency metrics.

PLEASE READ IMPORTANT DISCLAIMER – PAGE 6

April 17, 2024 – Arbor's underlying CLO performance data for April is now live. **37 of Arbor's CLO loans are now delinquent, representing 11% of its CLO book**.

To superficially achieve this remarkable "rehabilitation" feat: Arbor has modified 56 loans in the past month.

These modifications substantially comprise of capitalization of interest, "temporary" rate reductions, forbearance agreements, maturity extensions and/or a combination of the same.

In total: Arbor have modified loans of 81 properties in 2024 alone. We note the following:

- The weighted DSCR of modified loans is ~55%, about 500bps lower than the average CLO weighted DSCR.
- The nature of many extended loans are various, high leverage loans secured against the same assets.
  - Adjusting for this: the LTV of loans modified in 2024 ranges between ~60% to 121%, with the average at about 85%.
- We reiterate that the LTV denominator, being the values of the properties, is ludicrous. The LTV is vastly understated.
  - We note that the cap rate of underlying assets whose loans were modified in 2024 is ~3.9% against a 10 year T-bill rate of 4.62%.

Arbor simply kicks the can down bankruptcy boulevard. Modified loans exhibit zero potential for any operational improvement.

In lieu of superficial, window-dressing modifications made in 2024 to mask distressed loans, over a third of Arbor's CLO loan book would have been distressed.

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

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.

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 distressed portfolio has superficially improved alongside loan modifications:

April 2024 Update	ARCLO 2021-FL1	ARCLO 2021-FL2	ARCLO 2021-FL3	ARCLO 2021-FL4	ARCLO 2022-FL1	ARCLO 2022-FL2
Total # deals/properties	40	33	69	92	66	39
< 1 Month	-	1	1	4	4	1
30 Days	-	-	6	3	1	2
60 Days	-	-	2	-	-	-
90+ Days	2	-	1	8	-	1
Modifications 2024 (#)	14	5	15	22	14	11
Total delinquent & modified	**16**	**6**	**25**	**37**	**19**	**15**
Total deal balance	**576,564,712**	**699,906,324**	**1,401,949,999**	**1,872,361,348**	**1,769,077,920**	**1,024,903,469**
< 1 Month	-	17,900,000	58,570,000	146,043,000	101,705,000	30,000,000
30 Days	-	-	87,775,000	31,145,000	32,500,000	81,700,000
60 Days	-	-	44,240,000	-	-	87,850,000
90+ Days	10,802,131	-	12,412,600	34,500,000	6,759,965	22,575,000
Modified	200,318,015	118,856,563	269,045,000	503,240,065	538,128,000	418,430,000
Total delinquent & modified	**211,120,146**	**136,756,563**	**472,042,600**	**714,928,065**	**679,092,965**	**640,555,000**

Figure 1 – Viceroy Analysis from CLO trustee data – EDIT 18 APRIL 2024[1]

Substantially the entire balance of ARCLO 2021-FL1 has been modified, as it has historically been the worst performing CLO portfolio.

The nature of the modifications is as follows:

Modifications	Count	Value
1: Maturity Date Extension	4	148,825,000
2: Amortization Change	0	-
3: Principal Write-Off	0	-
5: Temporary Rate Reduction	2	53,375,000
6: Capitalization on Interest	8	293,990,000
7: Capitalization on Taxes	0	-
8: Other	19	450,441,787
9: Combination	39	1,005,867,841
10: Forbearance	1	43,989,000
Unspecified	1	51,529,015

Figure 2 – Viceroy Analysis from CLO trustee data

Substantially all the modified loans were previously delinquent.

We reiterate that any perceived improvement in the quality of these loans is purely superficial.

- The weighted DSCR of modified loans is ~55%, about 500bps lower than the average CLO weighted DSCR.
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  - Adjusting for this: the LTV of loans modified in 2024 ranges between ~60% to 121%, with the average at about 85%.
- We reiterate that the LTV denominator, being the values of the properties, is ludicrous. The LTV is vastly understated.
  - We note that the cap rate of underlying assets whose loans were modified in 2024 is ~3.9% against a 10 year T-bill rate of 4.62%.

[1] A correction was made to this table on 18 April 2024, impacting the value of modified loans in ARCLO 2021-FL1

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[2].

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

[2] There are separate tests for defaulted securities, please refer to the 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.

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[3]

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 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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[3] 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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