July 11, 2024

Ernst & Young
ATT: Mr. Robert Franklin Hatch
One Manhattan West, 395 9th Avenue
New York 10001

By email: robert.hatch@ey.com

Dear Mr. Hatch,

Arbor Realty Trust, Inc.

We write to you in your capacity as Auditor of Arbor Realty Trust, Inc. ("**Arbor**"), a position you have held since 2003, and refer to our previous letters to you dated January 8, 2024, and May 14, 2024 (a copy of these letters are attached to this one).

As you are aware: there is overwhelming evidence to suggest that Arbor's loan book is significantly impaired. We have recently become aware that Arbor has been window-dressing delinquencies through uncommercial modifications and mezzanine financing transactions. These transactions have no economic substance, and appear to be round-tripping.

We note the following as of June 20, 2024:

June 2024 Update	ARCLO 2021-FL1	ARCLO 2021-FL2	ARCLO 2021-FL3	ARCLO 2021-FL4	ARCLO 2022-FL1	ARCLO 2022-FL2	Total
Total deal balance	**499,314,712**	**680,706,324**	**1,201,239,999**	**1,804,989,818**	**1,755,838,966**	**1,050,299,999**	**6,992,389,819**
< 1 Month	28,420,215	17,900,000	109,345,000	161,443,000	71,079,785	34,000,000	**422,188,000**
30 Days	-	-	32,200,000	14,900,000	57,805,000	21,100,000	**126,005,000**
60 Days	-	-	-	-	32,500,000	-	**32,500,000**
90+ Days	10,802,131	-	12,412,600	34,500,000	6,759,965	22,575,000	**87,049,696**
Modified	236,350,036	300,785,718	369,515,000	534,563,535	557,828,000	548,376,530	**2,547,418,819**
*Adjustment for double count**	*(10,514,731)*	-	*(70,475,000)*	*(123,810,000)*	*(37,100,000)*	*(55,100,000)*	***(296,999,731)***
Total delinquent & modified	**265,057,651**	**318,685,718**	**452,997,600**	**621,596,535**	**688,872,750**	**570,951,530**	**2,918,161,784**

** Double count adjustment for loans both modified and delinquent. This adjustment was not conducted in previous reports.*

Figure 1 – Viceroy CLO Analysis

- Arbor has modified $2.5b of loans (~111 properties) in the last 6 months, representing over a third of its $7b CLO portfolio (~333 properties).
  - Loans against 22 properties have fallen delinquent again.
  - The DSCR of modified loans is ~0.41x[1].
  - The LTV of modified loans is 79%, with an implied cap-rate valuation of 3.9%.
  - A month-on-month review shows loans are being modified multiple times in successive months to not appear impaired.
  - Arbor has provided extremely favorable mezzanine financing to distressed clients to "rehabilitate" their loans. These non-recoverable transactions also amounts to round tripping.
  - These loans should be considered impaired, as they are non-recoverable.
- $667m in loans (~47 properties) in the CLO portfolios are delinquent.
  - The DSCR of the CLO portfolio is ~0.6x and falling every quarter.
  - The LTV of the CLO portfolio is ~77%, however Arbor appears to have revalued various properties in the last 2 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 to account for various loans against the same property.

The Nature of Modifications – The Selena

Syndicators have explicitly confirmed that Arbor has kicked the can of delinquent loans at their own expense[2].

- Arbor has extended mezzanine financing to delinquent, foreclosed customers, such as the **Elevate Commercial Investment Group**, the owner of **The Selena** apartments. Elevate was ~1 year overdue on its bridge loan interest.
- 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 2 – Extract from "The Selena" forecast provided by Elevate & Viceroy notes

The Selena has $42m of debt against an independent valuation of $40.9m, which implies a current cap rate of 1.3%.

LTV Analysis - Viceroy Research	
Arbor A loan	$32,000,000
Rescue loan	$3,865,000
Arbor B loan	$6,277,340
Total debt	**$42,142,340**
Most recent value (Arbor CLO)	$40,980,000
LTV (valuation)	103%
Revenue (Dec 2023)	$3,743,590
Opex (Dec 2023)	$3,208,698
NOI	**$534,891**
Impied cap rate	**1.31%**
Occupancy (Dec 2023)	78.48%
Blue-sky revenue	$4,770,119
Opex (Dec 2023)	$3,208,698
Blue-sky NOI	**$1,561,421**
Blue-sky cap-rate	5.50%
Viceroy blue-sky valuation	$28,389,475
Viceroy blue-sky LTV	**148%**

Figure 3 – Viceroy Research LTV analysis

This blue-sky analysis generously (unrealistically) assumes:

- A 100% occupancy rate and corresponding increase in revenue.
- Fixed operating expenses.
- NOI uplift of ~200%.
- A cap rate of 5.5%, representing best-in-class assets in the current market.

Even with these imaginary numbers, Arbor still will not break even on its $32m loan when The Selena inevitably collapses. **Modified loans appear non-recoverable.**

[2] https://viceroyresearch.org/wp-content/uploads/2024/05/Arbor-Elevate-Case-Study.pdf

The Nature of Modifications – Capital Calls

Various parties have sent Viceroy documents outlining the terms offered by Arbor to distressed borrowers who require loan modifications. This syndicate project[3], for instance, requested a further $11.7m from its LPs (we understand that they did not meet this figure).

> considered represented a viable solution for [redacted] Accordingly, after weeks of negotiations with our lender, a favorable compromise was achieved, which will grant us the time we need to increase the property's value while ensuring sufficient cash flow for operations. In that respect, the property will require a capital infusion from investors to preserve the investment and ensure operations remain unaffected for the next 36 months. The required funding amounts to **$11,700,000** to be raised from all investors.

Figure 4 – Extract – GP request for additional capital contribution

The GP claims that Arbor have agreed to waive all debt covenant testing and agreed to a ***PIK accrual 1.75% of the debt service payments to the next capital event***.

> lender, further demonstrating the upwards potential of the asset. To remain in good standing under our loan agreement, we will be purchasing a new rate cap with a 1.50% strike rate. This will fix our interest rate on the loan at 5.45% (3.95 + 1.50). In exchange, the lender has agreed to accrue 1.75% of the debt service payments to the next capital event (sale, refinancing etc.), in addition to waiving all debt covenant testing and loan extension fees, thus providing us with a three-year extension until December 2026.

Figure 5 – Extract – GP request for additional capital contribution

This suggests that despite purchasing a 2% rate cap, the project would *still be cashflow negative*, only becoming positive when ABR allows the PIK accrual of interest to the "next capital event".

> **Working with our lender for the best possible solution.** Purchasing a one-year interest rate cap with a 1.50% strike brings our interest rate to 5.45%. With the lender agreeing to accrue 1.75%, our actual debt service payments will amount to 3.70% fixed. This will have a large impact on the property's operations, allowing it to cash flow positively during Q2 of 2024.

Figure 6 – Extract – GP request for additional capital contribution

We point out the following:

- Modified investors appear to have been effectively loan sharked into loan modifications.
- Modifications, even with expensive, extreme rate caps, will not bring projects into operational break-even DSCRs of >1.
- There remains little cash available to rehabilitate the properties which serve as collateral to Arbor's loans and are valued at 3.8% cap rates.
- A compounding accrual of interest will further encumber LPs, who are already driving non-performing projects.

We note that PIK accrual to the next capital event ostensibly refers to the sale of the investment property. We note that there is no blue-sky scenario where the proceeds of sale of this investment property will be sufficient to cover outstanding principal to Arbor, let alone accrued PIK interest.

[3] We are willing to allow the auditors to view an unredacted version of this capital call letter.

1.1 Other Assets

Arbor's "Other Assets" line has exploded since 2020 with very little transparency.

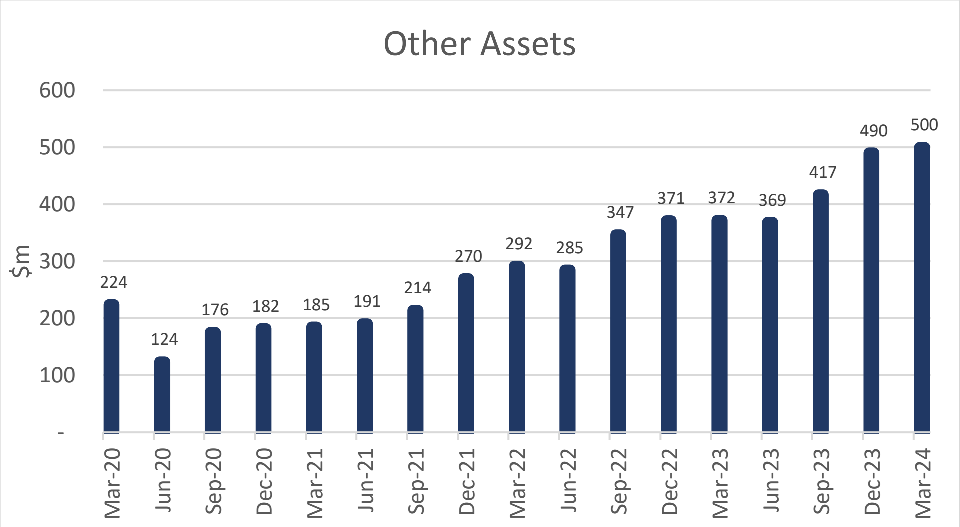

Figure 7 – Viceroy Analysis

Many have questioned management regarding the contents of this working capital account, and management have failed to provide a response beyond: "there's a lot of things netted in there". This is management-speak for "I don't want to tell you".

Jade Rahmani

Okay. Turning to cash flow performance. I understand that when we look at the cash flow statement, there's timing of loan originations for Fannie and Freddie and then the loan sales, which take place 30 to 60 days after that. So adjusting for that, were there any items that drove negative working capital? There is a category called other assets and liabilities, that working capital account. I think in the quarter was negative $200 million, which doesn't usually occur. I wanted to see if you could provide any color on that.

Paul Elenio

Yes. I have to look at what items you're talking about, a lot of things get netted into the cash flow. I'll take a look at the details, Jade, and I can call you after because there's a lot of things netted in there. But the cash flows were, I think, pretty stable compared to last quarter, but I'll get back to you on that item.

Jade Rahmani

Okay. But just overall, your feeling about cash flow performance is that it remains strong and steady. Is that how you would characterize it?

Figure 8 – Arbor Q1 2024 Conference Call Extract

We note the following:

- Other assets comprise at least $131m of PIK accruals. Arbor does not disclose what project(s) these relate to. Why is accrued interest not its own line item? Has accrued interest been tested for impairment?

At March 31, 2024 and December 31, 2023, accrued interest receivable related to our loans totaling $131.0 million and $124.2 million, respectively, was excluded from the estimate of credit losses and is included in other assets on the consolidated balance sheets.

Figure 9 – Arbor Q1 2024 10-Q extract

- These PIK assets are accruing at ~$6m a quarter or annualized at $24m a year. Given the nature of the terms Arbor has extended to its borrowers: the quantum of loans supporting these PIK accruals could be enormous. Has Arbor provided this figure to the auditors?

Auditor's Responsibility

Given the above, we reiterate our belief that Arbor's loans have been improperly impaired. If credit models provided by management do not reflect this, then you must further scrutinize this model. We note the following:

ASC 310-10-35-16

> A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement.

ASC 310-10-35-22

> When a loan is impaired (see paragraphs 310-10-35-16 through 35-17), a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan

Viceroy has identified various other transactions, spoken with various whistleblowers, and observed various suspicious transactions at Arbor since we published our report in November 2023.

We firmly believe that you have consistently failed to act, in your capacity as auditor, to assure the financial statements of Arbor are free of material misstatements, and to assure internal reporting controls are up to the standard required of a >$2b listed entity.

These lapses in judgement on your part has been brought to the attention the PCAOB. We believe Arbor's audit deserves intense scrutiny; a service we believe you are well equipped to perform. We understand your job is not to look for fraud, which is why we have brought it to you on a silver platter.

We remain at your service to field questions or provide documentation which may assist in your audit.

Please do not hesitate to contact us via email at viceroy@viceroyresearch.com.

Yours faithfully

Viceroy Research Team

cc. Mr. Cameron Darden
cameron.darden.ap@ey.com

info@ey.com

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

Viceroy Research are an investigative financial research group. As global markets become increasingly opaque and complex – and traditional gatekeepers and safeguards often compromised – investors and shareholders are at greater risk than ever of being misled or uninformed by public companies and their promoters and sponsors. Our mission is to sift fact from fiction and encourage greater management accountability through transparency in reporting and disclosure by public companies and overall improve the quality of global capital markets.

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January 8, 2024

Ernst & Young
ATT: Mr. Robert Franklin Hatch
One Manhattan West, 395 9th Avenue
New York 10001

By email: robert.hatch@ey.com

Dear Mr. Hatch,

Arbor Realty Trust, Inc.

We write to you in your capacity as Auditor of Arbor Realty Trust, Inc. ("**Arbor**"), a position you have held since 2003.As you may be aware, Viceroy Research published its findings from a lengthy investigation into Arbor Realty Trust on November 16, 2023. A full copy of our report, Slumlord Millionaires, and subsequent updates/reports ("**Reports**") can be found in the link below:

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

Viceroy Research is of the opinion that Arbor's financial statements and credit impairment models are fundamentally flawed. Arbor has made miniscule provisions for what we believe is an obvious wave of delinquencies which will significantly impair its book.

This is not a radical opinion. The circumstances that have led to this conclusion are wholly laid out in Arbor's risk profile in its own 10-K and prospectuses. Indeed, this opinion has been echoed by almost every reputable business journal in the country.

- Arbor's multifamily residential loan portfolio appears to be materially distressed. A review of Arbor's CLO-14 through CLO-19 data, which represents $7.5b of balance sheet assets, shows the following:
  - Approximately 17% of Arbor's CLO loans are delinquent. Many appear to have defaulted.
  - 92% of Arbor's CLO assets by loan value have a debt service coverage ratio ("**DSCR**") of less than 1.0x.
  - 20% of Arbor's CLO assets by loan value have a DSCR of less than 0.4x.
  - The underlying LTV of Arbor's CLO assets ~77%[1]. These underlying assets are valued at implied cap rates of 3.8%, the same as the 10-year risk free treasury bill market rate. They are inflated.
- There does not appear to be a viable rehabilitation strategy to refinance Arbor's loan book. The loans do not qualify for agency loans, and will not feasibly qualify for refinancing elsewhere in the absence of large equity capital injections.
  - A review of underlying CLO data shows rate caps has substantially expired. According to trustee data, only 11 of over 360 loans have lifetime rate caps.
- An empirical review of Arbor's internal controls indicates they have failed.
  - All loans are approved by a 3-person executive committee comprised of the CEO, COO, and Executive VP of Structured Finance, who concurrently appear to also transact with Arbor as borrowers (directly and/or indirectly).
  - Substantially all of Arbor's properties underlying CLO assets which we have investigated, at a high level, have not been rehabilitated and have foregone/cut down on maintenance as their ability to service interest costs has inflated.
  - Tenants have advised that properties have not been inspected for over 5 years.
  - A review of Arbor's borrowers, particularly syndicate sponsors, indicates that a vast number of debtors are unsophisticated investors with limited or no history of investing or managing capital.

[1] 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.

In the course of our investigations, it is rare that Viceroy has access to monthly, granular, publicly available surveillance reports into the performance of a research target.

In the case of Arbor: monthly trustee data into the performance of Arbor CLOs have given us the ability to track and witness objectively radical and unfavorable moves in delinquencies, defaults, and quality of Arbor's loans.

Given that this data is so easily and readily available, we were surprised to find how vastly different a distressed and non-performing portfolio was portrayed by Arbor. We highlight your responsibilities as auditors to obtain reasonable assurance that Arbor Realty Trust's financial statements are free of material misstatements.

Multifamily Residential Overview

Multifamily Residential deal flow exploded over the last 3 years given favorable rate cycles. Valuations at ~0% rates were exaggerated, and the free-money opportunity was widely promoted to unsophisticated investors by real estate gurus and YouTube experts.

- Geographically, sunbelt population growth has exploded due to a blend of favorable economic policies, affordability, and maybe better weather. This area has drawn in the perfect renter demographic and created opportunity for tens of billions of dollars in residential real estate investment.
- The multifamily residential investment is effectively to buy dilapidated, low-yielding units, rehabilitate them, increase the rent, and then refinance the investment via government agency loans.
- Non-bank financiers have entered the space to effectively "bridge" the financing of these investments from purchase, rehabilitation, to refinancing with the government (agency loans).
  - Agency loans are serviced by these underwriters, who can also effectively build a long-term "book" of cash flows.

It would indeed be very difficult botch this investment in a 0% cash rate environment. Unfortunately for almost everyone involved, the US policy rate climbed from about 0% in 2020-2021, to almost 5% in 2023. This unprecedented and enormous rate hike has derailed even the most bullish projects in the Arbor portfolio.

The MOST BLUE SKY multifamily residential investment scenario			
Cost value of property	1,000,000	**Loan-to-cost**	**75.00%**
NOI	40,000	Loan value	825,000
NOI %	4.00%	Bridge rate (	3.50%
Expected rehab NOI p.a. *	60,000	Expected NO	60,000
CAPEX required to rehabilitate	100,000	Interest	28,875
Cost Base incl. rehab budget	1,100,000		
Expected NOI yield	5.45%	**DSCR**	**2.08**

Refinance	2020	**2023**
Fixed rate long-term rate	3.00%	8.00%
DSCR	**2.42**	**0.91**
Floating rate bridge	3.50%	10.00%
DSCR	**2.08**	**0.73**

Figures 1 & 2 – Viceroy Analysis

- Not only have underlying cash rates exploded, but the spread on high-risk loans, such as multifamily bridge loans, has similarly ballooned from ~300bps to ~400bps.
- The required Debt Service Coverage Ratio (**DSCR** – Net Operating Income / Interest Expense) for a bridge loan at Arbor is ~1.2, as dictacted by the draft terms sheet on their website.
- The current underlying DSCR of Arbor's ~$7.6b CLOs is approximately 0.61x.

Even if these properties enjoyed bullish NOI increases post renovation (they're not) and moved to cheaper agency loans (which they can't), these investments would still be haemorrhaging cash and eating into equity.

There are no feasible rate cuts in the next 18 months that could salvage these projects.

Arbor's Business Model

Arbor's business model is to finance bridge loans for multifamily residential unit investments, typically through renovation periods. After renovation, Arbor can then refinance these bridge loans into agency loans.

In order to access liquidity against these floating rate bridge loans, Arbor established Collateralized Loan Obligation facilities (**CLO**s), in which it retains a junior/residual tranche (which is to say, it gets paid last in the waterfall).

Viceroy have pulled data of every single loan in Arbor's CLOs 14 through 19. We note the following:

- The current underlying weighted average LTV of the CLOs is ~77%
- Appraised values of underlying CLOs properties are valued at cap rates of ~3.8%. This is ludicrous.
  - 1 year T-Bill rate: 4.84%
  - 2 Year T-Bill rate: 4.40%
  - 10 Year T-Bill rate: 4.05%
- A bullish revaluation of underlying property values at a cap rate of ~7% (which is more than reasonable given these properties have NOT been fully rehabilitated) wipes out the LTV buffer and all of Arbors residual claim.
- A default of Arbor's CLOs will revert collateral (properties) to secured lenders, wiping out Arbor's equity/residual tranche. This alone will destroy half of Arbor's book value.

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)**

CLO		ABR Residual	Value ($m)
CLO 14	2021-FL1	Residual interest of $129.5m, of which $68.7m are below IG notes	129.5
CLO 15	2021-FL2	Residual interest of $140.6m, of which $73.4m are below IG notes	140.6
CLO 16	2021-FL3	Residual interest of $262.5m, of which $135.0m are below IG notes	262.5
CLO 17	2021-FL4	Residual interest of $385.9m, of which $194.3m are below IG notes	385.9
CLO 18	2022-FL1	Residual interest of $397.2m, of which $210.1m are below IG notes	397.2
CLO 19	2022-FL2	$177.2 million were below investment grade notes retained by us	177.2
Total			**1,492.9**

Figures 3 & 5 – Viceroy Analysis

We opine that that the residual tranche risk held by Arbor for its fully consolidated CLOs is not adequately disclosed in Arbor's financial statements.

Internal Controls

Arbor's 10-K details underwriting due diligence checks for structured products, including inspections and borrower investment histories, which are written into a report to be approved by a committee consisting only of the CEO, the CCO and the EVP of structured products:

Underwriting and Risk Management. Our underwriters perform due diligence on all proposed transactions prior to approval and commitment using several tools to manage and mitigate potential loan losses and risk sharing exposure. The underwriters analyze each loan application in accordance with the guidelines below to determine the loan's conformity with the guidelines. Key factors considered in credit decisions include, but are not limited to, debt service coverage, loan to value ratios and property financial and operating performance. In general, our underwriting guidelines require evaluation of the following:

- The borrower and each person directing a borrowing entity's activities (a "key principal"), including a review of their experience, credit, operating, bankruptcy and foreclosure history;
- Historic and current property revenues and expenses;
- Potential for near-term revenue growth and opportunity for expense reduction and increased operating efficiencies;
- Property location, its attributes and competitive position within its market;
- Proposed ownership structure, financial strength and real estate experience of the borrower and property management;
- Third-party appraisal, environmental review, flood certification, zoning and engineering studies;
- Market assessment, including property inspection, review of tenant lease files, surveys of comparable properties and an analysis of area economic and demographic trends;
- Review of an acceptable mortgagee's title policy and an "as built" survey;
- Construction quality of the property to determine future maintenance and capital expenditure requirements;
- The requirements for any reserves, including those for immediate repairs or rehabilitation, replacement reserves, tenant improvement and leasing commission costs, real estate taxes and property casualty and liability insurance; and
- For any application for one of our Agency products, we will underwrite the loan to the relevant agency or Company guidelines.

Investment Approval Process. We apply an established investment approval process to all loans and other investments proposed for our Structured Business before submitting each proposal for final approval. A written report is generated for every loan or other investment that is submitted to our credit committee for approval, which consists of our chief executive officer, chief credit officer and executive vice president of structured finance. The report includes a description of the prospective borrower and any guarantors, the collateral, and the proposed use of investment proceeds, as well as borrower and property financial statements and analysis. The report also includes an analysis of borrower liquidity, net worth, cash investment, income, credit history and operating experience. All transactions require the approval of the majority of the members of our credit committee. Following the approval of a transaction, our underwriting and servicing departments, together with our asset management group, assure that all loan approval terms have been satisfied and conform to lending requirements established for that particular transaction.

Figures 4 & 5 – Arbor 2022 10-K

- A significant portion of the properties underlying the CLOs have atrocious reviews, including pictures, and have not been rehabilitated. Some properties have already been condemned and labelled as slums. We expand on this in Section 3 below, where we examine a sample of properties from the CLOs.
- Billions of dollars of loans in CLOs were made to finfluencers and real estate "guru" syndicates who have zero real estate investment backgrounds. Rudimentary news searches show many are experiencing financial distress in rising rate environments.
- Arbor has scrambled to insinuate that borrowers must establish interest rate caps for their loans. Various documented interviews on Tegus and Alphasense claim this is not the case.
- The equity and other guarantees backing these investments are naturally other multifamily residential projects and real estate, which will be subject to the same deterioration as the underlying debt collateral. Further the non-recourse nature of these loans makes cutting losses a viable strategy.

We also note that Arbor has hundreds of millions of dollars of exposure to related party loans to its executive team and staff, whether directly or indirectly. We believe it is a failure of internal controls and a mockery of their role as investment advisors for insiders to actively engage in untransparent, 8-9 figure transactions with Arbor.

[XXX snippet or insider deals]

Auditor’s Responsibility

Given the above, we reiterate our belief that Arbor’s loans have been improperly impaired. If credit models provided by management do not reflect this, then you must further scrutinize this model. We note the following:

ASC 310-10-35-16

> A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement.

ASC 310-10-35-22

> When a loan is impaired (see paragraphs 310-10-35-16 through 35-17), a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan

Data Room

We are happy to make available a data room containing our Arbor Reports and working documents; however we presume management would make these available to you.

We believe Arbor’s audit deserves great scrutiny. Our team are happy to field questions or provide documentation which may assist in your audit.

Please do not hesitate to contact us via email at viceroy@viceroyresearch.com.

Yours faithfully

Viceroy Research Team

cc. Mr. Cameron Darden
cameron.darden.ap@ey.com

info@ey.com

May 14, 2024

Ernst & Young
ATT: Mr. Robert Franklin Hatch
One Manhattan West, 395 9th Avenue
New York 10001

By email: robert.hatch@ey.com

Dear Mr. Hatch,

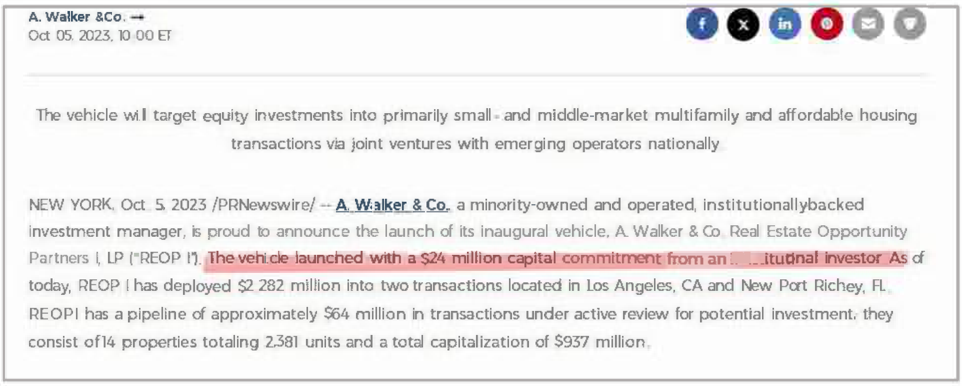
Arbor Realty Trust, Inc.

We write to you in your capacity as Auditor of Arbor Realty Trust, Inc. ("**Arbor**"), a position you have held since 2003, and refer to our previous letter to you dated January 8, 2024 (a copy of this letter is attached to this one).

We have recently become aware that Arbor has financed purchases of assets from its own foreclosures with Arbor loans, via off-balance sheet entities run by former Arbor associates, and entirely financed with Arbor equity capital. **This is fraud.**

- Arbor has financed 99% of the "non-controlling interest" equity of an off-balance sheet entity run by a former VP of Arbor, whose investment in the entity was also financed by Arbor. They share an office.
- The off-balance sheet entity 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 does not recognize losses on these foreclosures** by financing the sale of foreclosed properties to off-balance sheet entities.
- 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.**

The off-balance sheet entity, in this instance, is AWC Real Estate Opportunity Partner I LP (**AWC**), who is in turn controlled by A. Walker & Co, a "minority owned" (1%) and operated.



A. Walker &Co.
Oct 05, 2023, 10:00 ET

The vehicle will target equity investments into primarily small- and middle-market multifamily and affordable housing transactions via joint ventures with emerging operators nationally

NEW YORK, Oct. 5, 2023 /PRNewswire/ -- A. Walker & Co., a minority-owned and operated, institutionallybacked investment manager, is proud to announce the launch of its inaugural vehicle, A. Walker & Co. Real Estate Opportunity Partners I, LP ("REOP I"). The vehicle launched with a $24 million capital commitment from an ... itutional investor. As of today, REOP I has deployed $2.282 million into two transactions located in Los Angeles, CA and New Port Richey, FL. REOP I has a pipeline of approximately $64 million in transactions under active review for potential investment; they consist of 14 properties totaling 2,381 units and a total capitalization of $937 million.

Figure 1 – Austin Walker LinkedIn extract[1]

[1] https://www.prnewswire.com/news-releases/a-walker--co-launches-new-joint-venture-equity-investment-vehicle-301948294.html

AWC's institutional backer is Arbor, who owns 99% of the project(s). The remaining 1% is held by the GP of AWC, Austin Walker (a former VP of Arbor) who 'bought-in' to the investment (1%) with a $900k loan from Arbor. Obviously, we note that these investment amounts do not proportionally add up. This also deserves scrutiny.

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 2 – Arbor 2023 Annual Report extract

AWC shares an office with Arbor's New York main office.

2. Principal Place of Business and Contact Information

Name of Issuer			
AWC Real Estate Opportunity Partners ILP			
Street Address 1		Street Address 2	
375 PARK AVENUE, SUITE 3000			
City	State/Province/Country	ZIP/Postal Code	Phone No. of Issuer
NEW YORK	NEW YORK	10152	646-963-6366

3. Related Persons

Last Name	First Name	Middle Name
A. Walker & Co GP, LLC	General Partner	
Street Address 1	Street Address 2	
375 Park Avenue, Suite 3000		
City	State/Province/Country	ZIP/Postal Code
New York	NEW YORK	10152

General: 800_Arbor_10 | Financing: 833

ARBOR

New York

375 Park Avenue, Suite 3000
New York, NY 10152
800.ARBOR.10

Figure 3 – Arbor and AWC addresses

AWC, through a Delaware shell company, bought a Houston Multifamily Portfolio, **Westchase Houston**, with a further $95.25m "loan" from Arbor Realty.

Arbor had previously foreclosed on the Westchase portfolio, representing one of the largest failures in Jay Gajavelli's Applesway Group.

Arbor Realty pursues foreclosure of Applesway-linked apartments

Latest case comes on the heels of delinquency on a $60M loan

Arbor Realty is set to foreclose on a piece of a Westchase multifamily portfolio linked to Applesway Investment Group after the group became delinquent on a $60 million loan.

By Brandon Sams

Figure 4 – Arbor Realty pursues foreclosure of Applesway-linked apartments[2]

[2] https://therealdeal.com/texas/houston/2024/04/03/arbor-realty-to-foreclose-on-more-applesway-apartments-in-houston/

Auditor’s Responsibility

Given the above, we reiterate our belief that Arbor’s loans have been improperly impaired. If credit models provided by management do not reflect this, then you must further scrutinize this model. We note the following:

ASC 310-10-35-16

> A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement.

ASC 310-10-35-22

> When a loan is impaired (see paragraphs 310-10-35-16 through 35-17), a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan

Consolidation

We note that AWC and all of its subsidiaries must be consolidated.

ASC 810-10

15-14 A legal entity shall be subject to consolidation under the guidance in the Variable Interest Entities Subsections if, by design, any of the following conditions exist. (The phrase *by design* refers to legal entities that meet the conditions in this paragraph because of the way they are structured. For example, a legal entity under the control of its equity investors that originally was not a VIE does not become one because of operating losses. The design of the legal entity is important in the application of these provisions.). . .

c. The equity investors as a group also are considered to lack the characteristic in (b)(1) if both of the following conditions are present:

1. The voting rights of some investors are not proportional to their obligations to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both.
2. Substantially all of the legal entity's activities (for example, providing financing or buying assets) either involve or are conducted on behalf of an investor that has disproportionately few voting rights. This provision is necessary to prevent a primary beneficiary from avoiding consolidation of a VIE by organizing the legal entity with nonsubstantive voting interests. Activities that involve or are conducted on behalf of the related parties of an investor with disproportionately few voting rights shall be treated as if they involve or are conducted on behalf of that investor. The term *related parties* in this paragraph refers to all parties identified in paragraph 810-10-25-43, except for de facto agents under paragraph 810-10-25-43(d).

For purposes of applying this requirement, reporting entities shall consider each party's obligations to absorb expected losses and rights to receive expected residual returns related to all of that party's interests in the legal entity and not only to its equity investment at risk.

Figure 5 –Deloitte Accounting Research Tool[3]

It beggars’ belief that this structure, established in 2023, was not created for the sole purpose of bailing out Arbor with Arbor’s own money. Investors should also be privy to every one of AWC’s subsidiaries, their investments, and transactions with Arbor. There are many such transactions.

We further note that Arbor has various investments in equity affiliates in the same industry. These investments deserve immense scrutiny, which we will also participate in, as your office has not appeared to take this matter seriously enough.

[3] https://dart.deloitte.com/USDART/home/codification/broad-transactions/asc810-10/roadmap-consolidation/chapter-5-determining-whether-a-legal/5-4-nonsubstantive-voting-rights

Viceroy has identified various other transactions, spoken with various whistleblowers, and observed various suspicious transactions at Arbor since we published our report in November 2023.

We firmly believe that you have consistently failed to act, in your capacity as auditor, to assure the financial statements of Arbor are free of material misstatements, and to assure internal reporting controls are up to the standard required of a >$2b listed entity.

These lapses in judgement on your part will be brought to the attention the PCAOB. We believe Arbor's audit deserves intense scrutiny; a service we believe you are well equipped to perform. We understand your job is not to look for fraud, which is why we have brought it to you on a silver platter.

We remain at your service to field questions or provide documentation which may assist in your audit.

Please do not hesitate to contact us via email at viceroy@viceroyresearch.com.

Yours faithfully

Viceroy Research Team

cc. Mr. Cameron Darden
cameron.darden.ap@ey.com

info@ey.com