Arbor - January 2025 CLO Update

Delinquencies up 33% month-on-month, despite Arbor re-modifying $934m of loans against 49 properties over the same period.

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January 21, 2025 – Despite their best efforts of window dressing (and there was a lot of effort), Arbor's CLO delinquencies are up 33% month-on-month in January 2025 to $1.1b. Substantially all delinquencies have already been modified, many as recently as Q4 2024.

January 2025 Update	ARCREN 2021-FL1	ARCREN 2021-FL3	ARCREN 2021-FL4	ARCREN 2022-FL1	ARCREN 2022-FL2	Total
Total # deals/properties	**33**	**47**	**86**	**63**	**40**	**269**
< 1 Month	**5**	3	5	11	2	**26**
30 Days	-	-	2	1	**2**	**5**
60 Days	-	-	**7**	**1**	-	**8**
90+ Days	1	**4**	1	6	-	**12**
Modifications total (#)	25	36	56	47	30	**194**
*Adjustment for double count**	*(3)*	*(7)*	*(10)*	*(11)*	-	***(31)***
Total delinquent & modified	**28**	**36**	**61**	**55**	**34**	**214**
Total deal balance	**455,762,962**	**945,344,925**	**1,817,622,094**	**1,695,745,904**	**931,774,999**	**5,846,250,883**
< 1 Month	**28,420,215**	99,470,000	147,668,000	243,941,785	51,050,000	**570,550,000**
30 Days	-	-	21,210,000	12,030,000	**27,600,000**	**60,840,000**
60 Days	-	-	**132,707,851**	**28,000,000**	-	**160,707,851**
90+ Days	10,514,731	**25,500,000**	44,000,000	212,999,965	-	**293,014,696**
Modified	353,386,747	793,681,926	1,379,064,062	1,530,264,154	708,636,530	**4,765,033,418**
*Adjustment for double count**	*(23,614,731)*	*(124,970,000)*	*(226,272,851)*	*(430,332,000)*	-	***(805,189,582)***
Total delinquent & modified	**368,706,962**	**793,681,926**	**1,498,377,062**	**1,596,903,904**	**787,286,530**	**5,044,956,383**

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

Figures 1 – January 2025 CLO Data – Viceroy Analysis

- Arbor has modified $4.7b of loans **and holds $1.1b of delinquent loans**.
  - Modified loans represent ~80% of Arbor's ~$6b CLO portfolio, and delinquent loans ~19%[1].
  - Substantially all **delinquent loans have already been modified, many as recently as Q4 2024**.
  - **Delinquent loans are not being cured and are falling further into delinquency**.
  - Almost $300m of loans are delinquent over 90 days.
  - Loan reserves are down month-on-month.
- Arbor continues to try cure the true value of its delinquencies by modifying loans month-on-month.
  - **Arbor modified $934m of loans against ~50 properties in the month ending January 9, 2025**, representing ~16% of its portfolio.
  - **Substantially all these loans had already been modified, many in Q4 2024**.

This is fraud. There is no underlying operational improvement secured against these loans, no opportunity to transition these loans into agency or any other feasible lending product, and (obviously) no buyer for these loans at their marked price. These loans are in transition to foreclosures, and nothing else.

Arbor modified loans month-on-month in order to falsely preserve the value of its book.

The evidence of this lies within underlying operational data and the enormous concessions arbor has taken in its interest spreads. Arbor can no longer afford to pay its dividend. Analysts have begun to realize that Arbor must take unfavorable valuations and cut its dividend in order to survive.

[1] A number of modified loans are also delinquent (again).

Underlying investments showed no operational improvement. These properties are not "in transition", they are stabilized.

- The DSCR of modified loans now fully captures **75bps** of rate cuts and still only sits slightly above ~0.6x[2].
- Implied underlying cap rates sit below 4.3%. Any realistic revaluation of underlying collateral values will completely wipe out Arbor's equity stake of its CLO.

January 2025 Update	ARCREN 2021-FL1	ARCREN 2021-FL3	ARCREN 2021-FL4	ARCREN 2022-FL1	ARCREN 2022-FL2	Mixed	Total
Underlying Revenue	44,224,221	76,521,698	149,643,674	134,741,374	76,590,033	194,650,997	**676,371,997**
Underlying Expenses	(26,703,088)	(40,469,549)	(76,718,803)	(69,069,485)	(36,887,864)	(102,622,680)	**(352,471,469)**
Underlying NOI	17,521,134	36,052,149	72,924,871	65,671,890	39,702,168	92,028,317	**323,900,528**
Debt Service Amount	(26,565,823)	(51,725,234)	(116,325,706)	(107,644,934)	(59,764,032)	(151,753,549)	**(513,779,278)**
DSCR	**0.66**	**0.70**	**0.63**	**0.61**	**0.66**	**0.61**	**0.630**
Debt Outstanding	369,668,457	605,688,615	1,318,323,441	1,254,611,965	646,380,000	1,651,578,406	**5,846,250,883**
Underlying Collateral Valuation	468,420,000	752,015,000	1,731,555,000	1,396,395,000	868,220,000	2,359,660,000	**7,576,265,000**
Implied Cap Rate	3.74%	4.79%	4.21%	4.70%	4.57%	3.90%	**4.28%**
LTV	79%	81%	76%	90%	74%	70%	**77%**

Figures 2 – December CLO Data – Viceroy Analysis

For comparative reference, here is the complete Dec 2024 data.

December 2024 Update	ARCREN 2021-FL1	ARCREN 2021-FL3	ARCREN 2021-FL4	ARCREN 2022-FL1	ARCREN 2022-FL2	Total
Total # deals/properties	**33**	**47**	**86**	**63**	**40**	**269**
< 1 Month	**3**	2	-	4	4	**13**
30 Days	3	-	10	6	-	**19**
60 Days	-	-	-	**1**	-	**1**
90+ Days	1	**5**	1	4	-	**11**
Modifications total (#)	25	36	56	47	30	**194**
Adjustment for double co	*(4)*	*(6)*	*(10)*	*(8)*	*(2)*	***(30)***
Total delinquent & modi	**28**	**37**	**57**	**54**	**32**	**208**
Total deal balance	**455,762,962**	**945,344,925**	**1,873,181,786**	**1,732,835,750**	**931,774,999**	**5,938,900,422**
< 1 Month	**22,600,000**	40,900,000	-	171,400,000	86,400,000	**321,300,000**
30 Days	15,320,215	-	186,917,851	64,209,785	-	**266,447,851**
60 Days	-	-	-	**31,240,000**	-	**31,240,000**
90+ Days	10,514,731	**57,700,000**	44,000,000	83,464,965	-	**195,679,696**
Modified	332,892,747	781,181,926	1,370,470,754	1,523,049,000	708,636,530	**4,716,230,957**
Adjustment for double co	*(33,114,731)*	*(86,100,000)*	*(197,917,851)*	*(278,370,000)*	*(27,600,000)*	***(623,102,582)***
Total delinquent & modi	**348,212,962**	**793,681,926**	**1,403,470,754**	**1,594,993,750**	**767,436,530**	**4,907,795,922**

December 2024 Update	ARCREN 2021-FL1	ARCREN 2021-FL3	ARCREN 2021-FL4	ARCREN 2022-FL1	ARCREN 2022-FL2	Mixed	Total
Underlying Revenue	44,165,205	76,126,673	155,903,695	135,235,129	77,439,951	191,275,867	**680,146,521**
Underlying Expenses	(26,701,477)	(40,255,082)	(80,393,142)	(70,837,917)	(37,417,386)	(102,477,617)	**(358,082,620)**
Underlying NOI	17,463,728	35,871,591	75,510,553	64,397,213	40,022,565	88,798,250	**322,063,901**
Debt Service Amount	(31,161,892)	(53,031,327)	(121,262,362)	(108,800,168)	(60,265,278)	(154,939,091)	**(529,460,120)**
DSCR	**0.56**	**0.68**	**0.62**	**0.59**	**0.66**	**0.57**	**0.608**
Debt Outstanding	369,668,457	605,688,615	1,330,776,441	1,254,611,965	646,380,000	1,731,774,944	**5,938,900,422**
Underlying Collateral Va	469,020,000	751,815,000	1,731,555,000	1,441,820,000	868,220,000	2,359,960,000	**7,622,390,000**
Implied Cap Rate	3.72%	4.77%	4.36%	4.47%	4.61%	3.76%	**4.23%**
LTV	79%	81%	77%	87%	74%	73%	**78%**

Figures 3 – December CLO Data – Viceroy Analysis

[2] Adjusted for various loans against the same property. We note that Arbor have serially misreported borrower financials in this regard, we dive into this below.

Spread Analysis

Modifying loans to distressed tenants is always at a direct cost to the lender. Arbor has made enormous concessions to its (almost exclusively distressed) lenders in order to keep them current.

The portfolios are teetering on the edge of a negative spread with over 95% of borrowers operating at a loss. The portfolio has an LTV ratio of ~80% (approximately a 4.2% cap rate), with Arbor holding the equity stake.

Dramatic falls in interest income spread stem from Arbor's need to kick the can on its distressed loans through rate-cutting modifications. There simply isn't enough room to cut spreads further, and rate cutting has **NOT** improved underlying DSCR of borrowers. A full list of spread stratifications can be found in **Annexure 1.**

2022 FL1	Jan-25	Nov-24	Oct-24	Apr-24	Dec-23
Weighted average spread	2.98	3.00	3.06	3.24	3.60
Current debt spread	1.88	1.88	1.74	1.74	1.74
Delta - Net Interest Spread	1.10	1.12	1.32	1.50	1.86
Downturn since Dec 2023	-41.0%	-39.5%			
2021 FL3	**Jan-25**	**Nov-24**	**Oct-24**	**Apr-24**	**Dec-23**
Weighted average spread	3.02	2.98	3.05	3.45	3.61
Current debt spread	1.37	1.37	1.32	1.32	1.32
Delta	1.65	1.61	1.73	2.13	2.29
Downturn since Dec 2023	-28.1%	-29.7%			
2021 FL1	**Jan-25**	**Nov-24**	**Oct-24**	**Apr-24**	**Dec-23**
Weighted average spread	2.79	2.78	2.76	3.07	3.60
Current debt spread	1.56	1.56	1.54	1.54	1.54
Delta	1.23	1.22	1.22	1.53	2.06
Downturn since Dec 2023	-40.1%	-40.7%			
2022 FL2	**Jan-25**	**Nov-24**	**Oct-24**	**Apr-24**	**Dec-23**
Weighted average spread	3.09	3.06	3.03	3.25	3.62
Current debt spread	2.47	2.47	2.29	2.29	2.29
Delta	0.62	0.59	0.74	0.96	1.33
Downturn since Dec 2023	-53.2%	-55.6%			

Figure 4 – Viceroy Spread Analysis – Note, 2021 FL4 remits were corrupted, we will update this if it is re-lodged.

Viceroy's investigations also show that many delinquent borrowers appear to have been given flexible payment terms which change month-on-month, without new modifications or delinquencies being recorded.

We have detailed this in our November report, which can be found in the link below:

https://viceroyresearch.org/2024/12/16/arbor-pik-ing-holes-in-clo-data/

Arbor Cannot Afford Its Dividend

Arbor simply does not generate enough cash flow to continue paying its dividends.

- Non-cash PIK revenues from exclusively distressed tenants are not deducted from distributable earnings
- Provisions, which will eventually be realized, are added back into distributable earnings at the expense of future periods.
- Stock-based compensation is dilutive to shareholders and fleeting. Given Arbor's self-interested and self-dealing management team these will revert to cash distributions as Arbor's stock fails to perform.

Distributable Earnings Analysis	Q3 2024
Net income attributable to common stockholders	**58,175**
Adjustments:	
Net income attributable to noncontrolling interest	5,028
Income from mortgage servicing rights	(13,195)
Deferred tax benefit	(2,026)
Amortization and write-offs of MSRs	18,792
Depreciation and amortization	2,564
Provision for credit losses, net	17,077
(Gain) loss on derivative instruments, net	(1,217)
Stock-based compensation	2,977
Arbor reported distributable earnings	**88,175**
Viceroy adjustments:	
Less: Provisions for credit losses	(17,077)
Less: Stock based compensation	(2,977)
Add: PIK income	(37,299)
Viceroy adjusted distributable earnings	**30,822**
Diluted weighted average shares outstanding	205,347,309
Viceroy adjusted distributable earnings per share	0.15
Dividend declared per share	0.43
Dividend shortfall	**(57,477)**

Figure 5 – Viceroy Analysis

Arbor's heavily inflated asset book has shrunk almost $4b since its peak in Q3 2022. As the book continues to shrink, the quality of assets left on Arbor's book will continue to deteriorate, and its ability to generate income will continue to shrink. **This is a wind down.**

There is no growth opportunity to fund multifamily real estate because the entire industry is underwater. This is reflected in Arbor's shrinking book, the inability of its short-term borrowers to move on to agency loans or refinance their investments, and the stagnant multifamily property market.

With SOFR expected to float above 4% until at least 2027, and Arbor already being levered to the hilt, Arbor must resort to taking unfavorable deals and cutting its dividend in order to meet its obligations to noteholders.

Summary of other findings

- Viceroy's granular analysis of individual CLO loan data over 12 months shows:
  - Vast sections of financial data including delinquencies and modifications have been manipulated, adulterated, and/or erroneously under-reported.
  - Almost every underlying sponsor's debt servicing costs are substantially higher than the scheduled interest due to Arbor, and this figure has been growing at an alarming rate. Substantially all of Arbor borrowers have obtained third party mezzanine financing to pay unaffordable Arbor interest.
  - Arbor appears to modify spreads for distressed borrowers (a large portion of Arbor's book), month-on-month, to create a quasi cash-sweep program where borrowers simply pay what they can. Arbor does not record delinquencies or modifications on these loans.
- Arbor's CFO incorrectly claims that only $15m of PIK accrued in Q3 2024. This is a logical impossibly against reported cash pay-rate and weighted average yield.
  - Viceroy's calculations suggest between $35m and $37m PIK accrued in Q3 2024, reflecting the severe liquidity constraints faced by sponsors.
  - Non-cash PIK from distressed borrowers is not adjusted for in Arbor's distributable income. Arbor must borrow or sell assets to fund dividends, and trades at a premium to tangible book value.
- Arbor deceives investors by falsely claiming a robust sales pipeline while its loan book has been shrinking. New originations appear to be substantially the refinancing of existing loans, sometimes to the same borrowers.

We have detailed this in our November report, which can be found in the link below:

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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[3].

We are withholding records that may be responsive to your request under 5 U.S.C. § 552(b)(7)(A). This exemption protects from disclosure records compiled for law enforcement purposes, the release of which could reasonably be expected to interfere with enforcement activities. Since Exemption 7(A) protects the records from disclosure, we have not determined if other exemptions apply. Therefore, we reserve the right to assert other exemptions when Exemption 7(A) no longer applies. Please be advised that we have considered the foreseeable harm standard in preparing this response.

It is the general policy of the Commission to conduct its investigations on a non-public basis. Thus, subject to the provisions of FOIA, the Commission does not disclose the existence or non-existence of an investigation or information gathered unless made a matter of public record in proceedings brought before the Commission or in the courts. Accordingly, the assertion of this exemption should not be construed as an indication by the Commission or its staff that any violations of law have occurred with respect to any person, entity, or security.

Figure 6 – SEC FOIA Response

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

[3] https://x.com/viceroyresearch/status/1823006132824395835

Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Arbor Realty Trust, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

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