ARBOR REALTY TRUST INC
Form 10-K
February 26, 2016

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# Form 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2015**

**or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**
**Commission file number: 001-32136**

# Arbor Realty Trust, Inc.
(Exact name of registrant as specified in its charter)

| **Maryland** | **20-0057959** |
|---|---|
| (State or other jurisdiction of incorporation) | (I.R.S. Employer Identification No.) |
| **333 Earle Ovington Boulevard, Suite 900, Uniondale, NY** | **11553** |
| (Address of principal executive offices) | (Zip Code) |

**(516) 506-4200**
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Common Stock, par value $0.01 per share | New York Stock Exchange |
| Preferred Stock, 8.25% Series A Cumulative Redeemable, par value $0.01 per share | New York Stock Exchange |
| Preferred Stock, 7.75% Series B Cumulative Redeemable, par value $0.01 per share | New York Stock Exchange |
| Preferred Stock, 8.50% Series C Cumulative Redeemable, par value $0.01 per share | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| Large accelerated filer o | Accelerated filer ý | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of the registrant's common stock, all of which is voting, held by non-affiliates of the registrant as of June 30, 2015 (computed based on the closing price on such date as reported on the NYSE) was $289.2 million. As of February 26, 2016, the registrant had 50,962,516 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement for the registrant's 2016 Annual Meeting of Stockholders (the "2016 Proxy Statement"), to be filed within 120 days after the end of the registrant's fiscal year ended December 31, 2015 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**Forward Looking Statements**

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. We use words such as "anticipates," "expects," "believes," "intends," "should," "will," "may" and similar expressions to identify forward-looking statements, although not all forward-looking statements include these words. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically; adverse changes in the financing markets we access affecting our ability to finance our loan and investment portfolio; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; legislative/regulatory changes; the availability and cost of capital for future investments; competition; and other risks detailed from time to time in our reports filed with the Securities and Exchange Commission ("SEC"). Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect management's views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries  Significant Accounting Estimates and Critical Accounting Policies" under Item 7 of this report.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

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## PART I

### Item 1. Business

In this Annual Report on Form 10-K we refer to Arbor Realty Trust, Inc. and subsidiaries as "we," "us," "our," or "the Company" unless we specifically state otherwise or the context indicates otherwise.

**Overview**

Arbor Realty Trust, Inc., a Maryland corporation formed in 2003, is a specialized real estate finance company that invests in a diversified portfolio of structured finance assets in the multifamily and commercial real estate markets. We invest primarily in real estate-related bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity. We may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. Our principal business objective is to maximize the difference between the yield on our investments and the cost of financing these investments to generate cash available for distribution, facilitate capital appreciation and maximize total return to our stockholders.

We conduct substantially all of our operations and investing activities through our operating partnership, Arbor Realty Limited Partnership, and its subsidiaries. We serve as the general partner of our operating partnership, and own a 100% partnership interest in our operating partnership as of December 31, 2015.

We are organized to qualify as a real estate investment trust ("REIT") for federal income tax purposes. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income that is distributed to its stockholders, provided that at least 90% of taxable income is distributed and provided that certain other requirements are met. Certain of our assets that produce non-qualifying income are held in taxable REIT subsidiaries. Unlike other subsidiaries of a REIT, the income of a taxable REIT subsidiary is subject to federal and state income taxes.

We are externally managed and advised by Arbor Commercial Mortgage, LLC ("ACM" or our "Manager"), a national commercial real estate finance company that specializes in debt and equity financing for multifamily and commercial real estate, pursuant to the terms of a management agreement described below. Our Manager provides us with all of the services vital to our operations other than asset management, securitization and certain credit functions, and certain of our executive officers and other staff are employed by our Manager pursuant to the management agreement. The management agreement requires our Manager to manage our business affairs in conformity with policies and investment guidelines that are approved and monitored by our Board of Directors.

We believe our Manager's experience and reputation positions it to originate attractive investment opportunities for us. Our management agreement with our Manager was developed to capitalize on synergies with our Manager's origination infrastructure, existing business relationships and management expertise. Our Manager has granted us a right of first refusal to pursue all structured finance investment opportunities in the multifamily or commercial real estate markets that are identified by our Manager or its affiliates. Our Manager continues to originate and service multifamily and commercial mortgage loans under Fannie Mae, Freddie Mac, Federal Housing Administration and conduit commercial lending programs. We believe that the customer relationships established from these lines of business may generate additional real estate investment opportunities for our business.

**Our Investment Strategy**

We invest in bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity, mortgage-backed securities and other real estate-related assets predominantly in the multifamily and commercial real estate markets and actively manage our investment portfolio. We believe the financing of multifamily and commercial real estate offers

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opportunities that demand customized financing solutions. We believe we can achieve our primary business objectives through the following investment strategies:

***Provide Customized Financing.*** We provide financing customized to the needs of our borrowers. We target borrowers who have demonstrated a history of enhancing the value of the properties they operate, but whose options may be limited by conventional bank financing and who may benefit from the sophisticated structured finance products we offer.

***Execute Transactions Rapidly.*** We act quickly and decisively on proposals, provide commitments and close transactions within a few weeks and sometimes days, if required. We believe that rapid execution attracts opportunities from both borrowers and other lenders that would not otherwise be available. We believe our ability to structure flexible terms and close loans in a timely manner gives us a competitive advantage.

***Manage Credit Quality.*** A critical component of our strategy is our ability to manage the real estate risk that is underwritten by our Manager and us. We actively manage the credit quality of our portfolio by using the expertise of our asset management group, which has a proven track record of structuring and repositioning structured finance investments to improve credit quality and yield.

***Use Our Manager's Relationships with Existing Borrowers.*** We capitalize on our Manager's reputation in the commercial real estate finance industry. Our Manager has relationships with a large borrower base nationwide. Since our Manager's originators offer senior mortgage loans as well as our structured finance products, we are able to benefit from its existing customer base and use its senior lending business as a potential refinance vehicle for our structured finance assets.

***Leverage the Experience of Executive Officers, Our Manager and Our Employees.*** Our executive officers and employees, and those of our Manager, have extensive experience originating and managing structured commercial real estate investments. Our senior management team has, on average, over 20 years of experience in the financial services industry.

**Our Targeted Investments**

We pursue lending and investment opportunities with property owners and developers who need interim financing until permanent financing can be obtained. We primarily target transactions where we believe we have competitive advantages, particularly our lower cost structure and in-house underwriting capabilities. Our structured finance investments generally have maturities of two to five years depending on type, have extension options when appropriate, and generally require a balloon payment of principal at maturity. Borrowers in the market for these types of loans include, but are not limited to, owners or developers seeking either to acquire or refurbish real estate or to pay down debt and reposition a property for permanent financing.

Our investment program emphasizes the following general categories of real estate-related activities:

***Bridge Financing.*** We offer bridge financing products to borrowers who are typically seeking short-term capital to be used in an acquisition of property. The borrower has usually identified an undervalued asset that has been under managed and/or is located in a recovering market. From the borrower's perspective, shorter term bridge financing is advantageous because it allows for time to improve the property value through repositioning the property without encumbering it with restrictive long-term debt that may not reflect optimal leverage for a non-stabilized property.

The bridge loans we currently make typically range in size from $5 million to $30 million, have terms of up to five years, and are predominantly secured by first mortgage liens on the property. At December 31, 2015 our target interest rate range is generally 5% to 6% over 30-day LIBOR.

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Additional yield enhancements may include origination fees, deferred interest, yield look-backs, and participating interests, which are equity interests in the borrower that share in a percentage of the underlying cash flows of the property. Borrowers generally use the proceeds of a conventional mortgage to repay a bridge loan.

***Mezzanine Financing.*** We offer mezzanine financing in the form of loans that are subordinate to a conventional first mortgage loan and senior to the borrower's equity in a transaction. Mezzanine financing may take the form of loans secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property. We may also require additional security such as personal guarantees, letters of credit and/or additional collateral unrelated to the property.

The mezzanine loans we currently make typically range in size from $1 million to $10 million and have terms of up to ten years. At December 31, 2015 our target interest rate is generally 12% to 14%. As in the case with our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests. We hold a majority of our mezzanine loans through subsidiaries of our operating partnership that are pass-through entities for tax purposes.

***Junior Participation Financing.*** We offer junior participation financing in the form of a junior participating interest in the senior debt. Junior participation financings have the same obligations, collateral and borrower as the senior debt. The junior participation interest is subordinated to the senior debt by virtue of a contractual agreement between the senior debt lender and the junior participating interest lender.

The junior participation loans we currently make typically range in size from $1 million to $10 million and have terms of up to ten years. At December 31, 2015 our target interest rate is generally 12% to 14%. As in the case with our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests.

***Preferred Equity Investments.*** We provide financing by making preferred equity investments in entities that directly or indirectly own real property. In cases where the terms of a first mortgage prohibit additional liens on the ownership entity, investments structured as preferred equity in the entity owning the property serve as viable financing substitutes. With preferred equity investments, we typically become a member in the ownership entity.

The preferred equity investments we currently make typically range in size from $1 million to $10 million and have terms up to ten years. At December 31, 2015 our target return is generally 12% to 14%.

**Other Investment Opportunities**

***Real Property.*** We have, and may in the future, obtain real estate by foreclosure or through partial or full settlement of mortgage debt related to our loans. Our management team may identify such assets and initiate an asset-specific plan to maximize the value of the collateral, which can include appointing a third party property manager, completing the construction or renovation of the property, leasing or increasing the occupancy of the property, or selling the entire asset or a partial interest to a third party. As such, these transactions may require the use of additional capital prior to the completion of the specific plan. Additionally, we may identify real estate investment opportunities such as domestic real estate for repositioning and/or renovation and then disposition at an anticipated significant return. In these situations, we may act solely on our own behalf or in partnership with other investors. Typically, these transactions are analyzed with the expectation that we will have the ability to sell the property within a one to three year time period, achieving a significant return on invested capital. In connection with these transactions, speed of execution is often the most critical component

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to success. We may seek to finance a portion of the acquisition price through short-term financing, if available. Repayment of the short-term financing will either come from the sale of the property or conventional permanent debt.

***Note Acquisitions.*** We have, and may in the future, acquire real estate notes from lenders in situations where the borrower wishes to restructure and reposition its short-term debt and the lender wishes, for a variety of reasons (such as risk mitigation, portfolio diversification or other strategic reasons), to divest certain assets from its portfolio. These notes may be acquired at a discount. In such cases, we intend to use our management resources to resolve any disputes concerning the note or the property securing it and to identify and resolve any existing operational or any other problems at the property. We will then either restructure the debt obligation for immediate resale or sale at a later date, or reposition it for permanent financing. In some instances, we may take title to the property underlying the real estate note.

***Equity Securities.*** We have, and may in the future, invest in equity securities such as the common stock of a company. Investments in these securities have the risk of stock market fluctuations which may result in the loss of our principal investment.

***Residential Mortgage-Backed Securities.*** We have, and may in the future, invest in residential mortgage-backed securities ("RMBS"). These securities may be purchased at a premium or discount to their face value, which is amortized or accreted into interest income on an effective yield adjusted for actual prepayment activity over the expected remaining life of the related security as a yield adjustment. These securities may have underlying credit ratings assigned by the three leading nationally recognized rating agencies (Moody's Investor Service, Standard & Poor's and Fitch Ratings) and are generally not insured or otherwise guaranteed.

***Commercial Real Estate Collateralized Debt Obligation Bonds.*** We have, and may in the future, invest in securities such as commercial real estate collateralized debt obligation ("CDO") bonds. These certificates are usually purchased at a discount to their face value, which is accreted into interest income, if deemed to be collectable, on an effective yield adjusted for actual prepayment activity over the expected remaining life of the related security as a yield adjustment. These securities may have underlying credit ratings assigned by the three leading nationally recognized rating agencies and are generally not insured or otherwise guaranteed.

***Commercial Mortgage-Backed Securities.*** We have, and may in the future, invest in commercial mortgage-backed securities ("CMBS"). These securities are usually purchased at a discount to their face value which is accreted into interest income, if deemed to be collectable, on an effective yield adjusted for actual prepayment activity over the expected remaining life of the related security as a yield adjustment. These securities may have underlying credit ratings assigned by the three leading nationally recognized rating agencies and are generally not insured or otherwise guaranteed.

**Our Structured Finance Investments**

We own a diversified portfolio of structured finance investments consisting primarily of real estate-related bridge and mezzanine loans, junior participation interests in first mortgages and preferred equity investments.

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At December 31, 2015, we had 128 loans and investments in our portfolio, totaling $1.55 billion. We have an allowance for loan losses of $86.8 million at December 31, 2015 related to nine loans in our portfolio with an aggregate carrying value, before loan loss reserves, of $189.2 million. The loan loss reserves were determined during our quarterly risk rating review process, which is based on several factors including current market conditions, values and the operating status of these properties. We continue to actively manage all loans and investments in the portfolio in a manner consistent with our underwriting and asset management policy and procedures with the goal of maintaining the credit quality of our portfolio and limiting potential losses.

The overall yield on our loan and investments portfolio in 2015 was 6.67% on average assets of $1.59 billion. This yield was computed by dividing the interest income earned during the year by the average assets during the year. Our cost of funds in 2015 was 4.25% on average borrowings of $1.17 billion. This cost of funds was computed by dividing the interest expense incurred during the year by the average borrowings during the year.

Our average net investment (average assets less average borrowings) in 2015 was $420.3 million, resulting in average leverage (average borrowings divided by average assets) of 73.6%. Including average junior subordinated notes of $175.9 million as equity, our average leverage was 62.5%. The net interest income earned in 2015 yielded an 11.6% return on our average net investment during the year. This yield was computed by dividing net interest (interest income less interest expense) earned in 2015 by average equity (computed as average assets minus average borrowings) invested during the year.

Our business plan contemplates that our leverage ratio, including our junior subordinated notes as equity, will be approximately 70% to 80% of our assets in the aggregate. However, including our junior subordinated notes as equity, our leverage is generally not to exceed 80% of the value of our portfolio assets, before loan loss reserves, when considering additional financing sources unless approval to exceed the 80% limit is obtained from our Board of Directors. See "Operating Policies and Strategies" below for further details.

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The following table sets forth information regarding our loan and investment portfolio as of December 31, 2015:

| Type | Asset Class | Number | Unpaid Principal (in thousands) | Weighted Average Pay Rate(1) | Weighted Average Remaining Maturity (months)(2) |
|---|---|---|---|---|---|
| Bridge Loans | Multi Family | 85 | $ 1,012,339 | 5.67% | 17.0 |
| | Land | 9 | 148,478 | 2.78% | 16.7 |
| | Office | 6 | 134,760 | 6.51% | 17.1 |
| | Hotel | 1 | 31,500 | 7.68% | 2.0 |
| | Other | 4 | 26,055 | 6.04% | 19.6 |
| | | 105 | 1,353,132 | 5.48% | 16.7 |
| Mezzanine Loans | Multi Family | 7 | 25,400 | 10.36% | 28.3 |
| | Land | 2 | 10,933 | 1.76% | 18.2 |
| | Other | 2 | 4,058 | 12.00% | 101.2 |
| | | 11 | 40,391 | 8.19% | 32.9 |
| Junior Participations | Office | 2 | 62,257 | 4.50% | 11.2 |
| Preferred Equity | Multi Family | 6 | 46,084 | 10.25% | 22.1 |
| | Hotel | 1 | 34,750 | 3.22% | 43.0 |
| | Land | 1 | 5,000 | 12.00% | 0.8 |
| | Office | 1 | 1,812 | 15.00% | 101.0 |
| | Other | 1 | 1,700 | | 19.0 |
| | | 10 | 89,346 | 7.52% | 30.5 |
| Total | | 128 | $ 1,545,126 | 5.63% | 17.7 |

(1) "Weighted Average Pay Rate" is a weighted average, based on the unpaid principal balances of each loan in the portfolio, of the interest rate that is required to be paid monthly as stated in the individual loan agreements. Certain loans and investments that require an additional rate of interest "Accrual Rate" to be paid at the maturity are not included in the weighted average pay rate as shown in the table.

(2) "Weighted Average Remaining Maturity" does not include as of right extensions.

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The following table sets forth geographic and asset class information regarding our loan and investment portfolio as of December 31, 2015:

| Geographic Location | Unpaid Principal (in thousands) | Percentage | Asset Class | Unpaid Principal (in thousands) | Percentage |
|---|---|---|---|---|---|
| New York | $ 524,458 | 33.9% | Multi Family | $ 1,083,823 | 70.1% |
| Florida | 222,849 | 14.4% | Office | 198,829 | 12.9% |
| California | 210,056 | 13.6% | Land | 164,411 | 10.6% |
| Texas | 180,045 | 11.7% | Hotel | 66,250 | 4.3% |
| Georgia | 73,651 | 4.8% | Other | 31,813 | 2.1% |
| Maryland | 53,845 | 3.5% | | | |
| Tennessee | 46,902 | 3.0% | | | |
| Alabama | 39,786 | 2.6% | | | |
| Illinois | 34,750 | 2.2% | | | |
| North Carolina | 32,000 | 2.1% | | | |
| South Carolina | 30,677 | 2.0% | | | |
| Other(1) | 96,107 | 6.2% | | | |
| Total | $ 1,545,126 | 100.0% | Total | $ 1,545,126 | 100.0% |

(1) No other individual state makes up more than 2% of the total.

**Regulatory Aspects of Our Investment Strategy**

**Real Estate Exemption from Investment Company Act.** We believe that we conduct our business at all times in a manner that avoids registration as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. Entities that are primarily engaged in the business of purchasing or otherwise acquiring "mortgages and other liens on and interests in real estate," are currently exempt from registration under the Investment Company Act if they maintain at least 55% of their assets directly in qualifying real estate assets and meet certain other requirements. Assets that qualify for purposes of this 55% test include, among other things, direct investments in real estate and mortgage loans. Our bridge loans, which are secured by first mortgage liens on the underlying properties, and our loans that are secured by second mortgage liens on the underlying properties generally qualify for purposes of this 55% test. These two types of loans constituted more than 55% of our assets as of December 31, 2015. Our investment guidelines provide that no more than 15% of our assets may consist of any type of mortgage-related securities and that the percentage of our investments in mortgage-related securities as compared to our structured finance investments be monitored on a regular basis. The regulatory authorities may from time to time review the interpretive guidance under the above exemption. Refer to Item 1A "Risk Factors  Risks Related to Our Business" for more information.

**Investment Advisors Act.** Our Manager is required to register under the Investment Advisors Act of 1940, or the Investment Advisors Act, and is thereby subject to the regulation prescribed by the statute. In addition, our subsidiary, Arbor Realty Collateral Management, LLC, the collateral manager for our collateralized loan obligations ("CLOs"), is also registered under this Act.

**Management Agreement**

Pursuant to the terms of the management agreement, our Manager has agreed to service and manage our investments and to provide us with multifamily and commercial real estate-related structured finance investment opportunities, finance and other services necessary to operate our business. Our Manager is required to provide a dedicated management team to provide these services to us, the members of which will devote as much of their time to our management as our independent

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directors reasonably deem necessary and appropriate, commensurate with our level of activity from time to time. We rely to a significant extent on the facilities and resources of our Manager to conduct our operations. For performing services under the management agreement, our Manager is eligible to receive a base management fee, incentive compensation and "success-based" compensation as described in Note 14 "Agreements and Transactions with Related Parties" of this report.

**Operations**

**Our Manager's Investment Services.** Under the management agreement, our Manager is responsible for sourcing originations, providing underwriting services and processing approvals for all loans and other investments in our portfolio. Our Manager also provides us with certain administrative loan servicing functions. We are able to capitalize on our Manager's well established operations and services in each area described below.

***Origination.*** Our Manager originates most of our investments. Our Manager has a network of sales offices in California, Colorado, Massachusetts, New Jersey, New York, Ohio, Oklahoma and Texas. These offices are staffed by approximately 20 loan originators who solicit property owners, developers and mortgage loan brokers. In some instances, the originators accept loan applications meeting our underwriting criteria from a select group of mortgage loan brokers. While a large portion of our Manager's marketing effort occurs at the branch level, our Manager also markets its products in national industry publications and targeted direct mailings. Our Manager markets its own loan offerings and our product offerings using the same methods. Once potential borrowers have been identified, our Manager determines which financing products best meet the borrower's needs. Loan originators in every branch office are able to offer borrowers the full array of our Manager's loan offerings and our structured finance products. After identifying a suitable product, our Manager works with the borrower to prepare a loan application. Upon completion by the borrower, the application is forwarded to our Manager's underwriters for due diligence.

***Underwriting.*** Our Manager's underwriters perform due diligence on all proposed transactions prior to loan approval and commitment. The underwriters analyze each loan application in accordance with the guidelines set forth below in order to determine the loan's conformity with respect to such guidelines. In general, our Manager's underwriting guidelines require it to evaluate the following: the historic and current property revenues and expenses; the potential for near-term revenue growth and opportunity for expense reduction and increased operating efficiencies; the property's location, its attributes and competitive position within its market; the proposed ownership structure, financial strength and real estate experience of the borrower and property management; third party appraisal, environmental and engineering studies; market assessment, including property inspection, review of tenant lease files, surveys of property comparables 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; and 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. 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. Consideration is also given to other factors, such as the experience and financial strength of the borrower's principals, additional forms of security and identifying likely strategies to affect repayment. Our Manager continuously refines its underwriting criteria based upon actual loan portfolio experience and as market conditions and investor requirements evolve.

***Investment Approval Process.*** Our Manager applies its established investment approval process to all loans and other investments proposed for our portfolio before submitting each proposal to us for final approval. A written report is generated for every loan or other investment that is submitted to our

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Manager's credit committee for approval. 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. In addition, the report includes an analysis of borrower liquidity, net worth, cash investment, income, credit history and operating experience. If the transaction is approved by a majority of our Manager's credit committee, it is presented for approval to our credit committee, which consists of our chief executive officer, chief credit officer, and executive vice president of structured finance. All transactions require the approval of a majority of the members of our credit committee. Following the approval of any such transaction, our Manager's underwriting and servicing departments, together with our asset management group, assure that all loan approval terms have been satisfied and conform with lending requirements established for that particular transaction. If our credit committee rejects the loan and our independent directors allow our Manager or one of its affiliates to pursue it, our Manager will have the opportunity to execute the transaction.

***Servicing.*** Our Manager services our loans and investments through its internal servicing operations. Our Manager currently services an expanding portfolio, consisting of 2,624 loans with outstanding balances of approximately $12.9 billion through its loan administration department in Buffalo, New York. Our Manager's loan servicing operations are designed to provide prompt customer service and accurate and timely information for account follow up, financial reporting and management review. Following the funding of an approved loan, all pertinent loan data is entered into our Manager's data processing system, which provides monthly billing statements, tracks payment performance and processes contractual interest rate adjustments on variable rate loans. Our Manager works closely with our asset management group to ensure the appropriate level of customer service and monitoring of our loans.

**Our Asset Management Operations.** Our asset management group is comprised of 31 employees. Effective asset and portfolio management is essential to maximize the performance and value of a real estate investment. The asset management group customizes an asset management plan with the loan originators and underwriters to track each investment from origination through disposition. This group monitors each investment's operating history, local economic trends and rental and occupancy rates and evaluates the underlying property's competitiveness within its market. This group assesses ongoing and potential operational and financial performance of each investment in order to evaluate and ultimately improve its operations and financial viability. The asset management group performs frequent onsite inspections, conducts meetings with borrowers and evaluates and participates in the budgeting process, financial and operational review and renovation plans of each underlying property. The asset management group also focuses on increasing the productivity of onsite property managers and leasing brokers. This group communicates the status of each transaction against its established asset management plan to senior management, in order to enhance and preserve capital, as well as to avoid litigation and potential exposure.

Timely and accurate identification of an investment's operational and financial issues and each borrower's objectives is essential to implementing an executable loan workout and restructuring process, if required. Since existing property management may not have the requisite expertise to manage the workout process effectively, our internal asset management group determines the current operating and financial status of an asset or portfolio and performs a liquidity analysis of the property and ownership entity and then, if appropriate, identifies and evaluates alternatives in order to maximize the value of an investment.

Our asset management group continues to provide its services to our Manager on a limited basis pursuant to the management agreement. In the event the services provided by our asset management group, pursuant to this agreement, exceed more than 15% of the group's cost per quarter, the level anticipated by our Board of Directors, we will negotiate in good faith with our Manager to adjust the base management fee under the management agreement and/or to reduce the time required to be devoted by our asset management group.

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**Operating Policies and Strategies**

**Investment Guidelines.** Our Board of Directors has adopted general guidelines for our investments and borrowings to the effect that: (1) no investment will be made that would cause us to fail to qualify as a REIT; (2) no investment will be made that would cause us to be regulated as an investment company under the Investment Company Act; (3) no more than 25% of our equity (including junior subordinated notes as equity), determined as of the date of such investment, will be invested in any single asset; (4) no single mezzanine loan or preferred equity investment will exceed $75 million; (5) our leverage (including junior subordinated notes as equity) will generally not exceed 80% of the unpaid principal balance ("UPB") of our assets, in the aggregate; (6) we will not co-invest with our Manager or any of its affiliates unless such co-investment is otherwise in accordance with these guidelines and its terms are at least as favorable to us as to our Manager or the affiliate making such co-investment; and (7) no more than 15% of our gross assets may consist of mortgage-related securities. Any exceptions to the above general guidelines require the approval of our Board of Directors.

**Financing Policies.** We finance the acquisition of our structured finance investments primarily by borrowing against or "leveraging" our existing portfolio and using the proceeds to acquire additional mortgage assets. We expect to incur debt such that we will maintain an equity-to-assets ratio no less than 20% (including junior subordinated notes as equity), although the actual ratio may be lower from time to time depending on market conditions and other factors deemed relevant by our Manager. Our charter and bylaws do not limit the amount of indebtedness we can incur, and the Board of Directors has discretion to deviate from or change our indebtedness policy at any time, provided that we are in compliance with our bank covenants. However, we intend to maintain an adequate capital base to protect against various business environments in which our financing and hedging costs might exceed the interest income from our investments.

Our investments are financed primarily by CLOs, junior subordinated notes, senior unsecured notes, and through other financing facilities with institutional lenders. Although we expect that these will be the principal means of leveraging our investments, we may issue common stock, preferred stock or secured or unsecured notes of any maturity if it appears advantageous to do so.

**Credit Risk Management Policy.** We are exposed to various levels of credit risk depending on the nature of our underlying assets and the nature and level of credit enhancements supporting our assets. We originate or purchase mortgage loans that meet our minimum debt service coverage standards. Our Manager, our chief credit officer, and our asset management group, reviews and monitors credit risk and other risks of loss associated with each investment. In addition, our Manager seeks to diversify our portfolio of assets to avoid undue geographic, issuer, industry and certain other types of concentrations. Our Board of Directors monitors the overall portfolio risk and reviews levels of provision for loss.

**Interest Rate Risk Management Policy.** To the extent that it is consistent with our election to qualify as a REIT, we generally follow an interest rate risk management policy intended to mitigate the negative effects of major interest rate changes. We minimize our interest rate risk from borrowings by attempting to structure the key terms of our borrowings to generally correspond to the interest rate terms of our assets.

We may enter into hedging transactions to protect our investment portfolio from interest rate fluctuations and other changes in market conditions. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, mortgage derivatives and other hedging instruments. These instruments may be used to hedge as much of the interest rate risk as our Manager determines is in the best interest of our stockholders, given the cost of such hedges and the need to maintain our status as a REIT. In general, income from hedging transactions does not constitute qualifying income for purposes of the REIT gross income requirements. To the extent,

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however, that a hedging contract reduces interest rate risk on indebtedness incurred to acquire or carry real estate assets, any income that is derived from the hedging contract, would not give rise to non-qualifying income for purposes of the 75% or 95% gross income tests. Our Manager may elect to have us bear a level of interest rate risk that could otherwise be hedged when it believes, based on all relevant facts, that bearing such risk is advisable.

To date, we have entered into various interest rate swaps in connection with the issuance of floating rate secured notes, the issuance of variable rate junior subordinated notes and to hedge the interest risk on forecasted outstanding LIBOR based debt. The notional amount of each interest rate swap agreement and the related terms have been designed to protect our investment portfolio from interest rate risk and to match the payment and receipts of interest on the underlying debt instruments, where applicable.

**Disposition Policies.** Our Manager evaluates our asset portfolio on a regular basis to determine if it continues to satisfy our investment criteria. Subject to certain restrictions applicable to REITs, our Manager may cause us to sell our investments opportunistically and use the proceeds for debt reduction, additional acquisitions, or working capital purposes.

**Equity Capital Policies.** Subject to applicable law, our Board of Directors has the authority, without further stockholder approval, to issue additional authorized common stock and preferred stock or otherwise raise capital, including through the issuance of senior securities, in any manner and on the terms and for the consideration it deems appropriate, including in exchange for property. We may in the future issue common stock in connection with acquisitions. We also may issue units of partnership interest in our operating partnership in connection with acquisitions of property. We may, under certain circumstances, repurchase our common stock in private transactions with our stockholders, if those purchases are approved by our Board of Directors.

**Conflicts of Interest Policies.** We, our executive officers, and our Manager face conflicts of interests because of our relationships with each other. Our Manager has approximately 10.5% of the voting interest in our common stock as of December 31, 2015. Mr. Kaufman, our chairman and chief executive officer, is the chief executive officer of our Manager and beneficially owns approximately 92% of the outstanding membership interests of our Manager. Mr. Martello, one of our directors, is the chief operating officer of Arbor Management, LLC (the managing member of our Manager) and a trustee of two trusts that own minority membership interests in our Manager. Mr. Bishar, our secretary, is general counsel to our Manager. Mr. Elenio, our chief financial officer and treasurer, is the chief financial officer of our Manager. Each of Messrs. Kaufman, Martello, Bishar, and Elenio, as well as Mr. Weber, our executive vice president of structured finance, Mr. Kilgore, our executive vice president of structured securitization and Mr. Guziewicz, our chief credit officer, are members of our Manager's executive committee and, excluding Mr. Kaufman, own minority membership interests in our Manager.

We have implemented several policies, through board action and through the terms of our charter and our agreements with our Manager, to help address these conflicts of interest, including the following:

Our charter requires that a majority of our Board of Directors be independent directors and that only our independent directors make any determination on our behalf with respect to the relationships or transactions that present a conflict of interest for our directors or officers.

Our Board of Directors adopted a policy that decisions concerning our management agreement with our Manager, including termination, renewal and enforcement thereof or our participation in any transactions with our Manager or its affiliates outside of the management agreement, including our ability to purchase securities and mortgages or other assets from our Manager, or our ability to sell securities and assets to our Manager, must be reviewed and approved by a majority of our independent directors.

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Our management agreement provides that our determination to terminate the management agreement for cause, because the management fees are unfair to us, or because of a change in control of our Manager, will be made by a majority vote of our independent directors.

Our independent directors will periodically review the general investment standards established by our Manager under the management agreement.

Our management agreement provides that our Manager may not assign duties under the management agreement, except to certain affiliates of our Manager, without the approval of a majority of our independent directors.

Our management agreement provides that decisions to approve or reject investment opportunities rejected by our credit committee that our Manager or Mr. Kaufman wish to pursue will be made by a majority of our independent directors.

Our Board of Directors has approved the operating policies and the strategies set forth above. Our Board of Directors has the power to modify or waive these policies and strategies, or amend our agreements with our Manager, without the consent of our stockholders to the extent that the Board of Directors determines that such modification or waiver is in the best interest of our stockholders. Among other factors, developments in the market that either affect the policies and strategies mentioned herein or that change our assessment of the market may cause our Board of Directors to revise its policies and strategies. However, if such modification or waiver involves the relationship of, or a transaction between us, and our Manager, the approval of a majority of our independent directors is also required. We may not, however, amend our charter to change the requirement that a majority of our board consists of independent directors or the requirement that our independent directors approve related party transactions without the approval of two thirds of the votes entitled to be cast by our stockholders.

**Compliance with Federal, State and Local Environmental Laws**

Properties that we may acquire directly or indirectly through partnerships, and the properties underlying our structured finance investments and mortgage-related securities, are subject to various federal, state and local environmental laws, ordinances and regulations. Under these laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that acquires ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances or petroleum product releases at, on, under or in its property. These laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of the hazardous or toxic substances. The costs of investigation, remediation or removal of these substances may be substantial and could exceed the value of the property. An owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to materials containing asbestos. These laws allow third parties to seek recovery from owners of real properties for personal injuries associated with materials containing asbestos. Our operating costs and the values of these assets may be adversely affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation, and our income and ability to make distributions to our stockholders could be affected adversely by the existence of an environmental liability with respect to properties we may acquire. We will endeavor to ensure that these properties are in compliance in all material respects with all federal, state and local laws, ordinances and regulations regarding hazardous or toxic substances or petroleum products.

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**Competition**

Our net income depends, in large part, on our Manager's ability to originate structured finance investments with spreads over our borrowing costs. In originating these investments, our Manager competes with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities, some of which may have greater financial resources and lower costs of capital available to them. In addition, there are numerous mortgage REITs with asset acquisition objectives similar to ours, and others may be organized in the future. The existence of additional REITs may increase competition for the available supply of structured finance assets suitable for purchase by us. Competitive variables include market presence and visibility, size of loans offered and underwriting standards. To the extent that a competitor is willing to risk larger amounts of capital in a particular transaction or to employ more liberal underwriting standards when evaluating potential loans, our origination volume and profit margins for our investment portfolio could be impacted. Our competitors may also be willing to accept lower returns on their investments and may succeed in buying the assets that we have targeted for acquisition. Although management believes that we are well positioned to continue to compete effectively in each facet of our business, there can be no assurance that we will do so or that we will not encounter further increased competition in the future that could limit our ability to compete effectively.

**Employees**

We have 39 employees, including Messrs. Kaufman, Weber, Kilgore and Guziewicz, and including a 31 person asset management group. Mr. Elenio is a full time employee of our Manager and is not directly compensated by us (other than an annual bonus and pursuant to our equity incentive plans), however, a portion of his compensation is reimbursed by the management fee that we pay to our Manager. Beginning January 1, 2014, Mr. Ivan Kaufman is compensated directly as our employee.

**Corporate Governance and Internet Address**

We have adopted corporate governance guidelines and a code of business conduct and ethics, which delineate our standards for our directors, officers and employees, and the employees of our Manager who provide services to us. We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives.

Our internet address is www.arborrealtytrust.com. We make available, free of charge through a link on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports, if any, as filed with the SEC as soon as reasonably practicable after such filing. Our website also contains our code of business conduct and ethics, code of ethics for chief executive and senior financial officers, corporate governance guidelines, stockholder communications with the Board of Directors, and the charters of the audit committee, nominating/corporate governance committee, and compensation committee of our Board of Directors. No information contained in or linked to our website is incorporated by reference in this report.

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**Item 1A. Risk Factors**

Our business is subject to various risks, including the risks listed below. If any of these risks actually occur, our business, financial condition and results of operations could be materially adversely affected and the value of our common stock could decline.

**Risks Related to Our Business**

***An economic slowdown, a lengthy or severe recession, or declining real estate values could harm our operations.***

We believe the risks associated with our business are more severe during periods of economic downturn if these periods are accompanied by declining real estate values. Declining real estate values would likely limit our new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase or investment in additional properties. Borrowers may also be less able to pay principal and interest on our loans if the real estate economy weakens. Declining real estate values also significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as well as our ability to originate, sell and securitize loans, which would significantly harm our revenues, results of operations, financial condition, business prospects and our ability to make distributions to the stockholders.

***Prolonged disruptions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on us and the market price of our common stock.***

Commercial real estate is particularly adversely affected by a prolonged economic downturn and liquidity crisis. These circumstances materially impact liquidity in the financial markets and result in the scarcity of certain types of financing, and, in certain cases, make certain financing terms less attractive. Currently, there is significant uncertainty in the national and global economic and credit markets. If economic or market conditions deteriorate, and these adverse conditions return, lending institutions may be forced to exit markets such as repurchase lending, become insolvent, further tighten their lending standards or increase the amount of equity capital required to obtain financing, and in such event, could make it more difficult for us to obtain financing on favorable terms or at all. Our profitability will be adversely affected if we are unable to obtain cost-effective financing for our investments. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for our borrowers to repay our loans as they may experience difficulties in selling assets, increased costs of financing or obtaining financing at all. These events in the stock and credit markets may also make it more difficult or unlikely for us to raise capital through the issuance of our common stock or preferred stock. These disruptions in the financial markets also may have a material adverse effect on the market value of our common stock and other adverse effects on us or the economy in general.

***Increases in loan loss reserves and other impairments are likely if economic conditions deteriorate.***

A decline in economic conditions could negatively impact the credit quality of our loans and investments portfolio. If we do not see a continued stabilization of the financial markets and such market conditions decline, we will likely experience increases in loan loss reserves, potential defaults and other asset impairment charges.

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***Loan loss reserves are particularly difficult to estimate in a turbulent economic environment.***

We perform an evaluation of our loans on a quarterly basis to determine whether an impairment is necessary and adequate to absorb probable losses. The valuation process for our loans and investments portfolio requires us to make certain estimates and judgments, which are particularly difficult to determine during a period in which the availability of commercial real estate credit is limited and commercial real estate transactions have decreased. Our estimates and judgments are based on a number of factors, including projected cash flows from the collateral securing our commercial real estate loans, loan structure, including the availability of reserves and recourse guarantees, likelihood of repayment in full at the maturity of a loan, potential for a refinancing market coming back to commercial real estate in the future and expected market discount rates for varying property types. If our estimates and judgments are not correct, our results of operations and financial condition could be severely impacted.

***Loan repayments are less likely in a volatile market environment.***

In a market in which liquidity is essential to our business, loan repayments have been a significant source of liquidity for us. If borrowers are not able to refinance loans at their maturity, the loans could go into default and the liquidity that we would receive from such repayments will not be available. Furthermore, in the event that the commercial real estate finance market deteriorates, borrowers that are performing on their loans will most likely extend such loans if they have that right, which will further delay our ability to access liquidity through repayments.

***We may not be able to access the debt or equity capital markets on favorable terms, or at all, for additional liquidity, which could adversely affect our business, financial condition and operating results.***

Additional liquidity, future equity or debt financing may not be available on terms that are favorable to us, or at all. Our ability to access additional debt and equity capital depends on various conditions in these markets, which are beyond our control. If we are able to complete future equity offerings, they could be dilutive to our existing stockholders or could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. Our inability to obtain adequate capital could have a material adverse effect on our business, financial condition, liquidity and operating results.

***We may be unable to invest excess equity capital on acceptable terms or at all, which would adversely affect our operating results.***

We may not be able to identify investments that meet our investment criteria and we may not be successful in closing the investments that we identify. In addition, the investments that we acquire with our equity capital may not produce a return on capital. There can be no assurance that we will be able to identify attractive opportunities to invest our equity capital, which would adversely affect our results of operations.

***Changes in market conditions could adversely affect the market price of our stock.***

As with other publicly traded equity securities, the value of our stock depends on various market conditions which may change from time to time. Among the market conditions that may affect the value of our stock are the following:

- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our financial performance; and
- general stock and bond market conditions.

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The market value of our stock is based primarily upon the market's perception of our growth potential and our current and potential future earnings and dividends. Consequently, our stock may trade at prices that are higher or lower than our book value per share of stock. If our future earnings or dividends are less than expected, it is likely that the market price of our stock will diminish.

***A declining portfolio could adversely affect the returns from our investments.***

Conditions in the capital markets could lead to a reduction in our loans and investments portfolio. If we do not have the opportunity to originate quality investments to replace the reductions in our portfolio, this reduction will likely result in reduced returns from our investments.

***Rising interest rates could have an adverse effect on a borrower's ability to make interest payments.***

A significant portion of our loans and borrowings are variable-rate instruments based on LIBOR. However, a portion of our loan portfolio is fixed-rate or is subject to interest rate floors that limit the impact of a decrease in interest rates. In addition, certain of our borrowings are also fixed rate or are subject to interest rate swaps that hedge our exposure to interest rate risk on fixed rate loans financed with variable rate debt. As a result, the impact of a change in interest rates may be different on our interest income than it is on our interest expense. In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

***We depend on key personnel with long standing business relationships, the loss of whom could threaten our ability to operate our business successfully.***

Our future success depends, to a significant extent, upon the continued services of our Manager and our Manager's officers and employees. In particular, the mortgage lending experience of Mr. Kaufman and Mr. Weber and the extent and nature of the relationships they have developed with developers and owners of multifamily and commercial properties and other financial institutions are critical to the success of our business. We cannot assure their continued employment as our officers. The loss of services of one or more members of our or our Manager's management team could harm our business and our prospects.

***The real estate investment business is highly competitive. Our success depends on our ability to compete with other providers of capital for real estate investments.***

Our business is highly competitive. Competition may cause us to accept economic or structural features in our investments that we would not have otherwise accepted and it may cause us to search for investments in markets outside of our traditional product expertise. We compete for attractive investments with traditional lending sources, such as insurance companies and banks, as well as other REITs, specialty finance companies and private equity vehicles with similar investment objectives, which may make it more difficult for us to consummate our target investments. Many of our competitors have greater financial resources and lower costs of capital than we do, which provides them with greater operating flexibility and a competitive advantage relative to us.

***We may not achieve our targeted rate of return on our investments.***

We originate or acquire investments based on our estimates or projections of overall rates of return on such investments, which in turn are based upon, among other considerations, assumptions regarding the performance of assets, the amount and terms of available financing to obtain desired leverage and the manner and timing of dispositions, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that we

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have not anticipated may occur and may have a significant effect on the actual rate of return received on an investment.

As we acquire or originate investments, whether as new additions or as replacements for maturing investments, there can be no assurance that we will be able to originate or acquire investments that produce rates of return comparable to returns on our previous or existing investments.

***Our due diligence may not reveal all of a borrower's liabilities and may not reveal other weaknesses in its business.***

Before investing in a company or making a loan to a borrower, we will assess the strength and skills of such entity's management and other factors that we believe are material to the performance of the investment. In making the assessment and conducting customary due diligence, we will rely on the resources available to us and, in some cases, an investigation by third parties. This process is particularly important and subjective with respect to newly organized entities because there may be little or no information publicly available about the entities. There can be no assurance that our due diligence processes will uncover all relevant facts or that any investment will be successful.

***We invest in junior participation loans which may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to us.***

We invest in junior participation loans which are mortgage loans typically (i) secured by a first mortgage on a single commercial property or group of related properties and (ii) subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for the junior participation loan after payment is made to the senior note holder. Since each transaction is privately negotiated, junior participation loans can vary in their structural characteristics and risks. For example, the rights of holders of junior participation loans to control the process following a borrower default may be limited in certain investments. We cannot predict the terms of each junior participation investment. A junior participation may not be liquid and, consequently, we may be unable to dispose of underperforming or non-performing investments. The higher risks associated with a subordinate position in any investments we make could subject us to increased risk of losses.

***We invest in mezzanine loans which are subject to a greater risk of loss than loans with a first priority lien on the underlying real estate.***

We invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of investments involve a higher degree of risk than long-term senior mortgage lending secured by income producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

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***Preferred equity investments involve a greater risk of loss than traditional debt financing.***

We invest in preferred equity investments, which involve a higher degree of risk than traditional debt financing due to a variety of factors, including that such investments are subordinate to other loans and are not secured by property underlying the investment. Furthermore, should the issuer default on our investment, we would only be able to proceed against the partnership in which we have an interest, and not the property underlying our investment. As a result, we may not recover some or all of our investment.

***We invest in multifamily and commercial real estate loans, which may involve a greater risk of loss than single family real estate loans.***

Our investments include multifamily and commercial real estate loans that involve a higher degree of risk than single family residential lending because of a variety of factors, including generally larger loan balances, dependency for repayment on successful operation of the mortgaged property and tenant businesses operating therein, and loan terms that include amortization schedules longer than the stated maturity and provide for balloon payments at stated maturity rather than periodic principal payments. In addition, the value of commercial real estate can be affected significantly by the supply and demand in the market for that type of property.

***Volatility of values of multifamily and commercial properties may adversely affect our loans and investments.***

Multifamily and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, events such as natural disasters, including hurricanes and earthquakes, acts of war and/or terrorism and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investment; national, regional and local economic conditions, such as what we have experienced in recent years (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction cost, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event a property's net operating income decreases, a borrower may have difficulty repaying our loan, which could result in losses to us. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses.

***Many of our commercial real estate loans are funded with interest reserves and our borrowers may be unable to replenish those interest reserves once they run out.***

Given the transitional nature of many of our commercial real estate loans, we often require borrowers to post reserves to cover interest and operating expenses until the property cash flows are projected to increase sufficiently to cover debt service costs. We also generally require the borrower to replenish reserves if they become depleted due to underperformance or if the borrower wants to exercise extension options under the loan. Despite low interest rates, revenues on the properties underlying any commercial real estate loan investments would decrease in an economic downturn, making it more difficult for borrowers to meet their payment obligations to us. In the future, some borrowers may continue to have difficulty servicing our debt and will not have sufficient capital to replenish reserves, which could have a significant impact on our operating results and cash flows.

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***We may not have control over certain of our loans and investments.***

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may acquire investments subject to rights of senior classes and servicers under inter-creditor or servicing agreements; acquire only a participation in an underlying investment; co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or rely on independent third party management or strategic partners with respect to the management of an asset. Therefore, we may not be able to exercise control over the loan or investment. Such financial assets may involve risks not present in investments where senior creditors, servicers or third party controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior creditors or servicers whose interests may not be aligned with ours. A third party partner may have financial difficulties resulting in a negative impact on such assets and may have economic or business interests or goals which are inconsistent with ours. In addition, we may, in certain circumstances, be liable for the actions of our third party partners.

***Real estate property may fail to perform as expected.***

We may obtain new real estate properties through foreclosure proceedings or investment. Such newly obtained properties may not perform as expected and may subject us to unknown liabilities relating to such properties for clean-up of undisclosed environmental contamination or claims by tenants, vendors or other persons against the former owners of the properties. Inaccurate assumptions regarding future rental or occupancy rates could result in overly optimistic estimates of future revenues. In addition, future operating expenses or the costs necessary to bring an obtained property up to standards established for its intended market position may be underestimated.

***The adverse resolution of a lawsuit could have a material adverse effect on our financial condition and results of operations.***

The adverse resolution of litigation for which we have been named as a defendant could have a material adverse effect on our financial condition and results of operations. See Note 11 "Commitments and Contingencies Litigation" of this report for information on our current litigation.

***The impact of any future terrorist attacks and the availability of terrorism insurance expose us to certain risks.***

Any future terrorist attacks, the anticipation of any such attacks, and the consequences of any military or other response by the United States ("U.S.") and its allies may have an adverse impact on the U.S. financial markets and the economy in general. We cannot predict the severity of the effect that any such future events would have on the U.S. financial markets, including the real estate capital markets, the economy or our business. Any future terrorist attacks could adversely affect the credit quality of some of our loans and investments. Some of our loans and investments will be more susceptible to such adverse effects than others. We may suffer losses as a result of the adverse impact of any future terrorist attacks and these losses may adversely impact our results of operations.

In addition, the enactment of the Terrorism Risk Insurance Act of 2002, or the TRIA, and the subsequent enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, requires insurers to make terrorism insurance available under their property and casualty insurance policies in order to receive federal compensation under TRIA for insured losses. However, this legislation does not regulate the pricing of such insurance. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market's overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties that we invest in are unable to obtain affordable insurance

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coverage, the value of those investments could decline and in the event of an uninsured loss, we could lose all or a portion of our investment.

***Failure to maintain an exemption from regulation as an investment company under the Investment Company Act would adversely affect our results of operations.***

We believe that we conduct, and we intend to conduct our business in a manner that allows us to avoid being regulated as an investment company under the Investment Company Act. Pursuant to Section 3(c)(5)(C) of the Investment Company Act, entities that are primarily engaged in the business of purchasing or otherwise acquiring "mortgages and other liens on and interests in real estate" are currently exempted from regulation thereunder. The staff of the SEC has provided guidance on the availability of this exemption. Specifically, the staff's position generally requires a company to maintain at least 55% of its assets directly in "qualifying real estate interests." To constitute as a qualifying real estate interest under this 55% test, an interest in real estate must meet various criteria. Loans that are secured by equity interests in entities that directly or indirectly own the underlying real property, rather than a mortgage on the underlying property itself, and ownership of equity interests in real property owners may not qualify for purposes of the 55% test depending on the type of entity. Mortgage-related securities that do not represent all of the certificates issued with respect to an underlying pool of mortgages may also not qualify for purposes of the 55% test. Therefore, our ownership of these types of loans and equity interests may be limited by the provisions of the Investment Company Act. There can be no assurance that the laws and regulations governing the Investment Company Act status of REITs, including the guidance of the Division of Investment Management of the SEC regarding this exemption, will not change in a manner that adversely affects our operations. To the extent that we do not comply with the 55% test, another exemption or exclusion from registration as an investment company under that Act or other interpretations under the Investment Company Act, or if the SEC no longer permits our exemption, we may be deemed to be an investment company. If we fail to maintain an exemption or other exclusion from registration as an investment company we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have an adverse effect on us and the market price of our common stock. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration and other matters.

***Our Manager and one of our subsidiaries are required to register under the Investment Advisors Act, and are subject to regulation under that Act.***

Following registration under the Investment Advisers Act, our Manager and one of our subsidiaries are subject to the extensive regulation prescribed by that statute and the regulations thereunder. The SEC will oversee activities as a registered investment adviser under this regulatory regime. A failure to comply with the obligations imposed by the Investment Advisers Act, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, could result in fines, censure, suspensions of personnel or investing activities or other sanctions, including revocation of our registration as an investment adviser. The regulations under the Investment Advisers Act are designed primarily to protect investors in our funds and other clients, and are not designed to protect holders of our publicly traded stock. Even if a sanction imposed against our Manager or its personnel involves a small monetary amount, the adverse publicity related to such sanction could harm our reputation and our relationship with our fund investors and impede our ability to raise additional capital. In addition, compliance with the Investment Advisors Act may require us to incur additional costs, and these costs may be material.

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***The impact of any future laws, as well as amendments to current laws, may place restrictions on our business.***

Future legislation could impose additional financial obligations or restrictions with respect to our business. The past economic environment has placed an increased level of scrutiny on the financial services sector, which led to the signing of the Dodd-Frank Act in 2010. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us and, more generally, the financial services and mortgage industries. It is difficult to predict the exact nature of any future legislation and the extent to which such legislation, if any, will impact our business, financial condition, or results of operations.

***The effects of government regulation could negatively impact the market value of loans related to development projects.***

Loans related to development projects bear additional risk in that government regulation could impact the value of the project by limiting the development of the property. If the proper approvals for the completion of the project are not granted, the value of the collateral may be adversely affected which may negatively impact the value of the loan.

**Risks Related to Our Financing and Hedging Activities**

***We may not be able to access financing sources on favorable terms, or at all, which could adversely affect our ability to execute our business plan.***

We generally finance our assets through a variety of means, including credit facilities, senior unsecured notes, junior subordinated notes, CLOs and other structured financings. Our ability to execute this strategy depends on various conditions in the markets for financing in this manner that are beyond our control, including lack of liquidity and wider credit spreads, which we have seen over the past several years. If conditions deteriorate, we cannot assure that these sources are feasible as a means of financing our assets, as there can be no assurance that any existing agreements will be renewed or extended at expiration. If our strategy is not viable, we will have to find alternative forms of long-term financing for our assets, as credit facilities and repurchase facilities may not accommodate long-term financing. This could subject us to more recourse indebtedness and the risk that debt service on less efficient forms of financing would require a larger portion of our cash flows, thereby reducing cash available for distribution to our stockholders, funds available for operations as well as for future business opportunities.

***Credit facilities may contain restrictive covenants relating to our operations.***

Credit facilities may contain various financial covenants and restrictions, including minimum net worth, minimum liquidity and debt-to-equity ratios. Other restrictive covenants contained in credit facility agreements may include covenants that prohibit affecting a change in control, disposing of or encumbering assets being financed, maximum debt balance requirements, and restrictions from making material amendments to underwriting guidelines without approval of the lender. While we remain focused on actively managing our loans and investments portfolio, a weak environment will make maintaining compliance with future credit facilities' covenants more difficult. If we are not in compliance with any of these covenants, there can be no assurance that our lenders would waive or amend such non-compliance in the future and any such non-compliance could have a material adverse effect on us.

***We may not be able to obtain the level of leverage necessary to optimize our return on investment.***

Our return on investment depends, in part, upon our ability to grow our portfolio of invested assets through the use of leverage at a cost of debt that is lower than the yield earned on our investments. We typically obtain leverage through the issuance of CLOs, credit agreements and other

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borrowings. Our future ability to obtain the necessary leverage on beneficial terms ultimately depends upon the quality of the portfolio assets that collateralize our indebtedness. Our failure to obtain and/or maintain leverage at desired levels or on attractive terms would have a material adverse effect on our performance. Moreover, we may be dependent upon a few lenders to provide financing under credit agreements for our origination or acquisition of loans and investments and there can be no assurance that these agreements will be renewed or extended at expiration. Our ability to obtain financing through CLOs is subject to conditions in the debt capital markets which are impacted by factors beyond our control that may at times be adverse and reduce the level of investor demand for such securities.

***The credit facilities that we may use to finance our investments may require us to provide additional collateral.***

We may use credit facilities to finance investments in the future. If the market value of the loans or investments pledged or sold by us to a funding source decline in value, we may be required by the lending institution to provide additional collateral or pay down a portion of the funds advanced. We may not have the funds available to pay down such future debt, which could result in defaults. Posting additional collateral to support these potential credit facilities would reduce our liquidity and limit our ability to leverage our assets. In the event we do not have sufficient liquidity to meet such requirements, lending institutions can accelerate the indebtedness, increase interest rates and terminate our ability to borrow. Further, facility providers may require us to maintain a certain amount of uninvested cash or set aside unlevered assets sufficient to maintain a specified liquidity position which would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on assets. In the event that we are unable to meet these collateral obligations, our financial condition could deteriorate rapidly.

***Our use of leverage may create a mismatch with the duration and index of the investments that we are financing.***

We attempt to structure our leverage such that we minimize the difference between the term of our investments and the leverage we use to finance such an investment. In the event our leverage is for a shorter term than the financed investment, we may not be able to extend or find appropriate replacement leverage and that would have an adverse impact on our liquidity and our returns. In the event our leverage is for a longer term than the financed investment, we may not be able to repay such leverage or replace the financed investment with an optimal substitute or at all, which will negatively impact our desired leveraged returns.

We attempt to structure our leverage such that we minimize the difference between the index of our investments and the index of our leverage  financing floating rate investments with floating rate leverage and fixed rate investments with fixed rate leverage. If such a product is not available to us from our lenders on reasonable terms, we may use hedging instruments to effectively create such a match. For example, in the case of fixed rate investments, we may finance such an investment with floating rate leverage, but effectively convert all or a portion of the attendant leverage to fixed rate using hedging strategies.

Our attempts to mitigate such risk are subject to factors outside of our control, such as the availability to us of favorable financing and hedging options, which is subject to a variety of factors, of which duration and term matching are only two such factors.

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***We utilize a significant amount of debt to finance our portfolio, which may subject us to an increased risk of loss, adversely affecting the return on our investments and reducing cash available for distribution.***

We utilize a significant amount of debt to finance our operations, which may compound losses and reduce the cash available for distributions to our stockholders. We generally leverage our portfolio through the use of securitizations, including the issuance of CLOs, bank credit facilities, and other borrowings. The leverage we employ varies depending on our availability of funds, ability to obtain credit facilities, the loan-to-value and debt service coverage ratios of our assets, the yield on our assets, the targeted leveraged return we expect from our portfolio and our ability to meet ongoing covenants related to our asset mix and financial performance. Substantially all of our assets are pledged as collateral for our borrowings. In addition, we may acquire real estate property subject to debt obligations. The return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that we can derive from the assets we acquire.

Our debt service payments, including payments in connection with any CLOs, reduce the net income available for distributions. Moreover, we may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to foreclosure or sale to satisfy our debt obligations. Currently, neither our charter nor our bylaws impose any limitations on the extent to which we may leverage our assets.

***We may guarantee some of our leverage and contingent obligations.***

We may guarantee the performance of some of our obligations in the future, including but not limited to any repurchase agreements, derivative agreements, and unsecured indebtedness. Non-performance on such obligations may cause losses to us in excess of the capital we initially may invest/commit to under such obligations and there is no assurance that we will have sufficient capital to cover any such losses.

***We may not be able to acquire suitable investments for a CLO issuance, or we may not be able to issue CLOs on attractive terms, or at all, which may require us to utilize more costly financing for our investments.***

We have financed, and, if the opportunities exist in the future, we may continue to finance certain of our investments through the issuance of CLOs. During the period that we are acquiring investments for eventual long-term financing through CLOs, we have typically financed these investments through repurchase and credit agreements. We use these agreements to finance our acquisition of investments until we have accumulated a sufficient quantity of investments, at which time we may refinance them through a CLO securitization. As a result, we are subject to the risk that we will not be able to acquire a sufficient amount of eligible investments to maximize the efficiency of a CLO issuance. In addition, conditions in the debt capital markets may make the issuance of CLOs less attractive to us even when we do have a sufficient pool of collateral, or we may not be able to execute a CLO transaction on terms favorable to us or at all. If we are unable to issue a CLO to finance these investments, we may be required to utilize other forms of potentially less attractive financing.

***The use of CLO financings with over-collateralization and interest coverage requirements may have a negative impact on our cash flows.***

The terms of CLOs will generally provide that the principal amount of investments must exceed the principal balance of the related bonds by a certain amount and that interest income exceeds interest expense by a certain amount. Generally, CLO terms provide that, if certain delinquencies and/or losses or other factors cause a decline in collateral or cash flow levels, the cash flow otherwise payable on subordinated classes may be redirected to repay senior classes of CLOs until the issuer or the collateral is in compliance with the terms of the governing documents. Other tests (based on

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delinquency levels or other criteria) may restrict our ability to receive interest payments from assets pledged to secure CLOs. We cannot assure that the performance tests will be satisfied. If our investments fail to perform as anticipated, our over-collateralization, interest coverage or other credit enhancement expense associated with our CLO financings will increase. With respect to future CLOs we may issue, we cannot assure, in advance of completing negotiations with the rating agencies or other key transaction parties as to the actual terms of the delinquency tests, over-collateralization and interest coverage terms, cash flow release mechanisms or other significant factors upon which net income to us will be calculated. Failure to obtain favorable terms with regard to these matters may adversely affect the availability of net income to us.

***We may not be able to find suitable replacement investments for CLO reinvestment periods.***

CLOs have periods where principal proceeds received from assets securing the CLO can be reinvested for a defined period of time, commonly referred to as a reinvestment period. Our ability to find suitable investments during the reinvestment period that meet the criteria set forth in the CLO governing documents and by rating agencies may determine the success of our CLO investments. Our potential inability to find suitable investments may cause, among other things, lower returns, interest deficiencies, hyper-amortization of the senior CLO liabilities and may cause us to reduce the life of the CLO and accelerate the amortization of certain fees and expenses.

***We may be required to repurchase loans that we have sold or to indemnify holders of our CLOs.***

If any of the loans we originate or acquire and sell or securitize through CLOs do not comply with representations and warranties we make about certain characteristics of the loans, the borrowers and the underlying properties, we may be required to repurchase those loans or replace them with substitute loans. In addition, in the case of loans that we have sold instead of retained, we may be required to indemnify persons for losses or expenses incurred as a result of a breach of a representation or warranty. Repurchased loans typically require a significant allocation of working capital to carry on our books, and our ability to borrow against such assets is limited. Any significant repurchases or indemnification payments could adversely affect our financial condition and operating results.

***Our loans and investments may be subject to fluctuations in interest rates which may not be adequately protected, or protected at all, by our hedging strategies.***

Our current investment program emphasizes loans with both floating and fixed interest rates. Floating rate investments earn interest at rates that adjust from time to time (typically monthly) based upon an index (typically LIBOR), allowing this portion of our portfolio to be insulated from changes in value due specifically to changes in interest rates. Fixed rate investments, however, do not have adjusting interest rates and, as prevailing interest rates change, the relative value of the fixed cash flows from these investments will cause potentially significant changes in value. The majority of our interest-earning assets and interest-bearing liabilities have floating rates of interest. However, depending on market conditions, fixed rate assets may become a greater portion of our new loan originations. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. No strategy can completely insulate us from the risks associated with interest rate changes and there is a risk that they may provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot make assurances that we will be able to enter into hedging transactions or that such hedging transactions will

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adequately protect us against the foregoing risks. In addition, cash flow hedges which are not perfectly correlated (and appropriately designated and documented as such) with a variable rate financing will impact our reported income as gains and losses on the ineffective portion of such hedges will be recorded on our statement of income.

***Hedging instruments often are not guaranteed by an exchange or its clearing house and involve risks and costs.***

The cost of using hedging instruments increases as the period covered by the instrument lengthens and during periods of rising and volatile interest rates. We may increase our hedging activity and thus increase our hedging costs during periods when interest rates are volatile or rising and hedging costs have increased.

In addition, hedging instruments involve risk since they currently are often not guaranteed by an exchange or its clearing house. The enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory, commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our resale commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract to cover our risk. We cannot assure that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in losses.

***We may enter into derivative contracts that could expose us to contingent liabilities in the future.***

Subject to maintaining our qualification as a REIT, part of our investment strategy involves entering into derivative contracts that could require us to fund cash payments in the future under certain circumstances (e.g., the early termination of the derivative agreement caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the derivative contract). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our financial results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition.

***Changes in values of our derivative contracts could adversely affect our liquidity and financial condition.***

Certain of our derivative contracts, which are designed to hedge interest rate risk associated with a portion of our loans and investments, could require the funding of additional cash collateral for changes in the market value of these contracts. Volatility in the financial markets may result in a decline in these contracts. As a result, as of December 31, 2015, we funded $5.0 million in cash related to these contracts. If we continue to experience significant changes in the outlook of interest rates, these contracts could continue to decline in value, which would require additional cash to be funded. However, at maturity, the values of these contracts return to par and all cash will be recovered. We may not have available cash to meet these requirements, which could result in the early termination of these derivatives, leaving us exposed to interest rate risk associated with these loans and investments, which could adversely impact our financial condition.

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***We are subject to certain counterparty risks related to our derivative contracts.***

We periodically hedge a portion of our interest rate risk by entering into derivative financial instrument contracts. In a global credit crisis, there is a risk that counterparties could fail, shut down, file for bankruptcy or be unable to pay out contracts. The failure of a counterparty that holds collateral we post in connection with certain interest rate swap agreements could result in the loss of such collateral.

**Risks Related to Our Corporate and Ownership Structure**

***We are substantially controlled by our Manager and Mr. Kaufman.***

Mr. Ivan Kaufman, our chairman, chief executive officer and president and the chief executive officer of our Manager, beneficially owns approximately 92% of the outstanding membership interests of our Manager. Our Manager has approximately 10.5% of the voting power of our outstanding stock as of December 31, 2015. As a result of Mr. Kaufman's beneficial ownership of stock held by our Manager as well as his beneficial ownership of additional shares of our common stock, Mr. Kaufman has approximately 12% of the voting power of our outstanding stock as of December 31, 2015. Because of his position with us and our Manager and his ability to effectively vote a substantial minority of our outstanding stock, Mr. Kaufman has significant influence over our policies and strategy.

***Our charter generally does not permit ownership in excess of 5% of our capital stock, and attempts to acquire our capital stock in excess of this limit are ineffective without prior approval from our Board of Directors.***

For the purpose of preserving our REIT qualification, our charter generally prohibits a beneficial or constructive ownership by any person of more than 5% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock or 5% (by value) of our outstanding shares of stock of all classes or series, unless an exemption is granted by the Board of Directors. Our charter's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than these percentages of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of these percentages of the outstanding stock and thus be subject to our charter's ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of the Board of Directors will result in the shares being automatically transferred to a charitable trust or otherwise voided. Our Board of Directors have approved resolutions under our charter allowing Ivan Kaufman and our Manager, in relation to Mr. Kaufman's controlling equity interest, C. Michael Kojaian, a former director, as well as three outside investors to own more than the ownership interest limit of our common stock stated in our charter.

***Our staggered board and other provisions of our charter and bylaws may prevent a change in our control.***

Our Board of Directors is divided into three classes of directors. The current terms of the Class I, Class II and Class III directors will expire in 2016, 2017 and 2018, respectively. Directors of each class are chosen for three year terms upon the expiration of their current terms, and each year one class of directors is elected by the stockholders. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our stockholders. In addition, our charter and bylaws also contain other provisions that may delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

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**Risks Related to Conflicts of Interest with Our Manager**

***We are dependent on our Manager with whom we have conflicts of interest.***

We have only 39 employees, including Messrs. Kaufman, Weber, Kilgore, and Guziewicz, and are dependent upon our Manager to provide services to us that are vital to our operations. Our Manager has approximately 10.5% of the voting power of the outstanding shares of our capital stock as of December 31, 2015 and Mr. Kaufman, our chairman and chief executive officer and the chief executive officer of our Manager, beneficially owns these shares. Mr. Martello, one of our directors, is the chief operating officer of Arbor Management, LLC (the managing member of our Manager) and a trustee of two trusts which own minority membership interests in our Manager. Mr. Bishar, our secretary, is general counsel to our Manager. Mr. Elenio, our chief financial officer and treasurer, is the chief financial officer of our Manager. Each of Messrs. Kaufman, Martello, Bishar, Elenio, Weber, Kilgore and Guziewicz are members of our Manager's executive committee and all, but excluding Mr. Kaufman, own minority membership interests in our Manager.

We may enter into transactions with our Manager outside the terms of the management agreement with the approval of a majority vote of the independent members of our Board of Directors. Transactions required to be approved by a majority of our independent directors include, but are not limited to, our ability to purchase securities, mortgages and other assets from our Manager or to sell securities and assets to our Manager. Our Manager may from time to time provide permanent mortgage loan financing to clients of ours, which will be used to refinance bridge financing provided by us. We and our Manager may also make loans to the same borrower or to borrowers that are under common control. Additionally, our policies and those of our Manager may require us to enter into intercreditor agreements in situations where loans are made by us and our Manager to the same borrower.

We have entered into a management agreement with our Manager under which our Manager provides us with all of the services vital to our operations other than asset management and securitization services. Certain matters relating to our organization were not approved at arm's length and the terms of the contribution of assets to us may not be as favorable to us as if the contribution was with an unaffiliated third party.

The results of our operations are dependent upon the availability of, and our Manager's ability to identify and capitalize on, investment opportunities. Our Manager's officers and employees are also responsible for providing the same services for our Manager's investment portfolio. As a result, they may not be able to devote sufficient time to the management of our business operations.

***Our directors have approved very broad investment guidelines for our Manager and do not approve each investment decision made by our Manager.***

Our Manager is authorized to follow very broad investment guidelines. Our directors will periodically review our investment guidelines and our investment portfolio. However, our board does not review each proposed investment. In addition, in conducting periodic reviews, the directors rely primarily on information provided to them by our Manager. Furthermore, transactions entered into by our Manager may be difficult or impossible to unwind by the time they are reviewed by the directors. Our Manager has great latitude within the broad investment guidelines in determining the types of assets it may decide are proper investments for us.

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***Our Manager has broad discretion to invest funds and may acquire structured finance assets where the investment returns are substantially below expectations or that result in net operating losses.***

Our Manager has broad discretion, within the general investment criteria established by our Board of Directors, to allocate our capital and to determine the timing of investment of such capital. Such discretion could result in allocation of capital to assets where the investment returns are substantially below expectations or that result in net operating losses, which would materially and adversely affect our business, operations and results.

The management compensation structure that we have agreed to with our Manager may cause our Manager to invest in high risk investments. Our Manager is entitled to a base management fee, which is based on an agreed upon budget that represents the actual cost of managing the business. Our Manager is also entitled to receive incentive compensation based in part upon our achievement of targeted levels of funds from operations. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on funds from operations may lead our Manager to place undue emphasis on the maximization of funds from operations at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our invested portfolio.

**Risks Related to Our Status as a REIT**

***If we fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability.***

We conduct our operations to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent mistake could jeopardize our REIT status. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which, among other things, means we would be unable to deduct distributions to stockholders in computing taxable income and would be subject to federal income tax on our taxable income at regular corporate rates;
- any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders; and
- unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification, and thus, our cash available for distribution to stockholders would be reduced for each of the years during which we did not qualify as a REIT.

***Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.***

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from

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some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease cash available for distribution to our stockholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through taxable subsidiary corporations, the income of which would be subject to federal and state income tax.

***The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.***

Certain of our securitizations have resulted in the creation of taxable mortgage pools for federal income tax purposes. So long as 100% of the equity interests in a taxable mortgage pool are owned by an entity that qualifies as a REIT, including our subsidiary Arbor Realty SR, Inc., we would generally not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other tax benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities that are not subject to tax on unrelated business income, we could incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we could be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

***Complying with REIT requirements may cause us to forego otherwise attractive opportunities.***

To qualify as a REIT for federal income tax purposes we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

***Complying with REIT requirements may force us to liquidate otherwise attractive investments.***

To qualify as a REIT we must ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities generally cannot comprise more than 10% of the outstanding voting securities, or more than 10% of the total value of the outstanding securities, of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than assets which qualify for purposes of the 75% asset test) may consist of the securities of any one issuer, and no more than 25% of the value of our total assets may be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

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***Liquidation of collateral may jeopardize our REIT status.***

To continue to qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate investments to satisfy our obligations to future lenders, we may be unable to comply with these requirements, ultimately jeopardizing our status as a REIT.

***We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay dividends to our stockholders.***

As a REIT, we are generally required to distribute at least 90% of our taxable income each year to our stockholders. In order to qualify for the tax benefits afforded to REITs, we intend to declare quarterly dividends and to make distributions to our stockholders in amounts such that we distribute all or substantially all of our REIT taxable income each year, subject to certain adjustments. However, our ability to make distributions may be adversely affected by the risk factors described in this report. In the event of future investment opportunities, a downturn in our operating results and financial performance or unanticipated declines in the value of our asset portfolio, we may be unable to declare or pay quarterly dividends or make distributions to our stockholders. The timing and amount of dividends are in the sole discretion of our Board of Directors, which considers, among other factors, our earnings, financial condition, debt service obligations and applicable debt covenants, REIT qualification requirements and other tax considerations and capital expenditure requirements as our board may deem relevant from time to time.

Among the factors that could adversely affect our results of operations and impair our ability to make distributions to our stockholders are:

use of funds and our ability to make profitable structured finance investments;

defaults in our asset portfolio or decreases in the value of our portfolio;

anticipated operating expense levels may not prove accurate, as actual results may vary from estimates; and

increased debt service requirements, including those resulting from higher interest rates on variable rate indebtedness.

A change in any one of these factors could affect our ability to make distributions. If we are not able to comply with the restrictive covenants and financial ratios contained in future credit facilities, our ability to make distributions to our stockholders may also be impaired. We cannot assure that we will be able to make distributions to our stockholders in the future or that the level of any distributions we make will increase over time.

***We may need to borrow funds in order to satisfy our REIT distribution requirements, and a portion of our distributions may constitute a return of capital. Debt service on any borrowings for this purpose will reduce our cash available for distribution.***

In order to qualify as a REIT, we must generally, among other requirements, distribute at least 90% of our REIT taxable income, subject to certain adjustments, to our stockholders each year. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws.

From time to time, we may generate taxable income greater than our net income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to our stockholders. If we do not have other funds available in these situations we could be required to

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borrow funds, issue stock or sell investments and our equity securities at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year.

***We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.***

Tax legislation enacted in 2013 resulted in an increase in the highest marginal tax rates applicable to U.S. individuals and other non-corporate U.S. taxpayers. Capital gain income (including capital gain dividends that we pay) and ordinary income (including dividends that we pay which are not capital gain dividends) are generally taxable at top marginal rates of 20% and 39.6%, respectively. In addition, certain U.S. stockholders who are individuals, trusts or estates and whose income exceeds certain thresholds are required to pay a 3.8% Medicare tax on our dividends and gain from the sale of our stock. The top tax rate on "qualified dividend income" received by U.S. stockholders taxed at individual rates is now 20% but, with limited exceptions, our dividends are generally not eligible for taxation at such preferential rate. At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may change. Any such changes may have a retroactive effect, and could adversely affect us or our stockholders.

***Restrictions on share accumulation in REITs could discourage a change of control of us.***

In order for us to qualify as a REIT, not more than 50% of the value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of a taxable year.

In order to prevent five or fewer individuals from acquiring more than 50% of our outstanding shares and a resulting failure to qualify as a REIT, our charter provides that, subject to certain exceptions, no person, including entities, may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 5% of the aggregate value or number of shares (whichever is more restrictive) of our outstanding common stock, or more than 5%, by value, of our outstanding shares of stock of all classes or series, in the aggregate.

Shares of our stock that would otherwise be directly or indirectly acquired or held by a person in violation of the ownership limitations are, in general, automatically transferred to a trust for the benefit of a charitable beneficiary, and the purported owner's interest in such shares is void. In addition, any person who acquires shares in excess of these limits is obliged to immediately give written notice to us and provide us with any information we may request in order to determine the effect of the acquisition on our status as a REIT.

While these restrictions are designed to prevent any five individuals from owning more than 50% of our shares, they could also discourage a change in control of our company. These restrictions may also deter tender offers that may be attractive to stockholders or limit the opportunity for stockholders to receive a premium for their shares if an investor makes purchases of shares to acquire a block of shares.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

Our Manager leases our shared principal executive and administrative offices, located at 333 Earle Ovington Boulevard in Uniondale, New York, 11553.

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**Item 3. Legal Proceedings**

We are not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us other than the litigation described in Note 11 "Commitments and Contingencies Litigation" of this report. We have not made a loss accrual for this litigation because we believe that it is not probable that a loss has been incurred and an amount cannot be reasonably estimated.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market Information**

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "ABR." The following table sets forth the intra-day high and low sales prices for our common stock as reported on the NYSE for the periods indicated and the dividends declared and paid with respect to such periods.

| | High | Low | Dividends Declared | | High | Low | Dividends Declared |
|---|---|---|---|---|---|---|---|
| ***2015*** | | | | ***2014*** | | | |
| Fourth Quarter(1) | $ 7.31 | $ 6.25 | $ 0.15 | Fourth Quarter | $ 7.18 | $ 6.32 | $ 0.13 |
| Third Quarter | $ 6.94 | $ 6.03 | $ 0.15 | Third Quarter | $ 7.30 | $ 6.60 | $ 0.13 |
| Second Quarter | $ 7.21 | $ 6.55 | $ 0.15 | Second Quarter | $ 7.36 | $ 6.77 | $ 0.13 |
| First Quarter | $ 7.42 | $ 6.75 | $ 0.13 | First Quarter | $ 7.26 | $ 6.61 | $ 0.13 |

(1) On February 24, 2016, our Board of Directors declared a dividend of $0.15 per common share for the fourth quarter of 2015.

We are organized and conduct our operations to qualify as a REIT, which requires that we distribute at least 90% of taxable income. No assurance, however, can be given as to the amounts or timing of future distributions as such distributions are subject to our taxable earnings, financial condition, capital requirements and such other factors as our Board of Directors deems relevant.

On February 24, 2016, the closing sale price for our common stock, as reported on the NYSE, was $6.22 and there were 9,207 record holders of our common stock, including persons holding shares in broker accounts under street names.

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**Equity Compensation Plan Information**

The following table presents information as of December 31, 2015 regarding the 2014 Omnibus Stock Incentive Plan (the "2014 Plan") and the incentive compensation provisions of our management agreement with our Manager, which are our only equity compensation plans:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance |
|---|---|---|---|
| Equity compensation plans approved by security holders: | | | |
| 2014 Omnibus Stock Incentive Plan(1) | 0 | N/A | 1,172,876 |
| Incentive compensation pursuant to management agreement(2) | 0 | N/A | See Note 3 |
| Equity compensation plans not approved by security holders | N/A | N/A | N/A |
| Total | 0 | N/A | 1,172,876 |

(1) On May 20, 2014, the stockholders approved the 2014 Plan.

(2) Pursuant to the terms of our management agreement with our Manager, at least 25% of the incentive compensation earned by our Manager is payable in shares of our common stock having a value equal to the average closing price per share for the last twenty days of the fiscal quarter for which the incentive compensation is being paid. Our Manager has the right to elect to receive 100% of the incentive compensation in shares of our common stock. See Note 14 "Agreements and Transactions with Related Parties Management Agreement" of this report for information regarding the terms of our management agreement and the incentive compensation payable to our Manager thereunder.

(3) The number of securities remaining available for future issuance to our Manager as incentive compensation pursuant to the management agreement depends on the amount of incentive compensation earned by our Manager in the future and therefore is not yet determinable.

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**Performance Graph**

The graph below compares the cumulative total stockholder return on shares of our common stock with the cumulative total return of the Russell 2000 Index, the NAREIT All REIT Index and the FTSE NAREIT Mortgage REITs Index for the five year period from December 31, 2010 to December 31, 2015. The graph assumes an investment of $100 on January 1, 2011 and the reinvestment of any dividends. This graph is not necessarily indicative of future price performance. The information included in the graph and table below was obtained from SNL Financial LC, Charlottesville, VA ©2016.

**Total Return Performance**

| | Period Ended | | | | | |
|---|---|---|---|---|---|---|
| **Index** | **12/31/10** | **12/31/11** | **12/31/12** | **12/31/13** | **12/31/14** | **12/31/15** |
| Arbor Realty Trust, Inc. | 100.00 | 59.06 | 105.85 | 125.99 | 137.97 | 158.79 |
| Russell 2000 | 100.00 | 95.82 | 111.49 | 154.78 | 162.35 | 155.18 |
| NAREIT All REIT | 100.00 | 107.28 | 128.89 | 133.02 | 169.14 | 173.01 |
| FTSE NAREIT Mortgage REITs | 100.00 | 97.58 | 116.99 | 114.70 | 135.21 | 123.21 |

In accordance with SEC rules, this section entitled "Performance Graph" shall not be incorporated by reference into any of our future filings under the Securities Act or the Exchange Act, and shall not be deemed to be soliciting material or to be filed under the Securities Act or the Exchange Act.

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**Item 6. Selected Financial Data**

**Selected Consolidated Financial Information of Arbor Realty Trust, Inc. and Subsidiaries**

The following tables present selected historical consolidated financial information and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements, including the related notes, included elsewhere in this report. Prior period amounts have been reclassified to conform to current period presentation.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Operating Data** | | | | | |
| Interest income | $ 106,768,542 | $ 106,716,344 | $ 99,031,623 | $ 79,998,762 | $ 73,867,556 |
| Other interest income, net | 7,884,344 | | | | |
| Interest expense | 49,720,132 | 47,903,458 | 42,065,151 | 40,866,832 | 51,651,933 |
| Net interest income | 64,932,754 | 58,812,886 | 56,966,472 | 39,131,930 | 22,215,623 |
| Total other revenue | 27,936,612 | 34,286,714 | 32,417,974 | 31,454,043 | 22,125,735 |
| Provision for loan losses (net of recoveries) | 4,466,886 | (308,511) | 4,287,652 | 22,946,396 | 38,542,888 |
| Management fee related party | 10,900,000 | 9,900,000 | 10,900,000 | 10,000,000 | 8,300,000 |
| Gain on acceleration of deferred income | 19,171,882 | | | | |
| Gain on sale of real estate | 7,784,021 | 1,603,763 | | 3,953,455 | |
| Gain on sale of equity interests, net | | 66,745,517 | | | |
| Gain on extinguishment of debt | | | 4,930,772 | 30,459,023 | 10,878,218 |
| Income (loss) from equity affiliates | 12,300,516 | 248,658 | (204,475) | (697,856) | 3,671,386 |
| Income (loss) from continuing operations | 53,428,814 | 93,048,490 | 21,298,737 | 16,388,417 | (37,096,165) |
| Net income (loss) | 53,428,814 | 93,048,490 | 21,298,737 | 21,716,455 | (40,096,057) |
| Preferred stock dividends | 7,553,720 | 7,256,255 | 4,506,583 | | |
| Net income (loss) attributable to common stockholders | 45,875,094 | 85,792,235 | 16,667,955 | 21,500,888 | (40,311,713) |
| | | | | | |
| **Share Data** | | | | | |
| Income (loss) from continuing operations per share, basic(1) | 0.90 | 1.71 | 0.39 | 0.60 | (1.49) |
| Income (loss) per share, basic(1) | 0.90 | 1.71 | 0.39 | 0.80 | (1.61) |
| Income (loss) from continuing operations per share, diluted(1)(2) | 0.90 | 1.70 | 0.39 | 0.59 | (1.49) |
| Income (loss) per share, diluted(1)(2) | 0.90 | 1.70 | 0.39 | 0.79 | (1.61) |
| Dividends declared per common share | 0.58 | 0.52 | 0.50 | 0.285 | |

| | At December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Balance Sheet Data** | | | | | |
| Loans and investments, net | $ 1,450,334,341 | $ 1,459,475,650 | $ 1,523,699,653 | $ 1,325,667,053 | $ 1,302,440,660 |
| Total assets | 1,827,391,944 | 1,866,494,039 | 1,868,383,412 | 1,694,025,602 | 1,769,130,645 |
| Total debt | 1,173,188,920 | 1,246,080,417 | 1,269,701,365 | 1,286,734,643 | 1,430,796,888 |
| Redeemable preferred stock | 89,295,905 | 89,295,905 | 67,654,655 | | |
| Total equity | 565,090,775 | 535,455,471 | 437,596,282 | 231,261,122 | 173,060,533 |

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| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Other Data** | | | | | |
| New loan originations | $ 828,217,500 | $ 900,666,405 | $ 591,537,200 | $ 274,516,550 | $ 206,477,919 |
| Loan payoffs / paydowns | 828,669,556 | 972,311,886 | 402,162,170 | 269,904,723 | 189,521,473 |
| Funds from operations(3) | 43,901,754 | 92,078,433 | 25,008,952 | 23,541,918 | (32,578,644) |
| Adjusted funds from operations(3) | 55,128,458 | 95,421,635 | 25,609,094 | 28,073,563 | (32,620,944) |
| Funds from operations per share, diluted(3) | 0.86 | 1.83 | 0.58 | 0.87 | (1.30) |
| Adjusted funds from operations per share, diluted(3) | 1.08 | 1.89 | 0.60 | 1.03 | (1.31) |

(1) Excluding the impact of a $58.1 million non-cash net gain on the sale of an equity interest in 2014, basic and diluted income per share for the year ended December 31, 2014 would have each been $0.55.

(2) In 2009, we issued one million warrants as part of a debt restructuring which had a dilutive effect for the years ended December 31, 2013 and 2012. In 2014, we acquired and cancelled all of the warrants.

(3) See Non-GAAP Financial Measures below for definitions and calculations of funds from operations and adjusted funds from operations.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion in conjunction with the sections of this report entitled "Risk Factors," "Forward Looking Statements," and "Selected Consolidated Financial Information of Arbor Realty Trust, Inc. and Subsidiaries" and the historical consolidated financial statements of Arbor Realty Trust, Inc. and Subsidiaries, including related notes, included elsewhere in this report.*

**Overview**

We invest in multifamily and commercial real estate-related bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity, and, in limited cases, discounted mortgage notes and other real estate-related assets, which we refer to collectively as structured finance investments. We are organized and conduct our operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on its REIT taxable income that is distributed to its stockholders, provided that at least 90% of its REIT taxable income is distributed and provided that certain other requirements are met. We have also invested in mortgage-related securities. We conduct substantially all of our operations through our operating partnership and its subsidiaries.

Our operating performance is primarily driven by the following factors:

*Net interest income earned on our investments* Net interest income represents the amount by which the interest income earned on our assets exceeds the interest expense incurred on our borrowings. If the yield earned on our assets increases or the cost of borrowings decreases, this will have a positive impact on earnings. However, if the yield earned on our assets decreases or the cost of borrowings increases, this will have a negative impact on earnings. Net interest income is also directly impacted by the size and performance of our asset portfolio.

*Credit quality of our assets* Effective asset and portfolio management is essential to maximize the performance and value of a real estate/mortgage investment. Maintaining the credit quality of our loans and investments is of critical importance. Loans that do not perform in accordance with their terms may have a negative impact on earnings and liquidity.

*Cost control* We seek to minimize our operating costs, which consist primarily of employee compensation and related costs, management fees and other general and administrative expenses. If there are increases in foreclosures and non-performing loans and investments, certain of these expenses, particularly employee compensation expenses and asset management related expenses, may increase.

**Significant Developments During 2015**

*Loan and Investment Activity* We originated 70 loans totaling $828.2 million with a weighted average interest rate of 6.87%. We received full satisfaction of 66 loans totaling $716.2 million with a weighted average interest rate of 6.90% and partial paydowns on 16 loans totaling $112.5 million with a weighted average interest rate of 5.08%. We charged off a fully reserved $32.0 million loan and transferred an $8.4 million loan with a $2.5 million reserve to real estate owned. We also recognized provision for loan losses totaling $6.5 million and recorded $2.0 million of recoveries of previously recorded loan loss reserves, resulting in a net provision for loan losses of $4.5 million during 2015.

In April 2015, a $116.0 million defaulted first mortgage we acquired in March 2015, paid off. As a result of this payoff, we repaid an $87.0 million warehouse facility financing this acquisition and recognized income totaling $6.7 million, net of fees and expenses. The $6.7 million of income is comprised of other interest income totaling $7.9 million, partially offset by $1.2 million of expenses related to this transaction that were recorded in employee compensation and benefits.

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*Financing Activities* The following events occurred during 2015 and are described in more detail in Note 7 "Debt Obligations" of this report:

We completed the unwind of our three remaining legacy CDO vehicles as well as CLO II redeeming $416.0 million of outstanding notes and generating approximately $30.0 million of cash equity previously held in these vehicles. The notes were redeemed primarily through a new $150.0 million warehouse facility as well as the proceeds received from refinancing of the remaining assets in the CDO/CLO vehicles within our existing facilities and from the cash held by these vehicles. In connection with unwinding these vehicles, we recorded a $19.2 million gain on the acceleration of deferred income, a $4.6 million loss on the termination of swaps related to these vehicles, $2.0 million of accelerated deferred financing costs and $0.5 million of other costs for a net gain of $12.1 million.

We closed two new collateralized securitization vehicles (CLO IV and CLO V) totaling $650.0 million of real estate related assets and cash. An aggregate of $486.8 million of investment-grade notes were issued and we retained equity interests totaling $163.3 million in these portfolios.

We improved our funding sources by reducing pricing, extending maturities and increasing capacity on certain existing warehouse facilities as well as adding new warehouse facilities.

We extended the maturity of our $100.0 million credit facility for two years and one of our $75.0 million facilities by a year. For both facilities, we also reduced the spread over LIBOR from 225 basis points to 215 basis points.

We temporarily increased the committed amount on our $150.0 million facility to $175.0 million until December 31, 2015. We also increased our $60.0 million facility to $75.0 million and extended its maturity by a year.

As discussed above, we added a new $150.0 million facility with an interest rate of 212.5 basis points over LIBOR on senior mortgage loans and 350 basis points over LIBOR on junior loans that matures in January 2017. We repaid a $15.0 million facility that bore interest at a fixed rate of 7.5% and entered into a new $16.5 million facility with an interest rate of 275 basis points over LIBOR that matures in December 2016. We added a one-year, $25.0 million facility with an interest rate of 200 basis points over LIBOR that was subsequently amended to $50.0 million and the maturity was extended from February 2016 to February 2017 with two one-year extension options, subject to certain conditions. We also added an $87.0 million facility in March 2015 that was repaid in April 2015.

*Equity Investment Activity* We invested $9.6 million in a joint venture with our Manager for a non-controlling interest in a residential mortgage banking business. We also invested $9.7 million through this joint venture in non-qualified residential mortgages purchased from the mortgage banking business's origination platform. We recorded equity income of $6.6 million from these investments during 2015. We also received distributions from our Lexford equity investment and recognized income of $4.5 million, net of expenses. The $4.5 million of income is comprised of income from equity affiliates of $5.5 million, partially offset by $1.0 million of expenses related to these distributions that were recorded in employee compensation and benefits. See Note 5 "Investments in Equity Affiliates" of this report.

*Real Estate Owned Assets* We sold four properties for $41.1 million and recognized a total gain of $7.8 million. We also acquired an office building by deed in lieu of foreclosure that was held as collateral for a first mortgage loan with a carrying value of $5.9 million, net of reserves. In December 2015, we reclassified a property in the Hotel Portfolio with a carrying value of $8.7 million as held-for-sale due to a proposed sale.

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**Recent Developments**

On February 25, 2016, we entered into a definitive agreement to acquire the agency platform (the "Acquired Businesses") of our Manager for $250.0 million. The purchase price is to be paid 50% in stock and 50% in cash with the stock component to be paid with 19.23 million operating partnership units, which was based on a stock price of $6.50 per share. The purchase price is subject to potential adjustment based on changes in the value of the acquired servicing portfolio on the closing date. We have the option, at the discretion of the special committee of our Board of Directors, to utilize up to $50.0 million of seller financing to satisfy a portion of the cash consideration. All of the employees directly related to the Acquired Businesses will become a part of the Company following the consummation of the transaction.

In addition, we obtained a two year option for $25.0 million to purchase the existing management contract and fully internalize the management structure. The exercise of this option is at the discretion of the special committee of the Board of Directors, which has no obligation to exercise its option.

The transaction will require certain government and GSE approvals as well as a stockholder vote and other third party approvals. The transaction is expected to close during the third quarter of 2016; however, there can be no assurances that the transaction will be completed during this period or at all.

**Current Market Conditions, Risks and Recent Trends**

Our ability to execute our business strategy, particularly the growth of our portfolio of loans and investments, is dependent on many factors, including our ability to access capital and financing on favorable terms. The impact of the previous economic downturn had a significant negative impact on both us and our borrowers. If similar economic conditions recur in the future, it may limit our options for raising capital and obtaining financing on favorable terms and may also adversely impact the creditworthiness of our borrowers which could result in their inability to repay their loans.

We rely on the capital markets to generate capital for financing the growth of our business. During 2015, we closed two collateralized securitization offerings, whereby we issued $486.8 million of investment grade notes. We also entered into four new financing facilities for total availability of $278.5 million, of which, one facility for $87.0 million was repaid upon the repayment of a defaulted first mortgage note in the second quarter of 2015. While there can be no assurance that we will continue to have access to the equity and debt markets, we will continue to pursue these and other available market opportunities as a means to increase our liquidity and capital base. If we were to experience another prolonged downturn in the stock or credit markets, it could cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly.

The commercial real estate markets continue to improve, but uncertainty remains as a result of global market instability, the current political climate and other matters and their potential impact on the U.S. economy. If real estate values decline again, it may limit our new mortgage loan originations since borrowers often use increases in the value of their existing properties to support the purchase or investment in additional properties. Declining real estate values may also significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans as well as our ability to originate, sell and securitize loans, which would significantly impact our revenues, results of operations, financial condition, business prospects and our ability to make distributions to our stockholders.

The recent economic environment has resulted in continued improvement in commercial real estate values which has generally increased payoffs and reduced the credit exposure in our loan and

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investment portfolio. During 2015, we recorded $6.5 million of new provisions for loan losses, primarily due to declining collateral values, and $2.0 million in net recoveries of reserves. During 2014, we recorded $9.0 million of new provisions for loan losses, due to declining collateral values, and $9.3 million in net recoveries of reserves. In addition, during 2014, we recorded impairment losses on a real estate owned asset of $0.3 million. No such losses were recorded in 2015. We have made, and continue to make modifications and extensions to loans when it is economically feasible to do so. In some cases, a modification is a more viable alternative to foreclosure proceedings when a borrower cannot comply with loan terms. In doing so, lower borrower interest rates, combined with non-performing loans, would lower our net interest margins when comparing interest income to our costs of financing. However, since 2013, the levels of modifications and extensions have declined and repayments of loans increased as borrowers' access to financing improved. If the markets were to deteriorate and another prolonged economic downturn was to occur, we believe there could be additional loan modifications and delinquencies which may result in reduced net interest margins and additional losses throughout our sector. Refer to Item 1A of this report for additional risk factors.

**Primary Sources of Operating Revenues**

We derive our operating revenues primarily through interest received from making real estate-related bridge, mezzanine and junior participation loans and preferred equity investments. Interest income earned on these loans and investments represented approximately 80%, 76% and 75% of our total revenues in 2015, 2014 and 2013, respectively.

Property operating income is derived from our hotel and multifamily real estate owned assets. Property operating income represented approximately 19%, 23% and 23% of our total revenues in 2015, 2014 and 2013, respectively. The operation of a portfolio of hotel properties that we own is seasonal with the majority of revenues earned in the first two quarters of the calendar year.

**Changes in Financial Condition**

*Assets Comparison of balances at December 31, 2015 to December 31, 2014:*

Cash and cash equivalents increased $138.3 million primarily due to loan payoffs and interest from our investments as well as proceeds from the unwinding of several of our CDO/CLO vehicles, net of funding new loan originations and investments and payment of distributions to our stockholders.

Restricted cash decreased $169.8 million primarily due to the unwinding of all of our CDO vehicles and one of our CLO vehicles and is net of issuance proceeds available from our fourth and fifth CLOs. Restricted cash is kept on deposit with the trustees for our CLOs, and primarily represents proceeds received from loan payoffs and paydowns that have not yet been disbursed to bondholders or redeployed into new assets, as well as unfunded loan commitments and interest payments received from loans.

Our loan and investment portfolio balance, including our available-for-sale securities, was $1.56 billion and $1.59 billion at December 31, 2015 and 2014, respectively. The decrease in our portfolio balance was primarily due to loan payoffs and other reductions exceeding loan originations, see below for details.

Our portfolio had a weighted average current interest pay rate of 5.63% and 5.44% at December 31, 2015 and 2014, respectively. Including certain fees and costs associated with the loan and investment portfolio, the weighted average current interest rate was 6.32% and 6.16%, respectively. Advances on our financing facilities totaled $1.18 billion and $1.23 billion at December 31, 2015 and 2014, respectively, with a weighted average funding cost of 3.70% and 3.65%, respectively, which excludes changes in the market value of certain interest rate swaps and financing costs. Including the financing costs, the weighted average funding rate was 4.12% and 4.07%, respectively.

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Loan and investment activity during 2015 was comprised of:

- Originated 70 loans totaling $828.2 million with a weighted average interest rate of 6.87%.
- Received full satisfaction of 66 loans totaling $716.2 million that had a weighted average interest rate of 6.90%, received partial paydowns on 16 loans totaling $112.5 million with a weighted average interest rate of 5.08%, charged-off a fully reserved loan for $32.0 million and transferred an $8.4 million loan with a $2.5 million reserve to real estate owned, net.
- Modified three loans totaling $34.3 million resulting in a decrease in the weighted average interest rate from 12.92% to 11.50%.
- Extended 41 loans totaling $274.4 million.
- Acquired a first mortgage note for $116.0 million with a default interest rate of 9.95% in March 2015 that was subsequently paid off in April 2015.

Our allowance for loan losses was $86.8 million at December 31, 2015, a decrease of $28.7 million from December 31, 2014 primarily due to the write-off of a fully reserved junior participation loan for $32.0 million.

Since December 31, 2015, we have originated 11 new loans for a total of $138.6 million and received a total of $8.5 million for the repayment in full of three loans.

Investments in equity affiliates increased $26.0 million primarily as a result of $19.3 million in total investments we made in a residential mortgage banking business and $6.6 million of income from equity affiliates recognized on these investments during 2015.

Real estate owned decreased $24.1 million primarily from reclassifying three Hotel Portfolio properties with an aggregate carrying value of $26.2 million to held-for-sale in connection with the sale of these properties, partially offset by the acquisition of a $5.9 million office building by deed in lieu of foreclosure. The $5.7 million decrease in real estate held-for-sale is primarily the result of the sale of four held-for-sale properties, partially offset by reclassifying the three Hotel Portfolio properties as described above. We sold the properties for $41.1 million, recognizing a gain of $7.8 million and paid off a related mortgage note payable of $9.1 million.

*Liabilities Comparison of balances at December 31, 2015 to December 31, 2014:*

Credit facilities and repurchase agreements decreased $43.8 million primarily due to paying down the facilities with a portion of the proceeds from the issuance of CLO IV and CLO V, partially offset by utilizing a portion of three new financing facilities with total capacity of $191.5 million, as well as increasing the capacity of an existing facility by $15.0 million.

Collateralized loan obligations increased $305.8 million primarily due to the completion of our fourth collateralized securitization in the first quarter of 2015 where we issued $219.0 million of CLO notes, and the completion of our fifth collateralized securitization in the third quarter of 2015 where we issued $267.8 million of CLO notes, partially offset by the unwind of CLO II totaling $177.0 million in the first quarter of 2015.

Collateralized debt obligations decreased $331.2 million due to the unwind of CDO I and CDO II in the first quarter of 2015 and CDO III in the third quarter of 2015.

*Equity*

Equity activity in 2015 consisted of the issuance of 402,694 shares of restricted stock to employees of ours and our Manager, including our chief executive officer, and 83,430 shares to the independent members of the Board of Directors. We also issued up to 445,765 performance-based restricted

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common stock units to our chief executive officer that vest at the end of a four-year performance period subject to meeting certain total stockholder return objectives. See Note 12 "Equity" of this report.

As of February 26, 2016, we have $330.4 million available under our $500.0 million shelf registration statement that was declared effective by the SEC in August 2013.

The following table presents dividends declared (on a per share basis) for 2015:

| Common Stock | | Preferred Stock | | | |
|---|---|---|---|---|---|
| | | | Dividend(1) | | |
| Declaration Date | Dividend | Declaration Date | Series A | Series B | Series C |
| February 11, 2015 | $ 0.13 | February 2, 2015 | $ 0.515625 | $ 0.484375 | $ 0.53125 |
| April 29, 2015 | $ 0.15 | April 29, 2015 | $ 0.515625 | $ 0.484375 | $ 0.53125 |
| July 29, 2015 | $ 0.15 | July 29, 2015 | $ 0.515625 | $ 0.484375 | $ 0.53125 |
| November 4, 2015 | $ 0.15 | November 2, 2015 | $ 0.515625 | $ 0.484375 | $ 0.53125 |

(1) Preferred Stock The dividend declared on February 2, 2015 was for the period December 1, 2014 through February 28, 2015. The dividend declared on April 29, 2015 was for the period March 1, 2015 through May 31, 2015. The dividend declared on July 29, 2015 was for the period June 1, 2015 through August 31, 2015. The dividend declared on November 2, 2015 was for the period September 1, 2015 through November 30, 2015.

*Common Stock* On February 24, 2016, the Board of Directors declared a cash dividend of $0.15 per share of common stock. The dividend is payable on March 15, 2016 to common stockholders of record as of the close of business on March 10, 2016.

*Preferred Stock* On February 1, 2016, the Board of Directors declared a cash dividend of $0.515625 per share of 8.25% Series A preferred stock; a cash dividend of $0.484375 per share of 7.75% Series B preferred stock; and a cash dividend of $0.53125 per share of 8.50% Series C preferred stock. These amounts reflect dividends from December 1, 2015 through February 29, 2016 and are payable on February 29, 2016 to preferred stockholders of record on February 15, 2016.

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**Comparison of Results of Operations for Years Ended 2015 and 2014**

The following table sets forth our results of operations for the years ended December 31, 2015 and 2014:

| | Year Ended December 31, | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2015 | 2014 | Amount | Percent |
| Interest income | $ 106,768,542 | $ 106,716,344 | $ 52,198 | nm |
| Other interest income | 7,884,344 | | 7,884,344 | nm |
| Interest expense | 49,720,132 | 47,903,458 | 1,816,674 | 4% |
| Net interest income | 64,932,754 | 58,812,886 | 6,119,868 | 10% |
| Other revenue: | | | | |
| Property operating income | 27,666,252 | 32,641,249 | (4,974,997) | (15)% |
| Other income, net | 270,360 | 1,645,465 | (1,375,105) | (84)% |
| Total other revenue | 27,936,612 | 34,286,714 | (6,350,102) | (19)% |
| Other expenses: | | | | |
| Employee compensation and benefits | 17,500,457 | 13,978,223 | 3,522,234 | 25% |
| Selling and administrative | 12,525,817 | 9,600,139 | 2,925,678 | 30% |
| Property operating expenses | 23,237,834 | 27,857,460 | (4,619,626) | (17)% |
| Depreciation and amortization | 5,436,330 | 7,371,737 | (1,935,407) | (26)% |
| Impairment loss on real estate owned | | 250,000 | (250,000) | (100)% |
| Provision for loan losses (net of recoveries) | 4,466,886 | (308,511) | 4,775,397 | nm |
| Management fee related party | 10,900,000 | 9,900,000 | 1,000,000 | 10% |
| Total other expenses | 74,067,324 | 68,649,048 | 5,418,276 | 8% |
| Income before gain on acceleration of deferred income, loss on termination of swaps, gain on sale of real estate, gain on sale of equity interests, incentive management fee and income from equity affiliates | 18,802,042 | 24,450,552 | (5,648,510) | (23)% |
| Gain on acceleration of deferred income | 19,171,882 | | 19,171,882 | nm |
| Loss on termination of swaps | (4,629,647) | | (4,629,647) | nm |
| Gain on sale of real estate | 7,784,021 | 1,603,763 | 6,180,258 | nm |
| Gain on sale of equity interests | | 85,793,466 | (85,793,466) | (100)% |
| Incentive management fee equity interest related party | | (19,047,949) | 19,047,949 | (100)% |
| Income from equity affiliates | 12,300,516 | 248,658 | 12,051,858 | nm |
| Net income | 53,428,814 | 93,048,490 | (39,619,676) | (43)% |
| Preferred stock dividends | 7,553,720 | 7,256,255 | 297,465 | 4% |
| Net income attributable to common stockholders | $ 45,875,094 | $ 85,792,235 | $ (39,917,141) | (47)% |

nm not meaningful

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The following table presents the average balance of interest-earning assets and related interest-bearing liabilities, associated interest income and expense and the corresponding weighted average yields (dollars in thousands):

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Average Carrying Value(1) | Interest Income/ Expense | W/A Yield/ Financing Cost(2) | Average Carrying Value(1) | Interest Income/ Expense | W/A Yield/ Financing Cost(2) |
| *Interest-earning assets:* | | | | | | |
| Bridge loans | $ 1,348,245 | $ 88,816 | 6.59% | $ 1,200,160 | $ 75,583 | 6.30% |
| Mezzanine / junior participation loans | 138,328 | 10,175 | 7.36% | 327,171 | 22,734 | 6.95% |
| Preferred equity investments | 104,064 | 7,103 | 6.83% | 112,683 | 8,024 | 7.12% |
| Securities | 770 | 8 | 1.04% | 3,891 | 70 | 1.80% |
| Core interest-earning assets | 1,591,407 | 106,102 | 6.67% | 1,643,905 | 106,411 | 6.47% |
| Cash equivalents | 190,044 | 667 | 0.35% | 170,681 | 305 | 0.18% |
| Total interest-earning assets | $ 1,781,451 | 106,769 | 5.99% | $ 1,814,586 | 106,716 | 5.88% |
| *Interest-bearing liabilities:* | | | | | | |
| Warehouse lines | $ 231,339 | 7,249 | 3.13% | $ 90,396 | 3,519 | 3.89% |
| CLO | 600,643 | 20,619 | 3.43% | 450,519 | 15,755 | 3.50% |
| CDO | 55,965 | 1,104 | 1.97% | 413,196 | 4,758 | 1.15% |
| Trust preferred | 175,858 | 5,700 | 3.24% | 175,858 | 5,604 | 3.19% |
| Unsecured debt | 105,586 | 8,665 | 8.21% | 65,648 | 5,383 | 8.20% |
| Other non-recourse | 1,749 | 128 | 7.32% | 4,048 | 211 | 5.21% |
| Interest rate swaps | | 6,255 | | | 12,651 | |
| Securities financing | | | | 1,185 | 22 | 1.86% |
| Total interest-bearing liabilities | $ 1,171,140 | 49,720 | 4.25% | $ 1,200,850 | 47,903 | 3.99% |
| Net interest income | | $ 57,049 | | | $ 58,813 | |

(1) Based on UPB for loans, amortized cost for securities and principal amount for debt.

(2) Weighted average yield calculated based on annualized interest income or expense divided by average carrying value.

*Net Interest Income*

Interest income increased $0.1 million in 2015 as compared to 2014. This increase was primarily due to a 3% increase in the average yield on core interest-earning assets from 6.47% for 2014 to 6.67% for 2015, due to higher interest rates on our originations as compared to runoff during 2014 and 2015. The increase was partially offset by a 3% decrease in our average core interest-earning assets from $1.64 billion for 2014 to $1.59 billion for 2015, primarily due to loan payoffs exceeding loan originations in 2014.

Other interest income, net was $7.9 million for 2015. During the first quarter of 2015, we acquired a $116.0 million defaulted first mortgage, at par. In the second quarter of 2015, the first mortgage paid off and as a result, we recognized net interest income of $7.9 million. There was no such income in 2014.

Interest expense increased $1.8 million, or 4%, for 2015 as compared to 2014. The average cost of our interest-bearing liabilities increased 7% from 3.99% for 2014 to 4.25% for 2015, primarily due to a

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$1.1 million increase in the acceleration of fees resulting from the unwind of several of our securitization vehicles as compared to 2014, as well as from the issuance of $97.9 million of senior unsecured notes in 2014, which carry a higher cost of debt. The increase was partially offset by a 2% decrease in the average balance of our interest-bearing liabilities from $1.20 billion for 2014 to $1.17 billion for 2015. The decrease in the average balance was primarily due to the corresponding decrease in our average core interest-earning assets, partially offset by the full impact of our senior unsecured notes issued in 2014.

*Other Revenue*

Property operating results (income less expenses) are comprised of our Multifamily and Hotel Portfolios as well as an office building. Property operating results decreased $0.4 million, or 7%, for 2015 as compared to 2014, primarily due to the sales of several properties during 2014 and 2015.

Other income, net decreased $1.4 million, or 84%, for 2015, as compared to 2014. During 2014, we recognized $0.9 million of net interest income and gain on the sale of RMBS investments, as well as received $0.6 million more in miscellaneous asset management and loan modification fees as compared to 2015.

*Other Expenses*

Employee compensation and benefits expense increased $3.5 million, or 25%, for 2015 as compared to 2014, primarily due to expenses totaling $2.2 million related to the $116.0 million defaulted first mortgage that was repaid in 2015 and the Lexford distributions received during 2015 as well as a $1.0 million increase in stock-based compensation due to grants issued in 2014 and 2015.

Selling and administrative expense increased $2.9 million, or 30%, for 2015 as compared to 2014. These costs include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, travel and placement fees, director's fees, licensing fees and stock-based compensation relating to our directors and certain employees of our Manager. This increase was primarily due to professional fees associated with the exploration of a potential transaction with our Manager totaling $3.1 million. See "Agreements and Transactions with Related Parties" below for further details.

Depreciation and amortization decreased $1.9 million, or 26%, for 2015 as compared to 2014, primarily due to the sale of several properties within our Multifamily and Hotel Portfolios during 2014 and 2015.

Provision for loan losses (net of recoveries) totaled $4.5 million and $(0.3) million for 2015 and 2014, respectively. During 2015, we recognized a $6.5 million provision for loan losses related to five loans and recorded net recoveries of previously recorded loan losses of $2.0 million. During 2014, we recognized a $9.0 million provision for loan losses related to four loans and recorded net recoveries of previously recorded loan losses of $9.3 million.

Management fees increased $1.0 million, or 10%, for 2015, as compared to 2014. These amounts represent compensation in the form of base management fees, on a cost reimbursement basis. The increase in management fees was due to an increase in allocable costs incurred by our Manager in managing our business from 2014 to 2015.

*Gain on Acceleration of Deferred Income / Loss on Termination of Swaps*

In connection with the unwind of CDO I and II in the first quarter of 2015 and CDO III in the third quarter of 2015, we recorded a $19.2 million gain that was previously deferred due to the reissuance of CDO I, CDO II and CDO III bonds in 2010 as a result of a deferral of the gain from the extinguishment of trust preferred debt. See Note 7 "Debt Obligations" for more details about this gain. We also terminated the basis and interest rate swaps associated with these CDOs and recognized

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a loss of $4.6 million. See Note 8 "Derivative Financial Instruments" for more details about the swap termination.

*Gain on Sale of Real Estate*

During 2015, we sold three properties in our Hotel Portfolio for $28.7 million and recognized a gain of $4.8 million and sold a property in our Multifamily Portfolio for $12.4 million recognizing a gain of $3.0 million. During 2014, we sold three real estate properties in the Multifamily Portfolio for $21.3 million and recognized a net gain of $1.6 million.

*Gain on Sale of Equity Interest / Incentive Management Fee*

In the third quarter of 2014, we recognized a gain of $77.1 million as a result of our debt guarantee on the 450 West 33rd Street property being terminated in connection with a refinancing of the existing debt on this property, net of a $19.0 million incentive management fee that was prepaid in relation to the transaction. We also recognized a gain on sale of equity interest of $7.9 million in the second quarter of 2014 due to the sale of an interest in properties held by one of our equity affiliates. See Note 5 "Investments in Equity Affiliates" for further details. There were no such gains in 2015.

*Income from Equity Affiliates*

Income from equity affiliates increased $12.1 million for 2015 as compared to 2014, primarily due to $6.6 million of income earned on our investment in a residential mortgage banking business, which we made in the first quarter of 2015, as well as from $5.5 million of income from distributions from our Lexford investment. See Note 5 "Investments in Equity Affiliates" of this report for more details.

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**Comparison of Results of Operations for Years Ended 2014 and 2013**

The following table sets forth our results of operations for the years ended December 31, 2014 and 2013:

| | Year Ended December 31, | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2014 | 2013 | Amount | Percent |
| Interest income | $ 106,716,344 | $ 99,031,623 | $ 7,684,721 | 8% |
| Interest expense | 47,903,458 | 42,065,151 | 5,838,307 | 14% |
| Net interest income | 58,812,886 | 56,966,472 | 1,846,414 | 3% |
| Other revenue: | | | | |
| Property operating income | 32,641,249 | 30,127,260 | 2,513,989 | 8% |
| Other income | 1,645,465 | 2,290,714 | (645,249) | (28)% |
| Total other revenue | 34,286,714 | 32,417,974 | 1,868,740 | 6% |
| Other expenses: | | | | |
| Employee compensation and benefits | 13,978,223 | 12,042,332 | 1,935,891 | 16% |
| Selling and administrative | 9,600,139 | 10,603,247 | (1,003,108) | (9)% |
| Property operating expenses | 27,857,460 | 26,728,174 | 1,129,286 | 4% |
| Depreciation and amortization | 7,371,737 | 7,250,601 | 121,136 | 2% |
| Impairment loss on real estate owned | 250,000 | 1,000,000 | (750,000) | (75)% |
| Provision for loan losses (net of recoveries) | (308,511) | 4,287,652 | (4,596,163) | nm |
| Management fee related party | 9,900,000 | 10,900,000 | (1,000,000) | (9)% |
| Total other expenses | 68,649,048 | 72,812,006 | (4,162,958) | (6)% |
| Income before gain on sale of equity interests, incentive management fee, gain on extinguishment of debt, gain on sale of real estate and income (loss) from equity affiliates | 24,450,552 | 16,572,440 | 7,878,112 | 48% |
| Gain on sale of equity interests | 85,793,466 | | 85,793,466 | nm |
| Incentive management fee equity interest related party | (19,047,949) | | (19,047,949) | nm |
| Gain on extinguishment of debt | | 4,930,772 | (4,930,772) | (100)% |
| Gain on sale of real estate | 1,603,763 | | 1,603,763 | nm |
| Income (loss) from equity affiliates | 248,658 | (204,475) | 453,133 | nm |
| Net income | 93,048,490 | 21,298,737 | 71,749,753 | nm |
| Preferred stock dividends | 7,256,255 | 4,506,583 | 2,749,672 | 61% |
| Net income attributable to noncontrolling interest | | 124,199 | (124,199) | (100)% |
| Net income attributable to common stockholders | $ 85,792,235 | $ 16,667,955 | $ 69,124,280 | nm |

nm not meaningful

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The following table presents the average balance of interest-earning assets and related interest-bearing liabilities, associated interest income and expense and the corresponding weighted average yields (dollars in thousands):

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Average Carrying Value(1) | Interest Income/ Expense | W/A Yield/ Financing Cost(2) | Average Carrying Value(1) | Interest Income/ Expense | W/A Yield/ Financing Cost(2) |
| *Interest-earning assets:* | | | | | | |
| Bridge loans | $ 1,200,160 | $ 75,583 | 6.30% | $ 1,189,782 | $ 67,110 | 5.64% |
| Mezzanine / junior participation loans | 327,171 | 22,734 | 6.95% | 353,955 | 19,901 | 5.62% |
| Preferred equity investments | 112,683 | 8,024 | 7.12% | 106,408 | 7,492 | 7.04% |
| Securities | 3,891 | 70 | 1.80% | 57,829 | 2,479 | 4.29% |
| Other investments | | | | 41,730 | 1,789 | 4.29% |
| Core interest-earning assets | 1,643,905 | 106,411 | 6.47% | 1,749,704 | 98,771 | 5.65% |
| Cash equivalents | 170,681 | 305 | 0.18% | 97,370 | 261 | 0.27% |
| Total interest-earning assets | $ 1,814,586 | 106,716 | 5.88% | $ 1,847,074 | 99,032 | 5.36% |
| *Interest-bearing liabilities:* | | | | | | |
| Warehouse lines | $ 90,396 | 3,519 | 3.89% | $ 60,714 | 2,544 | 4.19% |
| CDO | 413,196 | 4,758 | 1.15% | 726,045 | 7,234 | 1.00% |
| CLO | 450,519 | 15,755 | 3.50% | 251,404 | 8,793 | 3.50% |
| Other non-recourse | 4,048 | 211 | 5.21% | 38,407 | 1,342 | 3.49% |
| Trust preferred | 175,858 | 5,604 | 3.19% | 175,858 | 5,830 | 3.32% |
| Unsecured debt | 65,648 | 5,383 | 8.20% | 14,552 | 1,495 | 10.27% |
| Securities financing | 1,185 | 22 | 1.86% | 37,946 | 686 | 1.81% |
| Interest rate swaps | | 12,651 | | | 14,141 | |
| Total interest-bearing liabilities | $ 1,200,850 | 47,903 | 3.99% | $ 1,304,926 | 42,065 | 3.22% |
| Net interest income | | $ 58,813 | | | $ 56,967 | |

(1) Based on UPB for loans, amortized cost for securities and principal amount for debt.

(2) Weighted average yield calculated based on annualized interest income or expense divided by average carrying value.

*Net Interest Income*

Interest income increased $7.7 million, or 8%, in 2014 as compared to 2013. This increase was primarily due to a 15% increase in the average yield on core interest-earning assets from 5.65% for 2013 to 6.47% for 2014, primarily from $4.3 million of fee income from accelerated runoff as well as from higher interest rates on our portfolio during 2014. The increase was partially offset by a 6% decrease in our average core interest-earning assets from $1.75 billion for 2013 to $1.64 billion for 2014, due to loan payoffs exceeding loan originations by $78.9 million and selling our available-for-sale RMBS securities totaling $33.4 million during 2014.

Interest expense increased $5.8 million, or 14%, for 2014 as compared to 2013. The increase was primarily due to a 24% increase in the average cost of these interest-bearing liabilities from 3.22% for 2013 to 3.99% for 2014, primarily due to an overall increase in our CDO debt

cost as a result of runoff in these vehicles, the proceeds of which are used to paydown low cost debt within these CDO's, $1.0 million in accelerated fees related to the redemption of CLO I in December 2014 and the issuance

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of $97.9 million of 7.375% senior unsecured notes during 2014. The increase was partially offset by an 8% decrease in the average balance of our interest-bearing liabilities from $1.30 billion for 2013 to $1.20 billion for 2014. The decrease in the average balance was primarily due to a decrease in CDO debt due to runoff and decreases in our securities and other non-recourse financing, partially offset by the issuance of $281.3 million in CLO III notes in April 2014 and the issuance of $97.9 million of senior unsecured notes during 2014.

*Other Revenue*

Property operating results (income less expenses) are comprised of our Multifamily and Hotel Portfolios. Property operating results increased $1.4 million, or 41%, for 2014 as compared to 2013, primarily due to higher occupancy and increased ancillary income (food and beverage, parking, fees) at our Hotel Portfolio, partially offset by increased operating costs at our Hotel Portfolio and the sale of three properties in our Multifamily Portfolio during 2014.

Other income, net decreased $0.6 million, or 28%, for 2014 as compared to 2013, primarily due to a reduction of miscellaneous asset management and other fees.

*Other Expenses*

Employee compensation and benefits expense increased $1.9 million, or 16%, for 2014 as compared to 2013. Compensation increased $1.5 million as a result of our CEO's base salary being directly compensated by us effective January 1, 2014, as well as an increase in staffing resulting from higher loan origination volume from 2013 to 2014. Additionally, stock-based compensation increased $0.3 million related to restricted common stock grants that were awarded to certain employees in 2014.

Selling and administrative expense decreased $1.0 million, or 9%, for 2014 as compared to 2013 primarily due to $1.4 million in costs and fees incurred in 2013 in connection with the exploration and evaluation of a potential transaction with our Manager. No similar costs were incurred in 2014.

Provision for loan losses (net of recoveries) totaled $(0.3) million for 2014 and $4.3 million for 2013. During 2014, we recognized a $9.0 million provision for loan losses related to four loans and recorded net recoveries of previously recorded loan losses of $9.3 million, resulting in a net recovery position of $(0.3) million. During 2013, we recognized a $6.5 million provision for loan losses related to five loans and recorded net recoveries of previously recorded loan losses of $2.2 million, resulting in a provision for loan losses, net of recoveries of $4.3 million.

Management fees decreased $1.0 million, or 9%, for 2014 as compared to 2013, primarily due to recording a portion of the management fee as employee compensation and benefits in connection with our CEO's base salary being directly compensated by us effective January 1, 2014.

*Gain on Sale of Equity Interest / Incentive Management Fee*

In July 2014, we recognized a non-cash gain of approximately $77.1 million as a result of our debt guarantee on the 450 West 33rd Street property being terminated in connection with a refinancing of the existing debt on this property, net of a $19.0 million incentive management fee that was prepaid in 2007 in relation to the transaction. In December 2014, we sold our remaining interest in the 450 West 33rd Street property and recognized a gain on sale of $0.8 million. We also recognized a gain on sale of equity interest of $7.9 million in the second quarter of 2014 due to the sale of an interest in properties held by one of our equity affiliates. See Note 5 "Investments in Equity Affiliates" for further details. There were no such gains in 2013.

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*Gain on Extinguishment of Debt*

During 2013, we purchased, at a discount, a $9.9 million investment grade rated Class H note originally issued by our CDO II and CDO III issuing entity from third party investors and recorded a net gain on early extinguishment of debt of $4.9 million. There was no gain on extinguishment of debt in 2014.

*Gain on Sale of Real Estate*

During 2014, we sold three real estate properties in our Multifamily Portfolio for $21.3 million and recognized a net gain of $1.6 million on these sales.

*Preferred Stock Dividends*

Preferred stock dividends increased $2.7 million, or 61%, for 2014 as compared to 2013. Dividends on our 8.50% Series C preferred stock that were issued in February 2014 contributed $1.6 million of this increase, while the full year impact of dividends on our 7.75% Series B preferred stock and our 8.25% Series A preferred stock that were issued during 2013 contributed an additional $1.1 million.

**Liquidity and Capital Resources**

***Sources of Liquidity***

Liquidity is a measurement of the ability to meet potential cash requirements. Our short-term and long-term liquidity needs include ongoing commitments to repay borrowings, fund future loans and investments, fund operating costs and distributions to our stockholders as well as other general business needs. Our primary sources of funds for liquidity consist of proceeds from equity and debt offerings, debt facilities and cash flows from our operations. Our equity sources, depending on market conditions, consist of proceeds from capital market transactions including the issuance of common, convertible and/or preferred equity securities. Our debt facilities include the issuance of floating rate notes resulting from our CLOs, the issuance of senior unsecured notes and junior subordinated notes and borrowings under warehousing facilities. Net cash flows from operations include interest income from our loan and investment portfolio reduced by interest expense on our debt facilities, cash generated from our real estate operations, cash from other investments reduced by expenses, repayments of outstanding loans and investments and funds from junior loan participation arrangements.

We believe our existing sources of funds will be adequate for meeting our short-term and long-term liquidity needs. A majority of our loans and investments are financed under existing debt obligations and their credit status is continuously monitored; therefore, these loans and investments are expected to generate a generally stable return. Our ability to meet our long-term liquidity and capital resource requirements is subject to obtaining additional debt and equity financing. Any decision by our lenders and investors to enter into such transactions with us will depend upon a number of factors, such as our financial performance, compliance with the terms of our existing credit arrangements, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

While we have been successful in obtaining proceeds from debt and equity offerings, CLOs and certain financing facilities, current conditions in the capital and credit markets have and may continue to make certain forms of financing less attractive and, in certain cases, less available. Therefore we will continue to rely, in part, on cash flows provided by operating and investing activities for working capital.

To maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our REIT-taxable income. These distribution requirements limit our ability to retain

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earnings and thereby replenish or increase capital for operations. However, we believe that our capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements.

*Cash Flows*

We generated cash flows from operating activities of $36.3 million for 2015, an increase of $5.6 million from 2014, primarily due to $5.5 million of distributions from an equity investment during 2015.

Cash flows provided by investing activities totaled $24.7 million during 2015. Loan and investment activity (originations and payoffs/paydowns) comprise the bulk of our investing activities. Loan originations totaling $985.0 million were relatively flat compared to loan payoffs and paydowns of $985.8 million, resulting in net cash outflow of $0.8 million related to our loan and investment portfolio. Other significant investing activity included the sale of four real estate owned properties that generated net proceeds of $40.1 million and investing $19.3 million into a residential mortgage banking business. We account for this investment under the equity method of accounting.

Cash flows provided by financing activities totaled $77.2 million during 2015. Significant cash inflows included proceeds of $593.9 million from the utilization of our debt facilities to fund new loan originations and our CDO/CLO activity, including adding four new term facilities with total availability of $278.5 million and increasing the capacity of two facilities by $40.0 million. We received proceeds of $219.0 million from the issuance of CLO IV and $267.8 million from the issuance of CLO V and benefited from a $169.7 million decline in restricted cash balances, primarily from CDO/CLO unwinds. We also received proceeds of $27.2 million from the refinancing of a mortgage on our real estate owned assets. Significant cash outflows included $636.9 million in payoffs and paydowns of our debt facilities, including the payoff of an $87.0 million facility entered into in March 2015 in connection with the acquisition of a $116.0 million first mortgage and the payoff of a $15.0 million line of credit. The redemption of all three of our CDO vehicles resulted in outflows totaling $312.1 million while the redemption of CLO II resulted in outflows of $177.0 million. We also made payments totaling $31.0 million on a mortgage note related to our real estate owned assets and paid distributions totaling $37.0 million to our common and preferred stockholders.

*Debt Facilities*

We maintain various forms of short-term and long-term financing arrangements. Borrowings underlying these arrangements are primarily secured by a significant amount of our loans and investments. The following is a summary of our debt facilities:

| | December 31, 2015 | | | |
|---|---|---|---|---|
| **Debt Facilities** | **Commitment** | **Principal Balance(1)** | **Available** | **Maturity Dates** |
| Credit facilities and repurchase agreements | $ 441,500,000 | $ 137,325,474 | $ 304,174,526 | 2016 - 2017 |
| Collateralized loan obligations**(2)** | 768,000,000 | 768,000,000 | | 2017 - 2018 |
| Senior unsecured notes | 97,860,025 | 97,860,025 | | 2021 |
| Junior subordinated notes**(3)** | 175,858,000 | 175,858,000 | | 2034 - 2037 |
| | $ 1,483,218,025 | $ 1,179,043,499 | $ 304,174,526 | |

(1) Principal balance excludes the impact of deferred financing costs.

(2) Maturity dates represent the weighted average remaining maturity based on the underlying collateral as of December 31, 2015.

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(3) Represents a total face amount of $175.9 million less a total deferred amount of $15.5 million.

These debt facilities, including their restrictive covenants, are described in further detail in Note 7 "Debt Obligations."

Our CLO vehicles contain interest coverage and asset over collateralization covenants that must be met as of the waterfall distribution date in order for us to receive such payments. If we fail these covenants any of our CLOs, all cash flows from the applicable CLO would be diverted to repay principal and interest on the outstanding CLO bonds and we would not receive any residual payments until that CLO regained compliance with such tests. Our CLOs were in compliance with all such covenants as of December 31, 2015 as well as on the most recent determination dates in January and February 2016. In the event of a breach of the CLO covenants that could not be cured in the near-term, we would be required to fund our non-CLO expenses, including management fees and employee costs, distributions required to maintain our REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CLO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, or (v) or accessing the equity or debt capital markets, if available. We have the right to cure covenant breaches, which would resume normal residual payments to us by purchasing non-performing loans out of the CLOs. However, we may not have sufficient liquidity available to do so at such time.

***Contractual Commitments***

As of December 31, 2015, we had the following material contractual obligations (in thousands):

| | Payments Due by Period(1) | | | | | | |
|---|---|---|---|---|---|---|---|
| **Contractual Obligations** | **2016** | **2017** | **2018** | **2019** | **2020** | **Thereafter** | **Total** |
| Credit facilities and repurchase agreements | $ 54,472 | $ 82,853 | $ | $ | $ | $ | $ 137,325 |
| Collateralized loan obligations(2) | 87,778 | 253,175 | 242,538 | 161,125 | 23,384 | | 768,000 |
| Senior unsecured notes | | | | | | 97,860 | 97,860 |
| Junior subordinated notes(3) | | | | | | 175,858 | 175,858 |
| Mortgage note payable real estate owned | 2,450 | 24,705 | | | | | 27,155 |
| Outstanding unfunded commitments(4) | 5,320 | 4,397 | 1,538 | 218 | | | 11,473 |
| Totals | $ 150,020 | $ 365,130 | $ 244,076 | $ 161,343 | $ 23,384 | $ 273,718 | $ 1,217,671 |

(1) Represents principal amounts due based on contractual maturities. Does not include total projected interest payments on our debt obligations of $37.7 million in 2016, $32.6 million in 2017, $25.0 million in 2018, $18.2 million in 2019, $13.6 million in 2020 and $84.9 million thereafter based on current LIBOR rates.

(2) Comprised of $281.2 million of CLO III debt, $219.0 million of CLO IV debt and $267.8 million of CLO V debt with a weighted average contractual maturity of 1.67, 2.51 and 2.93 years, respectively, as of December 31, 2015.

(3) Represents the face amount due upon maturity. The carrying value is $157.1 million, which is net of a deferred amount of $15.5 million and deferred financing fees of $3.3 million at December 31, 2015.

(4) In accordance with certain loans and investments, we have outstanding unfunded commitments of $11.5 million as of December 31, 2015, that we are obligated to fund as the borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations,

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building construction and building conversions based on criteria met by the borrower in accordance with the loan agreements. The payment due by period is based on the maturity date of underlying loans and is included in loans and investments, net on the consolidated balance sheet. Our restricted cash balance contained $3.1 million which was available to fund the portion of the unfunded commitments for loans financed by our CLO vehicles.

***Off-Balance-Sheet Arrangements***

At December 31, 2015, we did not have any off-balance-sheet arrangements.

***Inflation***

Changes in the general level of interest rates prevailing in the economy in response to changes in the rate of inflation generally have little effect on our income because the majority of our interest-earning assets and interest-bearing liabilities have floating rates of interest. However, the significant decline in interest rates in the past triggered LIBOR floors on certain of our variable rate interest-earning assets. This resulted in an increase in interest rate spreads on certain assets as the rates we pay on variable rate interest-bearing liabilities declined at a greater pace than the rates we earned on our variable rate interest-earning assets. Additionally, we have various fixed rate loans in our portfolio which are financed with variable rate LIBOR borrowings. In connection with these loans, we have entered into various interest swaps to hedge our exposure to the interest rate risk on our variable rate LIBOR borrowings as it relates to certain fixed rate loans in our portfolio. However, the value of our interest-earning assets, our ability to realize gains from the sale of assets, and the average life of our interest-earning assets, among other things, may be affected. See "Quantitative and Qualitative Disclosures about Market Risk" below.

***Agreements and Transactions with Related Parties***

We have a management agreement with our Manager, pursuant to which our Manager provides certain services and we pay our Manager a base management fee and under certain circumstances, an annual incentive fee. We incurred $10.9 million, $9.9 million and $10.9 million of base management fees for services rendered in 2015, 2014 and 2013, respectively.

The base management fee is an arrangement whereby we reimburse our Manager for its actual costs incurred in managing our business based on the parties' agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. All origination fees on investments are retained by us.

In addition, we have conducted many transactions with our Manager and other parties that are deemed related party transactions. The details of the management agreement and related party transactions are described in Note 14 "Agreements and Transactions with Related Parties" of this report.

In June 2013, our Board of Directors formed a special committee consisting of independent directors in connection with the exploration and evaluation of a potential transaction with our Manager involving the acquisition of our Manager's Fannie Mae, DUS, Freddie Mac, FHA and CMBS platforms, as well as the internalization of the management of our current business. In late June of 2014, preliminary discussions regarding a possible transaction resumed and in February 2016, we entered into a definitive agreement to acquire the agency platform of our Manager for $250.0 million. See Note 18 "Subsequent Event" for further details. In connection with evaluating this potential transaction, we incurred advisory fees totaling $3.1 million and $1.4 million during 2015 and 2013, respectively. No such expenses were incurred during 2014.

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**Significant Accounting Estimates and Critical Accounting Policies**

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with the Financial Accounting Standards Board Accounting Standards Codification , the authoritative reference for accounting principles generally accepted in the U.S. ("GAAP"). The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts in our consolidated financial statements. Actual results could differ from these estimates. A summary of our significant accounting policies is presented in Note 2 "Summary of Significant Accounting Policies." Set forth below are the accounting policies that management believes are critical to the preparation of the consolidated financial statements included in this report:

*Loans, Investments and Securities*

*Impaired Loans, Allowance for Loan Losses and Charge-offs*

*Real Estate Owned and Held-For-Sale*

*Revenue Recognition*

*Hedging Activities and Derivatives*

*Variable Interest Entities*

Certain of the accounting policies used in the preparation of these consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical consolidated financial statements included in this report and require the application of significant judgment by management and, as a result, are subject to a degree of uncertainty.

**Non-GAAP Financial Measures**

***Funds from Operations and Adjusted Funds from Operations***

We present funds from operations ("FFO") and adjusted funds from operations ("AFFO") because we believe they are important supplemental measures of our operating performance in that they are frequently used by analysts, investors and other parties in the evaluation of REITs. The National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income (loss) attributable to common stockholders (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated real properties, plus impairments of depreciated properties and real estate related depreciation and amortization, and after adjustments for unconsolidated ventures.

We define AFFO as funds from operations adjusted for accounting items such as non-cash stock-based compensation expense, as well as the add-back of impairment losses on real estate and gains/losses on sales of real estate. We are generally not in the business of operating real estate owned property and have obtained real estate by foreclosure or through partial or full settlement of mortgage debt related to our loans to maximize the value of the collateral and minimize our exposure. Therefore, we deem such impairment and gains/losses on real estate as an extension of the asset management of our loans, thus a recovery of principal or additional loss on our initial investment.

FFO and AFFO are not intended to be an indication of our cash flow from operating activities (determined in accordance with GAAP) or a measure of our liquidity, nor is it entirely indicative of funding our cash needs, including our ability to make cash distributions. Our calculation of FFO and AFFO may be different from the calculations used by other companies and, therefore, comparability may be limited.

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FFO and AFFO are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Net income attributable to common stockholders | $ 45,875,094 | $ 85,792,235 | $ 16,667,955 |
| Subtract: | | | |
| Gain on sale of real estate | (7,784,021) | (1,603,763) | |
| Add: | | | |
| Impairment loss on real estate owned | | 250,000 | 1,000,000 |
| Depreciation real estate owned and held-for-sale | 5,436,330 | 7,371,737 | 7,250,601 |
| Depreciation investments in equity affiliates | 374,351 | 268,224 | 90,396 |
| FFO attributable to common stockholders | $ 43,901,754 | $ 92,078,433 | $ 25,008,952 |
| Subtract: | | | |
| Impairment loss on real estate owned | | (250,000) | (1,000,000) |
| Add: | | | |
| Gain on sale of real estate | 7,784,021 | 1,603,763 | |
| Stock-based compensation | 3,442,683 | 1,989,439 | 1,600,142 |
| AFFO attributable to common stockholders | $ 55,128,458 | $ 95,421,635 | $ 25,609,094 |
| Diluted FFO per common share | $ 0.86 | $ 1.83 | $ 0.58 |
| Diluted AFFO per common share | $ 1.08 | $ 1.89 | $ 0.60 |
| Diluted weighted average shares outstanding | 51,007,328 | 50,368,344 | 42,835,144 |

Excluding the impact of a $58.1 million non-cash net gain related to the 450 West 33rd Street transaction (see Note 14 "Agreements and Transactions with Related Parties" for further details), FFO for 2014 was $34.0 million, or $0.68 per diluted common share and AFFO for 2014 was $37.3 million, or $0.74 per diluted common share.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and real estate values. The primary market risks that we are exposed to are real estate risk and interest rate risk.

**Market Conditions**

We are subject to market changes in the debt and secondary mortgage markets. These markets have experienced disruptions in the past, which have and may in the future have an adverse impact on our earnings and financial condition.

In general, credit markets have experienced difficulty over the past several years. However, of late, we have been able to access equity and debt markets through equity and debt offerings and the issuance of CLOs. While there can be no assurance that we will continue to have access to the equity and debt markets, we will continue to pursue these and other available market opportunities as means to increase our liquidity and capital base.

**Real Estate Risk**

Commercial mortgage assets may be viewed as exposing an investor to greater risk of loss than residential mortgage assets since such assets are typically secured by larger loans to fewer obligors than residential mortgage assets. Multifamily and commercial property values and net operating income

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derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, events such as natural disasters including hurricanes and earthquakes, acts of war and/or terrorism and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investment; national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction delays, construction cost, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event net operating income decreases, a borrower may have difficulty repaying our loans, which could result in losses to us. In addition, decreases in property values reducing the value of collateral, and a lack of liquidity in the market, could reduce the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses. Even when the net operating income is sufficient to cover the related property's debt service, there can be no assurance that this will continue to be the case in the future.

**Interest Rate Risk**

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Our operating results depend in large part on differences between the income from our loans and our borrowing costs. Most of our loans and borrowings are variable-rate instruments, based on LIBOR. The objective of this strategy is to minimize the impact of interest rate changes on our net interest income. In addition, we have various fixed rate loans in our portfolio, which are financed with variable rate LIBOR borrowings. We have entered into various interest swaps (as discussed below) to hedge our exposure to interest rate risk on our variable rate LIBOR borrowings as it relates to our fixed rate loans. Certain of these swaps are scheduled to mature on the original maturity dates of their corresponding loans. However, loans are sometimes extended and, consequently, do not pay off on their original maturity dates. If a loan is extended, whether it is through an existing extension option or a modification, our exposure to interest rate risk may be increased. In these instances, we could have a fixed rate loan in our portfolio financed with variable debt and, since the corresponding interest swap already matured, a portion of our debt is no longer protected against interest rate risk. Some of our loans and borrowings are subject to various interest rate floors. As a result, the impact of a change in interest rates may be different on our interest income than it is on our interest expense.

We have utilized interest rate swaps to limit interest rate risk. Derivatives are used for hedging purposes rather than speculation. We do not enter into financial instruments for trading purposes.

The following table projects the potential impact on interest income and interest expense for a 12-month period, and the potential change in fair value of our derivative financial instruments as of

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December 31, 2015, assuming an instantaneous increase or decrease of both 25 and 50 basis points in LIBOR and forward interest rate curves, adjusted for the effects of our interest rate hedging activities.

| | Assets (Liabilities) Subject to Interest Rate Sensitivity(1) | 25 Basis Point Increase | 25 Basis Point Decrease | 50 Basis Point Increase | 50 Basis Point Decrease(2) |
|---|---|---|---|---|---|
| Interest income from loans and investments | $ 1,545,126,045 | $ 2,831,414 | $ (2,249,208) | $ 5,699,276 | $ (2,540,485) |
| Interest expense from debt obligations | (1,179,043,499) | 2,433,406 | (2,433,406) | 4,866,812 | (4,180,592) |
| Total net interest income | | $ 398,008 | $ 184,198 | $ 832,464 | $ 1,640,107 |
| Fair value of derivative financial instruments | $ (4,665,928) | $ 272,447 | $ (268,030) | $ 553,575 | $ (532,691) |

(1) Represents the unpaid principal balance of our loan portfolio and the net fair value of our derivative financial instruments, which includes interest rate swaps, basis swaps and LIBOR caps.

(2) Assumes the LIBOR rate will not decrease below zero. The quoted one-month LIBOR rate was 0.43% as December 31, 2015.

In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

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**Item 8. Financial Statements and Supplementary Data**

**Index to the Consolidated Financial Statements of**
**Arbor Realty Trust, Inc. and Subsidiaries**


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| Report of Independent Registered Public Accounting Firm | 59 |
| Consolidated Balance Sheets at December 31, 2015 and 2014 | 60 |
| Consolidated Statements of Income for the Years Ended December 31, 2015, 2014 and 2013 | 61 |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013 | 62 |
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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of
Arbor Realty Trust, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Arbor Realty Trust, Inc. and Subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for reporting discontinued operations effective January 1, 2014.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control  Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 26, 2016

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 188,708,687 | $ 50,417,745 |
| Restricted cash (includes $46,695,819 and $216,405,894 from consolidated VIEs, respectively) | 48,301,244 | 218,100,529 |
| Loans and investments, net (includes $968,970,064 and $968,600,472 from consolidated VIEs, respectively) | 1,450,334,341 | 1,459,475,650 |
| Available-for-sale securities, at fair value | 2,022,030 | 2,499,709 |
| Investments in equity affiliates | 30,870,235 | 4,869,066 |
| Real estate owned, net (includes $0 and $80,732,144 from consolidated VIEs, respectively) | 60,845,509 | 84,925,641 |
| Real estate held-for-sale, net | 8,669,203 | 14,381,733 |
| Due from related party (includes $36,451 and $0 from consolidated VIEs, respectively) | 8,082,265 | 36,515 |
| Other assets (includes $6,969,201 and $9,625,969 from consolidated VIEs, respectively) | 29,558,430 | 31,787,451 |
| Total assets | $ 1,827,391,944 | $ 1,866,494,039 |
| **Liabilities and Equity:** | | |
| Credit facilities and repurchase agreements | $ 136,252,135 | $ 180,046,999 |
| Collateralized loan obligations (includes $758,899,661 and $453,101,661 from consolidated VIEs, respectively) | 758,899,661 | 453,101,661 |
| Collateralized debt obligations (includes $0 and $331,219,478 from consolidated VIEs, respectively) | | 331,219,478 |
| Senior unsecured notes | 93,764,994 | 93,036,503 |
| Junior subordinated notes to subsidiary trust issuing preferred securities | 157,117,130 | 156,391,419 |
| Note payable | | 1,300,000 |
| Mortgage note payable real estate owned | 27,155,000 | 21,865,136 |
| Mortgage note payable real estate held-for-sale | | 9,119,221 |
| Due to related party | 3,428,333 | 2,653,333 |
| Due to borrowers | 34,629,595 | 32,972,606 |
| Other liabilities (includes $1,224,193 and $7,385,474 from consolidated VIEs, respectively) | 51,054,321 | 49,332,212 |
| Total liabilities | 1,262,301,169 | 1,331,038,568 |
| Commitments and contingencies | | |
| Equity: | | |
| Preferred stock, cumulative, redeemable, $0.01 par value: 100,000,000 shares authorized; 8.25% Series A, $38,787,500 aggregate liquidation preference; 1,551,500 shares issued and outstanding; 7.75% Series B, $31,500,000 aggregate liquidation preference; 1,260,000 shares issued and outstanding; 8.50% Series C, $22,500,000 aggregate liquidation preference; 900,000 shares issued and outstanding | 89,295,905 | 89,295,905 |
| Common stock, $0.01 par value: 500,000,000 shares authorized; 50,962,516 and 50,477,308 shares issued and outstanding, respectively | 509,625 | 504,773 |
| Additional paid-in capital | 616,244,196 | 612,806,365 |
| Accumulated deficit | (136,118,001) | (152,483,322) |
| Accumulated other comprehensive loss | (4,840,950) | (14,668,250) |
| Total equity | 565,090,775 | 535,455,471 |

| | | |
|---|---|---|
| Total liabilities and equity | $ 1,827,391,944 | $ 1,866,494,039 |

See Notes to Consolidated Financial Statements.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Interest income | $ 106,768,542 | $ 106,716,344 | $ 99,031,623 |
| Other interest income, net | 7,884,344 | | |
| Interest expense | 49,720,132 | 47,903,458 | 42,065,151 |
| Net interest income | 64,932,754 | 58,812,886 | 56,966,472 |
| **Other revenue:** | | | |
| Property operating income | 27,666,252 | 32,641,249 | 30,127,260 |
| Other income, net | 270,360 | 1,645,465 | 2,290,714 |
| Total other revenue | 27,936,612 | 34,286,714 | 32,417,974 |
| **Other expenses:** | | | |
| Employee compensation and benefits | 17,500,457 | 13,978,223 | 12,042,332 |
| Selling and administrative | 12,525,817 | 9,600,139 | 10,603,247 |
| Property operating expenses | 23,237,834 | 27,857,460 | 26,728,174 |
| Depreciation and amortization | 5,436,330 | 7,371,737 | 7,250,601 |
| Impairment loss on real estate owned | | 250,000 | 1,000,000 |
| Provision for loan losses (net of recoveries) | 4,466,886 | (308,511) | 4,287,652 |
| Management fee related party | 10,900,000 | 9,900,000 | 10,900,000 |
| Total other expenses | 74,067,324 | 68,649,048 | 72,812,006 |
| Income before gain on acceleration of deferred income, loss on termination of swaps, gain on sale of real estate, gain on sale of equity interests, incentive management fee, gain on extinguishment of debt and income (loss) from equity affiliates | 18,802,042 | 24,450,552 | 16,572,440 |
| Gain on acceleration of deferred income | 19,171,882 | | |
| Loss on termination of swaps | (4,629,647) | | |
| Gain on sale of real estate | 7,784,021 | 1,603,763 | |
| Gain on sale of equity interests | | 85,793,466 | |
| Incentive management fee equity interest related party | | (19,047,949) | |
| Gain on extinguishment of debt | | | 4,930,772 |
| Income (loss) from equity affiliates | 12,300,516 | 248,658 | (204,475) |
| Net income | 53,428,814 | 93,048,490 | 21,298,737 |
| Preferred stock dividends | 7,553,720 | 7,256,255 | 4,506,583 |
| Net income attributable to noncontrolling interest | | | 124,199 |
| Net income attributable to common stockholders | $ 45,875,094 | $ 85,792,235 | $ 16,667,955 |
| Basic earnings per common share | $ 0.90 | $ 1.71 | $ 0.39 |

| | | | |
|---|---|---|---|
| Diluted earnings per common share | $ 0.90 | $ 1.70 | $ 0.39 |
| Weighted average number of shares of common stock outstanding: | | | |
| Basic | 50,857,750 | 50,143,648 | 42,399,872 |
| Diluted | 51,007,328 | 50,368,344 | 42,835,144 |

See Notes to Consolidated Financial Statements.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Net income | $ 53,428,814 | $ 93,048,490 | $ 21,298,737 |
| Unrealized gain (loss) on securities available-for-sale, net | 70,605 | (335,157) | 382,130 |
| Net unrealized gain on securities transferred to available- for-sale from held-to-maturity | | | 431,476 |
| Reclassification of unrealized gain on securities available-for-sale realized into earnings | | (431,476) | (100,000) |
| Unrealized loss on derivative financial instruments, net | (1,018,587) | (1,318,318) | (520,195) |
| Reclassification of net realized loss on derivatives designated as cash flow hedges into loss on termination of swaps | 4,626,192 | | |
| Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings | 6,149,090 | 12,653,954 | 14,131,036 |
| Comprehensive income | 63,256,114 | 103,617,493 | 35,623,184 |
| Less: | | | |
| Preferred stock dividends | 7,553,720 | 7,256,255 | 4,506,583 |
| Comprehensive income attributable to noncontrolling interest | | | 124,199 |
| Comprehensive income attributable to common stockholders | $ 55,702,394 | $ 96,361,238 | $ 30,992,402 |

See Notes to Consolidated Financial Statements.

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**ARBOR REALTY TRUST, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**

| | Preferred Stock Shares | Preferred Stock Value | Common Stock Shares | Common Stock Par Value | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Arbor Realty Trust, Inc. Stockholders' Equity | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance December 31, 2012 | | $ | 31,249,225 | $ 312,493 | $ 476,136,813 | $ (207,558,257) | $ (39,561,700) | $ 229,329,349 | $ 1,931,773 | $ 231,261,122 |
| Issuance of common stock | | | 17,625,000 | 176,250 | 129,184,501 | | | 129,360,751 | | 129,360,751 |
| Issuance of 8.25% Series A preferred stock | 1,551,500 | 37,315,694 | | | | | | 37,315,694 | | 37,315,694 |
| Issuance of 7.75% Series B preferred stock | 1,260,000 | 30,338,961 | | | | | | 30,338,961 | | 30,338,961 |
| Stock-based compensation | | | 262,750 | 2,627 | 1,597,515 | | | 1,600,142 | | 1,600,142 |
| Forfeiture of unvested restricted stock | | | (667) | (7) | 7 | | | | | |
| Distributions common stock | | | | | | (21,326,517) | | (21,326,517) | | (21,326,517) |
| Distributions preferred stock | | | | | | (4,506,583) | | (4,506,583) | | (4,506,583) |
| Distributions preferred stock of private REIT | | | | | | (14,500) | | (14,500) | | (14,500) |
| Net income | | | | | | 21,174,538 | | 21,174,538 | 124,199 | 21,298,737 |
| Decrease in non-controlling interest | | | | | | | | | (2,055,972) | (2,055,972) |
| Unrealized gain on securities available-for-sale, net | | | | | | | 382,130 | 382,130 | | 382,130 |
| Net unrealized gain on securities transferred to available-for-sale from held-to-maturity | | | | | | | 431,476 | 431,476 | | 431,476 |
| Reclassification of unrealized gain on securities available-for-sale realized into earnings | | | | | | | (100,000) | (100,000) | | (100,000) |
| Unrealized loss on derivative financial instruments, net | | | | | | | (520,195) | (520,195) | | (520,195) |
| Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings | | | | | | | 14,131,036 | 14,131,036 | | 14,131,036 |
| Balance December 31, 2013 | 2,811,500 | $ 67,654,655 | 49,136,308 | $ 491,363 | $ 606,918,836 | $ (212,231,319) | $ (25,237,253) | $ 437,596,282 | | $ 437,596,282 |
| Issuance of common stock | | | 1,000,000 | 10,000 | 6,504,000 | | | 6,514,000 | | 6,514,000 |
| Cancellation of warrants | | | | | (2,602,500) | | | (2,602,500) | | (2,602,500) |
| | 900,000 | 21,641,250 | | | | | | 21,641,250 | | 21,641,250 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Issuance of 8.50% Series C preferred stock | | | | | | | | | | |
| Stock-based compensation | | | 341,000 | 3,410 | 1,986,029 | | | 1,989,439 | | 1,989,439 |
| Distributions common stock | | | | | | (26,029,540) | | (26,029,540) | | (26,029,540) |
| Distributions preferred stock | | | | | | (7,256,255) | | (7,256,255) | | (7,256,255) |
| Distributions preferred stock of private REIT | | | | | | (14,698) | | (14,698) | | (14,698) |
| Net income | | | | | | 93,048,490 | | 93,048,490 | | 93,048,490 |
| Unrealized loss on securities available-for-sale | | | | | | | (335,157) | (335,157) | | (335,157) |
| Reclassification of unrealized gain on securities available-for-sale realized into earnings | | | | | | | (431,476) | (431,476) | | (431,476) |
| Unrealized loss on derivative financial instruments, net | | | | | | | (1,318,318) | (1,318,318) | | (1,318,318) |
| Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings | | | | | | | 12,653,954 | 12,653,954 | | 12,653,954 |
| Balance December 31, 2014 | 3,711,500 | $ 89,295,905 | 50,477,308 | $ 504,773 | $ 612,806,365 | $ (152,483,322) | $ (14,668,250) | $ 535,455,471 | $ | $ 535,455,471 |

See Notes to Consolidated Financial Statements.

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**ARBOR REALTY TRUST, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)**

**YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**

| | Preferred Stock Shares | Preferred Stock Value | Common Stock Shares | Common Stock Par Value | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Arbor Realty Trust, Inc. Stockholders' Equity | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Stock-based compensation | | | 486,124 | 4,861 | 3,437,822 | | | 3,442,683 | | 3,442,683 |
| Forfeiture of unvested restricted stock | | | (916) | (9) | 9 | | | | | |
| Distributions common stock | | | | | | (29,495,314) | | (29,495,314) | | (29,495,314) |
| Distributions preferred stock | | | | | | (7,553,720) | | (7,553,720) | | (7,553,720) |
| Distributions preferred stock of private REIT | | | | | | (14,459) | | (14,459) | | (14,459) |
| Net income | | | | | | 53,428,814 | | 53,428,814 | | 53,428,814 |
| Unrealized gain on securities available-for-sale | | | | | | | 70,605 | 70,605 | | 70,605 |
| Unrealized loss on derivative financial instruments, net | | | | | | | (1,018,587) | (1,018,587) | | (1,018,587) |
| Reclassification of of net realized loss on derivatives designated as cash flow hedges into loss on termination of swaps | | | | | | | 4,626,192 | 4,626,192 | | 4,626,192 |
| Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings | | | | | | | 6,149,090 | 6,149,090 | | 6,149,090 |
| Balance December 31, 2015 | 3,711,500 | $ 89,295,905 | 50,962,516 | $ 509,625 | $ 616,244,196 | $ (136,118,001) | $ (4,840,950) | $ 565,090,775 | $ | $ 565,090,775 |

See Notes to Consolidated Financial Statements.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Operating activities: | | | |
| Net income | $ 53,428,814 | $ 93,048,490 | $ 21,298,737 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 5,436,330 | 7,371,737 | 7,250,601 |
| Stock-based compensation | 3,442,683 | 1,989,439 | 1,600,142 |
| Gain on acceleration of deferred income | (19,171,882) | | |
| Loss on termination of swaps | 4,629,647 | | |
| Gain on sale of securities | | (518,640) | (1,100,000) |
| Gain on sale of real estate | (7,784,021) | (1,603,763) | |
| Gain on extinguishment of debt | | | (4,930,772) |
| Provision for loan losses (net of recoveries) | 4,466,886 | (308,511) | 4,287,652 |
| Impairment loss on real estate owned | | 250,000 | 1,000,000 |
| Amortization and accretion of interest, fees and intangible asset, net | 1,575,359 | (185,461) | (3,127,093) |
| Gain on sale of equity interests | | (85,793,466) | |
| Incentive management fee equity interest related party | | 19,047,949 | |
| Change in fair value of non-qualifying swaps and linked transactions | | (41,022) | 1,798,161 |
| (Income) loss from equity affiliates | (12,300,516) | (248,658) | 204,475 |
| Changes in operating assets and liabilities | 2,624,389 | (2,212,738) | (5,759,559) |
| Net cash provided by operating activities | 36,347,689 | 30,795,356 | 22,522,344 |
| Investing activities: | | | |
| Loans and investments funded, originated and purchased, net | (985,008,307) | (908,769,736) | (594,127,146) |
| Payoffs and paydowns of loans and investments | 985,788,250 | 987,700,535 | 378,738,674 |
| Proceeds from sale of loans | | | 4,424,097 |
| Due to borrowers and reserves | | | (585,143) |
| Deferred fees | 4,876,191 | 5,687,545 | 5,305,848 |
| Purchases of securities, net | (1,551,716) | | (29,024,327) |
| Principal collection on securities, net | 2,100,000 | 663,684 | 38,614,122 |
| Investment in real estate, net | (2,223,664) | (4,714,838) | (8,004,139) |
| Proceeds from sale of real estate, net | 40,076,915 | 21,912,729 | |
| Proceeds from sale of available-for-sale securities | | 33,904,172 | 2,100,000 |
| Contributions to equity affiliates | (19,323,597) | (526,499) | |
| Distributions from equity affiliates | | 9,094,313 | 62,500 |
| Redemption of investment in preferred shares, net | | | 2,418,528 |
| Net cash provided by (used in) investing activities | 24,734,072 | 144,951,905 | (200,076,986) |
| Financing activities: | | | |
| Proceeds from repurchase agreements, loan participations, credit facilities and notes payable | 593,879,165 | 402,080,235 | 235,145,560 |
| Paydowns and payoffs of repurchase agreements, loan participations and credit facilities | (636,939,891) | (382,019,058) | (205,482,156) |
| Proceeds from mortgage note payable real estate owned | 27,155,000 | | |
| Paydowns and payoffs of mortgage notes payable real estate owned | (30,984,357) | (22,766,647) | |
| Proceeds from collateralized loan obligations | 486,750,000 | 281,250,000 | 177,000,000 |
| Proceeds from senior unsecured notes | | 97,860,025 | |
| Payoffs and paydowns of collateralized debt obligations | (312,071,055) | (307,482,803) | (167,154,040) |
| Payoffs and paydowns of collateralized loan obligations | (177,000,000) | (87,500,000) | |
| Change in restricted cash | 169,710,075 | (162,354,455) | (12,514,227) |
| Payments on financial instruments underlying linked transactions | | (59,613,649) | (165,385,926) |
| Receipts on financial instruments underlying linked transactions | | 66,027,912 | 175,181,262 |
| Payments on swaps and margin calls to counterparties | (290,000) | (2,032,106) | (75,139,934) |
| Receipts on swaps and returns of margin calls from counterparties | 4,840,000 | 8,993,010 | 80,653,523 |
| Distributions paid to noncontrolling interest | | | (175,559) |
| Proceeds from issuance of common stock | | 6,800,000 | 134,176,328 |
| Expenses paid on issuance of common stock | | (285,919) | (4,788,877) |

| | | | |
|---|---|---|---|
| Proceeds from issuance of preferred stock | | 22,500,000 | 70,287,500 |
| Expenses paid on issuance of preferred stock | | (858,750) | (2,632,845) |
| Distributions paid on common stock | (29,495,314) | (26,029,540) | (21,326,517) |
| Distributions paid on preferred stock | (7,553,720) | (7,096,880) | (4,036,481) |
| Distributions paid on preferred stock of private REIT | (14,459) | (14,698) | (14,500) |
| Cancellation of warrants | | (2,602,500) | |
| Payment of deferred financing costs | (10,776,263) | (10,573,245) | (5,037,806) |
| Net cash provided by (used in) financing activities | 77,209,181 | (185,719,068) | 208,755,305 |
| Net increase (decrease) in cash and cash equivalents | 138,290,942 | (9,971,807) | 31,200,663 |
| Cash and cash equivalents at beginning of period | 50,417,745 | 60,389,552 | 29,188,889 |
| Cash and cash equivalents at end of period | $ 188,708,687 | $ 50,417,745 | $ 60,389,552 |

See Notes to Consolidated Financial Statements.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Supplemental cash flow information: | | | |
| Cash used to pay interest | $ 43,938,914 | $ 42,756,229 | $ 46,717,669 |
| Cash used for taxes | $ 286,571 | $ 80,101 | $ 462,356 |
| Supplemental schedule of non-cash investing and financing activities: | | | |
| Distributions accrued on 8.25% Series A preferred stock | $ 266,664 | $ 266,664 | $ 266,664 |
| Distributions accrued on 7.75% Series B preferred stock | $ 203,438 | $ 203,438 | $ 203,438 |
| Distributions accrued on 8.50% Series C preferred stock | $ 159,375 | $ 159,375 | $ |
| Investment transferred from real estate owned, net to real estate held-for-sale, net | $ 26,185,691 | $ 2,904,057 | $ 11,540,649 |
| Loan transferred to real estate owned, net | $ 5,900,000 | $ | $ |
| Satisfaction of participation loan | $ 1,300,000 | $ | $ |
| Retirement of participation liability | $ 1,300,000 | $ | $ |
| Reclassification of deferred financing costs from other assets to debt | $ 17,428,648 | $ 13,928,552 | $ 9,089,070 |
| Mortgage note payable real estate held-for-sale, net transferred to real estate owned, net | $ | $ 1,886,133 | $ |

| | | | |
|---|---|---|---|
| Mortgage note payable real estate owned, net transferred to real estate held-for-sale, net | $ | $ | $ 11,005,354 |
| Accrued and unpaid expenses on common stock offerings | $ | $ | $ 26,700 |
| Accrued and unpaid expenses on CLO offerings | $ | $ | $ 500,000 |
| Transfer of held to maturity securities, net to available for sale, net | $ | $ | $ 34,049,310 |
| Satisfaction of notes payable from real estate partnership | $ | $ | $ 33,438,472 |
| Redemption of preferred investment from real estate partnership | $ | $ | $ 33,438,472 |
| Deconsolidation of assets from real estate partnership | $ | $ | $ 18,662,363 |
| Deconsolidation of liabilities from real estate partnership | $ | $ | $ 16,781,950 |
| Deconsolidation of noncontrolling interest from real estate partnership | $ | $ | $ 1,880,413 |
| Loan converted to other assets | $ | $ | $ 6,000,000 |

See Notes to Consolidated Financial Statements.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015**

**Note 1 Description of Business**

Arbor Realty Trust, Inc. is a Maryland corporation that was formed in 2003 to invest in a diversified portfolio of structured finance assets in the multifamily and commercial real estate markets, primarily consisting of bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity. We may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. We conduct substantially all of our operations through our operating partnership, Arbor Realty Limited Partnership ("ARLP"), and ARLP's wholly-owned subsidiaries. We organize and conduct our operations to qualify as a REIT for federal income tax purposes.

On July 1, 2003, Arbor Commercial Mortgage, LLC (our "Manager") contributed $213.1 million of structured finance assets and $169.2 million of borrowings supported by $43.9 million of equity in exchange for a commensurate equity ownership in ARLP. In addition, certain employees of our Manager were transferred to ARLP. At that time, these assets, liabilities and employees represented a substantial portion of our Manager's structured finance business. We are externally managed and advised by our Manager and pay our Manager a management fee in accordance with a management agreement. Our Manager also sources originations, provides underwriting services, and services all structured finance assets on behalf of ARLP and its wholly owned subsidiaries.

**Note 2 Summary of Significant Accounting Policies**

***Basis of Presentation and Principles of Consolidation***

The accompanying consolidated financial statements include our financial statements, our wholly owned subsidiaries, and partnerships or other joint ventures in which we own a voting interest of greater than 50 percent, and variable interest entities ("VIEs") of which we are the primary beneficiary. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Current accounting guidance requires us to present a) assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE, and b) liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary. As a result of this guidance, we have separately disclosed parenthetically the assets and liabilities of our CLO and CDO subsidiaries on our consolidated balance sheets. Entities in which we have a significant influence are accounted for primarily under the equity method. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All significant inter-company transactions and balances have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with accounting principles generally acceptable in the U.S. ("GAAP") requires management to make estimates and assumptions that could materially affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Further, in connection with

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 2 Summary of Significant Accounting Policies (Continued)**

preparation of the consolidated financial statements, we evaluated events subsequent to the balance sheet date of December 31, 2015 through the issuance of the consolidated financial statements.

Certain prior year amounts have been reclassified to conform to current period presentation. In the fourth quarter of 2015, we early adopted accounting guidance which reclassifies deferred debt issuance costs from other assets to the related liabilities. As a result of adopting this new guidance, we reclassified deferred financing costs totaling $17.4 million and $13.9 million from other assets to our debt facilities for the years ended December 31, 2015 and 2014, respectively.

In past years, we repurchased shares of our common stock pursuant to a share repurchase program authorized by our Board of Directors. These repurchased shares are subject to state corporate laws that establish the legal status of redeemed shares and prevent them from being reported as treasury shares within the consolidated financial statements. We previously misclassified the repurchased shares as treasury stock. These share repurchases should have been classified as reductions of common stock and additional paid-in capital. The accompanying consolidated balance sheets and consolidated statements of changes in equity have been restated for all periods presented to correct the misclassification. The correction results in reductions in common stock and additional paid-in capital of $26,507 and $17.1 million, respectively, for all periods presented. The reclassification has no impact on any other amounts included in our previously reported consolidated financial statements.

***Cash and Cash Equivalents***

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. We place our cash and cash equivalents in high quality financial institutions. The consolidated account balances at each institution periodically exceed Federal Deposit Insurance Corporation (FDIC) insurance coverage and we believe that this risk is not significant.

***Restricted Cash***

Restricted cash primarily represents proceeds from loan repayments on deposit with the trustees for our CLOs which will be used for principal repayments, unfunded loan commitments and interest payments received from loans. See Note 7 "Debt Obligations." Restricted cash is also held by our real estate owned assets due to escrow requirements.

***Loans, Investments and Securities***

Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. We invest in preferred equity interests that, in some cases, allow us to participate in a percentage of the underlying property's cash flows from operations and proceeds from a sale or refinancing. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, equity interest or as real estate. To date, management has determined that all such investments are properly accounted for and reported as loans.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 2 Summary of Significant Accounting Policies (Continued)**

From time to time, we may enter into an agreement to sell a loan. These loans are considered held-for-sale and are valued at the lower of the loan's carrying amount or fair value less costs to sell. For the sale of loans, recognition occurs when ownership passes to the buyer.

At the time of purchase, we designate a security as available-for-sale, held-to-maturity, or trading depending on our ability and intent to hold it to maturity. We do not have any securities designated as held-to-maturity or trading as of December 31, 2015. Securities available-for-sale are reported at fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss. Unrealized losses that are determined to be other-than-temporary are recognized in earnings up to their credit component. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions and is not necessarily intended to indicate a permanent decline in value. The process may include, but is not limited to, assessment of recent market events and prospects for near-term recovery, assessment of cash flows, internal review of the underlying assets securing the investments, credit of the issuer and the rating of the security, as well as our ability and intent to hold the investment to maturity. Management closely monitors market conditions on which it bases such decisions.

***Impaired Loans, Allowance for Loan Losses and Charge-offs***

We consider a loan impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. We evaluate each loan in our portfolio on a quarterly basis. Our loans are individually specific and unique as it relates to product type, geographic location, and collateral type, as well as to the rights and remedies and the position in the capital structure our loans and investments have in relation to the underlying collateral. We evaluate all of this information as well as general market trends related to specific classes of assets, collateral type and geographic locations, when determining the appropriate assumptions such as capitalization and market discount rates, as well as the borrower's operating income and cash flows, in estimating the value of the underlying collateral when determining if a loan is impaired. We utilize internally developed valuation models and techniques primarily consisting of discounted cash flow and direct capitalization models in determining the fair value of the underlying collateral on an individual loan. We may also obtain a third party appraisal, which may value the collateral through an "as-is" or "stabilized value" methodology. Such appraisals may be used as an additional source of valuation information only and no adjustments are made to appraisals.

If upon completion of the valuation, the fair value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level that we believe to be adequate to absorb probable losses.

Loan terms may be modified if we determine that based on the individual circumstances of a loan and the underlying collateral, a modification would more likely increase the total recovery of the combined principal and interest from the loan. Any loan modification is predicated upon a goal of maximizing the collection of the loan. Typical triggers for a modification would include situations where the projected cash flow is insufficient to cover required debt service, when asset performance is lagging the initial projections, where there is a requirement for rebalancing, where there is an impending

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 2 Summary of Significant Accounting Policies (Continued)**

maturity of the loan, and where there is an actual loan default. Loan terms that have been modified have included, but are not limited to interest rate, maturity date and in certain cases, principal amount. Length and amounts of each modification have varied based on individual circumstances and are determined on a case by case basis. If the loan modification constitutes a concession whereas we do not receive ample consideration in return for the modification, and the borrower is experiencing financial difficulties and cannot repay the loan under the current terms, then the modification is considered by us to be a troubled debt restructuring. If we receive a benefit, either monetary or strategic, and the above criteria are not met, the modification is not considered to be a troubled debt restructuring. We record interest on modified loans on an accrual basis to the extent that the modified loan is contractually current.

Charge-offs to the allowance for loan losses occur when losses are confirmed through the receipt of cash or other consideration from the completion of a sale; when a modification or restructuring takes place in which we grant a concession to a borrower or agree to a discount in full or partial satisfaction of the loan; when we take ownership and control of the underlying collateral in full satisfaction of the loan; when loans are reclassified as other investments; or when significant collection efforts have ceased and it is highly likely that a loss has been realized.

Loss on restructured loans is recorded when we have granted a concession to the borrower in the form of principal forgiveness related to the payoff or the substitution or addition of a new debtor for the original borrower or when we incur costs on behalf of the borrower related to the modification, payoff or the substitution or addition of a new debtor for the original borrower. When a loan is restructured, we record our investment at net realizable value, taking into account the cost of all concessions at the date of restructuring. The reduction in the recorded investment is recorded as a separate line on the consolidated statements of income in the period in which the loan is restructured. In addition, a gain or loss may be recorded upon the sale of a loan to a third party in the consolidated statements of income in the period in which the loan was sold.

***Real Estate Owned and Held-For-Sale***

Real estate owned, shown net of accumulated depreciation and impairment charges, is comprised of real property acquired by foreclosure or through partial or full settlement of mortgage debt. Real estate acquired is recorded at its estimated fair value at the time of acquisition.

Costs incurred in connection with the foreclosure of the properties collateralizing the real estate loans are expensed as incurred and costs subsequently incurred to extend the life or improve the assets subsequent to foreclosure are capitalized.

We allocate the purchase price of our operating properties to land, building, tenant improvements, deferred lease costs for the origination of the in-place leases, intangibles for the value of the above or below market leases at fair value and to any other identified intangible assets or liabilities. We finalize our purchase price allocation on these assets within one year of the acquisition date. We amortize the value allocated to the in-place leases over the remaining lease term, which is reported in depreciation and amortization expense on our consolidated statements of income. The value allocated to the above or below market leases are amortized over the remaining lease term as an adjustment to rental income.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 2 Summary of Significant Accounting Policies (Continued)**

Real estate assets are depreciated using the straight-line method over their estimated useful lives. Ordinary repairs and maintenance which are not reimbursed by the tenants are expensed as incurred. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their estimated useful life.

Our properties are individually reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. We recognize impairment if the undiscounted estimated cash flows to be generated by the assets are less than the carrying amount of those assets. Measurement of impairment is based upon the estimated fair value of the asset. In the evaluation of a property for impairment, many factors are considered, including estimated current and expected operating cash flows from the property during the projected holding period, costs necessary to extend the life or improve the asset, expected capitalization rates, projected stabilized net operating income, selling costs, and the ability to hold and dispose of such real estate owned in the ordinary course of business. Impairment charges may be necessary in the event discount rates, capitalization rates, lease-up periods, future economic conditions, and other relevant factors vary significantly from those assumed in valuing the property.

Real estate is classified as held-for-sale when management commits to a plan of sale, the asset is available for immediate sale, there is an active program to locate a buyer, and it is probable the sale will be completed within one year. Real estate assets that are expected to be disposed of are valued, on an individual asset basis, at the lower of their carrying amount or their fair value less costs to sell.

We recognize sales of real estate properties upon closing. Payments received from purchasers prior to closing are recorded as deposits. Gain on real estate sold is recognized using the full accrual method when the collectability of the sale price is reasonably assured and we are not obligated to perform significant activities after the sale. A gain may be deferred in whole or in part until collectability of the sales price is reasonably assured and the earnings process is complete.

***Revenue Recognition***

*Interest income* Interest income is recognized on the accrual basis as it is earned from loans, investments and securities. In certain instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, a prepayment fee and/or deferred interest upon maturity. In some cases, interest income may also include the amortization or accretion of premiums and discounts arising from the purchase or origination of the loan or security. This additional income, net of any direct loan origination costs incurred, is deferred and accreted into interest income on an effective yield or "interest" method adjusted for actual prepayment activity over the life of the related loan or security as a yield adjustment. Income recognition is suspended for loans when, in the opinion of management, a full recovery of all contractual principal is not probable. Income recognition is resumed when the loan becomes contractually current and performance is resumed. We record interest income on certain impaired loans to the extent cash is received, as the borrower continues to make interest payments. We record loan loss reserves related to these loans when it is deemed that full recovery of principal and accrued interest is not probable.

Several of our loans provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management's

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 2 Summary of Significant Accounting Policies (Continued)**

determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the asset. If management cannot make this determination, interest income above the current pay rate is recognized only upon actual receipt.

Given the transitional nature of some of our real estate loans, we may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. We will analyze these interest reserves on a periodic basis and determine if any additional interest reserves are needed. Recognition of income on loans with funded interest reserves are accounted for in the same manner as loans without funded interest reserves. We will not recognize any interest income on loans in which the borrower has failed to make the contractual interest payment due or has not replenished the interest reserve account. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

Additionally, interest income is recorded when earned from equity participation interests, referred to as equity kickers. These equity kickers have the potential to generate additional revenues to us as a result of excess cash flow distributions and/or as appreciated properties are sold or refinanced.

*Property operating income* Property operating income represents income associated with the operations of commercial real estate properties classified as real estate owned. We recognize revenue for these activities when the fees are fixed or determinable, or are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided.

*Other income, net* Other income, net represents loan structuring, modification, defeasance, and miscellaneous asset management fees associated with our loan and investment portfolio as well as net interest income and gains and losses recorded on linked transactions. We recognize these forms of income when the fees are fixed or determinable, are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided.

***Investments in Equity Affiliates***

We invest in joint ventures that are formed to acquire, develop and/or sell real estate assets. These joint ventures are not majority owned or controlled by us, or are VIEs for which we are not the primary beneficiary, and are not consolidated in our financial statements. These investments are recorded under either the equity or cost method of accounting as deemed appropriate. We record our share of the net income and losses from the underlying properties of our equity method investments and any other-than-temporary impairment on these investments on a single line item in the consolidated statements of income as income or losses from equity affiliates.

***Stock-Based Compensation***

We have granted certain of our employees, directors, and employees of our Manager, stock awards consisting of shares of our common stock that vest immediately or annually over a multi-year period, subject to the recipient's continued service to us. We record stock-based compensation expense at the grant date fair value of the related stock-based award with subsequent remeasurement for any unvested shares granted to non-employees with such amounts expensed against earnings, at the grant date (for

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 2 Summary of Significant Accounting Policies (Continued)**

the portion that vests immediately) or ratably over the respective vesting periods. Dividends are paid on restricted stock as dividends are paid on shares of our common stock whether or not they are vested. Stock-based compensation is disclosed in our consolidated statements of income under "employee compensation and benefits" for employees and under "selling and administrative" expense for non-employees.

***Income Taxes***

We organize and conduct our operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on its REIT-taxable income that it distributes to its stockholders, provided that it distributes at least 90% of its REIT-taxable income and meets certain other requirements. Certain REIT income may be subject to state and local income taxes. Certain of our assets or operations that would not otherwise comply with the REIT requirements are owned or conducted by our taxable REIT subsidiaries ("TRS"), the income of which is subject to federal and state income taxes.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using current tax rates. The deferred tax assets and liabilities of the TRSs relate primarily to expenses not currently deductible and net operating and capital loss carryforwards. A valuation allowance for deferred tax assets is provided if we believe it is more likely than not that all or some portion of the deferred tax assets will not be realized. Realization of certain deferred tax assets is dependent on the TRSs generating sufficient taxable income in future periods or employing certain tax planning strategies to realize such deferred tax assets.

We periodically evaluate tax positions to determine whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. We report interest and penalties related to tax uncertainties as a component of the income tax provision.

***Other Comprehensive Income***

We divide comprehensive income or loss into net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities. In addition, to the extent our derivative instruments qualify as hedges, net unrealized gains or losses are reported as a component of accumulated other comprehensive income (loss).

***Earnings Per Share***

We present both basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 2 Summary of Significant Accounting Policies (Continued)**

***Hedging Activities and Derivatives***

We recognize all derivatives as either assets or liabilities at fair value and these amounts are recorded in other assets or other liabilities on the consolidated balance sheets. Additionally, the fair value adjustments will affect either accumulated other comprehensive income until the hedged item is recognized in earnings, or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. We use derivatives for hedging purposes rather than speculation. Fair values are approximated based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions.

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. The ineffective portion of a derivative's change in fair value is recognized immediately in earnings.

In connection with our interest rate risk management, we periodically hedge a portion of our interest rate risk by entering into derivative financial instrument contracts. Specifically, our derivative financial instruments are used to manage differences in the amount, timing, and duration of our expected cash receipts and our expected cash payments principally related to our investments and borrowings. Our objectives in using interest rate derivatives are to add stability to interest income and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. We have entered into various interest rate swap agreements in the past to hedge our exposure to interest rate risk on (i) variable rate borrowings as it relates to fixed rate loans; (ii) the difference between the CDO investor return being based on the three-month LIBOR index while the supporting assets of the CDO are based on the one-month LIBOR index; and (iii) use of LIBOR rate caps in loan agreements.

In the normal course of business, we may use a variety of derivative financial instruments to manage, or hedge, interest rate risk. We do not use derivatives for trading or speculative purposes. These derivative financial instruments must be effective in reducing our interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 2 Summary of Significant Accounting Policies (Continued)**

when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income for each period until the derivative instrument matures or is settled. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income. In cases where a derivative financial instrument is terminated early, any gain or loss is generally amortized over the remaining life of the hedged item.

In certain circumstances, we have financed the purchase of Residential Mortgage Backed Securities ("RMBS") investments through a repurchase agreement with the same counterparty, which qualified as a linked transaction. If both transactions were entered into contemporaneously or in contemplation of each other, the transactions were presumed to be linked transactions unless certain criteria were met, and we accounted for the purchase of such securities and the repurchase agreement on a combined basis as a forward contract derivative at fair value which was reported in other assets on the consolidated balance sheets. Linked transactions were not designated as hedging instruments and, as a result, the change in the fair value and net interest income from linked transactions was reported in other income on the consolidated statements of income. The analysis of transactions under these rules required management's judgment and experience. The fair value of linked transactions reflected the value of the underlying RMBS, linked repurchase agreement borrowings and accrued interest receivable/payable on such instruments.

We have no master netting or similar arrangements and do not offset derivatives.

***Variable Interest Entities***

We have evaluated our loans and investments, mortgage related securities, investments in equity affiliates, junior subordinated notes and CLOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in our determining that our bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CLOs, and investments in debt securities were potential VIEs or variable interests in VIEs. See Note 9 "Variable Interest Entities" for our evaluation.

***Recently Issued Accounting Pronouncements***

In January 2016, the Financial Accounting Standards Board ("FASB") amended its guidance on the recognition and measurement of financial assets and liabilities. The guidance is effective for the first quarter of 2018 and we are currently evaluating the impact it may have on our consolidated financial statements.

In September 2015, the FASB amended its guidance on measurement-period adjustments arising from business combinations. The guidance is effective for the first quarter of 2016 and we do not expect it to have a material effect on our consolidated financial statements.

In April 2015, the FASB amended its guidance on the balance sheet presentation of debt issuance costs. The guidance is effective for the first quarter of 2016. We early adopted this guidance in the fourth quarter of 2015 and it did not have a material effect on our consolidated financial statements.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 2 Summary of Significant Accounting Policies (Continued)**

In February 2015, the FASB amended its guidance on the consolidation analysis of variable interest entities. The guidance is effective for the first quarter of 2016 and we do not expect it to have a material effect on our consolidated financial statements.

In January 2015, the FASB eliminated the concept of extraordinary items and thus the requirement to assess whether an event or transaction requires extraordinary classification on the financial statements. The guidance is effective for the first quarter of 2016. We early adopted this new guidance in the first quarter of 2015 and it did not have a material effect on our consolidated financial statements.

In April 2014, the FASB issued updated guidance that changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. As a result of this new guidance, future dispositions of real estate owned assets may no longer meet the criteria to be considered as discontinued operations. The guidance was effective prospectively as of the first quarter of 2015, with early adoption permitted for new disposals or new classifications as held-for-sale. We early adopted this new guidance in the first quarter of 2014.

**Note 3 Loans and Investments**

The following table sets forth the composition of our loan and investment portfolio:

| | December 31, 2015 | Percent of Total | Loan Count | Wtd. Avg. Pay Rate(1) | Wtd. Avg. Remaining Months to Maturity | First Dollar LTV Ratio(2) | Last Dollar LTV Ratio(3) |
|---|---|---|---|---|---|---|---|
| Bridge loans | $ 1,353,132,435 | 88% | 105 | 5.48% | 16.7 | 0% | 75% |
| Mezzanine loans | 40,390,905 | 3% | 11 | 8.19% | 32.9 | 35% | 83% |
| Junior participation loans | 62,256,582 | 4% | 2 | 4.50% | 11.2 | 85% | 87% |
| Preferred equity investments | 89,346,123 | 5% | 10 | 7.52% | 30.5 | 43% | 80% |
| | 1,545,126,045 | 100% | 128 | 5.63% | 17.7 | 7% | 76% |
| Unearned revenue | (8,030,129) | | | | | | |
| Allowance for loan losses | (86,761,575) | | | | | | |
| Loans and investments, net | $ 1,450,334,341 | | | | | | |

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 3 Loans and Investments (Continued)**

| | December 31, 2014 | Percent of Total | Loan Count | Wtd. Avg. Pay Rate(1) | Wtd. Avg. Remaining Months to Maturity | First Dollar LTV Ratio(2) | Last Dollar LTV Ratio(3) |
|---|---|---|---|---|---|---|---|
| Bridge loans | $ 1,273,439,238 | 80% | 101 | 5.19% | 19.8 | 0% | 74% |
| Mezzanine loans | 76,392,650 | 5% | 17 | 9.78% | 37.1 | 47% | 81% |
| Junior participation loans | 104,091,952 | 7% | 4 | 4.62% | 12.3 | 86% | 88% |
| Preferred equity investments | 133,505,658 | 8% | 17 | 6.11% | 45.5 | 62% | 84% |
| | 1,587,429,498 | 100% | 139 | 5.45% | 22.3 | 13% | 76% |
| Unearned revenue | (12,466,528) | | | | | | |
| Allowance for loan losses | (115,487,320) | | | | | | |
| Loans and investments, net | $ 1,459,475,650 | | | | | | |

(1) "Weighted Average Pay Rate" is a weighted average, based on the unpaid principal balances of each loan in our portfolio, of the interest rate that is required to be paid monthly as stated in the individual loan agreements. Certain loans and investments that require an additional rate of interest "Accrual Rate" to be paid at the maturity are not included in the weighted average pay rate as shown in the table.

(2) The "First Dollar LTV Ratio" is calculated by comparing the total of our senior most dollar and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will absorb a total loss of our position.

(3) The "Last Dollar LTV Ratio" is calculated by comparing the total of the carrying value of our loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will initially absorb a loss.

Bridge loans are loans to borrowers who are typically seeking short-term capital to be used in an acquisition of a property and are predominantly secured by first mortgage liens on the property.

Mezzanine loans and junior participating interests in senior debt are loans that are subordinate to a conventional first mortgage loan and senior to the borrower's equity in a transaction. Mezzanine financing may take the form of loans secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property.

A preferred equity investment is another method of financing in which preferred equity investments in entities that directly or indirectly own real property are formed. In cases where the terms of a first mortgage prohibit additional liens on the ownership entity, investments structured as preferred equity in the entity owning the property serve as viable financing substitutes. With preferred equity investments, we typically become a member in the ownership entity.

In the fourth quarter of 2015, we took possession of three co-operative apartments in Manhattan, New York that were held as collateral for a first mortgage that was previously written off. The apartments had a fair value of $2.2 million and were recorded as other assets on our consolidated balance sheet.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 3 Loans and Investments (Continued)**

During the first quarter of 2015, we acquired a $116.0 million defaulted first mortgage, at par. We financed this acquisition primarily with a new $87.0 million warehouse repurchase facility. In the second quarter of 2015, the first mortgage paid off and as a result, we repaid the $87.0 million warehouse facility and recognized income totaling $6.7 million, net of fees and expenses. The $6.7 million of income is comprised of other interest income totaling $7.9 million, partially offset by $1.2 million of expenses related to this transaction that were recorded in employee compensation and benefits.

***Concentration of Credit Risk***

We operate in one portfolio segment, commercial mortgage loans and investments. Commercial mortgage loans and investments can potentially subject us to concentrations of credit risk. We are subject to concentration risk in that, as of December 31, 2015, the unpaid principal balance related to 22 loans with five different borrowers represented 22% of total assets. At December 31, 2014, the unpaid principal balance related to 31 loans with five different borrowers represented 23% of total assets. In addition, in 2015 and 2014, no single loan or investment represented 10% of our total assets and no single investor group generated 10% of our revenue.

We measure our relative loss position for our mezzanine loans, junior participation loans, and preferred equity investments by determining the point where we will be exposed to losses based on our position in the capital stack as compared to the fair value of the underlying collateral. We determine our loss position on both a first dollar loan-to-value ("LTV") and a last dollar LTV basis. First dollar LTV is calculated by comparing the total of our senior most dollar and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will absorb a total loss of our position. Last dollar LTV is calculated by comparing the total of the carrying value of our loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will initially absorb a loss.

We assign a credit risk rating to each loan and investment. Individual ratings range from one to five, with one being the lowest risk and five being the highest. Each credit risk rating has benchmark guidelines that pertain to debt-service coverage ratios, LTV ratios, borrower strength, asset quality, and funded cash reserves. Other factors such as guarantees, market strength, remaining loan term, and borrower equity are also reviewed and factored into determining the credit risk rating assigned to each loan. This metric provides a helpful snapshot of portfolio quality and credit risk. Given our asset management approach, however, the risk rating process does not result in differing levels of diligence contingent upon credit rating. That is because all portfolio assets are subject to the level of scrutiny and ongoing analysis consistent with that of a "high-risk" loan. Assets are subject to, at minimum, a thorough quarterly financial evaluation in which historical operating performance and forward-looking projections are reviewed. Generally speaking, given our typical loan and investment profile, a risk rating of three suggests that we expect the loan to make both principal and interest payments according to the contractual terms of the loan agreement, and is not considered impaired. A risk rating of four indicates we anticipate that the loan will require a modification of some kind. A risk rating of five indicates we expect the loan to underperform over its term, and there could be loss of interest and/or principal. Ratings of 3.5 and 4.5 generally indicate loans that have characteristics of both the immediately higher and lower classifications. Further, while the above are the primary guidelines used in determining a certain risk rating, subjective items such as borrower strength, condition of the market of the

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 3 Loans and Investments (Continued)**

underlying collateral, additional collateral or other credit enhancements, or loan terms, may result in a rating that is higher or lower than might be indicated by any risk rating matrix.

As a result of the loan review process at December 31, 2015 and 2014, we identified loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of $154.7 million and $189.4 million, respectively, and a weighted average last dollar LTV ratio of 94% and 94%, respectively.

A summary of the loan and investment portfolio's weighted average internal risk ratings and LTV ratios by asset class is as follows:

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| Asset Class | Unpaid Principal Balance | Percentage of Portfolio | Wtd. Avg. Internal Risk Rating | First Dollar LTV Ratio | Last Dollar LTV Ratio |
| Multifamily | $ 1,083,822,788 | 70.1% | 3.0 | 2% | 75% |
| Office | 198,829,086 | 12.9% | 3.0 | 27% | 75% |
| Land | 164,410,838 | 10.6% | 3.8 | 5% | 90% |
| Hotel | 66,250,000 | 4.3% | 3.5 | 32% | 80% |
| Other | 31,813,333 | 2.1% | 3.1 | 13% | 67% |
| Total | $ 1,545,126,045 | 100.0% | 3.1 | 7% | 76% |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| Asset Class | Unpaid Principal Balance | Percentage of Portfolio | Wtd. Avg. Internal Risk Rating | First Dollar LTV Ratio | Last Dollar LTV Ratio |
| Multifamily | $ 1,157,462,400 | 72.9% | 2.9 | 10% | 73% |
| Office | 230,491,164 | 14.5% | 3.3 | 29% | 79% |
| Land | 128,367,601 | 8.1% | 3.9 | 6% | 88% |
| Hotel | 66,250,000 | 4.2% | 3.5 | 32% | 83% |
| Other | 4,858,333 | 0.3% | 2.9 | 69% | 75% |
| Total | $ 1,587,429,498 | 100.0% | 3.1 | 13% | 76% |

***Geographic Concentration Risk***

As of December 31, 2015, 34%, 14%, 14% and 12% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Florida, California and Texas, respectively. As of December 31, 2014, 28%, 14% and 10% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Texas and Florida, respectively.

***Impaired Loans and Allowance for Loan Losses***

We perform an evaluation of the loan portfolio quarterly to assess the performance of our loans and whether a reserve for impairment should be recorded. We consider a loan impaired when, based

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 3 Loans and Investments (Continued)**

upon current information and events, it is probable that we will be unable to collect all amounts due for both principal and accrued interest according to the contractual terms of the loan agreement.

During the year ended December 31, 2015, we determined that the fair value of the underlying collateral securing five impaired loans with an aggregate carrying value of $125.3 million was less than the net carrying value of the loans, resulting in a $6.5 million provision for loan losses. In addition, during 2015, we recorded $2.0 million of net recoveries of previously recorded loan loss reserves resulting in a $4.5 million net recovery provision. These recoveries were recorded in provision for loan losses on the consolidated statements of income. Of the $6.5 million of loan loss reserves recorded during 2015, $4.0 million was attributable to loans on which we had previously recorded reserves, while $2.5 million of reserves related to other loans in our portfolio.

During the year ended December 31, 2014, we determined that the fair value of the underlying collateral securing four impaired loans with an aggregate carrying value of $151.9 million was less than the net carrying value of the loans, resulting in a $9.0 million provision for loan losses. In addition, during 2014, we recorded $9.3 million of net recoveries of previously recorded loan loss reserves resulting in a $(0.3) million net recovery provision. These recoveries were recorded in provision for loan losses on the consolidated statements of income. Of the $9.0 million of loan loss reserves recorded during 2014, $3.8 million was attributable to loans on which we had previously recorded reserves, while $5.2 million of reserves related to other loans in our portfolio.

During the year ended December 31, 2013, we determined that the fair value of the underlying collateral securing five impaired loans with an aggregate carrying value of $31.5 million was less than the net carrying value of the loans, resulting in a $6.5 million provision for loan losses. In addition, during 2013, we recorded $2.2 million of net recoveries of previously recorded loan loss reserves resulting in a net $4.3 million provision for loan losses. Of the $6.5 million of loan loss reserves recorded during 2013, $1.0 million was attributable to loans on which we had previously recorded reserves, while $5.5 million of reserves related to other loans in our portfolio.

At December 31, 2015, we had a total of nine loans with an aggregate carrying value, before loan loss reserves, of $189.2 million for which impairment reserves have been recorded. At December 31, 2014, we had a total of ten loans with an aggregate carrying value, before loan loss reserves, of $221.6 million for which impairment reserves have been recorded. At December 31, 2013, we had a total of 15 loans with an aggregate carrying value, before loan loss reserves, of $207.5 million for which impairment reserves have been recorded.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 3 Loans and Investments (Continued)**

A summary of the changes in the allowance for loan losses is as follows:

| | Year Ended | | |
|---|---|---|---|
| | December 31, 2015 | December 31, 2014 | December 31, 2013 |
| Allowance at beginning of the period | $ 115,487,320 | $ 122,277,411 | $ 161,706,313 |
| Provision for loan losses | 6,509,149 | 9,026,712 | 6,500,000 |
| Charge-offs | (32,000,000) | (6,501,079) | (24,713,459) |
| Charge-off on loan reclassified to real estate owned, net | (2,500,000) | | |
| Charge-off on loan converted to other assets | | | (19,000,000) |
| Recoveries of reserves | (734,894) | (9,315,724) | (2,215,443) |
| Allowance at end of the period | $ 86,761,575 | $ 115,487,320 | $ 122,277,411 |

A summary of charge-offs and recoveries by asset class is as follows:

| | Year Ended | | |
|---|---|---|---|
| | December 31, 2015 | December 31, 2014 | December 31, 2013 |
| *Charge-offs:* | | | |
| Multifamily | $ | $ (6,501,079) | $ (4,789,815) |
| Office | (2,500,000) | | (6,252,129) |
| Land | | | (19,000,000) |
| Hotel | (32,000,000) | | (3,671,515) |
| Condo | | | (10,000,000) |
| Total | $ (34,500,000) | $ (6,501,079) | $ (43,713,459) |
| *Recoveries:* | | | |
| Multifamily | $ (754,394) | $ (7,815,724) | $ (1,510,949) |
| Office | | (1,500,000) | (704,494) |
| Land | (1,287,869) | | |
| Total | $ (2,042,263) | $ (9,315,724) | $ (2,215,443) |
| Net Recoveries (Charge-offs) | $ (32,457,737) | $ 2,814,645 | $ (41,498,016) |
| Ratio of net charge-offs during the period to average loans and investments outstanding during the period | (2.1)% | 0.2% | (2.6)% |

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 3 Loans and Investments (Continued)**

There were no loans for which the collateral securing the loan was less than the carrying value of the loan for which we had not recorded a provision for loan loss as of December 31, 2015, 2014 and 2013.

For the year ended December 31, 2015, charge-off activity was comprised of a $32.0 million charge-off of previously recorded reserves due to the write-off of a fully reserved junior participation loan. We also charged-off $2.5 million in connection with the transfer of an office building by deed in lieu of foreclosure to real estate owned, net.

For the year ended December 31, 2014, charge-off activity was comprised of a $6.5 million charge-off to previously recorded reserves from the write-off of a mezzanine loan and a bridge loan that had an aggregate carrying value of $11.9 million.

For the year ended December 31, 2013, charge-off activity was comprised of a $23.2 million charge-off to previously recorded reserves from the write-off of several loans that had an aggregate carrying value of $23.2 million; a $19.0 million charge-off in connection with the transfer of land that was held as collateral for a $25.0 million loan to other assets at a fair value of $6.0 million; and a $1.5 million charge-off in connection with receiving proceeds of $4.4 million from the sale of a $5.9 million bridge loan. The land transferred to other assets is 20.5 acres of usable land and 2.3 acres of submerged land located on the banks of the St. John's River in downtown Jacksonville, Florida and is currently zoned for the development of up to 60 dwellings per acre. This land was held as collateral by a joint venture that we assumed full ownership of and the related loan was consolidated.

We have six loans with a carrying value totaling $118.1 million at December 31, 2015, which mature in September 2017, that are collateralized by a land development project. The loans do not carry a current pay rate of interest, but four of the loans with a carrying value totaling $97.5 million entitle us to a weighted average accrual rate of interest of approximately 9.60%. We suspended the recording of the accrual rate of interest on these loans, as these loans were impaired and we deemed the collection of this interest to be doubtful. We have recorded cumulative allowances for loan losses of $49.1 million related to these loans as of December 31, 2015. 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 in compliance with all of the terms and conditions of the loans.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 3 Loans and Investments (Continued)**

A summary of our impaired loans by asset class is as follows:

| | December 31, 2015 | | | Year Ended December 31, 2015 | |
|---|---|---|---|---|---|
| Asset Class | Unpaid Principal Balance | Carrying Value(1) | Allowance for Loan Losses | Average Recorded Investment(2) | Interest Income Recognized |
| Multi-family | $ 7,362,115 | $ 7,350,764 | $ 5,505,653 | $ 23,301,005 | $ 314,910 |
| Office | 27,580,582 | 22,796,444 | 21,972,444 | 31,833,582 | 1,804,967 |
| Land | 127,468,667 | 122,875,774 | 53,883,478 | 124,639,534 | |
| Hotel | 34,750,000 | 34,486,433 | 3,700,000 | 34,750,000 | 1,050,312 |
| Commercial | 1,700,000 | 1,700,000 | 1,700,000 | 850,000 | |
| Total | $ 198,861,364 | $ 189,209,415 | $ 86,761,575 | $ 215,374,121 | $ 3,170,189 |

| | December 31, 2014 | | | Year Ended December 31, 2014 | |
|---|---|---|---|---|---|
| Asset Class | Unpaid Principal Balance | Carrying Value(1) | Allowance for Loan Losses | Average Recorded Investment(2) | Interest Income Recognized |
| Multi-family | $ 39,239,894 | $ 39,232,710 | $ 36,469,894 | $ 52,487,834 | $ 763,208 |
| Office | 36,086,582 | 30,498,273 | 23,972,444 | 36,086,582 | 1,788,152 |
| Land | 121,810,400 | 117,621,457 | 51,344,982 | 118,948,175 | |
| Hotel | 34,750,000 | 34,249,959 | 3,700,000 | 17,375,000 | 664,678 |
| Total | $ 231,886,876 | $ 221,602,399 | $ 115,487,320 | $ 224,897,591 | $ 3,216,038 |

(1) Represents the UPB of impaired loans less unearned revenue and other holdbacks and adjustments by asset class and was comprised of nine loans at December 31, 2015 and ten loans at December 31, 2014.

(2) Represents an average of the beginning and ending UPB of each asset class.

As of December 31, 2015, three loans with an aggregate net carrying value of less than $0.1 million, net of related loan loss reserves on the loans of $22.9 million, were classified as non-performing. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced. As of December 31, 2014, three loans with an aggregate net carrying value of $7.0 million, net of related loan loss reserves on two of the loans of $34.0 million, were classified as non-performing.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 3 Loans and Investments (Continued)**

A summary of our non-performing loans by asset class is as follows:

| | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| Asset Class | Carrying Value | Less Than 90 Days Past Due | Greater Than 90 Days Past Due | Carrying Value | Less Than 90 Days Past Due | Greater Than 90 Days Past Due |
| Multi-family | $ 765,799 | $ | $ 765,799 | $ 32,765,799 | $ 765,799 | $ 32,000,000 |
| Office | 20,472,444 | | 20,472,444 | 8,277,757 | | 8,277,757 |
| Commercial | 1,700,000 | | 1,700,000 | | | |
| Total | $ 22,938,243 | $ | $ 22,938,243 | $ 41,043,556 | $ 765,799 | $ 40,277,757 |

At December 31, 2015, we did not have any loans contractually past due 90 days or more that are still accruing interest.

A summary of loan modifications, refinancings and/or extensions by asset class that we considered to be troubled debt restructurings were as follows:

| | Year Ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| Asset Class | Number of Loans | Original Unpaid Principal Balance | Original Weighted Average Rate of Interest | Extended Unpaid Principal Balance | Extended Weighted Average Rate of Interest |
| Multifamily | 5 | $ 35,609,122 | 5.12% | $ 35,609,122 | 5.12% |
| Office | 1 | 2,430,000 | 3.69% | 2,430,000 | 3.69% |
| Total | 6 | $ 38,039,122 | 5.03% | $ 38,039,122 | 5.03% |

| | Year Ended December 31, 2014 | | | | |
|---|---|---|---|---|---|
| Asset Class | Number of Loans | Original Unpaid Principal Balance | Original Weighted Average Rate of Interest | Extended Unpaid Principal Balance | Extended Weighted Average Rate of Interest |
| Hotel | 1 | $ 35,000,000 | 1.95% | $ 34,750,000 | 2.95% |

There were no loans in which we considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of December 31, 2015 and 2014 and no additional loans were considered to be impaired due to our troubled debt restructuring analysis for the years ended December 31, 2015 and 2014. We had unfunded commitments of $0.1 million on the extended loans which were considered troubled debt restructurings as of December 31, 2015 and no unfunded commitment on the extended loan which was considered troubled debt restructuring as of December 31, 2014.

Given the transitional nature of some of our real estate loans, we may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. As of December 31, 2015, we had total interest reserves of $17.2 million on 63 loans with an aggregate UPB of $895.4 million.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 4 Securities**

The following is a summary of our securities classified as available-for-sale at December 31, 2015:

| | Face Value | Amortized Cost | Cumulative Unrealized Gain | Carrying Value / Estimated Fair Value |
|---|---|---|---|---|
| Federal Home Loan Mortgage Corporation | $ 1,500,000 | $ 1,551,716 | $ | $ 1,551,716 |
| 2,939,465 common shares of CV Holdings, Inc. | | 58,789 | 411,525 | 470,314 |
| Total available-for-sale securities | $ 1,500,000 | $ 1,610,505 | $ 411,525 | $ 2,022,030 |

The following is a summary of our securities classified as available-for-sale at December 31, 2014:

| | Face Value | Amortized Cost | Cumulative Unrealized (Loss) / Gain | Carrying Value / Estimated Fair Value |
|---|---|---|---|---|
| Commercial mortgage-backed security (CMBS) | $ 2,100,000 | $ 2,100,000 | $ (100,000) | $ 2,000,000 |
| 2,939,465 common shares of CV Holdings, Inc. | | 58,789 | 440,920 | 499,709 |
| Total available-for-sale securities | $ 2,100,000 | $ 2,158,789 | $ 340,920 | $ 2,499,709 |

In the fourth quarter of 2015, we purchased a federal home loan mortgage corporation security at a premium for $1.6 million. This security bore interest at a fixed rate of 3.241% with a scheduled maturity in 2024. We sold this security in January 2016 for $1.6 million and recognized a gain of less than $0.1 million.

In the second quarter of 2015, our CMBS investment, which had a carrying value of $2.0 million, paid off in full. In connection with this pay off, we received proceeds of $2.1 million and reversed a $0.1 million unrealized loss from accumulated other comprehensive loss on our consolidated balance sheet. Our CMBS investment had an underlying credit rating of CCC based on the rating published by Standard & Poor's at December 31, 2014.

In the first quarter of 2014, we sold all of our RMBS investments, which had an aggregate carrying value of $33.4 million, for $33.9 million and recorded a net gain of $0.5 million to other income, net on our consolidated statements of income, which includes the reclassification of a net unrealized gain of $0.4 million from accumulated other comprehensive loss on our consolidated balance sheet. Included in these sales were two RMBS investments with deteriorated credit quality that had an aggregate carrying value of $25.8 million and that were sold for $25.9 million. The RMBS investments were financed with two repurchase agreements totaling $25.3 million which were repaid with the proceeds.

The weighted average yield on our CMBS and RMBS investments, including the amortization of premium and the accretion of discount, based on their face values was 1.04% and 1.80% for the years ended December 31, 2015 and 2014, respectively.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 5 Investments in Equity Affiliates**

The following is a summary of our investments in equity affiliates:

| Equity Affiliates | Investment in Equity Affiliates at December 31, 2015 | Investment in Equity Affiliates at December 31, 2014 | UPB of Loans to Equity Affiliates at December 31, 2015 |
|---|---|---|---|
| Arbor Residential Investor LLC | $ 25,923,679 | $ | $ |
| West Shore Café | 1,955,933 | 1,872,661 | 1,687,500 |
| Lightstone Value Plus REIT L.P | 1,894,727 | 1,894,727 | |
| Issuers of Junior Subordinated Notes | 578,000 | 578,000 | |
| JT Prime | 425,000 | 425,000 | |
| East River Portfolio | 92,796 | 98,578 | 4,994,166 |
| Lexford Portfolio | 100 | 100 | 2,324,000 |
| Ritz-Carlton Club | | | |
| Total | $ 30,870,235 | $ 4,869,066 | $ 9,005,666 |

We account for all investments in equity affiliates under the equity method.

*Arbor Residential Investor LLC ("ARI")* In the first quarter of 2015, we invested $9.6 million for 50% of our Manager's indirect interest in a joint venture with a third party that was formed to invest in a residential mortgage banking business. Our Manager retained a promote of 25% over a 10% return on this investment. As a result of this transaction, we had an initial indirect interest of 22.5% in the mortgage banking business, which is subject to dilution upon attaining certain profit hurdles of the business. As a result of the business's profitability to date, we currently own a 20% indirect interest. During the year ended December 31, 2015, we recorded $6.6 million to income from equity affiliates in our consolidated statements of income related to this investment.

In the first quarter of 2015, we invested $1.7 million through ARI for 100% of our Manager's investment in non-qualified residential mortgages purchased from the mortgage banking business's origination platform, resulting in a non-controlling ownership interest of 50% in this investment. We also funded $7.9 million of additional mortgage purchases during 2015, for a total investment of $9.7 million as of December 31, 2015. During 2015, we recorded income from equity affiliates of less than $0.1 million in our consolidated statements of income related to this investment.

*West Shore Café* We own a 50% noncontrolling interest in the West Shore Lake Café, a restaurant/inn lakefront property in Lake Tahoe, California. During the second quarter of 2014, we provided a $1.7 million first mortgage loan to an affiliated entity to acquire property adjacent to the original property, which matures in May 2017 and bears interest at LIBOR plus 4.00%.

*Lightstone Value Plus REIT L.P. / JT Prime* We own a $1.9 million interest in an unconsolidated joint venture that holds common operating partnership units of Lightstone Value Plus REIT L.P. ("Lightstone"). The joint venture owned $56.0 million of preferred and common operating partnership units of Lightstone and had debt of $50.2 million, in which we had a two thirds interest in a consolidated entity. In 2013, our portion of the preferred operating partnership units were redeemed, the note related to our portion was repaid in full and the entity was deconsolidated. During the year

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 5 Investments in Equity Affiliates (Continued)**

ended December 31, 2013, we recorded $1.8 million of dividends from the operating partnership units which were reflected in interest income, and $1.3 million of interest expense in our consolidated statements of income. We also own a 50% non-controlling interest in an unconsolidated joint venture, JT Prime, which holds common operating partnership units of Lightstone at a carrying value of $0.4 million. During the years ended December 31, 2015, 2014 and 2013, we recorded $0.2 million, $0.2 million and $0.1 million, respectively, to income from equity affiliates in our consolidated statements of income related to these investments.

*Issuers of Junior Subordinated Notes* We have invested a total of $0.6 million for 100% of the common shares of two affiliated entities of ours. These entities pay dividends on both the common shares and preferred securities on a quarterly basis at variable rates based on three-month LIBOR. See Note 7 "Debt Obligations" for further details.

*East River Portfolio* In August 2014, we invested $0.1 million for a 5% interest in a joint venture that owns two multifamily properties. The joint venture is comprised of a consortium of investors consisting of certain of our officers, including Mr. Ivan Kaufman, and other related parties, who together own an interest of 95%. In August 2014, we originated two bridge loans totaling $5.0 million with an interest rate of 5.5% over one-month LIBOR and a maturity date of March 2016. See Note 14 "Agreements and Transactions with Related Parties" for further details.

*Lexford Portfolio* We, along with third party investors, made a $0.1 million equity investment into Lexford, a portfolio of multifamily assets. Our portion of this investment is a $44,000 noncontrolling interest. In the third and fourth quarters of 2015, we received distributions from this equity investment and recognized income totaling $4.5 million, net of expenses. The $4.5 million of income is comprised of income from equity affiliates of $5.5 million, partially offset by $1.0 million of expenses related to these distributions that were recorded in employee compensation and benefits. See Note 14 "Agreements and Transactions with Related Parties" for further details.

*Ritz-Carlton Club* We owned a 19.09% non-controlling interest with a 10% return subject to certain conditions in the Ritz-Carlton Club, a condominium project in Lake Tahoe, California. During 2012, we recorded $0.8 million of losses from the entity against the equity investment reducing the balance of our investment to $0. As of December 31, 2015, we no longer have an interest in this investment.

*930 Flushing & 80 Evergreen* We had a 12.5% preferred interest in a joint venture that owns and operates two commercial properties. We also had a $22.4 million bridge loan and a $0.5 million mezzanine loan outstanding to affiliated entities of the joint venture. In May 2014, our interest in the properties was sold and we received $7.9 million in cash. As a result, we recorded a gain on sale of equity interest in our consolidated statements of income of $7.9 million and reduced our investment to $0. In July 2014, our outstanding loans totaling $22.9 million to this joint venture were repaid in full. We no longer have an interest in this investment.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 5 Investments in Equity Affiliates (Continued)**

*450 West 33rd Street* We were a 29% participant in an investor group that owned a non-controlling interest in an office building at 450 West 33rd Street in Manhattan, New York. The investor group, as a whole, had a 1.44% ownership interest in the property and 50% of the property's air rights, both were retained from the transfer of control of the property in 2007. As part of this transaction, we recorded a deferred gain of $77.1 million as a result of the joint venture members guaranteeing a portion of the debt outstanding on the property. In 2014, the existing debt on the property was refinanced and our portion of the guarantee was terminated, resulting in the recognition of the $77.1 million deferred gain as well as a $19.0 million prepaid incentive management fee for a non-cash net gain of $58.1 million. See Note 14 "Agreements and Transactions with Related Parties" for details of the prepaid incentive fee recorded.

In 2014, we invested an additional $0.3 million into this investment. In the fourth quarter of 2014, we sold our remaining interest in this property for $1.1 million and recorded a gain on sale of $0.8 million. We no longer have an interest in this investment.

***Summarized Financial Information***

The condensed combined balance sheets for our unconsolidated investments in equity affiliates accounted for under the equity method are as follows:

| | December 31, | |
|---|---|---|
| **Condensed Combined Balance Sheets** | **2015** | **2014** |
| **Assets:** | | |
| Cash and cash equivalents | $ 29,829,360 | $ 22,551,762 |
| Real estate assets | 973,649,322 | 639,813,257 |
| Other assets | 121,802,429 | 19,169,267 |
| **Total assets** | $ 1,125,281,111 | $ 681,534,286 |
| **Liabilities:** | | |
| Notes payable | $ 1,044,965,627 | $ 691,487,617 |
| Other liabilities | 30,064,837 | 22,653,656 |
| Total liabilities | 1,075,030,464 | 714,141,273 |
| Stockholders' equity Arbor(1) | 30,292,234 | 4,291,066 |
| Stockholders' equity (deficit) | 19,958,413 | (36,898,053) |
| Total stockholders' equity (deficit) | 50,250,647 | (32,606,987) |
| **Total liabilities and equity (deficit)** | $ 1,125,281,111 | $ 681,534,286 |

(1)

Combined with $0.6 million of equity relating to the issuance of junior subordinated notes, equals $30.9 million of investments in equity affiliates at December 31, 2015. Combined with $0.6 million of equity relating to the issuance of junior subordinated notes, equals $4.9 million of investments in equity affiliates at December 31, 2014.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 5 Investments in Equity Affiliates (Continued)**

The condensed combined statements of operations for our unconsolidated investments in equity affiliates accounted for under the equity method for the years presented are as follows:

| | Year Ended | | |
|---|---|---|---|
| **Statements of Operations:** | **2015** | **2014** | **2013** |
| **Revenue:** | | | |
| Rental income | $ 95,937,528 | $ 89,192,393 | $ 85,550,846 |
| Interest income | 10,215,267 | 258,516 | 477,935 |
| Operating income | 130,931,755 | 4,168,348 | 5,709,013 |
| Reimbursement income | 6,800,824 | 6,500,526 | 6,653,440 |
| Other income | 15,320,832 | 7,993,602 | 6,686,053 |
| Total revenues | 259,206,206 | 108,113,385 | 105,077,287 |
| **Expenses:** | | | |
| Operating expenses | 157,772,966 | 59,266,385 | 58,265,261 |
| Interest expense | 43,766,835 | 33,032,580 | 36,060,617 |
| Depreciation and amortization | 21,763,714 | 26,793,320 | 23,345,096 |
| Other expenses | 1,627,791 | 620,906 | 493,627 |
| Total expenses | 224,931,306 | 119,713,191 | 118,164,601 |
| **Net income (loss)** | $ 34,274,900 | $ (11,599,806) | $ (13,087,314) |
| **Arbor's Share of income (loss)** | $ 12,300,516 | $ 248,658 | $ (204,475) |

**Note 6 Real Estate Owned and Held-For-Sale**

Our real estate assets were comprised of three multifamily properties (the "Multifamily Portfolio"), two hotel properties (the "Hotel Portfolio") and an office building at December 31, 2015 and four multifamily properties and five hotel properties at December 31, 2014.

As of December 31, 2015 and 2014, the Multifamily Portfolio had a mortgage note payable of $27.2 million and $31.0 million, respectively. See Note 7 "Debt Obligations" for further details.

*Real Estate Owned*

| | December 31, 2015 | | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|---|
| | **Multifamily Portfolio** | **Hotel Portfolio** | **Office Building** | **Total** | **Multifamily Portfolio** | **Hotel Portfolio** | **Total** |
| Land | $ 5,538,844 | $ 3,293,651 | $ 4,509,000 | $ 13,341,495 | $ 5,538,844 | $ 9,393,651 | $ 14,932,495 |
| Building and intangible assets | 32,643,889 | 30,338,882 | 1,391,000 | 64,373,771 | 31,249,869 | 58,818,891 | 90,068,760 |
| | (9,399,041) | (7,329,615) | (141,101) | (16,869,757) | (7,414,267) | (12,661,347) | (20,075,614) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Less: accumulated depreciation and amortization | | | | | | | |
| Real estate owned, net. | $ 28,783,692 | $ 26,302,918 | $ 5,758,899 | $ 60,845,509 | $ 29,374,446 | $ 55,551,195 | $ 84,925,641 |

As of December 31, 2015, 2014 and 2013, our Multifamily Portfolio had a weighted average occupancy rate of approximately 94%, 90% and 85%, respectively.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 6 Real Estate Owned and Held-For-Sale (Continued)**

For the years ended December 31, 2015, 2014 and 2013, our Hotel Portfolio had a weighted average occupancy rate of approximately 53%, 51% and 48%, respectively, a weighted average daily rate of approximately $90, $76 and $79, respectively, and a weighted average revenue per available room of approximately $48, $39 and $38, respectively. The operation of the hotel properties are seasonal with the majority of revenues earned in the first two quarters of the calendar year.

In the third quarter of 2015, we acquired an office building by deed in lieu of foreclosure that was held as collateral for a first mortgage loan with a carrying value at the acquisition date of $5.9 million, net of reserves. We finalized the purchase price allocation in the fourth quarter of 2015. The office building was fully occupied at December 31, 2015.

Our real estate assets had restricted cash balances totaling $1.6 million and $1.7 million as of December 31, 2015 and 2014, respectively, due to escrow requirements.

*Real Estate Held-For-Sale*

As of December 31, 2015, there was one property in the Hotel Portfolio with a carrying value of $8.7 million classified as real estate held-for-sale. In 2015, three properties in the Hotel Portfolio with a combined carrying value of $26.2 million were reclassified from real estate owned to real estate held-for-sale due to proposed sales. Two of these properties were sold in 2015 and we recognized a total gain of $3.8 million. Also in 2015, we sold a property in our Multifamily Portfolio as well as a property in the Hotel Portfolio classified as held-for-sale for a total of $18.8 million and recognized a gain of $4.0 million. In 2014, a property in the Multifamily Portfolio was sold for $3.1 million. In connection with this sale, we recorded a loss on sale of $0.2 million and a reduction of the mortgage note payable of $3.4 million. During 2014, we recorded an impairment loss of $0.3 million related to this property as a result of an impairment analysis based on indicators of value from market participants.

The results of operations for properties classified as held-for-sale are summarized as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Revenue:** | | | |
| Property operating income | $ 10,971,555 | $ 14,362,030 | $ 13,322,212 |
| **Expenses:** | | | |
| Property operating expense | 8,224,101 | 11,243,246 | 10,831,649 |
| Depreciation | 1,562,101 | 2,877,143 | 2,681,999 |
| Net income (loss) | $ 1,185,353 | $ 241,641 | $ (191,436) |

**Note 7 Debt Obligations**

We utilize various forms of short-term and long-term financing agreements to finance certain of our loans and investments. Borrowings underlying these arrangements are primarily secured by a significant amount of our loans and investments.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

*Credit Facilities and Repurchase Agreements*

The following table outlines borrowings under our credit facilities and repurchase agreements:

| | December 31, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Debt Principal Balance | Debt Carrying Value | Collateral Carrying Value | Weighted Average Note Rate | Debt Principal Balance | Debt Carrying Value | Collateral Carrying Value | Weighted Average Note Rate |
| $150 million warehouse repurchase facility | $ 58,270,774 | $ 57,610,463 | $ 99,641,504 | 2.70% | $ | $ | $ | |
| $100 million warehousing credit facility | 24,582,200 | 24,328,863 | 38,000,000 | 2.62% | 92,520,637 | 92,324,890 | 128,593,000 | 2.45% |
| $75 million warehousing credit facility | 13,852,500 | 13,766,445 | 18,470,000 | 2.59% | 42,975,000 | 42,859,751 | 58,000,000 | 2.45% |
| $75 million warehousing credit facility | | | | | 29,890,563 | 29,866,116 | 45,422,236 | 2.20% |
| $25 million warehousing credit facility | 24,120,000 | 24,114,494 | 30,200,000 | 2.46% | | | | |
| $16.5 million term credit facility | 16,500,000 | 16,431,870 | 29,750,000 | 3.22% | | | | |
| $15 million term credit facility | | | | | 15,000,000 | 14,996,242 | | 7.50% |
| Total credit facilities and repurchase agreements | $ 137,325,474 | $ 136,252,135 | $ 216,061,504 | 2.69% | $ 180,386,200 | $ 180,046,999 | $ 232,015,236 | 2.84% |

At December 31, 2015 and 2014, the weighted average interest rate for our credit facilities and repurchase agreements was 2.69% and 2.84%, respectively, and was calculated on the outstanding principal balance of the facility. Including certain fees and costs, such as structuring, commitment, non-use and warehousing fees, the weighted average interest rate was 3.42% and 3.06% at December 31, 2015 and 2014, respectively. There were no interest rate swaps on these facilities at December 31, 2015 and 2014.

In January 2015, we entered into a $150.0 million warehouse repurchase facility with a financial institution to finance a significant portion of the unwind of our CDO I and CDO II vehicles. See "Collateralized Debt Obligations" below. The facility bears interest at a rate of 212.5 basis points over LIBOR on senior mortgage loans, 350.0 basis points over LIBOR on junior mortgage loans, and matures in January 2017 with a one-year extension option. If the estimated market value of the loans financed in this facility decrease, we may be required to pay down borrowings under this repurchase agreement. Debt carrying value is net of $0.7 million of deferred financing fees at December 31, 2015. In July 2015, we amended the facility to temporarily increase the committed amount to $175.0 million until December 31, 2015.

We have a $100.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties that bore interest at a rate of 225 basis points over LIBOR and was to mature in April 2015. In April 2015, we extended the maturity to May 2015. In May 2015, we amended the facility decreasing the rate of interest to 215 basis points over LIBOR and extended the maturity to May 2017 with a one-year extension option, subject to certain conditions. The facility has a maximum advance rate of 75% and also has a compensating balance requirement of $50.0 million to be maintained by us and our affiliates. Debt carrying value is net of $0.3 million and $0.2 million of deferred financing fees at December 31, 2015 and 2014, respectively.

We have a $75.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties that bore interest at a rate of 225 basis points over LIBOR and was to

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

mature in June 2015. In June 2015, we amended the facility, extending the maturity to June 2016, decreasing the rate of interest to 212.5 basis points over LIBOR, and added a new $25.0 million sublimit to finance healthcare related loans. The healthcare related loans will have an interest rate ranging from 225 basis points to 250 basis points over LIBOR depending on the type of healthcare facility financed. The facility has a maximum advance rate of 75%. Debt carrying value is net of $0.1 million of deferred financing fees at both December 31, 2015 and 2014.

We have another $75.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily and commercial properties that bears interest at a rate of 200 basis points over LIBOR and was to mature in April 2015. In April 2015, the facility was increased from $60.0 million to $75.0 million and the maturity was extended to April 2016. The facility has a maximum advance rate of 70% or 75%, depending on the property type. Debt carrying value is net of less than $0.1 million of deferred financing fees at both December 31, 2015 and 2014.

In February 2015, we entered into a $25.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. The facility bears interest at a rate of 200 basis points over LIBOR and was to mature in February 2016. Debt carrying value is net of less than $0.1 million of deferred financing fees at December 31, 2015. In February 2016, we amended the facility, increasing the committed amount to $50.0 million and extending the maturity to February 2017 with two one-year extension options, subject to certain conditions.

In September 2015, we entered into a $16.5 million term facility with a financial institution to finance a first mortgage loan. The facility bears interest at a rate of 275 basis points over LIBOR, matures in December 2016 and has a compensating balance requirement of $3.0 million to be maintained by us and our affiliates. Debt carrying value is net of $0.1 million of deferred financing fees at December 31, 2015.

We had a $15.0 million term facility that bore interest at a fixed rate of 7.5%, had a maturity in August 2015 and was secured by a portion of the bonds originally issued by our CDO III entity that we repurchased. We repaid this facility in full in July 2015. Debt carrying value is net of less than $0.1 million of deferred financing fees at December 31, 2014.

In March 2015, we entered into an $87.0 million warehouse repurchase facility with a financial institution to finance the acquisition of a first mortgage note. The facility bore interest at a rate of 250 basis points over a LIBOR floor of 0.25% and was to mature in March 2016. The facility was fully repaid in April 2015.

Our warehouse credit facilities generally allow for an original warehousing period of up to 24 months from the initial advance on an asset. In addition, our credit facilities and repurchase agreements contain several restrictions including full repayment of an advance if a loan becomes 60 days past due, is in default or is written down by us. Our credit facilities and repurchase agreements also contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of these types. See "Debt Covenants" below for details.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

*Collateralized Loan Obligations (CLOs)*

The following table outlines borrowings and the corresponding collateral under our CLOs as of December 31, 2015:

| | Debt | | Collateral | | | |
|---|---|---|---|---|---|---|
| | | | Loans | | | |
| | Face Value | Carrying Value | Unpaid Principal | Carrying Value | Cash Restricted Cash(1) | Collateral At-Risk(2) |
| CLO III | $ 281,250,000 | $ 279,129,518 | $ 339,019,221 | $ 338,034,689 | $ 25,135,492 | $ |
| CLO IV | 219,000,000 | 215,985,420 | 288,581,773 | 287,946,641 | 11,418,227 | |
| CLO V | 267,750,000 | 263,784,723 | 343,561,696 | 342,988,734 | 6,438,304 | |
| Total CLOs | $ 768,000,000 | $ 758,899,661 | $ 971,162,690 | $ 968,970,064 | $ 42,992,023 | $ |

The following table outlines borrowings and the corresponding collateral under our CLOs as of December 31, 2014:

| | Debt | | Collateral | | | |
|---|---|---|---|---|---|---|
| | | | Loans | | | |
| | Face Value | Carrying Value | Unpaid Principal | Carrying Value | Cash Restricted Cash(1) | Collateral At-Risk(2) |
| CLO II | $ 177,000,000 | $ 175,351,084 | $ 252,353,210 | $ 251,658,406 | $ 7,284,919 | $ |
| CLO III | 281,250,000 | 277,750,577 | 315,390,280 | 313,932,084 | 59,245,183 | |
| Total CLOs | $ 458,250,000 | $ 453,101,661 | $ 567,743,490 | $ 565,590,490 | $ 66,530,102 | $ |

CLO II Issued two investment grade tranches in January 2013 with a stated maturity date in February 2023. Interest was variable based on three-month LIBOR; the weighted average note rate was 2.56%. Debt carrying value is net of $1.6 million of deferred financing fees at December 31, 2014.

CLO III Issued three investment grade tranches in April 2014 with a replacement period through October 2016 and a stated maturity date in May 2024. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.86% and 2.60% at December 31, 2015 and 2014, respectively. Debt carrying value is net of $2.1 million and $3.5 million of deferred financing fees at December 31, 2015 and 2014, respectively.

CLO IV Issued three investment grade tranches in February 2015 with a replacement period through September 2017 and a stated maturity date in March 2025. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.71% at December 31, 2015. Debt carrying value is net of $3.0 million of deferred financing fees at December 31, 2015.

CLO V Issued three investment grade tranches in August 2015 with a replacement period through September 2018 and a stated maturity date in September 2025. Interest is variable based on one-month LIBOR; the weighted average note rate was 2.91% at December 31, 2015. Debt carrying value is net of $3.8 million of deferred financing fees at December 31, 2015.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

(1) Represents restricted cash held for principal repayments as well as for reinvestment in the CLOs. Does not include restricted cash related to interest payments, delayed fundings and expenses.

(2) Amounts represent the face value of collateral in default, as defined by the CLO indenture, as well as assets deemed to be "credit risk." Credit risk assets are reported by each of the CLOs and are generally defined as one that, in the CLO collateral manager's reasonable business judgment, has a significant risk of declining in credit quality or, with a passage of time, becoming a defaulted asset.

In August 2015, we completed a collateralized securitization vehicle ("CLO V"), issuing to third party investors three tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries totaling $267.8 million, of which we purchased $12.5 million of Class C notes that we subsequently sold at par for $12.5 million. As of the CLO closing date, the notes are secured by a portfolio of loan obligations with a face value of approximately $302.6 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has an approximate three year replacement period that allows the principal proceeds and sale proceeds (if any) of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Initially, the proceeds of the issuance of the securities also included $47.4 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the closing date of the CLO. In September 2015, the additional proceeds were fully utilized resulting in the issuer owning loan obligations with a face value of approximately $350.0 million. The aggregate principal amounts of the three classes of notes are $197.8 million of Class A senior secured floating rate notes, $24.5 million of Class B secured floating rate notes and $45.5 million of Class C secured floating rate notes. We retained a residual interest in the portfolio with a notional amount of approximately $82.3 million. The notes have an initial weighted average interest rate of approximately 2.44% plus one-month LIBOR and interest payments on the notes are payable monthly. Including certain fees and costs, the initial weighted average note rate was 3.07%.

In March 2015, we completed the unwinding of CLO II, redeeming $177.0 million of our outstanding notes which were repaid primarily from the refinancing of the remaining assets within our new and existing financing facilities as well as with cash held by the CLO and expensed approximately $1.5 million of deferred fees in the first quarter of 2015 into interest expense on the consolidated statements of income.

In February 2015, we completed a collateralized securitization vehicle ("CLO IV"), issuing to third party investors three tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries totaling $219.0 million. At closing, the notes were secured by a portfolio of loan obligations with a face value of approximately $250.0 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has an approximate 2.5 year replacement period from closing that allows the principal proceeds and sale proceeds (if any) of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Initially, the proceeds of the issuance of the securities also included $50.0 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the closing date of the CLO. In April 2015, the $50.0 million of additional proceeds was fully utilized. The aggregate principal amounts of the three classes of notes are $165.8 million of Class A senior secured floating

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

rate notes, $24.8 million of Class B secured floating rate notes and $28.5 million of Class C secured floating rate notes. We retained a residual interest in the portfolio with a notional amount of approximately $81.0 million. The notes have an initial weighted average interest rate of approximately 2.24% plus one-month LIBOR and interest payments on the notes are payable monthly. Including certain fees and costs, the initial weighted average note rate was 2.96%.

At December 31, 2015 and 2014, the aggregate weighted average note rate for our CLOs was 2.84% and 2.59%, respectively. Including certain fees and costs, the weighted average note rate was 3.24% and 3.14% at December 31, 2015 and 2014, respectively.

*Collateralized Debt Obligations (CDOs)*

In July 2015, we completed the unwind of CDO III, redeeming $71.1 million of our outstanding notes. The notes were repaid primarily from proceeds received from the refinancing of CDO III's remaining assets within our existing financing facilities, as well as with cash held by the CDO. We also terminated a related interest rate swap and incurred a loss of $0.3 million in the third quarter of 2015. See Note 8 "Derivative Financial Instruments" for additional details. CDO III had a $100.0 million revolving note class that provided a revolving note facility, which was paid off in the first quarter of 2015.

In January 2015, we completed the unwind of CDO I and CDO II, redeeming $167.9 million of our outstanding notes. The notes were repaid primarily from proceeds received from the refinancing of CDO I and II's remaining assets within a new $150.0 million warehouse repurchase facility and our existing financing facilities, as well as with cash held by each CDO. As a result of this transaction, we generated approximately $30.0 million in cash equity and expensed $0.5 million of deferred fees in the first quarter of 2015. We also terminated the related basis and interest rate swaps and incurred a loss of $4.3 million in the first quarter of 2015. See Note 8 "Derivative Financial Instruments" for additional details.

In 2010, we re-issued our own CDO bonds we had acquired throughout 2009 with an aggregate face amount of approximately $42.8 million as part of an exchange for the retirement of $114.1 million of our junior subordinated notes. This transaction resulted in the recording of $65.2 million of additional CDO debt, of which $42.3 million represented the portion of our CDO bonds that were exchanged and $22.9 million represented the estimated interest due on the reissued bonds through their maturity. In January 2015, we unwound our CDO I and CDO II vehicles and reduced the balance of estimated interest by $11.0 million and in July 2015, we unwound our CDO III vehicle and reduced the remaining balance of estimated interest by $8.2 million, recording a gain on acceleration of deferred income in the consolidated statements of income.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

The following table outlines borrowings and the corresponding collateral under our CDOs as of December 31, 2014:

| | Debt | | Collateral | | | |
|---|---|---|---|---|---|---|
| | | | Loans | | | |
| | Face Value | Carrying Value | Unpaid Principal(1) | Carrying Value(1) | Cash Restricted Cash(2) | Collateral At-Risk(3) |
| CDO I | $ 69,972,159 | $ 75,299,282 | $ 222,903,486 | $ 174,460,160 | $ 5,232,226 | $ 180,691,292 |
| CDO II | 97,906,092 | 103,449,741 | 192,522,685 | 143,824,571 | 69,412,808 | 106,139,494 |
| CDO III | 144,192,804 | 152,470,455 | 202,758,120 | 171,457,394 | 64,771,797 | 147,049,346 |
| Total CDOs | $ 312,071,055 | $ 331,219,478 | $ 618,184,291 | $ 489,742,125 | $ 139,416,831 | $ 433,880,132 |

CDO I Issued four investment grade tranches in January 2005 with a stated maturity date in February 2040. Interest was variable based on three-month LIBOR; the weighted average note rate was 3.23% at December 31, 2014. Debt carrying value is net of $0.1 million of deferred financing fees at December 31, 2014.

CDO II Issued nine investment grade tranches in January 2006 with a stated maturity date in April 2038. Interest was variable based on three-month LIBOR; the weighted average note rate was 6.22% at December 31, 2014. Debt carrying value is net of less than $0.1 million of deferred financing fees at December 31, 2014.

CDO III Issued ten investment grade tranches in December 2006 with a stated maturity date in January 2042. Interest was variable based on three-month LIBOR; the weighted average note rate was 0.98% at December 31, 2014. Debt carrying value is net of less than $0.1 million of deferred financing fees at December 31, 2014.

(1) Amounts include loans to real estate assets consolidated by us that were reclassified to real estate owned and held-for-sale, net on the consolidated financial statements.

(2) Represents restricted cash held for principal repayments in the CDOs. Does not include restricted cash related to interest payments, delayed fundings and expenses.

(3) Amounts represent the face value of collateral in default, as defined by the CDO indenture, as well as assets deemed to be "credit risk." Credit risk assets are reported by each of the CDOs and are generally defined as one that, in the CDO collateral manager's reasonable business judgment, has a significant risk of declining in credit quality or, with a passage of time, becoming a defaulted asset.

At December 31, 2014, the aggregate weighted average note rate for our CDOs, including the cost of interest rate swaps on assets financed in these facilities, was 3.13%. Excluding the effect of swaps, the weighted average note rate at December 31, 2014 was 1.07%. Including certain fees and costs, the weighted average note rate was 3.55% at December 31, 2014.

We account for our CLO and CDO transactions on our consolidated balance sheet as financing facilities. Our CLOs and CDOs are VIEs for which we are the primary beneficiary and are

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

consolidated in our financial statements accordingly. The investment grade tranches are treated as secured financings, and are non-recourse to us.

*Senior Unsecured Notes*

During 2014, we issued $90.0 million aggregate principal amount of 7.375% senior unsecured notes due in 2021 in an underwritten public offering for net proceeds of $85.4 million after deducting the issuance and underwriting discounts and offering expenses. In connection with this offering, the underwriters exercised a portion of their overallotment option for a $7.8 million aggregate principal amount providing additional net proceeds of $7.4 million. Debt carrying value is net of $4.1 million and $4.8 million of deferred financing fees at December 31, 2015 and 2014, respectively. The notes can be redeemed by us after May 15, 2017. The interest is paid quarterly in February, May, August, and November starting in August 2014. Including certain fees and costs, the weighted average note rate was 8.12% and 8.06% at December 31, 2015 and 2014, respectively. We used the net proceeds to make investments, to repurchase or pay liabilities and for general corporate purposes.

*Junior Subordinated Notes*

The carrying value of borrowings under our junior subordinated notes was $157.1 million and $156.4 million at December 31, 2015 and 2014, respectively, which is net of a deferred amount of $15.5 million and $16.0 million, respectively, that is being amortized into interest expense over the life of the notes, and $3.3 million and $3.4 million, respectively, of deferred financing fees. These notes have maturities ranging from March 2034 through April 2037, pay interest quarterly at a fixed or floating rate of interest based on three-month LIBOR and were not redeemable for the first two years. The current weighted average note rate was 3.12% and 3.01% at December 31, 2015 and 2014, respectively. Including certain fees and costs, the weighted average note rate was 3.55% and 3.18% at December 31, 2015 and 2014, respectively. The entities that issued the junior subordinated notes have been deemed VIEs. See Note 9 "Variable Interest Entities" for further details.

*Note Payable*

The following table outlines borrowings under our note payable:

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Debt Carrying Value | Collateral Carrying Value | Debt Carrying Value | Collateral Carrying Value |
| Junior loan participation, secured by our interest in a first mortgage loan with a principal balance of $1.3 million, participation interest was based on a portion of the interest received from the loan which had a fixed rate of 9.57% | $ | $ | $ 1,300,000 | $ 1,300,000 |
| Total note payable | $ | $ | $ 1,300,000 | $ 1,300,000 |

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

At December 31, 2014, the note rate for our note payable was 0%. There were no interest rate swaps on the note payable at December 31, 2014.

We had a $1.3 million junior loan participation on a $1.3 million bridge loan that was written-off in the third quarter of 2015.

Our obligation to pay interest on the junior loan participations is based on the performance of the related loan. Interest expense is based on the portion of the interest received from the loan that is paid to the junior participant.

*Mortgage Note Payable Real Estate Owned and Held-For-Sale*

In the first quarter of 2015, we made required paydowns of $10.3 million and repaid the Multifamily Portfolio mortgage of $20.7 million, replacing it with two new notes payable totaling $27.2 million. At December 31, 2015, the new notes payable consist of a $24.7 million secured loan that bears interest at a fixed rate of 3.00% and matures in December 2017, as well as a $2.5 million, unsecured loan that bears interest at a variable rate of one-month LIBOR plus 2.75% and matures in December 2016. At December 31, 2014, the prior mortgage had an outstanding balance of $31.0 million, bore interest at a variable rate of one-month LIBOR plus 1.23% and was to mature in June 2015.

*Debt Covenants*

Our debt facilities contain various financial covenants and restrictions, including a minimum liquidity requirement of $20.0 million, minimum net worth requirement of $100.0 million to $300.0 million depending on the debt facility and a maximum total liabilities less subordinated debt requirement of $2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. We were in compliance with all financial covenants and restrictions at December 31, 2015.

Our CLO vehicles contain interest coverage and asset overcollateralization covenants that must be met as of the waterfall distribution date in order for us to receive such payments. If we fail these covenants in any of our CLOs, all cash flows from the applicable CLO would be diverted to repay principal and interest on the outstanding CLO bonds and we would not receive any residual payments until that CLO regained compliance with such tests. Our CLOs were in compliance with all such covenants as of December 31, 2015, as well as on the most recent determination dates in January and February 2016. In the event of a breach of the CLO covenants that could not be cured in the near-term, we would be required to fund our non-CLO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CLO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, or (v) accessing the equity or debt capital markets, if available. We have the right to cure covenant breaches which would resume normal residual payments to us by purchasing non-performing loans out of the CLOs. However, we may not have sufficient liquidity available to do so at such time.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

The chart below is a summary of our CLO compliance tests as of the most recent determination dates in February 2016:

| Cash Flow Triggers | CLO III | CLO IV | CLO V |
|---|---|---|---|
| **Overcollateralization(1)** | | | |
| Current | 133.33% | 136.99% | 130.72% |
| Limit | 132.33% | 135.99% | 129.72% |
| Pass / Fail | Pass | Pass | Pass |
| **Interest Coverage(2)** | | | |
| Current | 247.10% | 303.11% | 267.62% |
| Limit | 120.00% | 120.00% | 120.00% |
| Pass / Fail | Pass | Pass | Pass |

(1) The overcollateralization ratio divides the total principal balance of all collateral in the CLO by the total principal balance of the bonds associated with the applicable ratio. To the extent an asset is considered a defaulted security, the asset's principal balance for purposes of the overcollateralization test is the lesser of the asset's market value or the principal balance of the defaulted asset multiplied by the asset's recovery rate which is determined by the rating agencies. Rating downgrades of CLO collateral will generally not have a direct impact on the principal balance of a CLO asset for purposes of calculating the CLO overcollateralization test unless the rating downgrade is below a significantly low threshold (e.g. CCC ) as defined in each CLO vehicle.

(2) The interest coverage ratio divides interest income by interest expense for the classes senior to those retained by us.

The chart below is a summary of our CLO overcollateralization ratios as of the determination dates subsequent to each quarter end:

| Determination Date(1) | CLO III | CLO IV | CLO V |
|---|---|---|---|
| January 2016 | 133.33% | 136.99% | 130.72% |
| October 2015 | 133.33% | 136.99% | 130.72% |
| July 2015 | 133.33% | 136.99% | |
| April 2015 | 133.33% | 136.99% | |
| January 2015 | 133.33% | | |

(1) The table above represents the quarterly trend of our overcollateralization ratio, however, the CLO determination dates are monthly and we were in compliance with this test for all periods in 2015.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 7 Debt Obligations (Continued)**

The ratio will fluctuate based on the performance of the underlying assets, transfers of assets into the CLOs prior to the expiration of their respective replenishment dates, purchase or disposal of other investments, and loan payoffs. No payment due under the junior subordinated indentures may be paid if there is a default under any senior debt and the senior lender has sent notice to the trustee. The junior subordinated indentures are also cross-defaulted with each other.

**Note 8 Derivative Financial Instruments**

The following is a summary of the derivative financial instruments held by us (dollars in thousands):

| | | Notional Value | | | | | | Fair Value | |
|---|---|---|---|---|---|---|---|---|---|
| Designation\Cash Flow | Derivative | Count | December 31, 2015 | Count | December 31, 2014 | Expiration Date | Balance Sheet Location | December 31, 2015 | December 31, 2014 |
| Non-Qualifying | Basis Swaps | | $ | 1 | $ 3,000 | | Other Assets | $ | $ 2 |
| Non-Qualifying | LIBOR Cap | | $ | 1 | $ 71,701 | | Other Assets | $ | $ |
| Qualifying | LIBOR Caps | 2 | $ 84,100 | | $ | 2017 | Other Assets | $ 3 | $ |
| Qualifying | Interest Rate Swaps | 5 | $ 107,821 | 12 | $ 250,321 | 2016 - 2017 | Other Liabilities | $ (4,669) | $ (13,908) |

The non-qualifying basis swaps hedges were used to manage our exposure to interest rate movements and other identified risks but do not meet hedge accounting requirements. We are exposed to changes in the fair value of certain of our fixed rate obligations due to changes in benchmark interest rates and use interest rate swaps to manage our exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. These qualifying interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. During the year ended December 31, 2015, CDO II was unwound and the related basis swap with a notional value of $3.0 million and a fair value of less than $0.1 million was terminated and recorded as a loss. See Note 7 "Debt Obligations Collateralized Debt Obligations" for further details. Also during 2015, a non-qualifying LIBOR cap hedge with a notional value of $71.7 million matured. We entered into this LIBOR cap hedge in the first quarter of 2014 due to a loan agreement requiring a LIBOR cap of 6%. During the year ended December 31, 2014, the notional value on a basis swap decreased by $8.6 million pursuant to the contractual terms of the respective swap agreement. For the years ended December 31, 2015, 2014 and 2013, the change in fair value of the non-qualifying basis swaps and LIBOR caps was approximately $(0.1) million and was recorded in interest expense on the consolidated statements of income.

The changes in the fair value of qualifying interest rate swap cash flow hedges are recorded in accumulated other comprehensive loss on the consolidated balance sheets. These interest rate swaps are used to hedge the variable cash flows associated with existing variable-rate debt, and amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the year ended December 31, 2015, all three of our remaining CDO vehicles were unwound and the related interest rate swaps with

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 8 Derivative Financial Instruments (Continued)**

an aggregate notional value of $142.5 million and an aggregate fair value of $(4.6) million were terminated and recorded as a loss. See Note 7 "Debt Obligations Collateralized Debt Obligations" for further details. Also during 2015, we entered into two qualifying LIBOR cap hedges due to CLO agreements requiring a LIBOR cap of 2% and 3%, respectively, with a combined notional value of $84.1 million. During the year ended December 31, 2014, two interest swaps matured with a combined notional value of $32.0 million and the notional value on an interest rate swap decreased by $15.0 million pursuant to the contractual terms of the respective swap agreement.

As of December 31, 2015, we expect to reclassify $(5.0) million of other comprehensive loss from qualifying cash flow hedges to interest expense over the next twelve months assuming interest rates on that date are held constant. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. Gains and losses on terminated swaps are being deferred and recognized in earnings over the original life of the hedged item. As of December 31, 2015 and 2014, we had a net deferred loss of $0.6 million and $1.1 million, respectively, in accumulated other comprehensive loss related to these terminated swap agreements. We recorded $0.6 million, $0.7 million and $0.9 million as additional interest expense related to the amortization of the loss for the years ended December 31, 2015, 2014 and 2013, respectively, and $0.1 million, $0.2 million and $0.2 million as a reduction to interest expense related to the accretion of the net gains for each of the years ended December 31, 2015, 2014 and 2013, respectively. We expect to record $0.5 million of net deferred loss to interest expense over the next twelve months.

During the year ended December 31, 2014, we sold eight remaining RMBS investments, which were accounted for as linked transactions, with an aggregate carrying value of $65.7 million for $65.8 million and recorded a net gain of $0.1 million related to the settlement of these linked transactions. The eight RMBS investments were financed with repurchase agreements totaling $55.4 million which were repaid with the proceeds. For the years ended December 31, 2014 and 2013, we recorded $0.3 million and $1.9 million of net interest income, respectively, and a less than $0.1 million and $1.7 million decrease in fair value, respectively, to other income in the consolidated statements of income.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 8 Derivative Financial Instruments (Continued)**

The following tables present the effect of our derivative financial instruments on the statements of income (in thousands):

| Designation\Cash Flow | Derivative | Amount of Loss Recognized in Other Comprehensive Loss (Effective Portion) For the Year Ended December 31, 2015 | 2014 | 2013 | Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Year Ended December 31, 2015 | 2014 | 2013 | Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Loss on Termination of Swaps (Ineffective Portion) For the Year Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Qualifying | Interest Rate Swaps / Caps | $ 1,019 | $ 1,318 | $ 520 | $ (6,149) | $ (12,654) | $ (14,131) | $ (4,626) | $ | $ |

| Designation\Cash Flow | Derivative | Amount of Loss Recognized in Loss on Termination of Swaps (Ineffective Portion) For the Year Ended December 31, 2015 | 2014 | 2013 | Amount of Loss Recognized in Interest Expense (Ineffective Portion) For the Year Ended December 31, 2015 | 2014 | 2013 | Amount of Loss Recognized in Other Income For the Year Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-Qualifying | Basis Swaps | $ (3) | $ | $ | $ (2) | $ (1) | $ (12) | $ | $ | $ |
| Non-Qualifying | Forward Contracts | $ | $ | $ | $ | $ | $ | $ | $ (45) | $ (1,676) |

The cumulative amount of other comprehensive loss related to net unrealized losses on derivatives designated as qualifying hedges as of December 31, 2015 and 2014 of approximately $(5.3) million and $(15.0) million, respectively, is a combination of the fair value of qualifying cash flow hedges of $(4.7) million and $(13.9) million, respectively, deferred losses on terminated interest rate swaps of $(0.7) million and $(1.2) million, respectively, partially offset by deferred net gains on termination of interest rate swaps of approximately $0.1 million for both periods.

We have agreements with certain of our derivative counterparties that contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our

derivative obligations. As of December 31, 2015 and 2014, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was $(4.6) million and $(9.2) million, respectively. As of December 31, 2015 and 2014, we had minimum collateral posting thresholds with certain of our derivative counterparties and had posted collateral of $5.0 million and $9.6 million, respectively, which is recorded in other assets in our consolidated balance sheets.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 9 Variable Interest Entities**

We have evaluated our loans and investments, mortgage related securities, investments in equity affiliates, senior unsecured notes, junior subordinated notes and CLOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in determining that our bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CLOs and investments in mortgage related securities are potential VIEs.

Our involvement with VIEs primarily affects our financial performance and cash flows through amounts recorded in interest income, interest expense, provision for loan losses and through activity associated with our derivative instruments.

*Consolidated VIEs*

We consolidate our CLO and CDO subsidiaries, which qualify as VIEs, of which we are the primary beneficiary. These CLOs and CDOs invest in real estate and real estate-related securities and are financed by the issuance of CLO and CDO debt securities. We, or one of our affiliates, is named collateral manager, servicer, and special servicer for all CLO and CDO collateral assets which we believe gives us the power to direct the most significant economic activities of the entity. We also have exposure to CLO and CDO losses to the extent of our equity interests and also have rights to waterfall payments in excess of required payments to CLO and CDO bond investors. As a result of consolidation, equity interests in these CLOs and CDOs have been eliminated, and the consolidated balance sheets reflect both the assets held and debt issued by the CLOs and CDOs to third parties. Our operating results and cash flows include the gross amounts related to CLO and CDO assets and liabilities as opposed to our net economic interests in the CLO and CDO entities.

Assets held by the CLOs and CDOs are restricted and can be used only to settle obligations of the CLOs and CDOs. The liabilities of the CLOs and CDOs are non-recourse to us and can only be satisfied from each CLOs and CDOs respective asset pool. Assets and liabilities related to the CLOs and CDOs are disclosed parenthetically, in the aggregate, in our consolidated balance sheets. See Note 7 "Debt Obligations" for further details.

We are not obligated to provide, have not provided, and do not intend to provide financial support to any of the consolidated CLOs and CDOs.

*Unconsolidated VIEs*

We determined that we are not the primary beneficiary of 22 VIEs in which we have a variable interest as of December 31, 2015 because we do not have the ability to direct the activities of the VIEs that most significantly impact each entity's economic performance. VIEs, of which we are not the primary beneficiary, have an aggregate carrying amount of $346.5 million and exposure to real estate debt of approximately $1.7 billion at December 31, 2015.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 9 Variable Interest Entities (Continued)**

The following is a summary of our variable interests in identified VIEs, of which we are not the primary beneficiary, as of December 31, 2015:

| Type | Carrying Amount(1) | Maximum Exposure to Loss(2) |
|---|---|---|
| Loans | $ 344,324,649 | $ 344,324,649 |
| Securities | 1,551,716 | 1,551,716 |
| Junior subordinated notes(3) | 578,000 | 578,000 |
| Equity investment | 100 | 100 |
| Total | $ 346,454,465 | $ 346,454,465 |

(1) Represents the carrying amount of loans and investments before reserves. At December 31, 2015, $152.3 million of loans to VIEs had corresponding loan loss reserves of $80.6 million. See Note 3 "Loans and Investments" for further details.

(2) Our maximum exposure to loss as of December 31, 2015 would not exceed the carrying amount of its investment.

(3) It is not appropriate to consolidate these entities as equity interests are variable interests only to the extent that the investment is considered to be at risk. Since our investments were funded by the entities that issued the junior subordinated notes, it is not considered to be at risk.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 10 Fair Value**

*Fair Value of Financial Instruments*

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The following table summarizes the principal amounts, carrying values and the estimated fair values of our financial instruments:

| | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Principal / Notional Amount | Carrying Value | Estimated Fair Value | Principal / Notional Amount | Carrying Value | Estimated Fair Value |
| **Financial assets:** | | | | | | |
| Loans and investments | $ 1,545,126,045 | $ 1,450,334,341 | $ 1,481,353,410 | $ 1,587,429,498 | $ 1,459,475,650 | $ 1,478,778,674 |
| Available-for-sale securities | 1,610,505 | 2,022,030 | 2,022,030 | 2,158,789 | 2,499,709 | 2,499,709 |
| Derivative financial instruments | 84,100,000 | 3,345 | 3,345 | 74,700,544 | 1,995 | 1,995 |
| | | | | | | |
| **Financial liabilities:** | | | | | | |
| Credit and repurchase facilities | $ 137,325,474 | $ 136,252,135 | $ 137,072,691 | $ 180,386,200 | $ 180,046,999 | $ 179,964,341 |
| Collateralized loan obligations | 768,000,000 | 758,899,661 | 766,065,400 | 458,250,000 | 453,101,661 | 459,673,750 |
| Collateralized debt obligations | | | | 312,071,055 | 331,219,478 | 240,541,397 |
| Senior unsecured notes | 97,860,025 | 93,764,994 | 96,294,265 | 97,860,025 | 93,036,503 | 95,902,825 |
| Junior subordinated notes | 175,858,000 | 157,117,130 | 104,073,847 | 175,858,000 | 156,391,419 | 102,600,561 |
| Note payable | | | | 1,300,000 | 1,300,000 | 1,292,461 |
| Mortgage note payable real estate owned and held-for-sale | 27,155,000 | 27,155,000 | 27,111,231 | 30,984,357 | 30,984,357 | 29,962,066 |
| Derivative financial instruments | 107,820,995 | 4,669,273 | 4,669,273 | 250,321,272 | 13,908,163 | 13,908,163 |

*Fair Value Measurement*

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Assets and liabilities disclosed at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 10 Fair Value (Continued)**

amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

Level 1 Inputs are unadjusted and quoted prices exist in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Level 2 inputs include quoted market prices in markets that are not active for an identical or similar asset or liability, and quoted market prices in active markets for a similar asset or liability. Fair valued assets and liabilities that are generally included in this category are non-government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset-backed securities, certain corporate debt, certain commitments and guarantees, certain private equity investments and certain derivatives.

Level 3 Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. These valuations are based on significant unobservable inputs that require a considerable amount of judgment and assumptions. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed securities, certain corporate debt, certain private equity investments, certain municipal bonds, certain commitments and guarantees and certain derivatives.

Determining which category an asset or liability falls within the hierarchy requires significant judgment and we evaluate our hierarchy disclosures each quarter.

The following is a description of the valuation techniques used to measure fair value and the general classification of these instruments pursuant to the fair value hierarchy.

***Loans and investments, net:*** Fair values of loans and investments that are not impaired are estimated using Level 3 inputs based on discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Fair values of loans and investments that are impaired are estimated using Level 3 inputs by us that require significant judgments, which include assumptions regarding discount rates, capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management.

***Available-for-sale securities:*** Fair values are approximated based on current market quotes received from active markets or financial sources that trade such securities. The fair values of available-for-sale equity securities traded in active markets are approximated using Level 1 inputs, while the fair values of available-for-sale debt securities that are approximated using the recent purchase price and subsequent sales price of the securities, were valued using Level 2 inputs.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 10 Fair Value (Continued)**

***Derivative financial instruments:*** Fair values of interest rate and basis swap derivatives and LIBOR caps are approximated using Level 2 inputs based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles including counterparty risks, credit spreads and interest rate projections, as well as reasonable estimates about relevant future market conditions. These items are included in other assets and other liabilities on the consolidated balance sheets. We incorporate credit valuation adjustments in the fair values of our derivative financial instruments to reflect counterparty nonperformance risk.

***Credit facilities, repurchase agreements, notes payable and mortgage notes payable:*** Fair values are estimated at Level 3 using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates for financing with similar characteristics and credit quality.

***Collateralized loan obligations and collateralized debt obligations:*** Fair values are estimated at Level 3 based on broker quotations, representing the discounted expected future cash flows at a yield that reflects current market interest rates and credit spreads.

***Senior unsecured notes:*** Fair values are estimated at Level 1 based on current market quotes received from active markets.

***Junior subordinated notes:*** Fair values are estimated at Level 3 based on broker quotations, representing the discounted expected future cash flows at a yield that reflects current market interest rates and credit spreads.

We measure certain financial assets and financial liabilities at fair value on a recurring basis. The fair value of these financial assets and liabilities was determined using the following input levels as of December 31, 2015:

| | Carrying Value | Fair Value | Fair Value Measurements Using Fair Value Hierarchy | | |
|---|---|---|---|---|---|
| | | | Level 1 | Level 2 | Level 3 |
| **Financial assets:** | | | | | |
| Available-for-sale securities | $ 2,022,030 | $ 2,022,030 | $ 470,314 | $ 1,551,716 | $ |
| Derivative financial instruments | 3,345 | 3,345 | | 3,345 | |
| | | | | | |
| **Financial liabilities:** | | | | | |
| Derivative financial instruments | $ 4,669,273 | $ 4,669,273 | $ | $ 4,669,273 | $ |

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 10 Fair Value (Continued)**

The following roll forward table reconciles the beginning and ending balances of financial assets measured at fair value on a recurring basis using Level 3 inputs:

| | Available-for-sale Securities |
|---|---|
| Balance as of December 31, 2014 | $ 2,000,000 |
| Adjustment to fair value: | |
| Change in fair value | 100,000 |
| Payoff of CMBS investment | (2,100,000) |
| Balance as of December 31, 2015 | $ |

We measure certain financial and non-financial assets at fair value on a nonrecurring basis. The fair value of these financial assets was determined using the following input levels as of December 31, 2015:

| | Net Carrying Value | Fair Value | Fair Value Measurements Using Fair Value Hierarchy | | |
|---|---|---|---|---|---|
| | | | Level 1 | Level 2 | Level 3 |
| **Financial assets:** | | | | | |
| Impaired loans, net(1) | $ 102,447,840 | $ 102,447,840 | $ | $ | $ 102,447,840 |

(1) We had an allowance for loan losses of $86.8 million relating to nine loans with an aggregate carrying value, before loan loss reserves, of approximately $189.2 million at December 31, 2015.

***Loan impairment assessments:*** Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. We consider a loan impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. We perform evaluations of our loans to determine if the value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, which may result in an allowance and corresponding charge to the provision for loan losses. These valuations require significant judgments, which include assumptions regarding capitalization and discount rates, revenue growth rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. The table above includes all impaired loans, regardless of the period in which an impairment was recognized.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 10 Fair Value (Continued)**

Quantitative information about Level 3 fair value measurements on a recurring and non-recurring basis:

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Fair Value | Valuation Technique(s) | Significant Unobservable Inputs | Range (Weighted Average) |
| **Financial assets:** | | | | |
| Impaired loans(1): | | | | |
| Multi-family | $ 1,845,111 | Direct capitalization analysis | Capitalization rate<br>Revenue growth rate | 6.50% to 9.75% (8.85%)<br>3.50% |
| Office | 824,000 | Discounted cash flows | Discount rate<br>Capitalization rate<br>Revenue growth rate | 10.00%<br>8.25%<br>2.50% |
| Land | 68,992,296 | Discounted cash flows | Discount rate<br>Capitalization rate<br>Revenue growth rate | 15.00%<br>7.25%<br>3.00% |
| Hotel | 30,786,433 | Discounted cash flows | Discount rate<br>Capitalization rate<br>Revenue growth rate | 9.25%<br>7.25%<br>2.50% |
| Commercial | | Discounted cash flows | Capitalization rate | 6.00% |

(1) Includes all impaired loans regardless of the period in which a loan loss provision was recorded.

We measure certain assets and liabilities for which fair value is only disclosed. The fair value of these assets and liabilities was determined using the following input levels as of December 31, 2015:

| | | | Fair Value Measurements Using Fair Value Hierarchy | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
| **Financial assets:** | | | | | |
| Loans and investments, net | $ 1,450,334,341 | $ 1,481,353,410 | $ | $ | $ 1,481,353,410 |
| **Financial liabilities:** | | | | | |
| Credit facilities and repurchase agreements | $ 136,252,135 | $ 137,072,691 | $ | $ | $ 137,072,691 |
| Collateralized loan obligations | 758,899,661 | 766,065,400 | | | 766,065,400 |

| | | | | |
|---|---|---|---|---|
| Senior unsecured notes | 93,764,994 | 96,294,265 | 96,294,265 | |
| Junior subordinated notes | 157,117,130 | 104,073,847 | | 104,073,847 |
| Mortgage note payable real estate owned | 27,155,000 | 27,111,231 | | 27,111,231 |

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 11 Commitments and Contingencies**

*Contractual Commitments*

Our debt obligations have approximate maturities of $144.7 million in 2016, $360.7 million in 2017, $242.5 million in 2018, $161.1 million in 2019, $23.4 million in 2020 and $273.7 million thereafter.

In accordance with certain loans and investments, we have outstanding unfunded commitments of $11.5 million as of December 31, 2015 that we are obligated to fund as the borrowers meet certain requirements. Of this total, we have $3.1 million in restricted cash which was available to fund all of the unfunded commitments for loans financed by our CLO vehicles. Specific requirements include, but are not limited to, property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements.

*Litigation*

We currently are neither subject to any material litigation nor, to our knowledge, is any material litigation currently threatened against us other than the following:

On June 15, 2011, three related lawsuits were filed by the Extended Stay Litigation Trust (the "Trust"), a post-bankruptcy litigation trust alleged to have standing to pursue claims that previously had been held by Extended Stay, Inc. and the Homestead Village L.L.C. family of companies (together "ESI") (formerly Chapter 11 debtors, together the "Debtors") that have emerged from bankruptcy. Two of the lawsuits were filed in the U.S. Bankruptcy Court for the Southern District of New York, and the third in the Supreme Court of the State of New York, New York County. There were 73 defendants in the three lawsuits, including 55 corporate and partnership entities and 18 individuals. A subsidiary of ours and certain other entities that are affiliates of ours are included as defendants. The New York State Court action has been removed to the Bankruptcy Court. Our affiliates filed a motion to dismiss the three lawsuits.

The lawsuits all allege, as a factual basis and background certain facts surrounding the June 2007 leveraged buyout of ESI from affiliates of Blackstone Capital. Our subsidiary, Arbor ESH II, LLC, had a $115.0 million investment in the Series A1 Preferred Units of a holding company of Extended Stay, Inc. The New York State Court action and one of the two federal court actions name as defendants, Arbor ESH II, LLC, Arbor Commercial Mortgage, LLC and ABT-ESI LLC, an entity in which we have a membership interest, among the broad group of defendants. These two actions were commenced by substantially identical complaints. The defendants are alleged in these complaints, among other things, to have breached fiduciary and contractual duties by causing or allowing the Debtors to pay illegal dividends or other improper distributions of value at a time when the Debtors were insolvent. These two complaints also allege that the defendants aided and abetted, induced, or participated in breaches of fiduciary duty, waste, and unjust enrichment ("Fiduciary Duty Claims") and name a director of ours, and a former general counsel of Arbor Commercial Mortgage, LLC, each of whom had served on the Board of Directors of ESI for a period of time. We are defending these two defendants and paying the costs of such defense. On the basis of the foregoing allegations, the Trust has asserted claims under a number of common law theories, seeking the return of assets transferred by the Debtors prior to the Debtors' bankruptcy filing.

In the third action, filed in Bankruptcy Court, the same plaintiff, the Trust, has named Arbor Commercial Mortgage, LLC and ABT-ESI LLC, together with a number of other defendants and

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 11 Commitments and Contingencies (Continued)**

asserts claims, including constructive and fraudulent conveyance claims under state and federal statutes, as well as a claim under the Federal Debt Collection Procedure Act.

On June 28, 2013, the Trust filed a motion to amend the lawsuits, to, among other things, (i) consolidate the lawsuits into one lawsuit, (ii) remove 47 defendants, none of whom are related to us, from the lawsuits so that there are 26 remaining defendants, including 16 corporate and partnership entities and 10 individuals, and (iii) reduce the counts within the lawsuits from over 100 down to 17. The remaining counts in the amended complaint against our affiliates are principally state law claims for breach of fiduciary duties, waste, unlawful dividends and unjust enrichment, and claims under the Bankruptcy Code for avoidance and recovery actions, among others. The bankruptcy court granted the motion and the amended complaint has been filed. The amended complaint seeks approximately $139.0 million in the aggregate from director designees, portions of which are also sought from our affiliates as well as from unaffiliated defendants. We have moved to dismiss the referenced actions and intend to vigorously defend against the claims asserted therein. During a status conference held on March 18, 2014, the Court heard oral argument on the motion to dismiss and adjourned the case pending a ruling.

We have not made a loss accrual for this litigation because we believe that it is not probable that a loss has been incurred and an amount cannot be reasonably estimated.

**Note 12 Equity**

*Preferred Stock*

In February 2014, we completed an underwritten public offering of 900,000 shares of 8.50% Series C cumulative redeemable preferred stock with a liquidation preference of $25.00 per share, generating net proceeds of $21.6 million after deducting the underwriting discount and other offering expenses.

The Series A, B and C preferred stock may not be redeemed by us before February 2018, May 2018 and February 2019, respectively.

*Common Stock*

In February 2014, we entered into an "At-The-Market" ("ATM") equity offering sales agreement with JMP Securities LLC ("JMP") whereby, in accordance with the terms of the agreement, from time to time we may issue and sell through JMP up to 7,500,000 shares of our common stock. Sales of the shares are made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, or at negotiated prices. During the year ended December 31, 2014, we sold 1,000,000 shares for net proceeds of $6.5 million. As of December 31, 2015, 6,500,000 shares are available for sale under this offering.

We used the net proceeds from our preferred and common offerings to make investments, to repurchase or pay liabilities and for general corporate purposes.

As of February 26, 2016, we have $330.4 million available under our $500.0 million shelf registration statement that was declared effective by the SEC in August 2013.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 12 Equity (Continued)**

*Distributions*

The following table presents dividends declared (on a per share basis) for the year ended December 31, 2015:

| Common Stock | | Preferred Stock | | | |
|---|---|---|---|---|---|
| | | | Dividend(1) | | |
| Declaration Date | Dividend | Declaration Date | Series A | Series B | Series C |
| February 11, 2015 | $ 0.13 | February 2, 2015 | $ 0.515625 | $ 0.484375 | $ 0.53125 |
| April 29, 2015 | $ 0.15 | April 29, 2015 | $ 0.515625 | $ 0.484375 | $ 0.53125 |
| July 29, 2015 | $ 0.15 | July 29, 2015 | $ 0.515625 | $ 0.484375 | $ 0.53125 |
| November 4, 2015 | $ 0.15 | November 2, 2015 | $ 0.515625 | $ 0.484375 | $ 0.53125 |

(1) Preferred Stock The dividend declared on February 2, 2015 was for the period December 1, 2014 through February 28, 2015. The dividend declared on April 29, 2015 was for the period March 1, 2015 through May 31, 2015. The dividend declared on July 29, 2015 was for the period June 1, 2015 through August 31, 2015. The dividend declared on November 2, 2015 was for the period September 1, 2015 through November 30, 2015.

*Common Stock* On February 24, 2016, the Board of Directors declared a cash dividend of $0.15 per share of common stock. The dividend is payable on March 15, 2016 to common stockholders of record as the close of business on March 10, 2016.

*Preferred Stock* On February 1, 2016, the Board of Directors declared a cash dividend of $0.515625 per share of 8.25% Series A preferred stock; a cash dividend of $0.484375 per share of 7.75% Series B preferred stock; and a cash dividend of $0.53125 per share of 8.50% Series C preferred stock. These amounts reflect dividends from December 1, 2015 through February 29, 2016 and are payable on February 29, 2016 to preferred stockholders of record on February 15, 2016.

We declared and paid distributions of $14,459, $14,698 and $14,500 for the years ended December 31, 2015, 2014 and 2013, respectively, representing the 12.5% return on the preferred shares issued to third parties by our subsidiary REIT.

We must currently distribute at least 90% of our taxable income in order to qualify as a REIT and must distribute 100% of our taxable income in order not to be subject to corporate federal income taxes on retained income. We anticipate we will distribute all of our taxable income to our stockholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as depreciation or provision for loan losses), in certain circumstances, we may generate operating cash flow in excess of our distributions or, alternatively, may be required to borrow to make sufficient distribution payments. We were in compliance with all REIT requirements as of December 31, 2015, 2014 and 2013.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 12 Equity (Continued)**

The following table presents the tax treatment for dividends paid by us on our common and preferred stock for the years presented:

| | | | For Tax Purposes | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Dividend Classified as Ordinary Income | | | Capital Gain Distribution | | Dividend Classified as Return of Capital | |
| Year | Total Dividends Paid(1) (in thousands) | Dividend Paid Per Share | Percent | Dividend Paid Per Share | Qualified Dividend Income(2) | Percent | Dividend Paid Per Share | Percent | Dividend Paid Per Share |
| **Common Stock:** | | | | | | | | | |
| 2015 | $ 29,495 | $ 0.580 | 100% | $ 0.580 | | | | | |
| 2014 | $ 26,030 | $ 0.520 | 100% | $ 0.520 | | | | | |
| 2013 | $ 21,327 | $ 0.500 | 100% | $ 0.500 | | | | | |
| **8.25% Series A Preferred Stock:** | | | | | | | | | |
| 2015 | $ 3,200 | $ 2.063 | 100% | $ 2.063 | | | | | |
| 2014 | $ 3,200 | $ 2.063 | 100% | $ 2.063 | | | | | |
| 2013 | $ 2,667 | $ 1.719 | 100% | $ 1.719 | | | | | |
| **7.75% Series B Preferred Stock:** | | | | | | | | | |
| 2015 | $ 2,441 | $ 1.938 | 100% | $ 1.938 | | | | | |
| 2014 | $ 2,441 | $ 1.938 | 100% | $ 1.938 | | | | | |
| 2013 | $ 1,370 | $ 1.087 | 100% | $ 1.087 | | | | | |
| **8.50% Series C Preferred Stock:** | | | | | | | | | |
| 2015 | $ 1,913 | $ 2.125 | 100% | $ 2.125 | | | | | |
| 2014 | $ 1,456 | $ 1.617 | 100% | $ 1.617 | | | | | |

(1) 2014 is the initial year for the Series C preferred stock dividend.

(2) Qualified dividend income is eligible for reduced dividend rates.

Pursuant to Internal Revenue Code Section 59(d), alternative minimum tax ("AMT") could be apportioned between a REIT and its stockholders to the extent that the REIT distributes it regular taxable income. Since we have distributed our taxable income, the AMT adjustments are being apportioned to our stockholders. As such, we have determined that 11.296% of each distribution to our stockholders for the tax year ended December 31, 2015 consists of an AMT adjustment (i.e., for each $1 of dividend reportable by a stockholder, $0.11296 represents an AMT adjustment).

*Deferred Compensation*

We have a stock incentive plan under which the Board of Directors has the authority to issue shares of stock to certain directors, officers and employees of ours and our Manager.

In May 2015, we issued 20,430 shares of fully vested common stock to certain independent members of the Board of Directors under the 2014 Plan and recorded $0.1 million to selling and administrative expense in our consolidated statements of income.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 12 Equity (Continued)**

In March 2015, we issued 328,400 shares of restricted common stock under the 2014 Plan to certain employees of ours and our Manager, inclusive of 105,000 shares granted to our chief executive officer, Mr. Ivan Kaufman, with a total grant date fair value of $2.3 million and recorded $0.4 million to employee compensation and benefits and $0.4 million to selling and administrative expense in our consolidated statements of income. One third of the shares vested as of the date of grant, one third will vest in March 2016, and the remaining third will vest in March 2017. In March 2015, we also issued 63,000 shares of fully vested common stock to the independent members of the Board of Directors under the 2014 Plan and recorded $0.4 million to selling and administrative expense in our consolidated statements of income.

During the first quarter of 2015, we issued 74,294 shares of restricted common stock to Mr. Kaufman under his 2015 annual incentive agreement with a grant date fair value of $0.5 million and recorded $0.1 million to employee compensation and benefits in our consolidated statements of income. One quarter of the shares vest as of the date of grant and one quarter will vest on each of the first, second and third anniversaries of the date of grant. Mr. Kaufman was also granted up to 445,765 performance-based restricted stock units that vest at the end of a four-year performance period based on the our achievement of certain total stockholder return objectives. The restricted stock units had a grant date fair value of $1.2 million and we recorded $0.3 million to employee compensation and benefits in our consolidated statements of income for the year ended December 31, 2015.

As of December 31, 2015, unvested restricted stock consisted of 212,241 shares granted to our employees with a grant date fair value of $1.5 million and 154,169 shares granted to employees of our Manager with a grant date fair value of $1.1 million, which is subject to remeasurement each reporting period. Expense is recognized ratably over the vesting period in our consolidated statements of income in selling and administrative expense and employee compensation and benefits expense, respectively. During the year ended December 31, 2015, we recorded the ratable portion of the unvested restricted stock to employees as employee compensation and benefits for $0.9 million and for non-employees to selling and administrative expense for $0.8 million. During the second quarter of 2015, 916 shares of unvested restricted stock with a grant date value of less than $0.1 million were forfeited.

In May 2014, we issued 278,000 shares of restricted common stock under the 2014 Plan to certain employees of ours and our Manager with a total grant date fair value of $2.0 million and recorded $0.3 million to employee compensation and benefits and $0.3 million to selling and administrative expense in our consolidated statements of income. One third of the shares vested as of the date of grant, one third vested in May 2015, and the remaining third will vest in May 2016. In May 2014, we also issued 63,000 shares of fully vested common stock to the independent members of the Board of Directors under the 2014 Plan and recorded $0.4 million to selling and administrative expense in our consolidated statements of income. As of December 31, 2014, unvested restricted stock consisted of 138,584 shares granted to employees of our Manager with a grant date fair value of $1.0 million, which is subject to remeasurement each reporting period, and 110,666 shares granted to our employees with a grant date fair value of $0.8 million. Expense is recognized ratably over the vesting period in our consolidated statements of income in selling and administrative expense and employee compensation and benefits expense, respectively. During the year ended December 31, 2014 we recorded the ratable portion of the unvested restricted stock to employees as employee compensation and benefits for

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 12 Equity (Continued)**

$0.4 million and for non-employees to selling and administrative expense for $0.5 million in our consolidated statements of income.

In May 2013, we issued 70,000 shares of fully vested common stock to the independent members of the Board of Directors under the 2003 Stock Incentive Plan, as amended and restated in 2009 (the "2003 Plan"), and recorded $0.5 million to selling and administrative expense in our consolidated statements of income. In February 2013, we issued 192,750 shares of restricted common stock under the 2003 Plan to certain employees of ours and our Manager with a total grant date fair value of $1.5 million and recorded $0.2 million to employee compensation and benefits and $0.4 million to selling and administrative expense in our consolidated statements of income. One third of the shares vested as of the date of grant, one third vested in February 2014, and the remaining third vested in February 2015. During the third quarter of 2013, 667 shares of unvested restricted stock with a grant date fair value of less than $0.1 million were forfeited. As of December 31, 2013, unvested restricted stock consisted of 82,500 shares granted to non-employees with a grant date fair value of $0.7 million, which is subject to remeasurement each reporting period, and 45,333 shares granted to our employees with a grant date fair value of $0.4 million. Expense is recognized ratably over the vesting period in our consolidated statements of income in selling and administrative expense and employee compensation and benefits expense, respectively. During the year ended December 31, 2013, we recorded the ratable portion of the unvested restricted stock to employee compensation and benefits for $0.2 million and to selling and administrative expense for $0.3 million in our consolidated statements of income.

Vesting of restricted shares is dependent on a service requirement. Dividends paid on restricted shares are recorded as dividends on shares of our common stock whether or not they are vested. For accounting purposes, we measure the compensation costs for these shares as of the date of the grant, with subsequent remeasurement for any unvested shares granted to non-employees of ours with such amounts expensed against earnings, at the grant date (for the portion that vest immediately) or ratably over the respective vesting periods.

*Warrants*

In connection with a debt restructuring with Wachovia Bank in 2009, we issued Wachovia 1,000,000 warrants at an average strike price of $4.00 and an expiration date in July 2015. On July 1, 2014, we acquired and canceled all of the warrants in return for the payment of $2.6 million, recorded to additional paid in capital, which reflects a 5% discount to the prior day closing price of our common stock of $6.95.

*Accumulated Other Comprehensive Loss*

At December 31, 2015, accumulated other comprehensive loss was $4.8 million and consisted of $4.7 million of net unrealized losses on derivatives designated as cash flow hedges, and $0.6 million of net deferred losses on terminated interest swaps, less a $0.4 million unrealized gain related to available-for-sale securities. At December 31, 2014, accumulated other comprehensive loss was $14.7 million and consisted of $13.9 million of net unrealized losses on derivatives designated as cash flow hedges, and $1.1 million of net deferred losses on terminated interest swaps, less a $0.3 million unrealized gain related to available-for-sale securities.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 12 Equity (Continued)**

Reclassifications out of accumulated other comprehensive loss is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | Statement of Income Caption |
| Net realized losses on derivatives designated as cash flow hedges: | | | |
| Interest Rate Swaps | $ (6,149,090) | $ (10,706,246) | Interest expense(1) |
| Termination of Interest Rate Swaps | $ (4,626,192) | $ | Loss on termination of swaps(1) |
| Net realized gain on sale of available-for-sale investments: | | | |
| RMBS investment | $ | $ 431,476 | Other income(2) |

(1) See Note 8 "Derivative Financial Instruments" for additional details.

(2) See Note 4 "Securities" for additional details.

*Noncontrolling Interest*

We had a noncontrolling interest representing a third party's one third interest in the equity of a consolidated subsidiary that owns an investment that carried a note payable related to the exchange of a profits interest transaction. In the fourth quarter of 2013, the entity's operating agreement was amended to provide joint control to the members of the entity, and therefore, the entity was deconsolidated. Upon completion of this transaction, we deconsolidated the entity and noncontrolling interest was reduced to zero. For the year ended December 31, 2013, we recorded income of $0.1 million as well as distributions of $2.1 million attributable to the noncontrolling interest.

**Note 13 Earnings Per Share**

Basic EPS is calculated by dividing net income attributable to Arbor Realty Trust, Inc. by the weighted average number of shares of common stock outstanding during each period inclusive of unvested restricted stock with full dividend participation rights. Diluted EPS is calculated by dividing net income by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period using the treasury stock method. Our common stock equivalents include the weighted average dilutive effect of performance-based restricted stock units granted to our chief executive officer in the first quarter of 2015 as well as the weighted average dilutive effect of warrants for the period of time that they were outstanding during 2014 and 2013.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 13 Earnings Per Share (Continued)**

The following is a reconciliation of the numerator and denominator of the basic and diluted EPS computations for the years presented:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013 | |
| | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| Net income attributable to common stockholders(1) | $ 45,875,094 | $ 45,875,094 | $ 85,792,235 | $ 85,792,235 | $ 16,667,955 | $ 16,667,955 |
| Weighted average number of common shares outstanding | 50,857,750 | 50,857,750 | 50,143,648 | 50,143,648 | 42,399,872 | 42,399,872 |
| Dilutive effect of restricted stock units(2) | | 149,578 | | | | |
| Dilutive effect of warrants(3) | | | | 224,696 | | 435,272 |
| Weighted average number of common shares outstanding | 50,857,750 | 51,007,328 | 50,143,648 | 50,368,344 | 42,399,872 | 42,835,144 |
| Net income per common share(1) | $ 0.90 | $ 0.90 | $ 1.71 | $ 1.70 | $ 0.39 | $ 0.39 |

(1) Net of preferred stock dividends and noncontrolling interest.

(2) Mr. Kaufman was granted restricted stock units which vest at the end of a four-year performance period based upon our achievement of total stockholder return objectives. See Note 12 "Equity" for further details.

(3) On July 1, 2014, we acquired and canceled all of our warrants. See Note 12 "Equity" for further details.

**Note 14 Agreements and Transactions with Related Parties**

*Management Agreement*

We, ARLP and Arbor Realty SR, Inc. have a management agreement with our Manager, pursuant to which our Manager provides certain services and we pay our Manager a base management fee and under certain circumstances, an annual incentive fee.

Our Manager has agreed to provide us with structured finance investment opportunities and loan servicing as well as other services necessary to operate our business. We rely to a significant extent on the facilities and resources of our Manager to conduct our operations. Our Manager's management of us is under the direction or supervision of our Board of Directors. The management agreement requires our Manager to manage our business affairs in conformity with the policies and the general investment guidelines that are approved and monitored by our Board of Directors.

We and our operating partnership have also entered into a services agreement with our Manager pursuant to which our asset management group provides asset management services to our Manager. In the event the services provided by our asset management group pursuant to the agreement exceed by more than 15% per quarter the level of activity anticipated by the Board of Directors, we will negotiate in good faith with our Manager an adjustment to the Manager's base management fee under the management agreement, to reflect the scope of the services, the quantity of serviced assets or the time required to be devoted to the services by our asset management group.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 14 Agreements and Transactions with Related Parties (Continued)**

The base management fee is an arrangement whereby we reimburse our Manager for its actual costs incurred in managing our business based on the parties' agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. We retain all origination fees on investments.

The incentive fee is measured on an annual basis and is calculated as (1) 25% of the amount by which (a) our funds from operations per share, adjusted for certain gains and losses including gains from the retirement and restructuring of debt and 60% of any loan loss reserve recoveries (spread over a three year period), exceeds (b) the product of (x) 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, whichever is greater, and (y) the greater of $10.00 or the weighted average of book value of the net assets contributed by our Manager to ARLP per ARLP partnership unit, the offering price per share of our common equity in the private offering on July 1, 2003 and subsequent offerings and the issue price per ARLP partnership unit for subsequent contributions to ARLP, multiplied by (2) the weighted average of our outstanding shares.

The minimum return, or incentive fee hurdle to be reached before an incentive fee is earned, is a percentage applied on a per share basis to the greater of $10.00 or the average gross proceeds per share. In addition, 60% of any loan loss and other reserve recoveries are eligible to be included in the incentive fee calculation, which recoveries are spread over a three year period.

The management agreement also allows us to consider, from time to time, the payment of additional "success-based" fees to our Manager for accomplishing certain specified corporate objectives; has a termination fee of $10.0 million; and is renewable automatically for successive one-year terms, unless terminated with six months prior written notice. If we terminate or elect not to renew the management agreement without cause, we are required to pay the termination fee of $10.0 million.

Our Manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of its employees, rent for facilities and other "overhead" expenses. We are required to pay our Manager management fees as well as reimburse our Manager for all expenses incurred on our behalf in connection with the raising of capital or the incurrence of debt, interest expenses, taxes and license fees, litigation and extraordinary or non-recurring expenses.

Our Manager, pursuant to the management agreement, and Mr. Kaufman, pursuant to his non-competition agreement, have granted us a right of first refusal to pursue all opportunities identified by them or their affiliates to invest in multifamily and commercial mortgage loans and customized financing transactions, including bridge loans, mezzanine loans, preferred equity investments, note acquisitions and participation interests in owners of real properties (collectively, "Structured Finance Investments") as long as such investment opportunities are consistent with our investment objectives and guidelines and such investments would not adversely affect our status as a REIT. These agreements also provide that our Manager or Mr. Kaufman, as the case may be, may pursue any opportunity in Structured Finance Investments if the opportunity is rejected by both our credit committee and a majority of our independent directors.

Pursuant to the management agreement and Mr. Kaufman's non-competition agreement, we have agreed not to pursue, and to allow our Manager and its affiliates, including Mr. Kaufman, to pursue opportunities to invest in multifamily and commercial mortgage loans that meet the underwriting and approval guidelines of Fannie Mae, Freddie Mac, the Federal Housing Administration and conduit

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 14 Agreements and Transactions with Related Parties (Continued)**

commercial lending programs secured by first liens on real property (collectively, the "Manager Target Investments"). In addition to its exclusive right to pursue Manager Target Investments, our Manager and its affiliates may pursue any other type of investment (except Structured Finance Investments) without our consent.

The following table sets forth our base management fees and incentive fees for the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| **Management Fees:** | **2015** | **2014** | **2013** |
| Base(1) | $ 10,900,000 | $ 9,900,000 | $ 10,900,000 |
| Incentive(2) | | | |
| Total management fee | $ 10,900,000 | $ 9,900,000 | $ 10,900,000 |

For the years ended December 31, 2015, 2014 and 2013, no "success-based" payments were made.

Beginning January 1, 2014, we directly compensate our chief executive officer $1.0 million in annual base compensation as an employee. As such, this compensation is now recorded as employee compensation and benefits, which was previously recorded as part of the base management fee prior to 2014.

In 2007, our Manager received an incentive fee installment totaling $19.0 million which was recorded as a prepaid management fee related to the incentive fee on $77.1 million of deferred revenue recognized on the transfer of control of the 450 West 33rd Street property, which is one of our equity affiliates. The $77.1 million gain was deferred as a result of guarantying a portion of the property's indebtedness. In July 2014, the existing debt on the property was refinanced and our portion of the guarantee was terminated, resulting in the recognition of the deferred gain and a $19.0 million prepaid incentive management fee.

*Other Related Party Transactions*

Due from related party was $8.1 million and less than $0.1 million at December 31, 2015 and 2014, respectively, and consisted primarily of paydowns to be remitted and escrows held by our Manager and its affiliates related to real estate transactions.

Due to related party was $3.4 million and $2.7 million at December 31, 2015 and 2014, respectively, and consisted primarily of base management fees due to our Manager that we remitted in the following quarter.

In November 2015, we originated a $7.1 million bridge loan on a multifamily property owned by a consortium of investors consisting of certain of our officers, including Mr. Ivan Kaufman, who together own an interest of approximately 7.5% in the borrowing entity. The loan has an interest rate of LIBOR plus 4.50% with a LIBOR floor of 0.25% and a maturity date of November 2018 with two one-year extension options. Interest income recorded from this loan totaled $0.1 million for the year ended December 31, 2015.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 14 Agreements and Transactions with Related Parties (Continued)**

In October 2015, we originated two bridge loans totaling $16.7 million secured by multifamily properties acquired by a third party investor. The properties had been owned and were sold by a consortium of investors, consisting of certain of our officers, including Mr. Ivan Kaufman, certain other related parties and certain unaffiliated persons. The loans have an interest rate of LIBOR plus 5.00% with a LIBOR floor of 0.25% and a maturity date of October 2017. Interest income recorded from these loans totaled $0.2 million for the year ended December 31, 2015.

In April 2015, we originated a $3.0 million mezzanine loan on a multifamily property that has a $47.0 million first mortgage initially originated by our Manager. The loan bears interest at a fixed rate of 12.5% and has a maturity date of April 2025. Interest income recorded from this loan totaled $0.3 million for the year ended December 31, 2015.

In April 2015, we originated a $6.3 million bridge loan on a multifamily property owned by a consortium of investors consisting of certain of our officers, including Mr. Ivan Kaufman and our Manager, who together own an interest of approximately 90% in the borrowing entity. The loan has an interest rate of LIBOR plus 4.50% with a LIBOR floor of 0.25% and a maturity date of April 2018. Interest income recorded from this loan totaled $0.2 million for the year ended December 31, 2015.

In February 2015, we modified an $18.0 million preferred equity investment, increasing our balance to $23.0 million with a fixed interest rate of 10% and a maturity date of February 2018. In order to accomplish the modification, we formed a joint venture with a consortium of investors consisting of certain of our officers, including Mr. Ivan Kaufman, and other related parties, to invest in an additional $2.0 million preferred equity investment that is generally subordinate to ours. Interest income recorded from this loan totaled $2.3 million for the year ended December 31, 2015.

In the first quarter of 2015, we invested $9.6 million for 50% of our Manager's indirect interest in a joint venture with a third party that was formed to invest in a residential mortgage banking business. As a result of this transaction, we had an initial indirect interest of 22.5% in this entity. During the year ended December 31, 2015, we invested $9.7 million through this joint venture in non-qualified residential mortgages purchased from the mortgage banking business's origination platform. We recorded income of $6.6 million from these investments during the year ended December 31, 2015. See Note 5 "Investment in Equity Affiliates" for further details.

During the third quarter of 2014, we invested $0.1 million for a 5% interest in a joint venture that owns two multifamily properties. The joint venture consists of a consortium of investors consisting of certain of our officers, including Mr. Ivan Kaufman, and other related parties, who together own an interest of approximately 95%. In August 2014, we originated two bridge loans totaling $5.0 million to the joint venture with an interest rate of 5.5% over one-month LIBOR and a maturity date extended to March 2016. Interest income recorded from these loans totaled $0.3 million and $0.1 million for the years ended December 31, 2015 and 2014, respectively.

In July 2014, we originated a $30.4 million bridge loan for an office property owned by a consortium of investors including Mr. Ivan Kaufman and his affiliates, who together own an interest of approximately 24% in the borrowing entity. The loan has an interest rate of LIBOR plus 7.90% with a LIBOR floor of 0.50% and a maturity date that was extended to January 2017. Interest income recorded from this loan totaled $2.8 million and $1.2 million for the years ended December 31, 2015

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 14 Agreements and Transactions with Related Parties (Continued)**

and 2014, respectively. In January 2016, we also originated a $4.6 million mezzanine loan to this entity that has a fixed interest rate of 12% and a maturity of January 2017.

In April 2014, we originated a $1.4 million preferred equity investment on a multifamily property that has a $28.5 million first mortgage initially originated by our Manager. The loan bears interest at a fixed rate of 14% and has a maturity date of May 2024. Interest income recorded from this loan totaled $0.2 million for both the years ended December 31, 2015 and 2014.

In March 2014, we originated a bridge loan to a third party borrower for a portfolio of properties with an unpaid principal balance of $70.1 million, of which, $15.0 million was financed with junior loan participations to our Manager. The loan has an interest rate of 6.38% and a maturity date of March 2016. In May 2014, the junior loan participations to our Manager were paid off. The participations had a weighted average interest rate of 7.20% and a maturity date of March 2016. Interest income related to the junior loan participations recorded from this loan totaled $3.8 million for the year ended December 31, 2014.

We had two loans totaling $22.4 million, which were secured by a property purchased in 2011 by a third party borrower from our Manager. In the first quarter 2014, our Manager purchased the property from the prior borrower subject to our loans. In connection with this purchase, our Manager paid down the loans by $2.3 million and we restructured our remaining debt outstanding into a first mortgage of $14.6 million with a maturity date of March 2015 and a second mortgage of $5.1 million with a maturity date of April 2015, both with an interest rate of LIBOR plus 4.80%. The maturity date on both of these loans was extended to April 2016, which we considered to be a troubled debt restructuring. Interest income recorded from these loans totaled $1.1 million, $0.9 million and $1.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

In October 2013, we purchased, at par, a $3.0 million mezzanine loan from our Manager who originated the loan in September 2013 to a third party entity. The loan had a fixed interest rate of 13.00% and a maturity date of October 2018 and was paid off in the third quarter of 2014. Interest income recorded from this loan was $0.3 million and $0.1 million for the years ended December 31, 2014 and 2013, respectively.

In June 2013, our Board of Directors formed a special committee consisting of independent directors in connection with the exploration and evaluation of a potential transaction with our Manager involving the acquisition of our Manager's Fannie Mae, DUS, Freddie Mac, FHA and CMBS platforms, as well as the internalization of the management of our current business. There were preliminary discussions between the special committee and representatives of our Manager regarding a potential transaction during the second and third quarters of 2013. In late June of 2014, preliminary discussions regarding a possible transaction resumed and in February 2016, we entered into a definitive agreement to acquire the agency platform of our Manager for $250.0 million. See Note 18 "Subsequent Event" for further details. In connection with evaluating this potential transaction, we incurred advisory fees totaling $3.1 million and $1.4 million during 2015 and 2013, respectively. No such expenses were incurred during 2014.

In April 2013, we originated six bridge loans totaling $53.0 million for a portfolio of multifamily properties owned by a consortium of investors including Mr. Ivan Kaufman and his affiliates and Mr. Fred Weber, our executive vice president of structured finance, who together own an interest of

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 14 Agreements and Transactions with Related Parties (Continued)**

approximately 19% in the borrowing entity. The loans had an interest rate of one-month LIBOR plus 7.25% and a maturity date of April 2015, which were paid off in the fourth quarter of 2013. In November 2013, we originated a new bridge loan for $2.0 million with an interest rate of one-month LIBOR plus 5.50%, which was paid off in the second quarter of 2014. Interest income recorded from these loans totaled $0.1 million and $3.1 million for the years ended December 31, 2014 and 2013, respectively.

In April 2013, we also purchased, at par, a $6.4 million bridge loan from our Manager who originated the loan in March 2013 to a third party entity that acquired the property from an entity owned by Mr. Ivan Kaufman and his affiliates and Mr. Fred Weber, who together also provided a $1.1 million preferred equity contribution to the overall transaction. Mr. Ivan Kaufman also provided a $1.0 million personal guaranty on the bridge loan. The bridge loan bore interest at a rate of one-month LIBOR plus 5.00% for the first year then one-month LIBOR plus 6.00% thereafter and had a maturity date of March 2015 with three one year extension options, and was paid off in the second quarter of 2014. Interest income recorded from this loan totaled $0.2 million for both the years ended December 31, 2014 and 2013, respectively.

In January 2013, we originated a $7.5 million bridge loan for a multifamily property. William C. Green, who serves on our Board of Directors, holds a 6.6% partnership interest in the borrowing entity and is the chief financial officer of an affiliated entity that is a partner in, and the management company for, the borrowing entity. Mr. Green also provided a $0.4 million personal guaranty on the bridge loan. The loan bore interest at a rate of one-month LIBOR plus 6.00%, had a maturity date of January 2015, and was paid off in the second quarter of 2014. Interest income recorded from this loan totaled $0.2 million and $0.5 million for the years ended December 31, 2014 and 2013, respectively.

In December 2011, we completed a restructuring of a $67.6 million preferred equity investment on the Lexford Portfolio ("Lexford"), which is a portfolio of multifamily assets. We, along with a consortium of independent outside investors, made an additional preferred equity investment of $25.0 million in Lexford of which we held a $10.5 million interest, and Mr. Fred Weber, our executive vice president of structured finance, held a $0.5 million interest, which was paid down to $22.5 million in the third quarter of 2013, and then paid off in the fourth quarter of 2013. The original preferred equity investment bore a fixed rate of interest of 2.36%, revised from an original rate of LIBOR plus 5.00% (the loan was paying a modified rate of LIBOR plus 1.65% at the time of the new investment). The original preferred equity investment was paid down during 2014 and 2015 and the remaining balance was paid off in July 2015. The additional preferred equity investment had a fixed interest rate of 12% and a maturity date in June 2020. Interest income recorded from the additional preferred equity investment totaled $1.1 million for the year ended December 31, 2013. We, along with the same outside investors, also made a $0.1 million equity investment into Lexford, of which we held a $44,000 noncontrolling interest, and do not have the power to control the significant activities of the entity. During 2011, we recorded losses from the entity against the equity investment, reducing the balance to zero. In the third and fourth quarters of 2015, we received distributions from this equity investment and recognized income of $4.5 million, net of expenses. The $4.5 million of income is comprised of income from equity affiliates of $5.5 million, partially offset by $1.0 million of expenses related to these distributions that were recorded in employee compensation and benefits. In addition, under the terms of the restructuring, Lexford's first mortgage lender required a change of property manager for the

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 14 Agreements and Transactions with Related Parties (Continued)**

underlying assets. The new management company is an affiliate of Mr. Ivan Kaufman, our chief executive officer, and has a contract with the new entity for 7.5 years and is entitled to 4.75% of gross revenues of the underlying properties, along with the potential to share in the proceeds of a sale or refinancing of the debt should the management company remain engaged by the new entity at the time of such capital event. In 2012, Mr. Fred Weber invested $250,000 in the new management company and currently owns a 23.5% ownership interest. Mr. Ivan Kaufman and his affiliates currently own a 53.9% ownership interest. We have provided limited ("bad boy") guarantees for certain debt controlled by Lexford. The bad boy guarantees may become a liability for us upon standard "bad" acts such as fraud or a material misrepresentation by Lexford or us. At December 31, 2015, this debt had an aggregate outstanding balance of $849.1 million and is scheduled to mature between 2017 and 2025.

Interest income recorded from additional loans originated in 2012 or prior years with our affiliates totaled $0.3 million, $1.5 million and $2.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

In January 2016, we originated a $12.7 million bridge loan and a $5.2 million preferred equity investment on two multifamily properties owned by a consortium of investors consisting of certain of our officers, including Mr. Ivan Kaufman, who together own an interest of approximately 50% in the borrowing entity. The bridge loan has an interest rate of one-month LIBOR plus 4.50% with a LIBOR floor of 0.25% and a maturity date of January 2019. The preferred equity investment has a fixed interest rate of 10% and a maturity date of April 2016.

In January 2016, we originated a $19.0 million bridge loan on a multifamily property owned by a consortium of investors consisting of certain of our officers, including Mr. Ivan Kaufman, who together own an interest of approximately 7.5% in the borrowing entity. The loan has an interest rate of one-month LIBOR plus 4.50% with a LIBOR floor of 0.25% and a maturity date of January 2019.

We are dependent upon our Manager with whom we have a conflict of interest, to provide services to us that are vital to our operations. Our chairman, chief executive officer and president, Mr. Ivan Kaufman, is also the chief executive officer and president of our Manager, and, our chief financial officer and treasurer, Mr. Paul Elenio, is the chief financial officer of our Manager. In addition, Mr. Kaufman and his affiliated entities ("the Kaufman Entities") together beneficially own approximately 92% of the outstanding membership interests of our Manager and certain of our employees and directors also hold an ownership interest in our Manager. Furthermore, one of our former directors is general counsel to our Manager and another of our directors also serves as the trustee of one of the Kaufman Entities that holds a majority of the outstanding membership interests in our Manager and co-trustee of another Kaufman Entity that owns an equity interest in our Manager. Our Manager currently holds approximately 5.3 million of our common shares, representing approximately 10.5% of the voting power of our outstanding stock as of December 31, 2015. Our Board of Directors approved a resolution under our charter allowing Ivan Kaufman and our Manager, (which Mr. Kaufman has a controlling equity interest in), to own more than the 5% ownership interest limit of our common stock as stated in our charter as amended.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 15 Income Taxes**

We are organized and conduct our operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on taxable income which it distributes to its stockholders, provided that it distributes at least 90% of its REIT taxable income and meets certain other requirements. We did not have REIT federal taxable income net of dividends paid and net operating loss deductions for the years ended December 31, 2015, 2014 and 2013, and therefore, have not provided for federal income tax expense.

For the years ended December 31, 2015, 2014 and 2013, we did not incur any state tax expenses. For the 2009 and 2010 tax years, the income and the tax on certain debt extinguishment transactions was, at our election, deferred to be recognized ratably over five years from 2014 to 2018. We expect that our current and anticipated net operating losses will fully offset the income to be recognized over the five year period.

Certain of our assets or operations that would not otherwise comply with the REIT requirements, are owned or conducted by our TRSs, the income of which is subject to federal and state income taxes. We did not record a provision for current income taxes related to the assets that are held in TRSs for the years ended December 31, 2015, 2014 and 2013.

A reconciliation of our effective income tax rate as a percentage of pretax income or loss to the U.S. federal statutory rate is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| U.S. federal statutory rate | 35.0% | 35.0% | 35.0% |
| REIT non-taxable income | (38.7) | (36.8) | (35.7) |
| State and local income taxes, net of federal tax benefit | (2.7) | (0.5) | (1.1) |
| Change in valuation allowance | 6.4 | 2.3 | 1.8 |
| Effective income tax rate | % | % | % |

The significant components of deferred tax assets (liabilities) were as follows:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Deferred tax assets: | | |
| Expenses not currently deductible | $ 10,441,408 | $ 3,541,807 |
| Net operating and capital loss carryforwards | 5,714,575 | 5,279,854 |
| Deferred tax assets, gross | 16,155,983 | 8,821,661 |
| Valuation allowance | (12,320,476) | (7,742,286) |
| Deferred tax assets, net | $ 3,835,507 | $ 1,079,375 |
| Deferred tax liability: | | |
| Interest in equity affiliates net | $ 3,835,507 | $ 1,079,375 |

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 15 Income Taxes (Continued)**

At December 31, 2015, our TRSs, on a consolidated basis (the "TRS Group"), had $16.2 million of deferred tax assets consisting of expenses not currently deductible and net operating and capital loss carryforwards. Our TRS Group's deferred tax assets are offset by $3.8 million in deferred tax liabilities consisting of timing differences from investments in equity affiliates, and a valuation allowance of $12.3 million.

At December 31, 2014, our TRS Group had $8.8 million of deferred tax assets consisting of expenses not currently deductible and net operating and capital loss carryforwards. Our TRS Group's deferred tax assets are offset by $1.1 million in deferred tax liabilities consisting of timing differences from investments in equity affiliates, and a valuation allowance of $7.7 million.

As of December 31, 2015, we (excluding the TRS Group) will have $136.0 million of federal and state net operating loss carryforwards and no capital loss carryforwards. The net operating losses will expire through 2034. In 2015, the remaining $4.4 million capital loss carryforwards were utilized, primarily from the gain on the sale of several real estate properties.

The TRS Group has federal and state net operating loss carryforwards as of December 31, 2015 and 2014 of $13.2 million and $11.9 million, respectively, which will expire through 2035 and 2034, respectively. This amount includes federal and state capital loss carryovers as of December 31, 2015 of $2.0 million, which will expire in 2017. We have concluded that it is more likely than not that the net operating and capital loss carryforwards will not be utilized during the carryforward period, and as such, net of deferred tax liabilities, we have established a valuation allowance against all of the net deferred tax assets.

We have assessed our tax positions for all open tax years, which includes 2012 to 2015, and concluded there were no material uncertainties to be recognized. We have not recognized any interest and penalties related to tax uncertainties for the years ended December 31, 2015, 2014 and 2013.

**Note 16 Due to Borrowers**

Due to borrowers represents borrowers' funds held by us to fund certain expenditures or to be released at our discretion upon the occurrence of certain pre-specified events, and to serve as additional collateral for borrowers' loans. While retained, these balances earn interest in accordance with the specific loan terms they are associated with.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 17 Summary Quarterly Consolidated Financial Information Unaudited**

The following tables represent summarized quarterly financial data for the years ended December 31, 2015 and 2014 which, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations.

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 |
| Net interest income | $ 14,878,213 | $ 14,140,346 | $ 22,632,167 | $ 13,282,028 |
| Total other revenue | 4,917,135 | 7,254,484 | 7,278,650 | 8,486,343 |
| Total other expenses | 18,001,688 | 18,338,403 | 19,057,772 | 18,669,461 |
| Income before gain on acceleration of deferred income, loss on termination of swaps, gain on sale of real estate and income from equity affiliates | 1,793,660 | 3,056,427 | 10,853,045 | 3,098,910 |
| Gain on acceleration of deferred income | | 8,162,720 | | 11,009,162 |
| Loss on termination of swaps | | (340,197) | | (4,289,450) |
| Gain on sale of real estate | 3,799,657 | | | 3,984,364 |
| Income from equity affiliates | 1,317,339 | 6,353,239 | 1,534,025 | 3,095,913 |
| Net income | 6,910,656 | 17,232,189 | 12,387,070 | 16,898,899 |
| Preferred stock dividends | 1,888,430 | 1,888,430 | 1,888,430 | 1,888,430 |
| Net income attributable to common stockholders | $ 5,022,226 | $ 15,343,759 | $ 10,498,640 | $ 15,010,469 |
| Basic earnings per common share(1): | $ 0.10 | $ 0.30 | $ 0.21 | $ 0.30 |
| Diluted earnings per common share(1): | $ 0.10 | $ 0.30 | $ 0.21 | $ 0.30 |

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2015**

**Note 17 Summary Quarterly Consolidated Financial Information Unaudited (Continued)**

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31, 2014 | September 30, 2014 | June 30, 2014 | March 31, 2014 |
| Net interest income | $ 12,898,651 | $ 17,323,926 | $ 14,269,832 | $ 14,320,477 |
| Total other revenue | 6,056,465 | 8,962,195 | 9,151,570 | 10,116,484 |
| Total other expenses | 14,859,256 | 18,819,835 | 17,958,639 | 17,011,318 |
| Income before gain on sale of equity interests, incentive management fee, gain (loss) on sale of real estate and income (loss) from equity affiliates | 4,095,860 | 7,466,286 | 5,462,763 | 7,425,643 |
| Gain on sale of equity interests | 819,067 | 77,123,133 | 7,851,266 | |
| Incentive management fee equity interest related party | | (19,047,949) | | |
| Gain (loss) on sale of real estate | 1,803,512 | (199,749) | | |
| Income (loss) from equity affiliates | 219,287 | (51,170) | 40,493 | 40,048 |
| Net income | 6,937,726 | 65,290,551 | 13,354,522 | 7,465,691 |
| Preferred stock dividends | 1,888,430 | 1,888,430 | 1,888,465 | 1,590,930 |
| Net income attributable to common stockholders | $ 5,049,296 | $ 63,402,121 | $ 11,466,057 | $ 5,874,761 |
| Basic earnings per common share(1): | $ 0.10 | $ 1.26 | $ 0.23 | $ 0.12 |
| Diluted earnings per common share(1): | $ 0.10 | $ 1.26 | $ 0.23 | $ 0.12 |

(1) The total for the year may differ from the sum of the quarters as a result of weighting.

**Note 18 Subsequent Event**

On February 25, 2016, we entered into a definitive agreement to acquire the agency platform (the "Acquired Businesses") of our Manager for $250.0 million. The purchase price is to be paid 50% in stock and 50% in cash with the stock component to be paid with 19.23 million operating partnership units, which was based on a stock price of $6.50 per share. The purchase price is subject to potential adjustment based on changes in the value of the acquired servicing portfolio on the closing date. We have the option, at the discretion of the special committee of our Board of Directors, to utilize up to $50.0 million of seller financing to satisfy a portion of the cash consideration. All of the employees directly related to the Acquired Businesses will become a part of the Company following the consummation of the transaction.

In addition, we obtained a two year option for $25.0 million to purchase the existing management contract and fully internalize the management structure. The exercise of this option is at the discretion of the special committee of the Board of Directors, which has no obligation to exercise its option.

The transaction will require certain government and GSE approvals as well as a stockholder vote and other third party approvals. The transaction is expected to close during the third quarter of 2016; however, there can be no assurances that the transaction will be completed during this period or at all.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**SCHEDULE IV LOANS AND OTHER LENDING INVESTMENTS**

**DECEMBER 31, 2015**

| Type | Location | Periodic Payment Terms(1) | Maturity Date(2) | Interest Pay Rate Index(3) | Prior Liens | Face Amount(4) | Carrying Amount(5) | Carrying Amount Subject to Delinquent Interest |
|---|---|---|---|---|---|---|---|---|
| ***Bridge Loans:*** | | | | | | | | |
| Bridge loans in excess of 3% of carrying amount of total loans: | | | | | | | | |
| Multifamily | Various | IO | 2016 - 2017 | LIBOR + 4.90% - 10.47%<br>Floor 0.21% - 0.25% | $ | $ 186,096,000 | $ 185,933,177 | $ |
| Bridge loans less than 3% of carrying amount of total loans(6): | | | | | | | | |
| Multifamily | Various | IO | 2016 - 2020 | LIBOR + 3.00% - 12.43%<br>Floor 0.15% - 0.50%<br>Fixed 10.00% | | 826,243,063 | 820,240,110 | |
| Land | Various | IO | 2016 - 2017 | LIBOR + 4.00% - 8.50%<br>Floor 0.15% - 0.25%<br>Fixed 8.75% - 13.00% | 2,450,000 | 148,477,868 | 103,794,387 | |
| Office | Various | IO | 2016 - 2020 | LIBOR + 3.10% - 7.90%<br>Floor 0.50% - 1.50%<br>Fixed 6.30% | | 134,760,504 | 133,007,015 | |
| Hotel | NY | IO / PI | 2016 | LIBOR + 7.25%<br>Floor 0.25% | | 31,500,000 | 31,469,583 | |
| Commercial | Various | IO | 2017 | LIBOR + 5.50% - 6.00%<br>Floor 0.25% | | 20,505,000 | 20,388,300 | |
| Healthcare | OR | IO | 2018 | LIBOR + 5.50%<br>Floor 0.25% | | 5,550,000 | 5,538,648 | |
| | | | | | 2,450,000 | 1,167,036,435 | 1,114,438,043 | |
| **Total Bridge Loans** | | | | | 2,450,000 | 1,353,132,435 | 1,300,371,220 | |
| ***Mezzanine Loans:*** | | | | | | | | |
| Mezzanine loans less than 3% of carrying amount of total loans(6): | | | | | | | | |
| Multifamily | Various | IO / PI | 2016 - 2025 | Fixed 5.00% - 12.50% | 166,337,488 | 25,399,603 | 23,474,849 | |
| Land | Various | IO | 2016 - 2017 | Fixed 12% | 30,300,000 | 10,932,969 | 1,600,000 | |
| Retail | FL | PI | 2024 | Fixed 12.00% | 32,600,000 | 4,058,333 | 4,058,333 | |
| **Total Mezzanine Loans** | | | | | 229,237,488 | 40,390,905 | 29,133,182 | |
| ***Junior Participations:*** | | | | | | | | |
| Junior participation loans less than 3% of carrying amount of total loans(6): | | | | | | | | |
| Office | Various | IO / PI | 2016 - 2017 | Fixed 4.00% - 7.58% | 1,263,144,153 | 62,256,582 | 37,006,234 | |
| **Total Junior Participations** | | | | | 1,263,144,153 | 62,256,582 | 37,006,234 | |

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**SCHEDULE IV LOANS AND OTHER LENDING INVESTMENTS (Continued)**

**DECEMBER 31, 2015**

| Type | Location | Periodic Payment Terms(1) | Maturity Date(2) | Interest Pay Rate Index(3) | Prior Liens | Face Amount(4) | Carrying Amount(5) | Carrying Amount Subject to Delinquent Interest |
|---|---|---|---|---|---|---|---|---|
| ***Preferred Equity Loans:*** | | | | | | | | |
| Preferred equity loans less than 3% of carrying amount of total loans(6): | | | | | | | | |
| | | | | Fixed | | | | |
| Multifamily | Various | IO | 2016 - 2024 | 8.00% - 15.00% | 77,298,378 | 46,084,123 | 45,980,559 | |
| Hotel | IL | IO | 2019 | Libor + 2.79% | 46,500,000 | 34,750,000 | 31,050,000 | |
| Land | NY | IO | 2016 | Fixed 12.00% | 14,950,000 | 5,000,000 | 5,000,000 | |
| Office | SC | IO | 2024 | Fixed 15.00% | 10,300,000 | 1,812,000 | 1,793,146 | |
| Commercial | NY | IO | 2017 | Fixed 6.00% | 29,792,384 | 1,700,000 | | |
| **Total Preferred Equity Loans** | | | | | 178,840,762 | 89,346,123 | 83,823,705 | |
| **Total Loans** | | | | | $ 1,673,672,403 | $ 1,545,126,045 | $ 1,450,334,341 | $ |

(1) IO = Interest Only, PI = Principal and Interest.

(2) Maturity date does not include possible extensions.

(3) References to LIBOR are to one-month LIBOR unless specifically stated otherwise.

(4) During 2015, $34.3 million of loans were modified to $39.3 million and $274.4 million of loans were extended.

(5) The federal income tax basis is approximately $1.5 billion.

(6) Individual loans each have a carrying value less than 3% of total loans.

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

**SCHEDULE IV LOANS AND OTHER LENDING INVESTMENTS (Continued)**

**DECEMBER 31, 2015**

The following table reconciles our loans and investments carrying amounts for the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Balance at beginning of year | $ 1,459,475,650 | $ 1,523,699,653 | $ 1,325,667,053 |
| Additions during period: | | | |
| New loan originations | 944,250,824 | 900,666,405 | 591,537,200 |
| Loan charge-offs | 32,000,000 | 6,501,079 | 24,713,459 |
| Funding of unfunded loan commitments(1) | 6,929,472 | 907,052 | 322,926 |
| Accretion of unearned revenue | 5,555,539 | 4,976,577 | 5,385,999 |
| Charge-off on loan converted to real estate owned | 2,500,000 | | |
| Recoveries of reserves | 2,042,263 | 9,315,724 | 2,215,443 |
| Charge-off on loan converted to other assets | | | 19,000,000 |
| Deductions during period: | | | |
| Loan payoffs | (865,595,986) | (941,279,252) | (324,358,463) |
| Loan paydowns | (84,707,265) | (26,558,929) | (54,261,753) |
| Use of loan charge-offs | (32,000,000) | (6,501,079) | (24,713,459) |
| Loan converted to real estate owned | (8,400,000) | | |
| Provision for loan losses | (6,509,149) | (9,026,712) | (6,500,000) |
| Unearned revenue and costs | (3,907,007) | (3,224,868) | (5,884,655) |
| Satisfaction of participation loan | (1,300,000) | | |
| Loan converted to other assets | | | (25,000,000) |
| Proceeds and receivables from sale of loans | | | (4,424,097) |
| Balance at end of year | $ 1,450,334,341 | $ 1,459,475,650 | $ 1,523,699,653 |

(1) In accordance with certain loans and investments, we have outstanding unfunded commitments that we are obligated to fund as the borrowers meet certain requirements. Specific requirements include but are not limited to property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements.

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures**

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures at December 31, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2015.

No change in internal control over financial reporting occurred during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, internal controls over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the principal executive and principal financial officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatement. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting at December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013 Framework). Based on this assessment, management concluded that, as of December 31, 2015, our internal control over financial reporting was effective.

Our independent registered public accounting firm has issued a report on management's assessment of our internal control over financial reporting, which is included herein.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of
Arbor Realty Trust, Inc. and Subsidiaries

We have audited Arbor Realty Trust, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control  Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Arbor Realty Trust, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Arbor Realty Trust, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Arbor Realty Trust, Inc. and Subsidiaries as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015 of Arbor Realty Trust, Inc. and Subsidiaries and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 26, 2016

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**Item 9B. Other Information**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information regarding our directors and executive officers set forth under the captions "Board of Directors" and "Executive Officers" of the 2016 Proxy Statement is incorporated herein by reference.

The information regarding compliance with Section 16(a) of the Exchange Act set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2016 Proxy Statement is incorporated herein by reference.

The information regarding our code of ethics for our chief executive and other senior financial officers under the caption "Senior Officer Code of Ethics and Code of Business Conduct and Ethics" in the 2016 Proxy Statement is incorporated herein by reference.

The information regarding our audit committee under the caption "Audit Committee" in the 2016 Proxy Statement is incorporated herein by reference.

**Item 11. Executive Compensation**

The information contained in the section captioned "Executive Compensation" of the 2016 Proxy Statement is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information contained in the section captioned "Security Ownership of Certain Beneficial Owners and Management" of the 2016 Proxy Statement is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information contained in the section captioned "Certain Relationships and Related Transactions" and "Director Independence" of the 2016 Proxy Statement is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

The information regarding our independent accountant's fees and services in the sections captioned "Independent Accountants' Fees" and "Audit Committee Pre-Approval Policy" of the 2016 Proxy Statement is incorporated herein by reference.

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## PART IV

### Item 15. Exhibits, Financial Statement Schedules

**(a) and (c) Financial Statements and Schedules.**

See the "Index to the Consolidated Financial Statements of Arbor Realty Trust, Inc. and Subsidiaries" included in Item 8 of this report.

**(b) Exhibits.**

| Exhibit Number | Description |
|---|---|
| 3.1 | Articles of Incorporation of Arbor Realty Trust, Inc.* |
| 3.2 | Articles of Amendment to Articles of Incorporation of Arbor Realty Trust, Inc. |
| 3.3 | Articles Supplementary of Arbor Realty Trust, Inc.* |
| 3.4 | Articles Supplementary of 8.250% Series A Cumulative Redeemable Preferred Stock.♣ |
| 3.5 | Articles Supplementary of 7.75% Series B Cumulative Redeemable Preferred Stock.§ |
| 3.6 | Articles Supplementary of 8.50% Series C Cumulative Redeemable Preferred Stock.§§ |
| 3.7 | Amended and Restated Bylaws of Arbor Realty Trust, Inc. |
| 4.1 | Form of Certificate for Common Stock.* |
| 4.2 | Specimen 8.250% Series A Cumulative Redeemable Preferred Stock Certificate.♣ |
| 4.3 | Specimen 7.75% Series B Cumulative Redeemable Preferred Stock Certificate.§ |
| 4.4 | Specimen 8.50% Series C Cumulative Redeemable Preferred Stock Certificate.§§ |
| 4.5 | Form of 7.375% Senior Note due 2021.§§§ |
| 10.1 | Second Amended and Restated Management Agreement, dated August 6, 2009, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership and Arbor Realty SR, Inc. ♣♣♣ |
| 10.2 | Services Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Limited Partnership.* |
| 10.3 | Non-Competition Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Ivan Kaufman.* |
| 10.4 | Second Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated January 18, 2005, by and among Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc.** |
| 10.5 | Registration Rights Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Commercial Mortgage, LLC.* |
| 10.6 | Form of Restricted Stock Agreement.* |
| 10.7 | Benefits Participation Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Management, LLC.* |

10.8 Form of Indemnification Agreement.*

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| Exhibit Number | Description |
|---|---|
| 10.9 | Junior Subordinated Indenture, dated May 6, 2009, between Arbor Realty SR, Inc. and The Bank of New York Mellon Trust Company, National Association, as Trustee relating to $29,400,000 aggregate principal amount of Junior Subordinated Notes due 2034. ♣♣ |
| 10.10 | Junior Subordinated Indenture, dated May 6, 2009, between Arbor Realty SR, Inc. and The Bank of New York Mellon Trust Company, National Association, as Trustee relating to $168,000,000 aggregate principal amount of Junior Subordinated Notes due 2034. ♣♣ |
| 10.11 | Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to $21,224,000 aggregate principal amount of Junior Subordinated Notes due 2035. ♣♣ |
| 10.12 | Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to $2,632,000 aggregate principal amount of Junior Subordinated Notes due 2036. ♣♣ |
| 10.13 | Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to $47,180,000 aggregate principal amount of Junior Subordinated Notes due 2037. ♣♣ |
| 10.14 | Indenture, dated April 28, 2014, by and between Arbor Realty Collateralized Loan Obligation 2014-1, Ltd., Arbor Realty Collateralized Loan Obligation 2014-1, LLC, Arbor Realty SR, Inc. and U.S. Bank National Association. ♠ |
| 10.15 | Loan Obligation Purchase Agreement, dated April 28, 2014, by and between Arbor Realty SR, Inc. and Arbor Realty Collateralized Loan Obligation 2014-1, Ltd.♠ |
| 10.16 | Lead Placement Agreement, dated April 17, 2014, by and between Arbor Realty Collateralized Loan Obligation 2014-1, Ltd., Arbor Realty Collateralized Loan Obligation 2014-1, LLC and Sandler O'Neill & Partners, L.P.♠ |
| 10.17 | European Co-Placement Agreement, dated April 17, 2014, by and between Arbor Realty Collateralized Loan Obligation 2014-1, Ltd., Arbor Realty Collateralized Loan Obligation 2014-1, LLC and Chalkhill Partners LLP.♠ |
| 10.18 | Indenture and First Supplemental Indenture dated May 12, 2014 between Arbor Realty Trust, Inc. and U.S. Bank National Association.§§§ |
| 10.19 | Indenture, dated February 27, 2015, by and between Arbor Realty Commercial Real Estate Notes 2015-FL1, LTD., Arbor Realty Commercial Real Estate Notes 2015-FL1 LLC, Arbor Realty SR, Inc. and U.S. Bank National Association. ♦ |
| 10.20 | Loan Obligation Purchase Agreement, dated February 27, 2015, by and between Arbor Realty SR, Inc. and Arbor Realty Commercial Real Estate Notes 2015-FL1, LTD.♦ |
| 10.21 | Co-Placement Agreement, dated February 20, 2015, by and between Arbor Realty Commercial Real Estate Notes 2015-FL1, LTD., Arbor Realty Commercial Real Estate Notes 2015-FL1 LLC, J.P. Morgan and Sandler O'Neill & Partners, L.P. ♦ |
| 10.22 | Annual Incentive Agreement, dated January 1, 2015, by and between Arbor Realty Trust, Inc. and Ivan Kaufman. ♦ |
| 10.23 | Amendment No. 1 to Second Amended and Restated Management and Advisory Agreement, dated January 1, 2015, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership and Arbor Realty SR, Inc. ♦ |

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| Exhibit Number | Description |
|---|---|
| 10.24 | Indenture, dated August 18, 2015, by and between Arbor Realty Commercial Real Estate Notes 2015-FL2, LTD., Arbor Realty Commercial Real Estate Notes 2015-FL2 LLC, Arbor Realty SR, Inc. and U.S. Bank National Association. ♦♦ |
| 10.25 | Loan Obligation Purchase Agreement, dated August 18, 2015, by and between Arbor Realty SR, Inc. and Arbor Realty Commercial Real Estate Notes 2015-FL2, LTD.♦♦ |
| 10.26 | Placement Agreement, dated August 7, 2015, by and between Arbor Realty Commercial Real Estate Notes 2015-FL2, LTD., Arbor Realty Commercial Real Estate Notes 2015-FL2 LLC and J.P. Morgan Securities LLC. ♦♦ |
| 21.1 | List of Subsidiaries of Arbor Realty Trust, Inc. |
| 23.1 | Consent of Ernst & Young LLP, independent registered public accounting firm. |
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14. |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14. |
| 32 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.1 | Financial statements from the Annual Report on Form 10-K of Arbor Realty Trust, Inc. for the year ended December 31, 2015, filed on February 26, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Notes to Consolidated Financial Statements and (vii) Schedule IV. |

**Exhibit Index**

Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K (No. 001-32136) filed on December 11, 2007.

* Incorporated by reference to the Registrant's Registration Statement on Form S-11 (Registration No. 333-110472), as amended, filed on November 13, 2003.

** Incorporated by reference to the Registrant's Annual Report of Form 10-K for the year ended December 31, 2004.

♣ Incorporated by reference to the Registrant's Form 8-A filed on February 1, 2013.

♣♣ Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

♣♣♣ Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.

♠ Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.

§ Incorporated by reference to the Registrant's Form 8-A filed on May 8, 2013.

§§ Incorporated by reference to the Registrant's Form 8-A filed on February 24, 2014.

§§§ Incorporated by reference to the Registrant's Form 8-K filed on May 12, 2014.

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♦ Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.

♦♦ Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARBOR REALTY TRUST, INC.
By: /s/ IVAN KAUFMAN

Name: Ivan Kaufman
Title: *Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ IVAN KAUFMAN<br>Ivan Kaufman | Chairman of the Board of Directors, Chief Executive Officer and President (Principal Executive Officer) | February 26, 2016 |
| /s/ PAUL ELENIO<br>Paul Elenio | Chief Financial Officer (Principal Financial Officer) | February 26, 2016 |
| /s/ ARCHIE R. DYKES<br>Archie R. Dykes | Director | February 26, 2016 |
| /s/ KAREN K. EDWARDS<br>Karen K. Edwards | Director | February 26, 2016 |
| /s/ WILLIAM C. GREEN<br>William C. Green | Director | February 26, 2016 |
| /s/ WILLIAM HELMREICH<br>William Helmreich | Director | February 26, 2016 |
| /s/ STANLEY KREITMAN<br>Stanley Kreitman | Director | February 26, 2016 |
| /s/ MELVIN F. LAZAR<br>Melvin F. Lazar | Director | February 26, 2016 |
| /s/ JOSEPH MARTELLO<br>Joseph Martello | Director | February 26, 2016 |