Arbor – Q2 2024 Update

Arbor 10-Q continues validation of Viceroy's work, and reveals the disaster unfolding.

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August 7, 2024 – Arbor's Q2 2024 earnings call and subsequent 10-Q is once again littered with disclosure-vomit that Viceroy has come to expect when dealing with suspect companies. Arbor management continue to intentionally mislead investors in relation to the quality of their earnings, the quality of their assets, and the nature of their extensive window-dressing exercises.

This report will run through Arbor's most egregious lies and omissions from its Q2 2024 statements and earnings call.

Nature of Modifications

Arbor's new (and poor) disclosures relating to the nature of their modifications and sub-60-day delinquencies confirms our reporting.

- **Arbor confirmed the nature of The Selena's re-crap-italization in its Q2 2024 10-Q**. It provides mezzanine financing to delinquent and distressed customers. It fails to acknowledge the LTV of the project exceeds 140%, and that the "rescue loan" grifted from syndicate investors appears to exist purely to pay Arbor's cut-rate interest charges. The project is serially unprofitable.
- Arbor's borrowers have defaulted on loans. Underlying investments have been sold to "new buyers" at below the cost of debt, implying >30% discounts on Arbor's reported valuations.
- Arbor's reported growth of sub-60-day delinquencies vastly outpaces the balance of loans "cured" by modifications and "paid off". More than half of the opening <60-day delinquent balance progressed into >60-day delinquencies. It is reasonable to expect that the UBP of impaired Arbor loans will continue to skyrocket into the next quarter.

The Westchase Transaction

Arbor have predictably assumed a game-plan of disassociation from AWC and the Westchase transaction. 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.

- Subsequent to our report: AWC found another (unidentified) investor to buy into AWC equity, diluting Arbor's stake. This new investor funded AWC with $11m as of June 30, 2024. This exact amount was returned to Arbor as a return *of capital* to Arbor of $11m, against $22m which had been invested to date.
- This was clearly an afterthought as Arbor tries to cover up the fact that it controls AWC. Arbor effectively sold a significant portion of its stake in AWC to an unnamed investor. Investors should seek clarity into who this investor is.
- Arbor confirms that it sold Westchase from foreclosure to AWC, financed by another $95.1m Arbor loan. This is the 3rd Arbor loan has provided to borrowers to refinance a defunct Westchase in less than 18 months. It is, by definition, kicking the can.

Financials

- Arbor's cash interest income on its structured business is now proportionally lower to the interest it pays on its debt. It no longer makes economic sense for Arbor to fund bridge loans with debt.
- Even if ABR were to trim dividends, it would not have anything else to invest in; loan originations remain down >95% from peaks in December 2021. This is a wind-down, and Arbor's book becomes progressively more distressed.
- Arbors loans are secured against almost-exclusively distressed assets. Despite this, Arbor's aggregate provision for impairments is a meager $50m across a ~$12b multifamily portfolio. This is less than 1% of Arbor's total loan book value.

Nature of Modifications

Viceroy has 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 has taken to modifying loans in successive months to preserve the illusion of credit performance.

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**

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

Figures 1 & 2 – Modification Data

- 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.

Arbor's New Disclosures on Loan Modifications & Delinquencies

Trying to elicit any useful disclosure from Arbor in relation to their loan book is like trying to draw blood from a stone. We know what the loan book looks like anyway, so let's compare the facts with Arbor's minimalist statements.

Delinquent Non-Delinquent Loans

Arbor only measures delinquencies and impairments of loans which are >60 days delinquent, which is a ridiculous proposition. Arbor has given some insight into how "non-delinquent", sub-60-day delinquencies perform and how they are "cured".

	Three Months Ended June 30, 2024	Three Months Ended March 31, 2024
Beginning balance (twelve and twenty-four multifamily bridge loans, respectively)	$ 489,438	$ 956,917
Loans that progressed to greater than 60 days past due	(263,990)	(174,860)
Loans modified or paid off (1)	(138,548)	(712,922)
Additional loans that are now less than 60 days past due experiencing late and partial payments	281,038	420,303
Ending balance (fourteen and twelve multifamily bridge loans, respectively)	$ 367,938	$ 489,438

(1) The modifications included bringing the loans current by paying past due interest owed (see Loan Modifications section below).

- The growth of sub-60-day delinquencies vastly outpaces the balance of loans "cured" by modifications and "paid off". More than half of the opening <60-day delinquent balance progressed into >60-day delinquencies. It is reasonable to expect that the UBP of impaired Arbor loans will continue to skyrocket into the next quarter.
- Arbor note that $138m of sub-60-day delinquent loans were "modified or paid off". We calculate that the that the only <60-day delinquent loan which was "paid off" in Q1 or Q2 2024 was the foreclosed Westchase property. There are no other loans suddenly coming good.
- Arbor states that loans >60 days delinquent no longer accrue interest. In Q1 2024 this was only for loans >90 days delinquent. Despite this, they are barely impaired at all **(see page 14 below)**

At both June 30, 2024 and December 31, 2023, we had no loans contractually past due greater than 60 days that are still accruing interest. During the six months ended June 30, 2024 and 2023, we recorded $16.6 million and $1.4 million, respectively, of interest income on non-accrual loans.

- This is not new, but Arbor are still yet to fully impair a stalled construction project with no updates since 2008 which it carries at ~$50m value on their book. According to Arbor the loans do not have to be impaired, as the borrower is compliant with the loan terms (presumably being that they are not being charged any interest and are compliant with this arrangement).

In addition, we have six loans with a carrying value totaling $121.4 million at June 30, 2024, that are collateralized by a land development project. The loans do not carry a current pay rate of interest, however, five of the loans with a carrying value totaling $112.1 million entitle us to a weighted average accrual rate of interest of 10.42%. In 2008, we suspended the recording of the accrual rate of interest on these loans, as they were impaired and we deemed the collection of this interest to be doubtful. At both June 30, 2024 and December 31, 2023, we had a cumulative allowance for credit losses of $71.4 million related to these loans. The loans are subject to certain risks associated with a development project including, but not limited to, availability of construction financing, increases in projected construction costs, demand for the development's outputs upon completion of the project, and litigation risk. Additionally, these loans were not classified as non-performing as the borrower is compliant with all of the terms and conditions of the loans.

- Arbor concedes that it is modifying delinquent loans at its own expense, claiming that these uneconomic modifications require "capital investment" from the borrowers. This is defined as "principal paydown" or "bringing any delinquent loans current", **neither of which constitutes a "capital investment" from the borrower**.

During the second quarter of 2024, we modified fourteen multifamily bridge loans with a total UPB of $361.8 million. These loans contained interest rates with pricing over SOFR ranging from 3.25% to 5.25% and maturities between May 2024 to June 2025. As part of the modifications of each of these loans, borrowers invested additional capital to recapitalize their projects in exchange for temporary rate relief, which we provided through a pay and accrual feature. The capital invested by the borrowers was in the form of either, or a combination of: (1) additional deposits into interest and/or renovation reserves; (2) the purchase of a new rate cap; (3) a principal paydown of the loan and (4) bringing any delinquent loans current by paying past due interest owed. In each case, we reduced the pay rate and deferred the remaining portion of the interest payable until payoff. The pay rates were amended to either SOFR, a spread over SOFR or a fixed rate, with the balance of the interest due under the original loan terms being deferred. At June 30, 2024, these modified loans had a weighted average pay rate of 7.30% and a weighted average accrual rate of 2.04%. These modified loans included: (1) loans with a total UPB of $92.7 million and $12.2 million that were less than 60 days past due and greater than 60 days past due at March 31, 2024, respectively; and (2) twelve loans with a total UPB of $291.9 million that were extended between four and twenty-three months.

The Selena – Recrapitalization Case Study

In its Q2 2024 10-Q Arbor confirmed the nature of the "re-crap-italization" of the "The Selena" property first reported on by Viceroy.

Arbor provided mezzanine financing to delinquent and distressed customers while failing to acknowledge an LTV of over 140%, and that the "rescue loan" grifted from syndicate investors appears to exist purely to pay Arbor's cut-rate interest charges. The project is serially unprofitable.

> During the second quarter of 2024, we modified a $36.4 million loan that was 60 days past due at March 31, 2024. In the fourth quarter of 2023, we recorded a specific reserve of $5.0 million reducing the carry value of this loan to $31.4 million. The second quarter modification bifurcated the loan into a $32.0 million senior position with a pay rate of SOFR plus 0.50%, a floor of 6.00% and an accrual rate of SOFR plus 3.25%, and a subordinated loan of $4.4 million with a zero pay rate and an accrual rate of SOFR plus 3.75%. Both of these loans were extended to a maturity date of April 2027. In accordance with the modified loan terms, the borrower agreed to invest $4.9 million of equity to fund interest, renovation and operating reserves. The $4.4 million loan and the accrual rates on both loans, are subordinate to the new borrower equity plus a return on that capital, and, as such, we decided not to accrue interest on these loans.

As of December 2023, The Selena reported:

- $534k Net Operating Income (NOI)
- 78% Occupancy Rate
- **$40.98m valuation on a 1.3% implied cap rate**
- 0.16x DSCR

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

Viceroy's 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.

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.

In January 2024, The Real Deal reported that Elevate had defaulted on a $38m loan tied to the Selena[2].

Texas syndicator Elevate drives another Arbor foreclosure filing

Dallas-based firm defaulted on $38M tied to Houston apartments

Figure 4 – Texas syndicator Elevate drives another Arbor foreclosure filing

Prior to this, in July 2023, Elevate established a Real Estate Debt Fund.

> 1.1 Name. The name of the Company is MFCI Fund I LLC. The principal executive office of the Company is 10860 Switzer Ave, #114, Dallas, TX 75238, unless changed by the Managing Member, in its sole and absolute discretion, with written notice given to the Member(s) of such change.

> WHEREAS, the Company was formed as a limited liability company under the Delaware Limited Liability Company Act, as amended (the "Act"), by the filing of the articles of organization with the Delaware Secretary of State on July 28, 2023, 2023 (the "Certificate");

Figures 5 & 6 – Extracts from MFCI Fund Execution Docs

Elevate's debt fund invested money into the Selena and "got [Arbor] to subordinate dollar for dollar so [Elevate' now have a priority position over their capital". Elevate's IR subsequently sent Viceroy The Selena's forecast model, which shows the capital stack as follows:

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

- The Selena property defaulted on a $38.3m loan due to Arbor, including $1.9m of outstanding interest.
- Arbor recapitalized this loan in 2 tranches:
  - Arbor A-Loan – $32m first-ranking note secured by deed of trust on Property. Fixed at 6% rate without rate cap. This is a ~300bps discount Arbor's book.

And they are fixing their interest on the a note to 6% 10:20 PM

did you need to buy a rate cap for that? 10:20 PM

Nope 10:21 PM

Restructured the loan 10:21 PM

Figure 8 – Viceroy discussion with Elevate's IR team

  - Arbor B-Loan – $6.3m third-ranking note. This note appears to consolidate $1.9m in overdue interest and $4.4m in mezz financing. Interest accruing until sale.
- The Elevate Real Estate Debt Fund invested $3.9m in The Selena in the form of second-ranking "rescue loan" incurring 18% interest.
  - This working capital "rescue loan" appears to be covering the Arbor A Loan interest expenses, which far exceed the property's NOI.

[2] https://therealdeal.com/texas/houston/2024/01/25/texas-syndicator-elevate-drives-another-arbor-foreclosure/

The Westchase Transaction

Viceroy's investigations have discovered an elaborate and intentional con, where 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.

- Arbor financed 99% of the "non-controlling interest" equity of an off-balance sheet entity, **AWC Real Estate Opportunity Partners**, run by a former Arbor VP, whose investment in the entity was also financed by Arbor. AWC and Arbor share an office.
- AWC acquired 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.**
- Approximately half of Arbor's Q1 2024 loan originations were to these off-balance sheet entities, to buy foreclosed properties.

Arbor's Q2 2024 accounts do not address that AWC is run by a former Arbor VP and is registered at Arbor's offices.

- After our report AWC found another (unidentified) investor to buy into AWC equity, diluting Arbor's stake. This new investor funded AWC with $11m as of June 30, 2024. This exact amount was returned to Arbor as a *return of capital* to Arbor of $11m, against $22m which had been invested to date.
  - This was clearly an afterthought as Arbor tries to cover-up the fact that it controls AWC. Arbor effectively sold a significant portion of its stake in AWC to an unnamed investor.
  - Investors should seek clarity about this investor's identity.

> objectives, AWC brought in an additional capital partner who committed to a $25.0 million investment (of which $11.0 million was funded at June 30, 2024) in exchange for a 51.0% non-controlling limited partnership interest and 17.5% of the general partners interest in the fund. This new equity partner diluted our limited partnership interest in the fund to a 49.0% non-controlling limited partnership interest. Additionally, in the second quarter, AWC

> to the owners of the real estate on two of these investments. During the three months ended June 30, 2024, we received net capital distributions of $11.2 million, which were classified as returns of capital, and recorded a loss of $0.2 million, from our investment in AWC to income from equity affiliates in our

- Arbor confirms that it sold Westchase from foreclosure to AWC, financed by another $95.1m Arbor loan.
  - This is the 3rd loan Arbor has provided to borrowers to refinance a defunct Westchase in less than 18 months. It is, by definition, kicking the can.

> diluted our limited partnership interest in the fund to a 49.0% non-controlling limited partnership interest. Additionally, in the second quarter, AWC invested $6.3 million for a 42.0% interest in a newly formed entity, which purchased a group of properties in Houston, Texas that were the collateral for a $100.3 million bridge loan that we foreclosed on simultaneously with the sale. We sold the Houston properties for $101.3 million, which was primarily financed with a new $95.3 million bridge loan we provided at SOFR plus 300 basis points. See Note 3 for details. In the fourth quarter of 2023, this fund

- As everyone expected: Arbor had previously financed Applesway's defunct owners' new loan to repurchase Westchase the first time it went defunct, in April 2023.

> In April 2023, we exercised our right to foreclose on a group of properties in Houston, Texas that are the underlying collateral for four bridge loans with a total UPB of $217.4 million. We simultaneously sold these properties to a significant equity investor in the original bridge loans and provided new bridge loan financing as part of the sale. We did not record a loss on the original bridge loans and recovered all the outstanding interest owed to us as part of this restructuring.

Operational improvements to the Westchase have plateaued. The investment is still serially loss-making, and has always been, despite a significantly discounted note rate against its book. This is a 1970's build, tier-3 property trading at an implied 5% cap rate. Arbor has no other option but to kick the can on this enormous loser.

Loan Profile - Westchase Portfolio	
Revenue	13,590,226
Operating expenses	7,547,148
NOI	**6,043,078**
Most recent value	119,900,000
Debt Balance	95,300,000
Note rate	8.30%
Debt service amount	**7,909,900**
DSCR	**0.76x**
Implied cap rate	5.04%

Figure 910 – Loan Profile – Westchase Portfolio

We reiterate our questions relating to the fraudulent AWC & Westchase transaction:

- Why was this transaction not disclosed as a related party transaction in Arbor's 2023 10-K/Q?
- Did Arbor know how AWC intended to invest Arbor's $25m?
- Until it sold part of its stake to other undisclosed investors: Arbor held 100% of the economic risk and reward for this venture, which is run from Arbor's own office. Has Arbor forfeited control of this venture?
  - If yes, to whom has it forfeited control?
  - If no, why is this venture not consolidated?

Arbor has subsequently provided AWC with a $95m bridge loan to purchase Applesway's foreclosed Westchase property, with loans outstanding to Arbor.

- Was AWC's business plan to rescue distressed loans in Arbor's book?
- Given Arbor has provided a further loan to AWC, do you think it's reasonable that this property remains off-balance sheet given the control Arbor can exercise over the AWC business?
- How did Arbor ensure it conducted business with AWC in an arm's length fashion given the abundant conflicts of interest?

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.

AWC was completely funded by Arbor but was still regarded as an off-balance sheet entity due to an ostensible lack of control. Have Arbor's management, including Ivan Kaufman, adopted the same "hands-off, no control" policy for other investments transacting with Arbor to avoid being 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.

Financials

Arbor's net interest income has fallen through the floor as it effectively engages in a wind down of its business. It is now generating substantially less EPS than it is paying out in dividends. Dividends are value destructive.

	Three Months Ended June 30, 2024	2023
Interest income	$ 297,188	$ 335,737
Interest expense	209,227	227,195
Net interest income	87,961	108,542
Other revenue:		
Gain on sales, including fee-based services, net	17,448	22,587
Mortgage servicing rights	14,534	16,201
Servicing revenue, net	29,910	32,347
Property operating income	1,444	1,430
Loss on derivative instruments, net	(275)	(7,384)
Other income, net	2,081	45
Total other revenue	65,142	65,226
Other expenses:		
Employee compensation and benefits	42,836	41,310
Selling and administrative	12,823	12,584
Property operating expenses	1,584	1,365
Depreciation and amortization	2,423	2,387
Provision for loss sharing (net of recoveries)	4,333	7,672
Provision for credit losses (net of recoveries)	29,564	13,878
Total other expenses	93,563	79,196
Income before extinguishment of debt, sale of real estate, income from equity affiliates and income taxes	59,540	94,572
Loss on extinguishment of debt	(412)	(1,247)
Gain on sale of real estate	3,813	—
Income from equity affiliates	2,793	5,560
Provision for income taxes	(3,901)	(5,553)
Net income	61,833	93,332
Preferred stock dividends	10,342	10,342
Net income attributable to noncontrolling interest	4,094	6,826
Net income attributable to common stockholders	$ 47,397	$ 76,164
Basic earnings per common share	$ 0.25	$ 0.42
Diluted earnings per common share	$ 0.25	$ 0.41

Cost of debt proportionally exceeds interest income

Arbor's cash interest income on its structured business is now proportionally lower to the interest it pays on its debt. It no longer makes economic sense for Arbor to fund bridge loans with debt[3].

Arbor is highly levered; it borrows money to lend money. Arbor receives interest income against dollars let and pays interest expenses on the dollar borrowed.

Arbor granted concessions to its floating-rate borrowers causing interest income spreads against SOFR to drop sharply. **The interest income spread against SOFR in Q2 2024 has fallen 50% against 2020-2021** glory-days, while credit risk has undoubtedly *increased*.

This would not be problematic if Arbor did not have floating-rate debt, but it does. Conversely: Arbor's interest spread to SOFR has sharply ***increased***, up 80% in Q2 2024 against 2022 lows.

Viceroy Analysis	2020				2021			
Arbor Realty Trust	**Mar-20 Q1**	**Jun-20 Q2**	**Sep-20 Q3**	**Dec-20 Q4**	**Mar-21 Q1**	**Jun-21 Q2**	**Sep-21 Q3**	**Dec-21 Q4**
SOFR EOP (%)	***0.01%***	***0.10%***	***0.08%***	***0.09%***	***0.01%***	***0.05%***	***0.05%***	***0.05%***
Interest Income - Structural Business	314	297	302	311	333	386	459	530
Structured book (avg.)	5,022	5,187	5,331	5,457	6,176	6,992	8,574	11,174
Effective Interest	**6.25%**	**5.73%**	**5.66%**	**5.69%**	**5.39%**	**5.52%**	**5.35%**	**4.75%**
Spread (bps) - interest inflow	**624**	**563**	**558**	**560**	**538**	**547**	**530**	**470**
Interest Expense	200	165	152	160	169	186	222	272
Interest bearing liabilities	5,357	4,818	5,036	5,825	6,103	6,748	9,618	12,057
Effective Interest	**3.73%**	**3.43%**	**3.01%**	**2.75%**	**2.76%**	**2.75%**	**2.31%**	**2.25%**
Spread (bps) - interest outflow	**372**	**333**	**293**	**266**	**275**	**270**	**226**	**220**
Net Spread Over SOFR	**252**	**230**	**265**	**294**	**262**	**277**	**304**	**250**

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Viceroy Analysis	2022				2023				2024	
Arbor Realty Trust	**Mar-22 Q1**	**Jun-22 Q2**	**Sep-22 Q3**	**Dec-22 Q4**	**Mar-23 Q1**	**Jun-23 Q2**	**Sep-23 Q3**	**Dec-23 Q4**	**Mar-24 Q1**	**Jun-24 Q2**
SOFR EOP (%)	***0.30%***	***1.50%***	***3.00%***	***4.30%***	***4.80%***	***5.10%***	***5.30%***	***5.30%***	***5.30%***	***5.30%***
Interest Income - Structural Business	625	768	998	1,223	1,270	1,288	1,291	1,269	1,232	1,128
Structured book (avg.)	13,781	15,405	16,011	14,638	15,017	14,577	14,249	13,934	13,543	13,352
Effective Interest	**4.54%**	**4.99%**	**6.23%**	**8.36%**	**8.45%**	**8.84%**	**9.06%**	**9.10%**	**9.09%**	**8.45%**
Spread (bps) - interest inflow	**424**	**349**	**323**	**406**	**365**	**374**	**376**	**380**	**379**	**315**
Interest Expense	330	428	642	830	877	909	917	910	871	837
Interest bearing liabilities	13,089	14,206	14,378	13,501	12,994	12,504	12,155	11,934	11,368	10,552
Effective Interest	**2.52%**	**3.01%**	**4.46%**	**6.15%**	**6.75%**	**7.27%**	**7.54%**	**7.62%**	**7.66%**	**7.93%**
Spread (bps) - interest outflow	**222**	**151**	**146**	**185**	**195**	**217**	**224**	**232**	**236**	**263**
Net Spread Over SOFR	**201**	**197**	**177**	**221**	**170**	**157**	**152**	**148**	**143**	**52**

Figures 11 & 12 – Viceroy Analysis[4]

Arbor has confirmed that it significantly cuts pay rates on its modified loans, even after borrowers make "capital investments" (including paying their interest) in order to rehabilitate the loans.

> During the second quarter of 2024, we modified fourteen multifamily bridge loans with a total UPB of $361.8 million. These loans contained interest rates with pricing over SOFR ranging from 3.25% to 5.25% and maturities between May 2024 to June 2025. As part of the modifications of each of these loans, borrowers invested additional capital to recapitalize their projects in exchange for temporary rate relief, which we provided through a pay and accrual feature. The capital invested by the borrowers was in the form of either, or a combination of: (1) additional deposits into interest and/or renovation reserves (2) the purchase of a new rate cap; (3) a principal paydown of the loan and (4) bringing any delinquent loans current by paying past due interest owed. In each case, we reduced the pay rate and deferred the remaining portion of the interest payable until payoff. The pay rates were amended to either SOFR, a

Arbor's extensive modifications do not adequately explain why Arbor's interest income/expense spreads are rapidly inflecting, as capitalized Paid-In-Kind income is included in these figures.

[3] Granted, this is not really a problem: Arbor's originations are down >95% from peaks. New originations appear to substantially consist of lending money to disclosed and undisclosed related parties.
[4] Structured book represents period-averages.

This explains why Arbor's weighted average pay rate (cash interest income) has *already* fallen below the weighted average note rate (cash interest expense).

Our Structured Business loan and investment portfolio consists of ($ in thousands):

	June 30, 2024	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)
Bridge loans (5)	$ 11,478,252	97 %	696	7.81 %
Mezzanine loans	272,550	2 %	59	7.87 %
Preferred equity investments	117,431	1 %	26	5.09 %
SFR permanent loans	4,975	<1%	2	10.02 %
Total UPB	11,873,208	100 %	783	7.79 %

Credit and Repurchase Facilities

Borrowings under our credit and repurchase facilities are as follows ($ in thousands):

				June 30, 2024		
	Current Maturity	Extended Maturity	Note Rate Type	Debt Carrying Value (1)	Collateral Carrying Value	Wtd. Avg. Note Rate
Structured Business						
$1.9B joint repurchase facility (2)(3)	Jul. 2025	Jul. 2026	V	$ 668,522	$ 1,097,067	7.85 %
$1B repurchase facility (2)	Aug. 2025	N/A	V	291,605	465,061	7.83 %
$1B repurchase facility	(6)	N/A	V	668,484	912,135	8.29 %
$649M repurchase facility (2)(4)	Oct. 2025	N/A	V	454,926	620,340	7.81 %
$350M repurchase facility	Mar. 2025	Mar. 2026	V	151,611	228,535	7.53 %
$250M credit facility (2)	Mar. 2026	(7)	V	112,647	217,110	8.70 %
$250M repurchase facility	Aug. 2024	N/A	V	13,922	23,088	7.30 %
$250M credit facility	Oct. 2025	Oct. 2026	V	—	—	—
$200M repurchase facility	Mar. 2025	N/A	V	92,144	133,503	7.99 %
$200M repurchase facility	Jan. 2025	N/A	V	73,338	95,568	7.35 %
$166M loan specific credit facilities	Aug. 2024 to Sept. 2025	Aug. 2024 to Aug. 2027	V	138,010	188,562	7.16 %
$150M repurchase facility	Oct. 2025	N/A	V	112,076	149,727	8.45 %
$100M credit facility	Oct. 2024	N/A	V	6,775	13,692	7.13 %
$50M credit facility	(8)	N/A	V	—	—	—
$40M credit facility	Apr. 2026	Apr. 2027	V	15,518	24,610	7.79 %
$35M working capital facility	Aug. 2024	N/A	V	—	—	—
Repurchase facility - securities (2)(5)	N/A	N/A	V	25,635	—	7.13 %
Structured Business total				$ 2,825,213	$ 4,168,998	7.96 %

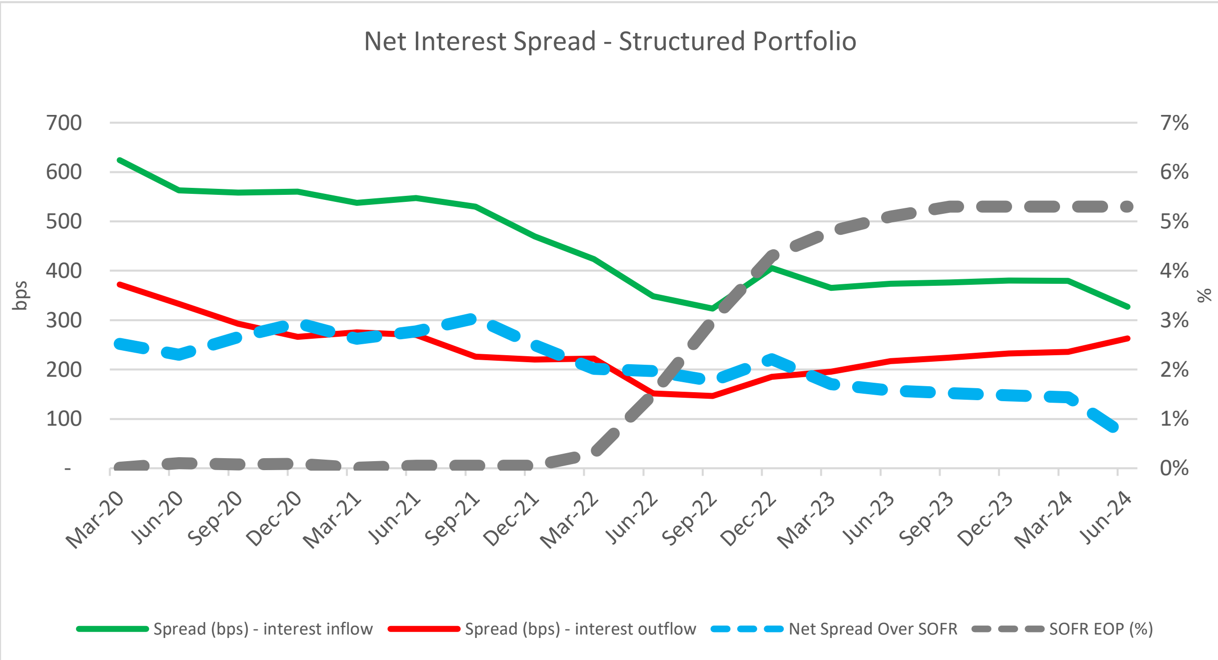


Figure 13 – Viceroy Analysis

Balance Sheet & Cash Flows

Even if ABR were to cut its dividends, it would not have anything else to invest in. Loan originations remain down >95% from peaks in December 2021.

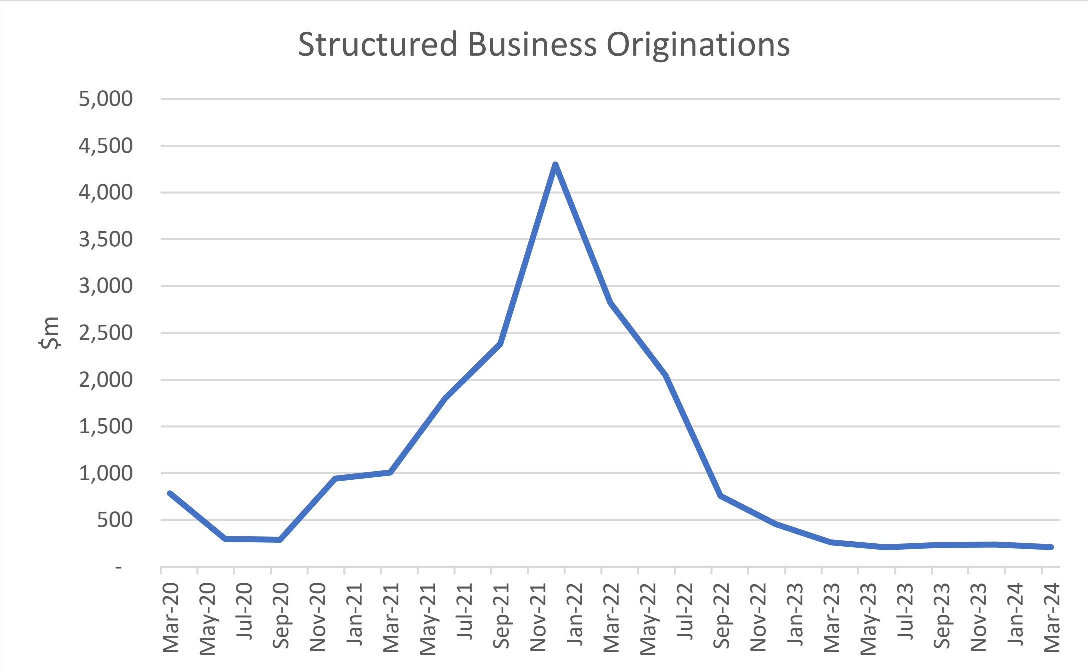


Figure 14 – Viceroy Analysis

We expected a significant number of loans issued 12-36 months ago to be falling due in 2024. This does not appear to be the case. Net cash inflows from loan expiries and payouts are insignificant against net outflows over the previous 12-36 months.

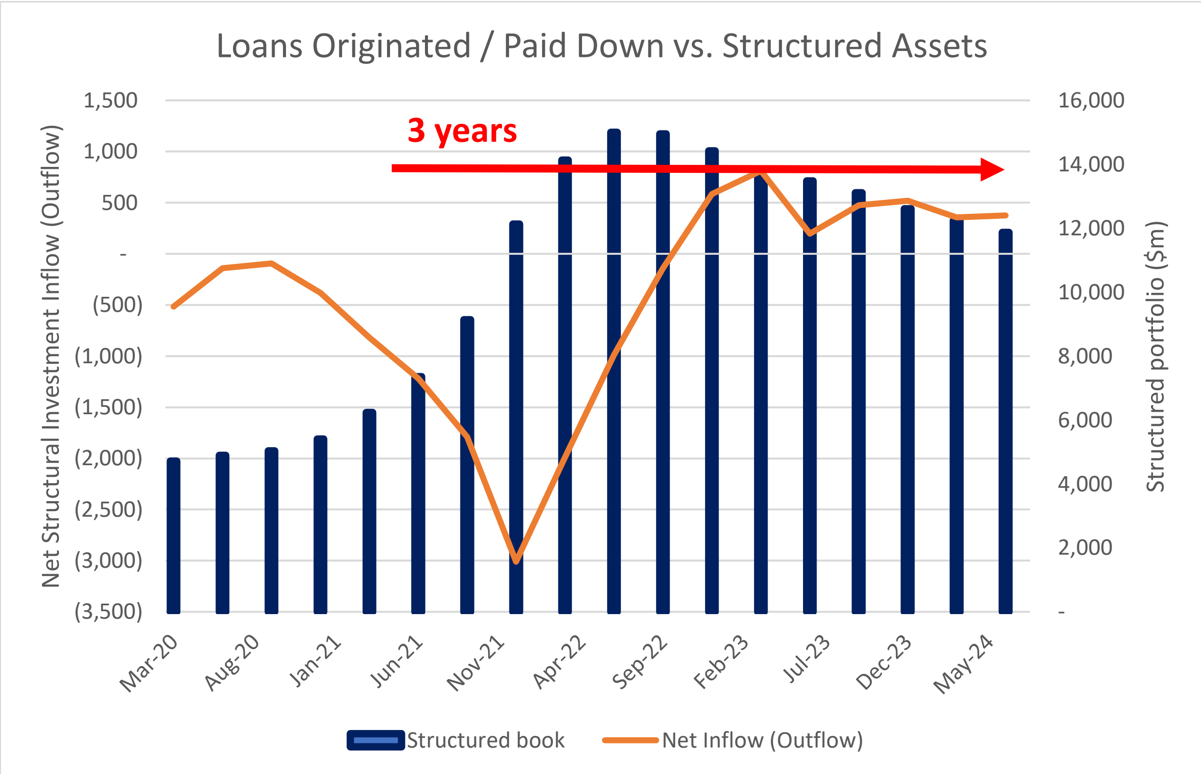


Figure 15 – Viceroy Analysis

PIK & Other Assets

Another mystery box is Arbor's ballooning "Other Assets" line which has almost doubled in the past year.

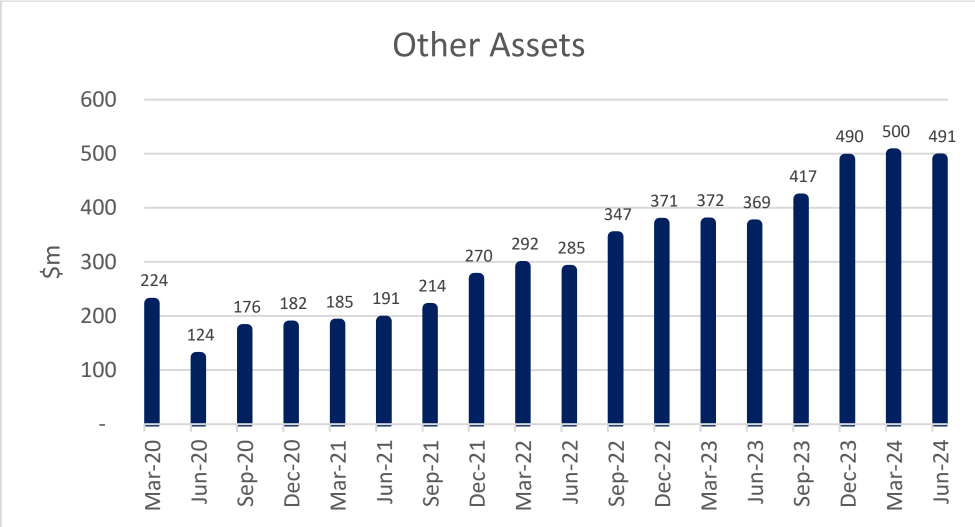


Figure 16 – Viceroy Analysis

Many have questioned management regarding the contents of this working capital account, and management 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 17 – Arbor Q1 2024 Conference Call Extract

We note the following:

- Other assets comprise at least $130m of PIK accruals. Arbor does not disclose what project(s) these relate to.

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.

- Viceroy have previously reported that these PIK assets are accruing at ~$6m a quarter or ~$24m a year. Given the nature of the terms Arbor has extended to its borrowers this figure should be increasing rapidly.
- We have no visibility into actually PIK because this figure is netted against other numbers which appear be to offsetting "Other Asset" accruals.
- We know very little about the remainder of this apparently working capital account, and sent a list of questions to management. We are still waiting for a response.

Arbor records an ever-increasing "other assets" line item, which consists of ~$120m due from related parties.

6. Can you explain dramatic fluctuations in amounts due from related parties.
7. What assets make up the remaining ~$400m of other assets?
8. Is there any reason why borrowers would indicate to Viceroy that these amounts likely include PIK (payment in-kind), including accrued interest?

Figure 18 – Viceroy email to Paul Elenio – 7 May 2024

Arbor begin taking L's

Arbor's borrowers have defaulted on loans. Arbor casually confirmed that underlying investments have been sold to new buyers at below the cost of debt, implying >30% discounts on Arbor's reported valuations.

> In the first quarter of 2024, a borrower of a $13.5 million multifamily bridge loan, with an interest rate of SOFR plus 4.15% and a maturity date in December 2024, defaulted on its interest payments and, as a result, this loan was classified as a non-performing loan. We recorded a specific reserve of $1.5 million on this loan in the first quarter of 2024. In June 2024, the borrower sold the underlying property to a third party who assumed our loan. At the time of the property sale, we entered into a loan modification agreement with the new borrower to reduce the loan amount to $12.5 million, extend the maturity to June 2027 and modify the interest rate to a fixed rate of 8.25% for the first twenty four months and 8.50% for the last twelve months. The new borrower contributed $2.0 million of capital towards a renovation reserve and interest reserve as part of this modification.

Viceroy believes the loan above is the Regency Court Portfolio

Loan Profile - Regency Court Portfolio	
Revenue	1,344,848
Operating expenses	1,007,330
NOI	**337,518**
Reduced debt	12,500,000
Note rate	8.25%
Debt service amount	**1,031,250**
DSCR	**0.33**
Implied cap rate	1.99%

Figure 1920 – Viceroy Analysis

Despite the rate cut: Regency operates at a 0.33x DSCR and is valued at a 1.99% cap rate. This loan is unrecoverable and has not been impaired. Investors should seek clarification into the identity of the "new borrower" behind this investment property.

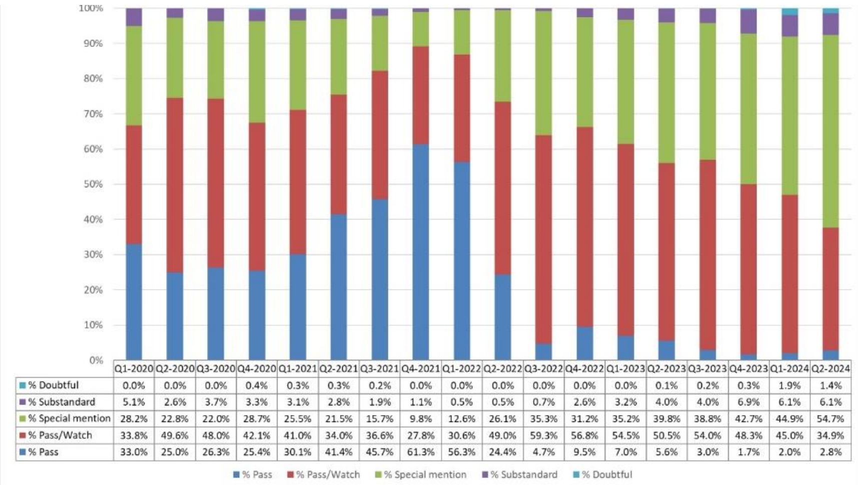
Under Reported Loss Provisions

Arbors loans are secured against almost-exclusively distressed assets. Despite this, Arbor's aggregate provision for impairments is a meager $50m across a ~$12b multifamily portfolio. This is less than 1% of Arbor's total loan book value.

Loans Considered Impaired	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	q/q increase
MF Loans Impaired	-	-	36,377	90,070	272,493	352,223	437,108	*24%*
Carrying Value	-	-	36,202	87,995	260,291	338,772	413,500	*22%*
Allowance for Loss	-	-	5,000	17,750	37,750	50,500	57,513	*14%*
Allowance % of UPB			13.7%	19.7%	13.9%	14.3%	13.2%	

Figure 7 – Viceroy Analysis

Substantially all of Arbor's loan book is on watchlist, special mention, substandard or doubtful.



	Q1-2020	Q2-2020	Q3-2020	Q4-2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022	Q1-2023	Q2-2023	Q3-2023	Q4-2023	Q1-2024	Q2-2024
% Doubtful	0.0%	0.0%	0.0%	0.4%	0.3%	0.3%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	1.9%	1.4%
% Substandard	5.1%	2.6%	3.7%	3.3%	3.1%	2.8%	1.9%	1.1%	0.5%	0.5%	0.7%	2.6%	3.2%	4.0%	4.0%	6.9%	6.1%	6.1%
% Special mention	28.2%	22.8%	22.0%	28.7%	25.5%	21.5%	15.7%	9.8%	12.6%	26.1%	35.3%	31.2%	35.2%	39.8%	38.8%	42.7%	44.9%	54.7%
% Pass/Watch	33.8%	49.6%	48.0%	42.1%	41.0%	34.0%	36.6%	27.8%	30.6%	49.0%	59.3%	56.8%	54.5%	50.5%	54.0%	48.3%	45.0%	34.9%
% Pass	33.0%	25.0%	26.3%	25.4%	30.1%	41.4%	45.7%	61.3%	56.3%	24.4%	4.7%	9.5%	7.0%	5.6%	3.0%	1.7%	2.0%	2.8%

Figure 7 – Viceroy Analysis

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.

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 21 – Arbor Realty Probed by DOJ Over Lending Practices, Loan Book[5]

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.

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

Rewind. Play.

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

Arbor is rapidly shrinking its loan book as dividends being paid out are substantially funded by a wind down of a floating-rate bridge financing loan book whose underlying borrowers and projects are underwater. We have shown this time and time again.

Arbor trades above book value, which is not recoverable.

Arbor is valued by analysts on short-term cash flows which cannot be realized.

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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