



# Arbor – September 2024 CLO Update

75% of Arbor’s CLO loan book is delinquent and/or modified. Arbor’s book is severely distressed: a further 200bps federal rate cut would only raise underlying DSCR to ~0.6.

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**September 19, 2024** –Despite rampant modifications across >70%% of its CLO book, Arbor’s loans remain deeply distressed. Substantially all investments underlying Arbor’s loan book are inherently unprofitable, as DSCR of investments continue to rapidly fall to 0.48x.

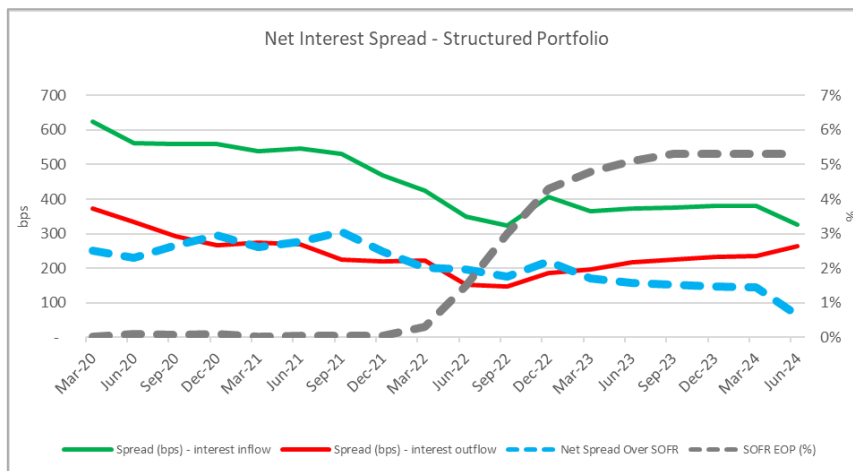
- Federal rate cuts will not revitalize Arbor’s book. At its current spread: a rate cut of 200bps will only marginally reduce underlying investment losses, bringing underlying DSCR to a meagre 0.58x.

DSCR Sensitivity	
Underlying NOI	360,407,336
Debt Service Amount	(750,036,264)
Total deal balance	6,527,573,840
Implied interest rate	11.5%

Rate Cut (bps)	25	50	100	200	300	400
Post-hoc Rate	11.2%	11.0%	10.5%	9.5%	8.5%	7.5%
Post-hoc Debt Service Amount	733,717,330	717,398,395	684,760,526	619,484,787	554,209,049	488,933,311
DSCR	0.49	0.50	0.53	0.58	0.65	0.74

Figures 1 & 2 – Viceroy September 2024 CLO Analysis

- Arbor’s rapidly diminishing Net Interest Spread will not improve with any realistic federal rate cuts.



Figures 3 & 4 – Viceroy Analysis

- Arbor’s Cash Interest Income Rate has already fallen below the cost of debt, as its modifications allow distressed lenders to roll over interest on interest only loans.
- Originations remain at all-time lows. Arbor, meanwhile, continues to pay dividends from the (few) principal repayments coming good from its loan book.
  - This is a wind-down. Arbor are paying out more than they are earning, and rapidly diminishing the value of cash-generative assets which already cannot support future dividends.
  - Paying out dividends from the few recovered principal from loans which managed to refinance elsewhere (i.e. new short opportunities) simultaneously diminishes the quality of Arbor’s book, as the remaining book represents the worst of the worst. This is evident from rapidly declining performance metrics.

According to Bloomberg, Arbor is under investigation by the DOJ and FBI. FOIA requests to the SEC were also denied on the basis that their release may interfere with enforcement proceedings.

## The CLO Surveillance – August 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.

September 2024 Update	ARCREN 2021-FL1	ARCREN 2021-FL3	ARCREN 2021-FL4	ARCREN 2022-FL1	ARCREN 2022-FL2	Total
<b>Total # deals/properties</b>	<b>35</b>	<b>51</b>	<b>100</b>	<b>71</b>	<b>42</b>	<b>299</b>
< 1 Month	-	4	3	3	2	12
30 Days	4	5	1	10	-	20
60 Days	-	-	-	-	-	-
90+ Days	1	-	8	1	-	10
Modifications total (#)	24	36	59	46	25	190
Adjustment for double count*	(2)	(7)	(10)	(6)	-	(25)
<b>Total delinquent &amp; modified</b>	<b>27</b>	<b>38</b>	<b>61</b>	<b>54</b>	<b>27</b>	<b>207</b>
<b>Total deal balance</b>	<b>488,667,312</b>	<b>1,092,587,439</b>	<b>2,030,841,170</b>	<b>1,952,452,920</b>	<b>963,024,999</b>	<b>6,527,573,840</b>
< 1 Month	-	117,370,000	90,900,000	57,580,000	58,800,000	324,650,000
30 Days	46,570,215	57,700,000	48,733,000	176,024,785	-	329,028,000
60 Days	-	-	-	-	-	-
90+ Days	10,514,731	-	34,500,000	6,759,965	-	51,774,696
Modified	337,768,347	832,334,440	1,279,561,754	1,499,490,170	638,656,530	4,587,811,241
Adjustment for double count*	(41,764,731)	(144,670,000)	(127,233,000)	(141,770,000)	-	(455,437,731)
<b>Total delinquent &amp; modified</b>	<b>353,088,562</b>	<b>862,734,440</b>	<b>1,326,461,754</b>	<b>1,598,084,920</b>	<b>697,456,530</b>	<b>4,837,826,206</b>
<i>* Double count adjustment for loans both modified and delinquent. This adjustment was not conducted in previous reports.</i>						
Underlying Revenue	89,015,828	165,981,795	191,722,521	222,213,897	86,533,325	755,467,365
Underlying Expenses	(46,342,531)	(84,943,834)	(96,291,974)	(117,727,295)	(43,643,569)	(388,949,203)
Underlying NOI	42,673,297	81,037,962	95,430,546	104,486,602	42,889,756	366,518,163
Debt Service Amount	(72,279,728)	(137,005,759)	(202,939,741)	(275,781,308)	(69,415,773)	(757,422,309)
<b>DSCR</b>	<b>0.59</b>	<b>0.59</b>	<b>0.47</b>	<b>0.38</b>	<b>0.62</b>	<b>0.484</b>

Figure 5 – Viceroy September 2024 CLO Analysis

- Arbor has modified \$4.5b of loans (~190 loans), and holds a further \$705m of delinquent loans, representing ~75% of its ~\$6.5b CLO portfolio (~299 loans).
  - Modified loans against 25 properties are already delinquent again. This figure is down from 32 in August 2024, indicating that Arbor is modifying loans month-on-month in order to keep them current.
  - The DSCR of modified loans is ~0.43x<sup>1</sup>.
  - A month-on-month review shows that modified loans have not been rehabilitated and will continue to fail.
  - As previously reported Arbor’s modifications are being incorrectly reported. This has not been fixed.
- Arbor has provided favorable mezzanine financing to distressed clients to “rehabilitate” their loans.
  - These loans should be considered impaired, as they are non-recoverable.
- \$705m of loans (~55 properties) in the CLO portfolios are delinquent.
  - The DSCR of delinquent loans is ~0.28x.
  - The DSCR of the CLO portfolio is ~0.48x, **down ~100bps from last quarter.**
  - Substantially all of the underlying CLO investments are inherently unprofitable and functionally bankrupt.

Attached to this report are excerpts from our earlier work relevant to the analysis of Arbor’s underlying loan performance and CLO data representation (or misrepresentation).

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

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

<sup>1</sup> Adjusted for various loans against the same property.



## Annexure 1: 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 with management.

### **2021-FL1 – Group ID 318992 – Loan ID 43500**

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

### **ARCLEN 2021-FL4 ID 316977 – Loan ID 316977– Group**

In June 2024's CREF report, this loan was marked 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 marked 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 marked 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 marked 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).



## Annexure 2: 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 to preserve the illusion of credit performance.

Modification Summary	Jul-24		Aug-24		Sep-24	
	Count	Value	Count	Value	Count	Value
Maturity Date Extension	10	441,295,000	12	454,350,000	15	612,772,000
Amortization Change	0	-	0	-	0	-
Principal Write-Off	0	-	0	-	0	-
Temporary Rate Reduction	0	-	0	-	0	-
Capitalization on Interest	16	322,270,081	16	322,270,081	16	322,270,081
Capitalization on Taxes	0	-	0	-	0	-
Other	53	1,504,059,833	66	1,816,344,670	68	1,776,667,883
Combination	88	1,710,998,083	76	1,565,543,029	91	1,876,101,277
Forbearance	1	43,989,000	0	-	0	-

Figure 6 – 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 2<sup>nd</sup> 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 3<sup>rd</sup> 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 18% rate per year. Second ranking security. "Interest fully accrued until sale". Third ranking security.
64%	Rescue Loan	\$3,865,000	
76%	Arbor B Loan	\$6,277,340	
100%	Existing Equity	\$13,511,995	
	<b>Total</b>	<b>\$55,654,335</b>	

Figure 7 – 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.





### Annexure 3: Arbor Investigations

In addition to the previously reported investigations by the Department of Justice and the Federal Bureau of Investigation it is now highly likely that the company is also under investigation by the SEC. X user @Price\_to\_Value's FOIA request to the SEC was denied, with the SEC citing interference with ongoing enforcement actions as justification

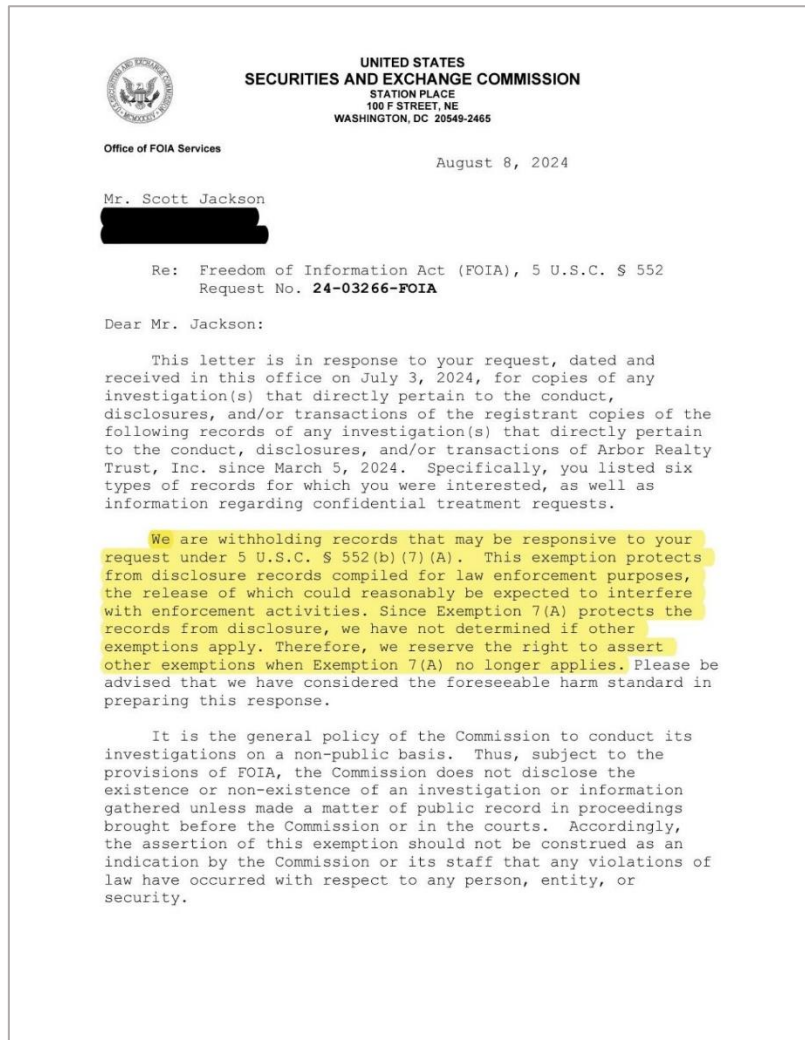


Figure 8 – SEC FOIA Response

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



## **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](mailto:viceroy@viceroyresearch.com).

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