Arbor – July 2024 CLO Update

Over 64% of Arbor's CLO loan book is delinquent and/or modified. DSCR sinks 500bps. Modifications have been erroneously, and possibly fraudulently, reported to the trustee.

PLEASE READ IMPORTANT DISCLAIMER – PAGE 8

July 25, 2024 – Viceroy have little confidence that Arbor will accurately portray the quality of its book in its earnings tomorrow. This surveillance report of Arbor's CLO for the month of July more accurately shows that Arbor's loan book is a raging dumpster fire.

According to Bloomberg, Arbor is under investigation by the DOJ and FBI.

The CLO Surveillance – July 2024

In stark contrast to management's assertions Arbor's loan book is severely distressed as a direct result of the financial ruin of their underlying investments. Arbor has adopted a pervasive strategy of "kicking the can" to put off mass impairments.

July 2024 Update	ARCREN 2021-FL1	ARCREN 2021-FL3	ARCREN 2021-FL4	ARCREN 2022-FL1	ARCREN 2022-FL2	Total
Total # deals/properties	**36**	**58**	**103**	**68**	**45**	**310**
< 1 Month	7	9	-	10	1	**27**
30 Days	-	3	1	1	3	**8**
60 Days	-	-	1	-	-	**1**
90+ Days	1	-	8	1	1	**11**
Modifications total (#)	20	38	46	38	26	**168**
*Adjustment for double count**	*(3)*	*(8)*	*(8)*	*(4)*	*(4)*	***(27)***
Total delinquent & modified	**25**	**42**	**48**	**46**	**27**	**188**
Total deal balance	**499,027,312**	**1,169,552,439**	**2,090,086,318**	**1,854,243,966**	**1,050,299,999**	**6,663,210,035**
< 1 Month	78,670,215	143,595,000	-	158,249,785	30,000,000	**410,515,000**
30 Days	-	44,975,000	48,733,000	29,805,000	55,100,000	**178,613,000**
60 Days	-	-	14,900,000	-	-	**14,900,000**
90+ Days	10,514,731	-	34,500,000	6,759,965	22,575,000	**74,349,696**
Modified	276,644,386	814,820,000	989,934,035	1,271,082,046	670,131,530	**4,022,611,997**
*Adjustment for double count**	*(60,764,731)*	*(129,045,000)*	*(34,500,000)*	*(98,500,000)*	*(86,575,000)*	***(409,384,731)***
Total delinquent & modified	**305,064,601**	**874,345,000**	**1,053,567,035**	**1,367,396,796**	**691,231,530**	**4,291,604,962**

Figure 1 – Viceroy July CLO Analysis

- Arbor has modified $4.0b of loans (~168 properties), representing ~64% of its ~$6.7b CLO portfolio (~333 properties).
  - Modified loans against 27 properties are already delinquent again.
  - The DSCR of modified loans is ~0.42x[1].
  - The LTV of modified loans is 79%, with an implied cap-rate valuation of ~4%.
  - A month-on-month review shows loans are being modified multiple times in successive months.
  - **A month-on-month review shows modifications are being erroneously reported.** We have had to alter the presentation of data in our summary to accommodate this.
- Arbor has provided favorable mezzanine financing to distressed clients to "rehabilitate" their loans.
  - These loans should be considered impaired, as they are non-recoverable.
- $680m of loans (~47 properties) in the CLO portfolios are delinquent.
  - The DSCR of the CLO portfolio is ~0.51x, **down 500bps from last quarter.**
  - The LTV of the CLO portfolio is ~80%, however Arbor appears to have revalued various properties in the last 3 months to subjectively alter this figure.
  - Substantially all of the underlying CLO investments are inherently unprofitable and functionally bankrupt.

[1] Both DSCR and LTV are adjusted for various loans against the same property.

Modification Errors

We note that Arbor has, intentionally or not, erroneously reported modification data in their CLO:

- Previously modified loans now appear to have modifications reversed. This is not possible.
- Arbor appears to have backdated modifications to 2023, which would therefore not appear on Viceroy's monthly surveillance reports which have (until now) only tracked loans modified in 2024.
- Loans from ARCLO 2021-FL2, which has been wound down, have been absorbed into other CLOs (ARCLO 2021-FL1 & ARCLO 2021-FL4). These loans are marked as having been modified at various times over the last 12 months, but were never reported as modified in ARCLO 2021-FL2.

Viceroy has not received a satisfactory answer as to why these discrepancies exist. We believe it is prudent that analysts pursue these discrepancies on tomorrow's conference call.

2021-FL1 – Group ID 318992 – Loan ID 43500

In June 2024's CREF report, this loan was market as being modified on April 1, 2024 (20240401). The modification code is "8", being "Other".

In July 2024's CREF report, this same loan is now market as being last-modified on 22 February 2023 (20230222). The modification code is "9", being a combination, and presumably proceeding "8".

ARCREN 2021-FL4 ID 316977 – Loan ID 316977– Group

In June 2024's CREF report, this loan was market as being last-modified on April 3, 2024 (20240403). The modification code is "8", being "Other".

In July 2024's CREF report, this same loan is now marked as being last-modified on April 25, 2023 (20230425). The modification code is "6", being "Capitalization on Interest".

2021-FL4 – Group ID 344376 – Loan ID 344376

In June 2024's CREF report, this loan was market as being last-modified on April 1, 2024 (20240403). The modification code is "9", being "Combination".

In July 2024's CREF report, this same loan is now marked as never having modified.

2021-FL4 – Group ID 349796 – Loan ID 349796

In June 2024's CREF report, this loan was market as being last-modified on January 30, 2024 (20240403). The modification code is "AOR", presumably to be confirmed.

In July 2024's CREF report, this same loan is now marked as never having modified.

2021-FL4 – Group ID 360028

This loan appears in 2021-FL4, having previously been a portfolio loan of wound-down 2021-FL2.

In June 2024's CREF report, this loan was market as having never been modified.

In July 2024's CREF report, this same loan, now in 2021-FL4, is said to have been modified on May 23, 2024 (20240523).

2021-FL4 – Group ID 346426

This loan appears in 2021-FL4, having previously been a portfolio loan of in the wound-down 2021-FL2.

In June 2024's CREF report, this loan was market as being last modified on February 23, 2024 (20240223).

In July 2024's CREF report, this same loan, now in 2021-FL4, is said to have been modified on March 18, 2024 (20240318).

Nature of Modifications

Viceroy have adjusted for as many erroneously reported loans as is feasible, however we note that if modified loans are being misreported, the data cannot be relied upon

Not only are recently modified loans falling delinquent once more: Arbor have taken to modifying loans in successive months in order to preserve the illusion of credit performance.

Modification Summary	Jun-24		Jul-24	
	Count	Value	Count	Value
Maturity Date Extension	9	261,372,290	10	441,295,000
Amortization Change	0	-	0	-
Principal Write-Off	0	-	0	-
Temporary Rate Reduction	1	32,500,000	0	-
Capitalization on Interest	8	287,770,081	16	322,270,081
Capitalization on Taxes	0	-	0	-
Other	59	1,326,256,848	53	1,504,059,833
Combination	74	1,460,991,278	88	1,710,998,083
Forbearance	1	43,989,000	1	43,989,000

Figure 2 – Modification Data

- There has been an enormous upswing in PIK, or "Capitalization on Interest", modifications. These PIK uncollected revenue amounts appear in "Other Assets", and do not appear to be impairment tested.
- We have verified with various distressed syndicates, including Elevate's "The Selena", that **Arbor provides mezzanine financing to existing delinquent customers in order to meet rent**. These loans are non-recoverable, amount to **revenue round-tripping**, and have not been impaired.
  - Arbor modified the interest of Elevate's $32m floating rate The Selena bridge loan to 6%. Elevate confirms that they did not purchase a rate-cap. This represents a discount of over 300bps to Arbor's book average
  - **Elevate** created a new CRE Debt investment vehicle to provide "fresh capital" to The Selena in the form of a "rescue loan" carrying interest at 18%. This rescue loan has a 2nd ranking lien on the Selena.
  - This "rescue loan" is presumably intended to meet Arbor's interest expenses on the 6% loan in the short term.
  - Arbor has rolled over $1.9m of outstanding interest and a further $4.4m mezzanine loan into a 3rd ranking lien.

Last Dollar %	Capital Stack Going Forward		Viceroy Notes:
57%	Arbor A Loan	$32,000,000	Fixed at 6.0% rate. Secured by first deed of trust on the Property
64%	Rescue Loan	$3,865,000	18% rate per year. Second ranking security.
76%	Arbor B Loan	$6,277,340	"Interest fully accrued until sale". Third ranking security.
100%	Existing Equity	$13,511,995	
	Total	**$55,654,335**	

Figure 3 – Extract from "The Selena" forecast provided by Elevate & Viceroy notes

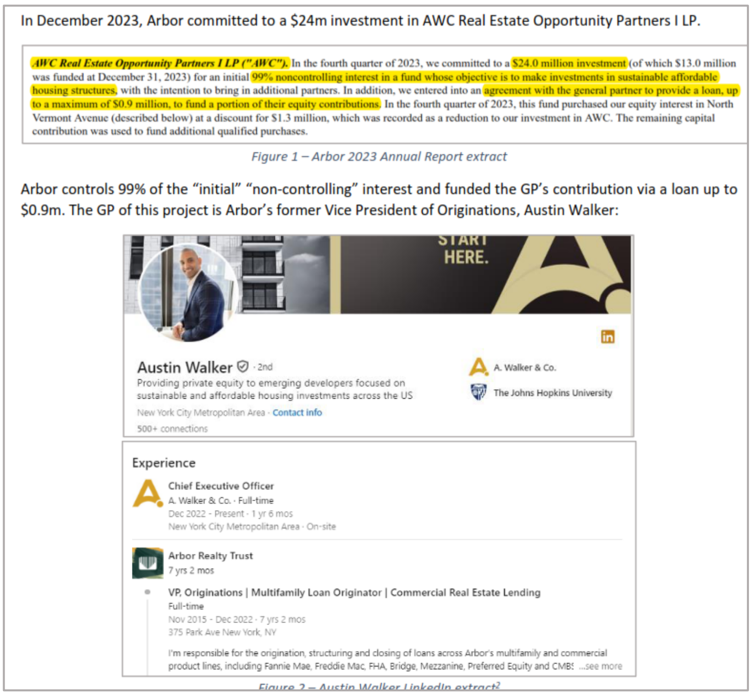
Modified loans appear non-recoverable. Arbor has simply kicked the can and created a *worse* financial position for the defrauded LPs of The Selena, who will no doubt be capital-called to continue funding this functionally bankrupt project.

The Fraud

Arbor makes substantial equity investments in off-balance sheet entities controlled by undisclosed associates to refinance its own purchase of distressed portfolios.

- Arbor has financed 99% of the “non-controlling interest” equity of an off-balance sheet entity, AWC Real Estate Opportunity Partners I LP, run by a former VP of Arbor, whose investment in the entity was also financed by Arbor. Arbor and share an office.
- The off-balance sheet entity, AWC, acquires foreclosed Arbor properties at an apparent premium.
- **The purchase of the foreclosed properties is financed by an Arbor bridge loan**, supplementary to the off-balance sheet entity’s deposit, also financed by Arbor. **Arbor does not disclose related party transactions of this nature** (the related party being itself).
- **Arbor states that these transactions are a Q2 2024 event and did not need to be reported to date. This is misrepresentation:**
  - These undisclosed related party structures were established and funded in 2023
  - Arbor will not/ would not have recognize losses on these foreclosures by financing the sale of foreclosed properties to off-balance sheet entities because it bought them from itself at par, not at a discount. **The intention was to kick the can at Arbor’s own expense.**
  - It beggars belief that this undisclosed, off-balance sheet structure was not established by Arbor for the sole purpose of bailing out bad loans.
- These transactions allow Arbor to feign arm’s-length transactions with off-balance sheet entities without disclosing conflicts of interest. Arbor retains 100% of the risk involved in these transactions.
- **Arbor has fraudulently overstated the value of its loan book through undisclosed, off-balance sheet, related party transactions.**

Viceroy has been unable to find details of other entities registered by AWC (being the Westchase related party), its members, and/or directors should also be flagged for transactions with Arbor. AWC appears to exist for the sole purpose of transacting with Arbor, shares an office with Arbor, and is entirely funded (debt and equity) by Arbor. Any other entities related to AWC and its members/directors are ostensibly related to Arbor.



In December 2023, Arbor committed to a $24m investment in AWC Real Estate Opportunity Partners I LP.

AWC Real Estate Opportunity Partners I LP ("AWC"). In the fourth quarter of 2023, we committed to a $24.0 million investment (of which $13.0 million was funded at December 31, 2023) for an initial 99% noncontrolling interest in a fund whose objective is to make investments in sustainable affordable housing structures, with the intention to bring in additional partners. In addition, we entered into an agreement with the general partner to provide a loan, up to a maximum of $0.9 million, to fund a portion of their equity contributions. In the fourth quarter of 2023, this fund purchased our equity interest in North Vermont Avenue (described below) at a discount for $1.3 million, which was recorded as a reduction to our investment in AWC. The remaining capital contribution was used to fund additional qualified purchases.

Figure 1 – Arbor 2023 Annual Report extract

Arbor controls 99% of the “initial” “non-controlling” interest and funded the GP’s contribution via a loan up to $0.9m. The GP of this project is Arbor’s former Vice President of Originations, Austin Walker:

Figure 2 – Austin Walker LinkedIn extract[2]

Figure 4 – Extract from Viceroy Research Report – The F Word

We note that there are several disclosed related party transactions between Arbor and entities controlled by Ivan, his family, or other officers of Arbor. The nature of these transactions are not in line with Arbor's regular business. It is worth investigating from whom related parties transacted for these investments (i.e. were these projects bought from defunct Arbor borrowers).

In May 2023, we committed to fund a $56.9 million bridge loan ($6.0 million was funded at December 31, 2023) for an SFR build-to-rent construction project. Two of our officers made minority equity investments totaling $0.5 million, representing approximately 4% of the total equity invested in the project. The loan has an interest rate of SOFR plus 5.50% with a SOFR floor of 3.25% and matures in December 2025, with two six-month extension options. Interest income recorded from this loan was $0.4 million for 2023.

In July 2022, we purchased a $46.2 million bridge loan originated by ACM at par ($6.3 million was funded at December 31, 2023) for an SFR build-to-rent construction project. A consortium of investors (which includes, among other unaffiliated investors, certain of our officers with a minority ownership interest) owns 70% of the borrowing entity and an entity indirectly owned and controlled by an immediate family member of our chief executive officer owns 10% of the borrowing entity. The loan has an interest rate of SOFR plus 5.50% and matures in March 2025. Interest income recorded from this loan was $0.2 million for 2023.

In April 2022, we committed to fund a $67.1 million bridge loan (none of which was funded at December 31, 2023) in an SFR build-to-rent construction project. An entity owned by an immediate family member of our chief executive officer also made an equity investment in the project and owns a 2.25% equity interest in the borrowing entity. The loan has an interest rate of SOFR plus 4.63% with a SOFR floor of 0.25% and matures in May 2025. Interest income recorded from this loan was $0.2 million and $0.1 million for 2023 and 2022, respectively.

In February 2022, we committed to fund a $39.4 million bridge loan ($9.4 million was funded at December 31, 2023) in an SFR build-to-rent construction project. An entity owned by an immediate family member of our chief executive officer also made an equity investment in the project and owns a 2.25% equity interest in the borrowing entity. The loan had an interest rate of LIBOR plus 4.00% with a LIBOR floor of 0.25%, that was changed to SOFR in July 2023, and matures in March 2025. Interest income recorded from this loan was $0.4 million and $0.1 million for 2023 and 2022, respectively.

In 2021, we invested $4.2 million for 49.3% interest in a limited liability company ("LLC") which purchased a retail property for $32.5 million and assumed an existing $26.0 million CMBS loan. A portion of the property can potentially be converted to office space, of which we obtain the right to occupy, in part. An entity owned by an immediate family member of our chief executive officer also made an investment in the LLC for a 10% ownership, is the managing member and holds the right to purchase our interest in the LLC.

In 2021, we originated a $63.4 million bridge loan to a third party to purchase a multifamily property from a multifamily-focused commercial real estate investment fund sponsored and managed by our chief executive officer and one of his immediate family members, which fund has no continued involvement with the property following the purchase. The loan had an interest rate of LIBOR plus 3.75% with a LIBOR floor of 0.25%, that was changed to SOFR in July 2023, and was scheduled to mature in March 2024. In December 2023, this loan paid off in full. Interest income recorded from this loan was $5.6 million, $3.7 million and $2.1 million for 2023, 2022 and 2021, respectively.

In 2020, we committed to fund a $32.5 million bridge loan, and made a $3.5 million preferred equity investment in an SFR build-to-rent construction project. An entity owned by an immediate family member of our chief executive officer also made an equity investment in the project and owns a 21.8% equity interest in the borrowing entity. The bridge loan had an interest rate of LIBOR plus 5.50% with a LIBOR floor of 0.75%, that was changed to SOFR in July 2023, and the preferred equity investment has a 12.00% fixed rate. Both loans were scheduled to mature in December 2023. In November 2023, the bridge loan was upsized to a maximum of $39.9 million ($31.4 million was funded at December 31, 2023) and the maturity date for both loans was extended to October 2024. Interest income recorded from these loans was $2.8 million, $1.3 million and $0.5 million for 2023, 2022 and 2021, respectively.

In 2020, we committed to fund a $30.5 million bridge loan, and we made a $4.6 million preferred equity investment in a SFR build-to-rent construction project. ACM and an entity owned by an immediate family member of our chief executive officer also made equity investments in the project and own an 18.9% equity interest in the borrowing entity. The bridge loan had an interest rate of LIBOR plus 5.50% with a LIBOR floor of 0.75% and was scheduled to mature in May 2023. The preferred equity investment has a 12.00% fixed rate and was scheduled to mature in April 2023. In April 2023, the bridge loan was upsized to a maximum of $38.8 million ($36.3 million was funded at December 31, 2023), and the interest rate was changed to SOFR plus 5.25% with a SOFR floor of 1.00%. In addition, the maturity on both loans was extended to May 2025. Interest income recorded from these loans was $3.6 million, $1.6 million and $0.6 million for 2023, 2022 and 2021, respectively.

Figure 5 – Extract from Arbor 2023 10-K

Given the investment in AWC (which was completely funded by Arbor) was still regarded as an off-balance sheet item due to lack of control, it is plausible that Ivan Kaufman has adopted the same deluded "hands-off, no control" policy for personal investments which may transact with Arbor, and which will not be flagged as related party transactions. We are unable to run searches for other entities owned or controlled by Ivan Kaufman, most notably AMAC Holdings, a firm run by the Kaufman family.

Arbor is uninvestable on this basis alone.

Arbor Investigations

Bloomberg reported on July 12, 2024, that Arbor was under investigation by the Department of Justice (**DOJ**) and the Federal Bureau of Intelligence (**FBI**).

> Federal prosecutors and the Federal Bureau of Investigation in New York are looking into Arbor Realty Trust Inc. on the heels of short seller attacks about the lender's practices and disclosures, according to people familiar with the matter.
>
> The investigators are inquiring about lending practices and the company's claims about the performance of their loan book, said the people, who asked not to be named discussing an ongoing investigation.

Figure 6 – Arbor Realty Probed by DOJ Over Lending Practices, Loan Book[2]

Viceroy notes that the reported inquiries are in line with our reporting into Arbor's fabricated loan book performance.

The Counterparty Investigations

Viceroy understands from whistleblowers that:

- **Arbor is under scrutiny relating to Freddie Mac's ban on brokerage Meridian Capital.** Arbor have underwritten Meridian originated loans.
- Freddie Mac's restricted vendor status on appraiser BBG **relates to many loans originated or underwritten by Arbor**, especially in relation to managing director Jon DiPietra which Freddie has refused to deal with.
- **Fannie Mae is running a parallel investigation into BBG-appraised loans**, also implicating DiPietra, **substantially all of which were originated or underwritten by Arbor**.

Arbor's CEO Ivan Kaufman has refused to comment on Arbor's exposure to Meridian despite explicit questions from analysts and investors.

We understand that combined value of Arbor's loans potentially subject to Fannie Mae repurchase demands, make-whole payments, or other loss-sharing agreements is ~$1.5b.

[2] https://www.bloomberg.com/news/articles/2024-07-12/arbor-realty-probed-by-us-doj-over-lending-practices-loan-book?embedded-checkout=true

The Results

Viceroy rejects the assertion that Arbor's financials have not yet seen the impact of distress:

- Arbor's borrowers are almost exclusively distressed. The underlying DSCR of Arbor's CLOs is now significantly below 0.6x and represents a majority of Arbor's book.
- Viceroy have obtained Capital Call letters from syndicates, confirming that Arbor is accepting modifications with significant PIK accruals.
- PIK accruals appear to contribute to an otherwise large and unknown working capital account titled "other assets", which is a $400m black hole.
- An analysis of Arbor's net debt spread vs SOFR shows Arbor's earnings quality and asset efficiency have deteriorated sharply since mid-2022.

We have attempted to clarify numerous poignant questions directly with Arbor management. Given every opportunity to clarify every issue raised in this report: management instead issued a press release advising investors to expect "Negative Press".

> Arbor Realty Trust Points to its Public Disclosures and Strong Performance in Light of Continued Negative Press from Short Interest
>
> UNIONDALE, N.Y., May 08, 2024 (GLOBE NEWSWIRE) -- Arbor Realty Trust, Inc. (NYSE: ABR), on Friday, May 3, 2024, released its first-quarter earnings press release and filed its first-quarter Form 10-Q. As you may be aware, Arbor has been, and continues to be the subject of certain "reports" by short sellers, who frequently make statements that reflect their opinions based on certain select data. In light of the current environment and the continued elevated short interest in our company, we anticipate more of these short seller "reports" in the near future, which may also be featured in the press. In an effort to minimize any confusion in the marketplace or with our investors, and instead of responding to each article that cites these "reports," we want to reiterate that we stand by Arbor's detailed filings, audited financial statements and the comments made on our earnings call. Rather than relying on short seller "reports," or press articles, we encourage everyone to carefully review our comprehensive public statements and disclosures. Our materials detail Arbor's continued success in managing through a very challenging environment and demonstrates our ability to consistently outperform our peers. Please refer to the Investor Materials page of the Investor Relations section of our corporate website for charts on our performance.

Rewind. Play.

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

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

https://viceroyresearch.org/arbor-realty-research/

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.

About Viceroy

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