ARBOR REALTY TRUST INC
Form 10-Q
August 03, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

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

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)

(Registrant s telephone number, including area code): **(516) 506-4200**

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 **x** No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes **x** No o

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

Large accelerated filer o	Accelerated filer **x**	Smaller reporting company o
Non-accelerated filer o (Do not check if a smaller reporting company)		Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 **x**

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. Common stock, $0.01 par value per share: 75,390,813 outstanding as of July 27, 2018.

Table of Contents

INDEX

Table of Contents

Forward-Looking Statements

The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in Arbor Realty Trust, Inc. We urge you to carefully review and consider the various disclosures made by us in this report.

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. We use words such as anticipate, expect, believe, intend, should, will, may and similar expressions to identify forward-looking statements, although not al 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 our status with government-sponsored enterprises affecting our ability to originate loans through such programs; 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; changes in federal and state laws and regulations, including changes in tax laws; the availability and cost of capital for future investments; and competition. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our 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.

Additional information regarding these and other risks and uncertainties we face is contained in our annual report on Form 10-K for the year ended December 31, 2017 (the 2017 Annual Report) filed with the Securities and Exchange Commission (SEC) on February 23, 2018 and in our other reports and filings with the SEC.

Although we believe 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.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

($ in thousands, except share and per share data)

		June 30, 2018 (Unaudited)		December 31, 2017
Assets:				
Cash and cash equivalents	$	106,968	$	104,374
Restricted cash		173,686		139,398
Loans and investments, net		3,064,798		2,579,127
Loans held-for-sale, net		311,487		297,443
Capitalized mortgage servicing rights, net		257,021		252,608
Securities held-to-maturity, net		50,342		27,837
Investments in equity affiliates		24,144		23,653
Real estate owned, net		14,650		16,787
Due from related party		10,162		688
Goodwill and other intangible assets		118,965		121,766
Other assets		72,097		62,264
Total assets	$	4,204,320	$	3,625,945
Liabilities and Equity:				
Credit facilities and repurchase agreements	$	910,504	$	528,573
Collateralized loan obligations		1,590,644		1,418,422
Debt fund		68,270		68,084
Senior unsecured notes		122,343		95,280
Convertible senior unsecured notes, net		235,431		231,287
Junior subordinated notes to subsidiary trust issuing preferred securities		139,909		139,590
Related party financing				50,000
Due to related party		335		
Due to borrowers		78,159		99,829
Allowance for loss-sharing obligations		31,402		30,511
Other liabilities		83,811		99,813
Total liabilities		3,260,808		2,761,389
Commitments and contingencies (Note 14)				
Equity:				
Arbor Realty Trust, Inc. stockholders equity:				
Preferred stock, cumulative, redeemable, $0.01 par value: 100,000,000 shares authorized; special voting preferred shares; 21,230,769 shares issued and outstanding; 8.25% Series A, $38,788 aggregate liquidation preference; 1,551,500 shares issued and outstanding; 7.75% Series B, $31,500 aggregate liquidation preference; 1,260,000 shares issued and outstanding; 8.50%		89,508		89,508

Series C, $22,500 aggregate liquidation preference; 900,000 shares issued and outstanding				
Common stock, $0.01 par value: 500,000,000 shares authorized; 68,570,617 and 61,723,387 shares issued and outstanding, respectively		686		617
Additional paid-in capital		766,933		707,450
Accumulated deficit		(87,128)		(101,926)
Accumulated other comprehensive income				176
Total Arbor Realty Trust, Inc. stockholders equity		769,999		695,825
Noncontrolling interest		173,513		168,731
Total equity		943,512		864,556
Total liabilities and equity	$	4,204,320	$	3,625,945

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

($ in thousands, except share and per share data)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest income	$ 59,295	$ 34,468	$ 110,908	$ 67,993
Interest expense	37,884	20,411	71,271	39,848
Net interest income	21,411	14,057	39,637	28,145
Other revenue:				
Gain on sales, including fee-based services, net	15,622	18,830	33,815	38,001
Mortgage servicing rights	17,936	17,254	37,571	37,284
Servicing revenue, net	10,871	6,609	20,418	11,403
Property operating income	2,964	2,863	5,874	6,086
Other income, net	(470)	(821)	2,408	(1,707)
Total other revenue	46,923	44,735	100,086	91,067
Other expenses:				
Employee compensation and benefits	26,815	21,825	56,309	41,666
Selling and administrative	8,873	7,835	17,789	15,529
Property operating expenses	2,856	2,622	5,652	5,260
Depreciation and amortization	1,845	1,816	3,691	3,713
Impairment loss on real estate owned	2,000	1,500	2,000	2,700
Provision for loss sharing (net of recoveries)	348	532	821	2,212
Provision for loan losses (net of recoveries)	(2,127)	(1,760)	(1,802)	(2,456)
Management fee - related party		2,673		6,673
Total other expenses	40,610	37,043	84,460	75,297
Income before gain on extinguishment of debt, income (loss) from equity affiliates and income taxes	27,724	21,749	55,263	43,915
Gain on extinguishment of debt				7,116
Income (loss) from equity affiliates	1,387	(3)	2,132	760
(Provision for) benefit from income taxes	(4,499)	(3,435)	4,285	(9,536)
Net income	24,612	18,311	61,680	42,255
Preferred stock dividends	1,888	1,888	3,777	3,777
Net income attributable to noncontrolling interest	5,557	4,494	14,547	10,935
Net income attributable to common stockholders	$ 17,167	$ 11,929	$ 43,356	$ 27,543
Basic earnings per common share	$ 0.26	$ 0.21	$ 0.68	$ 0.51
Diluted earnings per common share	$ 0.25	$ 0.21	$ 0.66	$ 0.50
Weighted average shares outstanding:				
Basic	65,683,057	56,652,334	63,773,306	54,071,085
Diluted	90,055,170	79,064,503	87,420,543	76,365,118
Dividends declared per common share	$ 0.25	$ 0.18	$ 0.46	$ 0.35

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(in thousands)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income	$ 24,612	$ 18,311	$ 61,680	$ 42,255
Unrealized loss on securities available-for-sale, at fair value		(147)		(118)
Reclassification of net unrealized gains on available-for-sale securities into accumulated deficit (Note 2)			(176)	
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings				238
Comprehensive income	24,612	18,164	61,504	42,375
Less:				
Comprehensive income attributable to noncontrolling interest	5,557	4,453	14,504	10,972
Preferred stock dividends	1,888	1,888	3,777	3,777
Comprehensive income attributable to common stockholders	$ 17,167	$ 11,823	$ 43,223	$ 27,626

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

($ in thousands, except shares)

Six Months Ended June 30, 2018

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Arbor Realty Trust, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance December 31, 2017	24,942,269	$ 89,508	61,723,387	$ 617	$ 707,450	$ (101,926)	$ 176	$ 695,825	$ 168,731	$ 864,556
Issuance of common stock, net			6,452,700	65	55,842			55,907		55,907
Stock-based compensation			396,030	4	3,641			3,645		3,645
Forfeiture of unvested restricted stock			(1,500)							
Distributions - common stock						(28,727)		(28,727)		(28,727)
Distributions - preferred stock						(3,777)		(3,777)		(3,777)
Distributions - preferred stock of private REIT						(7)		(7)		(7)
Distributions - noncontrolling interest									(9,765)	(9,765)
Net income						47,133		47,133	14,547	61,680
Reclassification of net unrealized gains on available-for-sale securities into accumulated deficit						176	(176)			
Balance June 30, 2018	24,942,269	$ 89,508	68,570,617	$ 686	$ 766,933	$ (87,128)	$	$ 769,999	$ 173,513	$ 943,512

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six Months Ended June 30, 2018	2017
Operating activities:		
Net income	$ 61,680	$ 42,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,691	3,713
Stock-based compensation	3,645	2,986
Amortization and accretion of interest and fees, net	7,658	1,842
Amortization of capitalized mortgage servicing rights	23,802	23,716
Originations of loans held-for-sale	(2,080,393)	(2,288,694)
Proceeds from sales of loans held-for-sale, net of gain on sale	2,064,486	2,569,203
Payoffs and paydowns of loans held-for-sale	22	73
Mortgage servicing rights	(37,571)	(37,284)
Write-off of capitalized mortgage servicing rights from payoffs	10,078	6,497
Impairment loss on real estate owned	2,000	2,700
Provision for loan losses (net of recoveries)	(1,802)	(2,456)
Provision for loss sharing (net of recoveries)	821	2,212
Net charge-offs for loss sharing obligations	70	(1,822)
Deferred tax (benefit) provision	(13,135)	937
Income from equity affiliates	(2,132)	(760)
Gain on extinguishment of debt		(7,116)
Changes in operating assets and liabilities	(24,307)	(11,240)
Net cash provided by operating activities	18,613	306,762
Investing Activities:		
Loans and investments funded and originated, net	(875,212)	(551,468)
Payoffs and paydowns of loans and investments	429,133	456,251
Internalization of management team		(25,000)
Deferred fees	6,309	3,015
Investments in real estate, net	(220)	(433)
Contributions to equity affiliates	(2,460)	(650)
Distributions from equity affiliates	2,807	374
Purchase of securities held-to-maturity, net	(21,637)	(7,838)
Payoffs and paydowns of securities held-to-maturity	519	8
Proceeds from insurance settlements, net	1,294	1,014
Due to borrowers and reserves	(58,585)	(753)
Net cash used in investing activities	(518,052)	(125,480)
Financing activities:		
Proceeds from repurchase agreements, loan participations and credit facilities	3,971,279	4,343,816
Payoffs and paydowns of repurchase agreements, loan participations and credit facilities	(3,588,443)	(4,744,921)
Payoffs and paydowns of collateralized loan obligations	(267,750)	
Payoffs of senior unsecured notes	(97,860)	
Payoff of related party financing	(50,000)	
Payoffs of junior subordinated notes to subsidiary trust issuing preferred securities		(12,691)
Proceeds from issuance of collateralized loan obligations	441,000	279,000

Proceeds from issuance of senior unsecured notes		125,000		
Proceeds from issuance of convertible senior unsecured notes				13,750
Proceeds from issuance of common stock, net		55,907		76,225
Receipts on swaps and returns of margin calls from counterparties				431
Distributions paid on common stock		(28,727)		(19,781)
Distributions paid on noncontrolling interest		(9,765)		(7,431)
Distributions paid on preferred stock		(3,777)		(3,777)
Distributions paid on preferred stock of private REIT		(7)		(7)
Payment of deferred financing costs		(10,536)		(5,857)
Net cash provided by (used in) financing activities		536,321		(81,243)
Net increase in cash, cash equivalents and restricted cash		36,882		100,039
Cash, cash equivalents and restricted cash at beginning of period		243,772		167,960
Cash, cash equivalents and restricted cash at end of period	$	280,654	$	267,999

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

(in thousands)

	Six Months Ended June 30, 2018		2017	
Supplemental cash flow information:				
Cash used to pay interest	$	58,675	$	35,142
Cash used to pay taxes	$	10,698	$	13,452
Supplemental schedule of non-cash investing and financing activities:				
Distributions accrued on 8.25% Series A preferred stock	$	267	$	267
Distributions accrued on 7.75% Series B preferred stock	$	203	$	203
Distributions accrued on 8.50% Series C preferred stock	$	159	$	159

See Notes to Consolidated Financial Statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Note 1 Description of Business

Arbor Realty Trust, Inc. (we, us, or our) is a Maryland corporation formed in 2003. We operate through two business segments: our Structured Loan Origination and Investment Business (Structured Business) and our Agency Loan Origination and Servicing Business (Agency Business). Through our Structured Business, we 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. Through our Agency Business, we originate, sell and service a range of multifamily finance products through the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the government-sponsored enterprises, or the GSEs), the Government National Mortgage Association (Ginnie Mae), Federal Housing Authority (FHA) and the U.S. Department of Housing and Urban Development (together with Ginnie Mae and FHA, HUD) and conduit/commercial mortgage-backed securities (CMBS) programs. We retain the servicing rights and asset management responsibilities on substantially all loans we originate and sell under the GSE and HUD programs. We are an approved Fannie Mae Delegated Underwriting and Servicing (DUS) lender nationally, a Freddie Mac Multifamily Conventional Loan lender, seller/servicer, in New York, New Jersey and Connecticut, a Freddie Mac affordable, manufactured housing, senior housing and small balance loan (SBL) lender, seller/servicer, nationally and a HUD MAP and LEAN senior housing/healthcare lender nationally.

We have operated the Agency Business since July 2016 when we acquired it from Arbor Commercial Mortgage, LLC (ACM or our Former Manager). We were externally managed and advised by ACM and, effective May 31, 2017, terminated the existing management agreement with ACM to fully internalize our management team. Refer to our 2017 Annual Report for details of our acquisition of the Agency Business (the Acquisition) and termination of the management agreement.

Substantially all of our operations are conducted through our operating partnership, Arbor Realty Limited Partnership (ARLP), for which we serve as the general partner, and ARLP s subsidiaries. We are organized to qualify as a real estate investment trust (REIT) for U.S. federal income tax purposes. Certain of our assets that produce non-qualifying income, primarily within the Agency Business, are operated through taxable REIT subsidiaries (TRS), which is part of our TRS consolidated group (the TRS Consolidated Group) and is subject to U.S. federal, state and local income taxes. See Note 17 Income Taxes for details.

Note 2 Basis of Presentation and Significant Accounting Policies

Basis of Presentation

Our interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), for interim financial statements and the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements prepared under GAAP have been condensed or omitted. In our opinion, all adjustments considered necessary for a fair presentation of our financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with our financial statements and notes thereto included in our 2017 Annual Report.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation. See the following Recently Adopted Accounting Pronouncements section for the cash flows impact of the retrospective adoption of Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows: Restricted Cash and ASU 2016-15, Statement of Cash Flows.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Principles of Consolidation

These consolidated financial statements include our financial statements and the financial statements of our wholly owned subsidiaries, partnerships and other joint ventures in which we own a controlling interest, including variable interest entities (VIEs) of which we are the primary beneficiary. Entities in which we have a significant influence are accounted for under the equity method. See Note 15 Variable Interest Entities for information about our VIEs. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us 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.

Significant Accounting Policies

We describe our significant accounting policies in our 2017 Annual Report. There have been no significant changes in our significant accounting policies since December 31, 2017.

Recently Adopted Accounting Pronouncements

Description	Adoption Date	Effect on Financial Statements
Since 2014, the Financial Accounting Standards Board (FASB) has issued several amendments to its guidance on revenue recognition. The amended guidance, among other things, introduces a new framework for a single comprehensive model that can be used when accounting for revenue and supersedes most current revenue recognition guidance, including that which pertains to specific industries. The core principle states that an entity should recognize revenue to depict the transfer of promised goods or services in an	First quarter of 2018.	The adoption of this guidance did not have a material impact on our consolidated financial statements. This standard may impact the timing of gains on certain future sales of real estate.

amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods and services. It also requires expanded quantitative and qualitative disclosures that will enable financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Most revenue associated with financial instruments, including interest and loan origination fees, along with gains and losses on investment securities, derivatives and sales of financial instruments are excluded from the scope of the guidance.		
In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows: Restricted Cash. This ASU requires changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents to be shown in the statement of cash flows. Previous guidance required the change in cash and cash equivalents be shown on the statement of cash flows, with cash used to fund restricted cash and restricted cash equivalents shown as a component of operating, investing, or financing activities. Entities are now also required to reconcile the total of cash, cash equivalents, restricted cash, and restricted cash equivalents as presented in the statement of cash flows to the related captions in the balance sheet when these balances are presented separately in the balance sheet.	First quarter of 2018.	This guidance required retrospective adoption, therefore, we adjusted the cash flow statement for the comparable prior period. The following table shows the impact of the adoption of this guidance, as well as the adoption of ASU 2016-15 described below.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Description	Adoption Date	Effect on Financial Statements
In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows. This ASU provides eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows.	First quarter of 2018.	This guidance required retrospective adoption, therefore, we reclassified $1.0 million of proceeds from insurance settlements from net cash provided by operating activities to net cash used in investing activities for the six months ended June 30, 2017. In addition, we chose the cummulative earnings approach for distributions received from equity method investees, which did not result in any changes in the way we account for such distributions. The following table shows the impact of the adoption of this guidance, as well as the adoption of ASU 2016-18 described above.

(in thousands)		**Six Months Ended June 30, 2017**
As previously reported under GAAP applicable at the time		
Cash and cash equivalents at beginning of period	$	138,645
Net decrease in cash and cash equivalents		(57,886)
Cash and cash equivalents at end of period		80,759
Net cash provided by operating activities: changes in operating assets and liabilities		(10,270)
Net cash used in investing activities		(126,494)
Net cash used in financing activities		(239,307)
As currently reported under ASU 2016-18 and ASU 2016-15		
Cash, cash equivalents and restricted cash at beginning of period	$	167,960
Net increase in cash, cash equivalents and restricted cash		100,039
Cash, cash equivalents and restricted cash at end of period		267,999
Net cash provided by operating activities: changes in operating assets and liabilities		(11,240)
Net cash used in investing activities		(125,480)
Net cash provided by (used in) financing activities		(81,243)

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Consensuses of the FASB Emerging Issues Task Force. This ASU requires that unconsolidated equity investments not accounted for under the equity method be recorded at fair value, with changes in fair value recorded through net income. The accounting principles that permitted available-for-sale classification with unrealized holding gains and losses recorded in other comprehensive income for equity securities will no longer be applicable. In addition, financial liabilities measured using the fair value option will need to	First quarter of 2018.	The adoption of this guidance did not have a material impact on our consolidated financial statements. In connection with the adoption of this ASU, we reclassified $0.2 million of unrealized gains on available-for-sale securities from accumulated other comprehensive income to accumulated deficit.

present any change in fair value caused by a change in instrument-specific credit risk separately in other comprehensive income.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Recently Issued Accounting Pronouncements

The following table is not intended to represent all recently issued accounting pronouncements that are not yet effective and which have not yet been adopted by us. This table should be read in conjunction with the recently issued accounting pronouncements section included in our 2017 Annual Report.

Description	Effective Date	Effect on Financial Statements
In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation to expand the scope of ASC Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees.	First quarter of 2019.	We have evaluated ASU 2018-07 and determined the adoption of this standard will not have a significant impact on our consolidated financial statements.

Note 3 Loans and Investments

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

	June 30, 2018	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	Wtd. Avg. First Dollar LTV Ratio (2)	Wtd. Avg. Last Dollar LTV Ratio (3)
Bridge loans	$ 2,891,974	92%	167	6.58%	20.3	0%	73%
Preferred equity investments	151,604	5%	10	8.18%	73.7	60%	85%
Mezzanine loans	91,301	3%	10	10.28%	19.8	21%	68%
	3,134,879	100%	187	6.76%	22.8	4%	74%
Allowance for loan losses	(58,733)						
Unearned revenue	(11,348)						
Loans and investments, net	$ 3,064,798						
	December 31, 2017						
Bridge loans	$ 2,422,105	91%	150	6.10%	20.9	0%	72%

Preferred equity investments		142,892	6%	12	6.47%	68.7	64%	90%
Mezzanine loans		87,541	3%	8	10.78%	24.8	20%	63%
		2,652,538	100%	170	6.28%	23.6	4%	73%
Allowance for loan losses		(62,783)						
Unearned revenue		(10,628)						
Loans and investments, net	$	2,579,127						

(1) Weighted Average Pay Rate is a weighted average, based on the unpaid principal balance (UPB) 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 maturity are not included in the weighted average pay rate as shown in the table.

(2) The First Dollar Loan-to-Value (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.

Concentration of Credit Risk

We are subject to concentration risk in that, at June 30, 2018, the UPB related to 49 loans with five different borrowers represented 25% of total assets. At December 31, 2017, the UPB related to 42 loans with five different borrowers represented 24% of total assets. During both the six months ended June 30, 2018 and the year ended December 31, 2017, no single loan or investment represented more than 10% of our total assets and no single investor group generated over 10% of our revenue.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

We assign a credit risk rating of pass, pass/watch, special mention, substandard or doubtful to each loan and investment, with a pass rating being the lowest risk and a doubtful rating being the highest risk. 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, and 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. All portfolio assets are subject to, at a minimum, a thorough quarterly financial evaluation in which historical operating performance and forward-looking projections are reviewed, however, we maintain a higher level of scrutiny and focus on loans that we consider high risk and that possess deteriorating credit quality.

Generally speaking, given our typical loan profile, risk ratings of pass, pass/watch and special mention suggest 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 substandard indicates we anticipate the loan may require a modification of some kind. A risk rating of doubtful indicates we expect the loan to underperform over its term, and there could be loss of interest and/or principal. Further, while the above are the primary guidelines used in determining a certain risk rating, subjective items such as borrower strength, market strength or asset quality 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 June 30, 2018 and December 31, 2017, we identified eight loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of $128.2 million and $126.5 million, respectively, and a weighted average last dollar LTV ratio of 92% and 93%, respectively.

A summary of the loan portfolio s weighted average internal risk ratings and LTV ratios by asset class is as follows ($ in thousands):

		June 30, 2018			
Asset Class	**UPB**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**Wtd. Avg. First Dollar LTV Ratio**	**Wtd. Avg. Last Dollar LTV Ratio**
Multifamily	$ 2,389,630	76%	pass/watch	4%	73%
Self Storage	301,830	10%	pass/watch	0%	72%
Land	133,811	4%	substandard	0%	90%
Office	123,060	4%	special mention	0%	64%
Healthcare	92,465	3%	pass	0%	81%
Hotel	55,975	2%	pass/watch	23%	74%
Retail	36,408	1%	pass/watch	8%	76%
Commercial	1,700	<1%	doubtful	63%	63%
Total	$ 3,134,879	100%	pass/watch	4%	74%

		December 31, 2017				
Multifamily	$	1,925,529	73%	pass/watch	4%	72%
Self Storage		301,830	11%	pass	0%	71%
Land		132,828	5%	substandard	0%	90%
Office		107,853	4%	pass/watch	1%	64%
Healthcare		55,615	2%	pass/watch	0%	74%
Hotel		90,725	3%	special mention	37%	81%
Retail		36,458	1%	pass/watch	8%	66%
Commercial		1,700	<1%	doubtful	63%	63%
Total	$	2,652,538	100%	pass/watch	4%	73%

Geographic Concentration Risk

As of June 30, 2018, 20%, 19% and 10% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Texas and California, respectively. As of December 31, 2017, 23%, 21% and 11% of the outstanding balance of our loan and investment portfolio had underlying properties in Texas, New York and California, respectively.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Impaired Loans and Allowance for Loan Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Allowance at beginning of period	$ 63,108	$ 83,016	$ 62,783	$ 83,712
Provision for loan losses	1,325		1,650	
Charge-offs	(3,173)		(3,173)	
Recoveries of reserves	(2,527)	(1,760)	(2,527)	(2,456)
Allowance at end of period	$ 58,733	$ 81,256	$ 58,733	$ 81,256

During the three and six months ended June 30, 2018, we determined that the fair value of the underlying collateral (land development project) securing six loans with a carrying value of $120.9 million was less than the net carrying value of the loans, which resulted in a provision for loan losses of $1.3 million and $1.7 million, respectively.

During the three and six months ended June 30, 2018, we settled, for $31.6 million, a non-performing preferred equity investment in a hotel property with a net carrying value of $29.1 million, resulting in a reserve recovery of $2.5 million and a charge-off of $3.2 million. In addition, we received a payment and recorded a recovery of $0.9 million related to a written-off junior participation interest in an office building.

During the three and six months ended June 30, 2017, a fully reserved multifamily mezzanine loan with a UPB of $1.8 million paid off in full, resulting in a $1.8 million reserve recovery. In addition, during the first quarter of 2017, we recorded a reserve recovery of $0.7 million on a multifamily bridge loan.

The ratio of net recoveries to the average loans and investments outstanding were de minimus for all periods presented.

There were no loans for which the fair value of 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 June 30, 2018 and 2017.

We have six loans with a carrying value totaling $120.9 million at June 30, 2018, which mature in September 2018, that are collateralized by a land development project. The loans do not carry a current pay rate of interest, but five of the loans with a carrying value totaling $111.5 million entitle us to a weighted average accrual rate of interest of 8.89%. In 2008, we suspended the recording of the accrual rate of interest on these loans, as they were impaired and we deemed the collection of this interest to be doubtful. At June 30, 2018 and December 31, 2017, we had cumulative allowances for loan losses of $50.7 million and $49.1 million, respectively, related to these loans. The loans are subject to certain risks associated with a development project including, but not limited to, availability of construction financing, increases in projected construction costs, demand for the development s outputs upon completion of the project, and litigation risk. Additionally, these loans were not classified as non-performing as the borrower is in compliance with all of the terms and conditions of the loans.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

A summary of our impaired loans by asset class is as follows (in thousands):

	June 30, 2018			Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
Asset Class	**UPB**	**Carrying Value (1)**	**Allowance for Loan Losses**	**Average Recorded Investment (2)**	**Interest Income Recognized**	**Average Recorded Investment (2)**	**Interest Income Recognized**
Land	$ 132,559	$ 125,693	$ 55,533	$ 131,985	$	$ 131,823	$
Hotel				17,375		17,375	
Office	2,279	2,279	1,500	2,281	31	2,284	60
Commercial	1,700	1,700	1,700	1,700		1,700	
Total	$ 136,538	$ 129,672	$ 58,733	$ 153,341	$ 31	$ 153,181	$ 60
	December 31, 2017			**Three Months Ended June 30, 2017**		**Six Months Ended June 30, 2017**	
Land	$ 131,086	$ 124,812	$ 53,883	$ 131,086	$	$ 131,086	$
Hotel	34,750	34,750	5,700	34,750	60	34,750	371
Office	2,288	2,288	1,500	27,556	27	27,558	51
Commercial	1,700	1,700	1,700	1,700		1,700	
Multifamily				880		1,271	22
Total	$ 169,824	$ 163,550	$ 62,783	$ 195,972	$ 87	$ 196,365	$ 444

(1) Represents the UPB of four impaired loans (less unearned revenue and other holdbacks and adjustments) by asset class at both June 30, 2018 and December 31, 2017.

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

At June 30, 2018, two loans with an aggregate net carrying value of $0.8 million, net of related loan loss reserves of $1.7 million, were classified as non-performing. At December 31, 2017, two loans with an aggregate net carrying value of $29.1 million, net of related loan loss reserves of $7.4 million, were classified as non-performing. Income from non-performing loans is generally recognized on a cash basis when it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

A summary of our non-performing loans by asset class is as follows (in thousands):

	June 30, 2018			December 31, 2017		
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**

Commercial	$ 1,700	$	$ 1,700	$ 1,700	$	$ 1,700
Hotel				34,750		34,750
Office	831		831			
Total	$ 2,531	$	$ 2,531	$ 36,450	$	$ 36,450

At both June 30, 2018 and December 31, 2017, there were no loans contractually past due 90 days or more that were still accruing interest.

There were no loan modifications, refinancings and/or extensions during the six months ended June 30, 2018 that were considered troubled debt restructurings. During the six months ended June 30, 2017, there was a $34.8 million loan to a hotel property that was modified and considered a troubled debt restructuring as a result of a forbearance agreement entered into with the borrower in the second quarter of 2017. This loan was subsequently classified as non-performing. This loan was modified to increase the total recovery of the combined principal and interest. There were no other loans in which we considered the modifications to be troubled debt restructurings and no additional loans considered to be impaired as a result of our troubled debt restructuring analysis performed during the six months ended June 30, 2018 and 2017.

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. At June 30, 2018, we had total interest reserves of $47.6 million on 92 loans with an aggregate UPB of $1.89 billion. At December 31, 2017, we had total interest reserves of $52.5 million on 81 loans with an aggregate UPB of $1.57 billion.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Note 4 Loans Held-for-Sale, Net

Loans held-for-sale, net consists of the following (in thousands):

	June 30, 2018	December 31, 2017
Fannie Mae	$ 204,658	$ 243,717
Freddie Mac	102,357	47,545
FHA	1,119	987
	308,134	292,249
Fair value of future MSR	4,754	5,806
Unearned discount	(1,401)	(612)
Loans held-for-sale, net	$ 311,487	$ 297,443

Our loans held-for-sale, net are typically sold within 60 days of loan origination and the gain on sales are included in gain on sales, including fee-based services, net in the consolidated statements of income. During the three and six months ended June 30, 2018, we sold $1.02 billion and $2.08 billion, respectively, of loans held-for-sale and recorded gain on sales of $14.8 million and $32.2 million, respectively. During the three and six months ended June 30, 2017, we sold $1.20 billion and $2.57 billion, respectively, of loans held-for-sale and recorded gains on sales of $17.6 million and $35.7 million, respectively. At June 30, 2018 and December 31, 2017, there were no loans held-for-sale that were 90 days or more past due, and there were no loans held-for-sale that were placed on a non-accrual status.

Note 5 Capitalized Mortgage Servicing Rights

Our capitalized mortgage servicing rights (MSRs) reflect commercial real estate MSRs derived from loans sold in our Agency Business. The discount rates used to determine the present value of our MSRs throughout the periods presented for all MSRs were between 8% - 15% (representing a weighted average discount rate of 12%) based on our best estimate of market discount rates. The weighted average estimated life remaining of our MSRs was 7.3 years and 7.2 years at June 30, 2018 and December 31, 2017, respectively.

A summary of our capitalized MSR activity is as follows (in thousands):

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Acquired	Originated	Total	Acquired	Originated	Total
Balance at beginning of period	$ 131,934	$ 123,798	$ 255,732	$ 143,270	$ 109,338	$ 252,608
Additions		18,493	18,493		38,293	38,293
Amortization	(7,517)	(4,420)	(11,937)	(15,512)	(8,290)	(23,802)
Write-downs and payoffs	(4,400)	(867)	(5,267)	(7,741)	(2,337)	(10,078)
Balance at end of period	$ 120,017	$ 137,004	$ 257,021	$ 120,017	$ 137,004	$ 257,021

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
Balance at beginning of period	$ 180,945	$ 57,986	$ 238,931	$ 194,801	$ 32,942	$ 227,743
Additions		19,083	19,083		45,553	45,553
Amortization	(9,660)	(2,168)	(11,828)	(20,122)	(3,594)	(23,716)
Write-downs and payoffs	(3,096)	(7)	(3,103)	(6,490)	(7)	(6,497)
Balance at end of period	$ 168,189	$ 74,894	$ 243,083	$ 168,189	$ 74,894	$ 243,083

We collected prepayment fees of $4.9 million and $8.7 million during the three and six months ended June 30, 2018, respectively, which are included as a component of servicing revenue, net on the consolidated statements of income. During the three and six months ended June 30, 2017, we collected prepayment fees totaling $2.1 million and $4.1 million, respectively. As of June 30, 2018 and December 31, 2017, we had no valuation allowance recorded on any of our MSRs.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

The expected amortization of capitalized MSRs recorded as of June 30, 2018 is shown in the table below. Actual amortization may vary from these estimates (in thousands).

Year	Amortization
2018 (six months ending 12/31/2018)	$ 23,934
2019	45,327
2020	40,340
2021	33,259
2022	26,708
2023	22,303
Thereafter	65,150
Total	$ 257,021

Note 6 Mortgage Servicing

Product and geographic concentrations that impact our servicing revenue are as follows ($ in thousands):

June 30, 2018				
Product Concentrations			Geographic Concentrations	
Product	UPB	Percent of Total	State	UPB Percentage of Total
Fannie Mae	$ 12,794,277	75%	Texas	21%
Freddie Mac	3,730,980	22%	North Carolina	10%
FHA	585,017	3%	California	8%
Total	$ 17,110,274	100%	New York	8%
			Georgia	6%
			Florida	6%
			Other (1)	41%
			Total	100%

December 31, 2017				
Product Concentrations			Geographic Concentrations	
Product	UPB	Percent of Total	State	UPB Percentage of Total
Fannie Mae	$ 12,502,699	77%	Texas	22%
Freddie Mac	3,166,134	20%	North Carolina	10%
FHA	537,482	3%	California	8%

Total	$	16,206,315	100%	New York	8%
				Georgia	6%
				Florida	6%
				Other (1)	40%
				Total	100%

(1) No other individual state represented 4% or more of the total.

At June 30, 2018 and December 31, 2017, our weighted average servicing fee was 46.9 basis points and 47.7 basis points, respectively. We held cash in escrow for these loans totaling $482.8 million and $477.9 million at June 30, 2018 and December 31, 2017, respectively, which is not reflected in our consolidated balance sheets. These escrows are maintained in separate accounts at several federally insured depository institutions, which may exceed FDIC insured limits. We earn interest income on these escrow deposits, generally based on a market rate of interest negotiated with the financial institutions that hold the escrow deposits. Interest earned on escrows, net of interest paid to the borrower, was $2.7 million and $4.9 million during the three and six months ended June 30, 2018, respectively, and $1.1 million and $1.8 million during the three and six months ended June 30, 2017, respectively, and is a component of servicing revenue, net in the consolidated statements of income.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Note 7 Securities Held-to-Maturity

Freddie Mac may choose to hold, sell or securitize loans we sell to them under the Freddie Mac SBL program. As part of the securitizations under the SBL program, we have the option to purchase the bottom tranche bond, generally referred to as the B Piece, that represents the bottom 10%, or highest risk, of the securitization. During the six months ended June 30, 2018, we purchased two B Piece bonds with an initial face value of $31.2 million, at a discount, for $21.6 million. As of June 30, 2018, we retained 49%, or $72.2 million initial face value, of five B Piece bonds, which were purchased at a discount for $48.8 million, and sold the remaining 51% to a third party at par. These held-to-maturity securities are carried at cost, net of unamortized discounts, and are collateralized by a pool of multifamily mortgage loans, bear interest at an initial weighted average variable rate of 3.63% and have an estimated weighted average maturity of 5.7 years. The weighted average effective interest rate was 11.42% and 12.97% at June 30, 2018 and December 31, 2017, respectively, including the accretion of discount. Approximately $10.8 million is estimated to mature within one year, $31.0 million is estimated to mature after one year through five years, $20.4 million is estimated to mature after five years through ten years and $9.2 million is estimated to mature after ten years.

The following is a summary of the held-to-maturity securities we held (in thousands):

	Face Value	Carrying Value	Unrealized (Loss) Gain	Estimated Fair Value
		June 30, 2018		
B Piece bonds	$ 71,222	$ 50,342	$ (189)	$ 50,153
		December 31, 2017		
B Piece bonds	$ 40,566	$ 27,837	$ 602	$ 28,439

As of June 30, 2018, no impairment was recorded on these held-to-maturity securities. During the three and six months ended June 30, 2018, we recorded interest income of $0.5 million and $1.1 million, respectively, and, during the three and six months ended June 30, 2017, we recorded interest income of $0.3 million and $0.4 million, respectively, related to these investments.

Note 8 Investments in Equity Affiliates

We account for all investments in equity affiliates under the equity method. The following is a summary of our investments in equity affiliates (in thousands):

Equity Affiliates	Investments in Equity Affiliates at June 30, 2018	Investments in Equity Affiliates at December 31, 2017	UPB of Loans to Equity Affiliates at June 30, 2018
Arbor Residential Investor LLC	$ 19,631	$ 19,193	$
West Shore Café	2,193	2,140	1,688
Lightstone Value Plus REIT L.P	1,895	1,895	
JT Prime	425	425	
East River Portfolio			
Lexford Portfolio			280,500
Total	$ 24,144	$ 23,653	$ 282,188

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Arbor Residential Investor LLC (ARI). During the three and six months ended June 30, 2018, we recorded income of $0.7 million and $0.8 million, respectively, and, during both the three and six months ended June 30, 2017, we recorded a loss of $0.7 million to income (loss) from equity affiliates in our consolidated statements of income related to our investment in this residential mortgage banking business. In addition, during the first quarter of 2018, we made a $2.4 million payment for our proportionate share of a litigation settlement related to this investment, which was distributed back to us by our equity affiliate.

During both the six months ended June 30, 2018 and 2017, we received cash distributions totaling $0.4 million (which were classified as returns of capital) in connection with a joint venture that invests in non-qualified residential mortgages purchased from ARI s origination platform. During all periods presented, we recorded income of less than $0.1 million to income (loss) from equity affiliates in our consolidated statements of income related to this investment.

Lexford Portfolio. During the three and six months ended June 30, 2018, we received distributions of $0.6 million and $1.2 million, respectively, and, during the three and six months ended June 30, 2017, we received distributions of $0.6 million and $1.3 million, respectively, from this equity investment, which was recognized as income. See Note 18 Agreements and Transactions with Related Parties for details.

Note 9 Real Estate Owned

Our real estate assets at both June 30, 2018 and December 31, 2017 were comprised of a hotel property and an office building.

Real Estate Owned

	June 30, 2018			December 31, 2017		
(in thousands)	**Hotel Property**	**Office Building**	**Total**	**Hotel Property**	**Office Building**	**Total**
Land	$ 3,294	$ 4,509	$ 7,803	$ 3,294	$ 4,509	$ 7,803
Building and intangible assets	30,918	2,010	32,928	30,699	2,010	32,709
Less: Impairment loss	(13,307)	(2,500)	(15,807)	(13,307)	(500)	(13,807)
	(9,505)	(769)	(10,274)	(9,228)	(690)	(9,918)

Less: Accumulated depreciation and amortization												
Real estate owned, net	$	11,400	$	3,250	$	14,650	$	11,458	$	5,329	$	16,787

For the six months ended June 30, 2018 and 2017, our hotel property had a weighted average occupancy rate of 58% and 57%, respectively, a weighted average daily rate of $116 and $117, respectively, and weighted average revenue per available room of $67 for both periods. The operation of a hotel property is seasonal with the majority of revenues earned in the first two quarters of the calendar year. Of the total impairment losses recorded on our hotel property of $13.3 million, $1.5 million and $2.7 million were recorded during the three and six months ended June 30, 2017, respectively.

Our office building was fully occupied by a single tenant until April 2017 when the lease expired. The building is currently vacant. During the three months ended June 30, 2018, based on discussions with market participants, we determined that the office building exhibited indicators of impairment and performed an impairment analysis. As a result of this impairment analysis, we recorded an impairment loss of $2.0 million.

Our real estate owned assets had restricted cash balances totaling $0.8 million and $0.7 million at June 30, 2018 and December 31, 2017, respectively, due to escrow requirements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Note 10 Debt Obligations

Credit Facilities and Repurchase Agreements

The following table outlines borrowings under our credit facilities and repurchase agreements ($ in thousands):

				June 30, 2018			December 31, 2017		
	Current Maturity	Extended Maturity	Note Rate	Debt Carrying Value (1)	Collateral Carrying Value	Wtd. Avg. Note Rate	Debt Carrying Value (1)	Collateral Carrying Value	Wtd. Avg. Note Rate
Structured Business									
$375 million repurchase facility	Mar. 2020	Mar. 2021	L + 1.75% to 3.50%	$ 258,712	$ 354,500	4.39%	$ 102,350	$ 145,850	3.90%
$100 million repurchase facility	June 2019	June 2020	L + 1.75% to 2.00%	79,764	111,317	3.92%	2,445	6,600	3.61%
$75 million credit facility	Dec. 2018	N/A	L + 1.75% to 2.50%	24,901	36,799	3.89%			
$75 million credit facility	June 2019	N/A	L + 2.00%	2,894	4,700	4.15%	8,999	16,000	3.61%
$50 million credit facility	Feb. 2019	N/A	L + 2.00%	28,555	35,700	4.15%	32,538	40,700	3.61%
$50 million credit facility	Sept. 2019	Sept. 2021	L + 2.50% to 3.25%				3,581	4,625	4.88%
$25.5 million credit facility	Oct. 2019	N/A	L + 2.50%	15,742	34,000	4.65%	13,920	18,753	4.12%
$25 million working capital facility	June 2019	N/A	L + 2.25%	25,000		4.40%	10,000		4.12%
$23.2 million credit facility	Feb. 2020	Feb. 2021	L + 2.30%	23,085	30,900	4.45%			
$20 million credit facility	Mar. 2020	Mar. 2021	L + 2.50%	19,900	41,650	4.65%			

$17.4 million credit facility	June 2020	June 2021	L + 2.40%	12,374	15,844	4.55%			
$7.5 million credit facility	Aug. 2018	N/A	L + 2.75%	7,461	9,340	4.91%	7,432	9,340	4.37%
Repurchase facility - securities (2)	N/A	N/A	L + 2.50% to 3.50%	101,327		4.80%	53,938		4.45%
$3 million master security agreement	Oct. 2020	N/A	2.96% to 3.42%	1,504		3.20%	1,834		3.21%
$2.2 million master security agreement	Mar. 2021	N/A	4.60%	1,629		4.66%			
Structured Business total				$ 602,848	$ 674,750	4.30%	$ 237,037	$ 241,868	4.02%
Agency Business									
$500 million ASAP agreement (3)	N/A	N/A	L + 1.05%	$ 47,593	$ 47,593	3.14%	$ 121,880	$ 121,880	2.61%
$150 million credit facility	Jan. 2019	N/A	L + 1.30%	126,965	127,100	3.39%	21,802	21,821	2.96%
$150 million credit facility	Aug. 2018	N/A	L + 1.30%	111,669	111,678	3.39%	99,242	99,357	2.91%
$100 million credit facility (4)	June 2019	N/A	L + 1.25%	9,190	9,190	3.39%	23,785	23,785	2.86%
$100 million repurchase facility	Aug. 2018	N/A	L + 1.35%	12,239	12,250	3.44%	24,827	24,873	2.91%
Agency Business total				$ 307,656	$ 307,811	3.35%	$ 291,536	$ 291,716	2.78%
Consolidated total				$ 910,504	$ 982,561	3.98%	$ 528,573	$ 533,584	3.34%

---

(1) The debt carrying value for the Structured Business at June 30, 2018 and December 31, 2017 was net of unamortized deferred finance costs of $3.1 million and $2.2 million, respectively. The debt carrying value for the Agency Business at both June 30, 2018 and December 31, 2017 was net of unamortized deferred finance costs of $0.2 million.

(2) As of June 30, 2018 and December 31, 2017, this facility was collateralized by CLO bonds retained by us with a principal balance of $114.2 million and $61.0 million, respectively, and B Piece bonds with a carrying value of $50.3 million and $27.8 million, respectively.

(3) The note rate under this agreement is subject to a LIBOR Floor of 35 basis points.

(4) The committed amount under the facility was temporarily increased to $250.0 million, which expired in January 2018.

Structured Business

At June 30, 2018 and December 31, 2017, the weighted average interest rate for the credit facilities and repurchase agreements of our Structured Business, including certain fees and costs, such as structuring, commitment, non-use and warehousing fees, was 4.72% and 4.51%, respectively. The leverage on our loans and investment portfolio financed through our credit facilities and repurchase agreements, excluding the securities repurchase facility, working capital line of credit and the security agreements used to finance leasehold and capital expenditure improvements at our corporate office, was 71% and 72% at June 30, 2018 and December 31, 2017, respectively.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

In June 2018, we entered into a $17.4 million credit facility to finance a multifamily bridge loan. The facility bears interest at a rate of 240 basis points over LIBOR and matures in June 2020, with a one-year extension option.

In June 2018, we amended our $10.0 million working capital facility to increase the committed amount by $15.0 million to $25.0 million, reduce the interest rate by 25 basis points and extend the maturity date to June 2019.

In April 2018, we amended our $100.0 million repurchase facility adjusting the interest rate from 200 basis points over LIBOR to an interest rate range of 175 basis points to 200 basis points over LIBOR, depending on the class of loan financed.

In April 2018, we amended our $75.0 million credit facility adjusting the interest rate from 200 basis points to 250 basis points over LIBOR to an interest rate range of 175 basis points to 250 basis points over LIBOR, depending on the type of loan financed.

In March 2018, we amended our $225.0 million repurchase facility to increase the committed amount by $75.0 million to $300.0 million, reduce the interest rates by 50 basis points and extend the maturity date to March 2020 with a one-year extension option. In June 2018, we also temporarily increased the committed amount by $75.0 million to $375.0 million, which expires in December 2018.

In March 2018, we entered into a $20.0 million credit facility to finance a healthcare facility bridge loan. The facility bears interest at a rate of 250 basis points over LIBOR and matures in March 2020, with a one-year extension option.

In March 2018, we entered into a master security agreement that was used to finance certain capital expenditures. We have a $2.2 million note payable under this agreement which bears interest at a fixed rate of 4.60%, requires monthly amortization payments and matures in 2021.

In February 2018, we entered into a $23.2 million credit facility to finance a self storage bridge loan. The facility bears interest at a rate of 230 basis points over LIBOR and matures in February 2020, with a one-year extension option.

Agency Business

In April 2018, we amended our $150.0 million credit facility reducing the interest rate 5 basis points to 130 basis points over LIBOR. In July 2018, we temporarily extended the maturity date to August 2018 and are currently in negotiations to amend the agreement and extend its maturity.

In January 2018, we amended our $150.0 million warehouse facility reducing the interest rate 10 basis points to 130 basis points over LIBOR and extending the maturity date one year to January 2019.

Collateralized Loan Obligations (CLOs)

We account for our CLO transactions on our consolidated balance sheet as financing facilities. Our CLOs are VIEs for which we are the primary beneficiary and are consolidated in our financial statements. The investment grade tranches are treated as secured financings, and are non-recourse to us.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

The following table outlines borrowings and the corresponding collateral under our CLOs ($ in thousands):

	Debt			Collateral (3)		
				Loans		Cash
June 30, 2018	**Face Value**	**Carrying Value (1)**	**Wtd. Avg. Rate (2)**	**UPB**	**Carrying Value**	**Restricted Cash (4)**
CLO X	$ 441,000	$ 435,885	3.59%	$ 502,781	$ 500,646	$ 49,554
CLO IX	356,400	351,625	3.50%	460,925	459,562	75
CLO VIII	282,874	279,221	3.45%	330,112	329,213	26,288
CLO VII	279,000	275,919	4.14%	318,684	317,773	36,134
CLO VI	250,250	247,994	4.63%	297,133	296,065	25,491
Total CLOs	$ 1,609,524	$ 1,590,644	3.80%	$ 1,909,635	$ 1,903,259	$ 137,542
December 31, 2017						
CLO IX	$ 356,400	$ 351,042	2.97%	$ 372,350	$ 371,236	$ 88,650
CLO VIII	282,874	278,606	2.92%	364,838	363,339	162
CLO VII	279,000	275,331	3.61%	346,524	345,220	13,476
CLO VI	250,250	247,470	4.10%	314,382	313,582	10,618
CLO V	267,750	265,973	4.06%	347,797	346,803	2,203
Total CLOs	$ 1,436,274	$ 1,418,422	3.48%	$ 1,745,891	$ 1,740,180	$ 115,109

(1) Debt carrying value is net of $18.9 million and $17.9 million of deferred financing fees at June 30, 2018 and December 31, 2017, respectively.

(2) At June 30, 2018 and December 31, 2017, the aggregate weighted average note rate for our CLOs, including certain fees and costs, was 4.34% and 4.08%, respectively.

(3) As of June 30, 2018 and December 31, 2017, there was no collateral at risk of default or deemed to be a credit risk as defined by the CLO indenture.

(4) 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.

CLO X In June 2018, we completed a collateralized securitization vehicle (CLO X), issuing seven tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling $494.2 million. Of the total CLO notes issued, $441.0 million were investment grade notes issued to third party investors and $53.2 million were below investment grade notes retained by us. As of the CLO closing date, the notes were secured by a portfolio of loan obligations with a face value of $501.9 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has a four-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 $58.1 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the CLO closing date. Subsequently, the issuer will own loan obligations with a face value of $560.0 million, representing leverage of 79%. We retained a residual interest in the portfolio with a notional amount of $119.0 million, including the $53.2 million below investment grade notes. The notes had an initial weighted average interest rate of 1.45% plus one-month LIBOR and interest payments on the notes are payable monthly.

CLO V In June 2018, we completed the unwind of CLO V, redeeming $267.8 million of outstanding notes which were repaid primarily from the refinancing of the remaining assets within our existing financing facilities (including CLO X), as well as with cash held by CLO V, and expensed $1.3 million of deferred financing fees into interest expense on the consolidated statements of income.

Luxembourg Debt Fund

In November 2017, we formed a $100.0 million Luxembourg commercial real estate debt fund (Debt Fund) and issued $70.0 million of floating rate notes to third party investors which bear an initial interest rate of 4.15% over LIBOR. The notes mature in 2025 and we retained a $30.0 million equity interest in the Debt Fund. The Debt Fund is a VIE for which we are the primary beneficiary and is consolidated in our financial statements. The Debt Fund is secured by a portfolio of loan obligations with a face value of $100.0 million, which includes first mortgage bridge loans, senior participation interests in first mortgage bridge loans, subordinate participation interest in first mortgage bridge loans and participation interests in mezzanine loans. The Debt Fund allows, for a period of three years, principal proceeds from portfolio assets to be reinvested in qualifying replacement assets, subject to certain conditions.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Borrowings and the corresponding collateral under our Debt Fund are as follows ($ in thousands):

Debt			Collateral (3)		
			Loans		Cash Restricted Cash (4)
Face Value	Carrying Value (1)	Wtd. Avg. Rate (2)	UPB	Carrying Value	
June 30, 2018					
$ 70,000	$ 68,270	6.33%	$ 97,700	$ 97,323	$
December 31, 2017					
$ 70,000	$ 68,084	5.79%	$ 96,995	$ 96,564	$ 3,005

(1) Debt carrying value is net of $1.7 million and $1.9 million of deferred financing fees at June 30, 2018 and December 31, 2017, respectively.

(2) At June 30, 2018 and December 31, 2017, the aggregate weighted average note rate, including certain fees and costs, was 6.84% and 6.05%, respectively.

(3) At both June 30, 2018 and December 31, 2017, there was no collateral at risk of default or deemed to be a credit risk.

(4) Represents restricted cash held for reinvestment. Excludes restricted cash related to interest payments, delayed fundings and expenses.

Senior Unsecured Notes

In March 2018, we issued $100.0 million aggregate principal amount of 5.625% senior unsecured notes due in May 2023 (the Initial Notes) in a private placement, and, in May 2018, we issued an additional $25.0 million (the Reopened Notes and, together with the Initial Notes, the 5.625% Notes,) which brought the aggregate outstanding principal amount to $125.0 million. The Reopened Notes are fully fungible with, and rank equally in right of payment with the Initial Notes. We received total proceeds of $122.3 million from the issuances, after deducting the underwriting discount and other offering expenses. We used the net proceeds from the Initial Notes to fully redeem our 7.375% senior unsecured notes due in 2021 (the 7.375% Notes) totaling $97.9 million and the net proceeds from the Reopened Notes to make investments and for general corporate purposes. The 5.625% Notes are unsecured and can be redeemed by us at any time prior to April 1, 2023, at a redemption price equal to 100% of the aggregate principal amount, plus a make-whole premium and accrued and unpaid interest. We have the right to redeem the 5.625% Notes on or after April 1, 2023, at a redemption price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest. The interest is paid semiannually in May and November starting in November 2018. At June 30, 2018, the debt carrying value of the 5.625%

Notes was $122.3 million, net of $2.7 million of deferred financing fees, and the weighted average note rate was 6.08%, including certain fees and costs.

At December 31, 2017, the debt carrying value of our 7.375% Notes was $95.3 million, which was net of $2.6 million of deferred financing fees, and the weighted average note rate was 8.16%.

Convertible Senior Unsecured Notes

In November 2017, we issued $143.8 million aggregate principal amount of 5.375% convertible senior unsecured notes (the 5.375% Convertible Notes). We received total proceeds of $139.2 million from the offering, net of deferred financing fees, which is amortized through interest expense over the life of the 5.375% Convertible Notes. The initial conversion rate was 107.7122 shares of common stock per $1,000 principal amount of 5.375% Convertible Notes and represents a conversion price of $9.28 per share of common stock. At June 30, 2018, the 5.375% Convertible Notes had a conversion rate of 108.6502 shares of common stock per $1,000 principal amount of 5.375% Convertible Notes, which represented a conversion price of $9.20 per share of common stock. The 5.375% Convertible Notes pay interest semiannually in arrears. The 5.375% Convertible Notes have a scheduled maturity in November 2020. See Subsequent Events section below for details of our repurchase of substantially all of the 5.375% Convertible Notes.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

In 2016, we issued $86.3 million aggregate principal amount of 6.50% convertible senior unsecured notes (the 6.50% Convertible Notes) and, in January 2017, we issued an additional $13.8 million of the 6.50% Convertible Notes. We received total proceeds of $95.8 million from the offerings, net of deferred financing fees, which are amortized through interest expense over the life of the 6.50% Convertible Notes. The initial conversion rate was 119.3033 shares of common stock per $1,000 principal amount of 6.50% Convertible Notes and represented a conversion price of $8.38 per share of common stock. At June 30, 2018, the 6.50% Convertible Notes had a conversion rate of 122.3263 shares of common stock per $1,000 principal amount of notes, which represented a conversion price of $8.17 per share of common stock. The 6.50% Convertible Notes pay interest semiannually in arrears. The 6.50% Convertible Notes have a scheduled maturity in October 2019. See Subsequent Events section below for details of our repurchase of substantially all of the 6.50% Convertible Notes.

Our convertible senior unsecured notes are not redeemable by us prior to their maturities and are convertible into, at our election, cash, shares of our common stock or a combination of both, subject to the satisfaction of certain conditions and during specified periods. The conversion rates are subject to adjustment upon the occurrence of certain specified events and the holders may require us to repurchase all or any portion of their notes for cash equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, if we undergo a fundamental change as specified in the agreements.

Accounting guidance requires that convertible debt instruments with cash settlement features, including partial cash settlement, account for the liability component and equity component (conversion feature) of the instrument separately. The initial value of the liability component reflects the present value of the discounted cash flows using the nonconvertible debt borrowing rate at the time of the issuance. The debt discount represents the difference between the proceeds received from the issuance and the initial carrying value of the liability component, which is accreted back to the notes principal amount through interest expense over the term of the notes, which was 1.92 years and 2.41 years at June 30, 2018 and December 31, 2017, respectively, on a weighted average basis.

The UPB, unamortized discount and net carrying amount of the liability and equity components of the convertible notes were as follows (in thousands):

	Liability Component				Equity Component
Period	**UPB**	**Unamortized Debt Discount**	**Unamortized Deferred Financing Fees**	**Net Carrying Value**	**Net Carrying Value**
June 30, 2018	$ 243,750	$ 4,568	$ 3,751	$ 235,431	$ 6,733
December 31, 2017	$ 243,750	$ 5,742	$ 6,721	$ 231,287	$ 6,733

During the three months ended June 30, 2018, we incurred total interest expense on the notes of $6.1 million, of which $3.2 million, $2.3 million and $0.6 million related to the cash coupon, amortization of the deferred financing fees and of the debt discount, respectively. During the six months ended June 30, 2018, we incurred total interest expense on the notes of $11.0 million, of which $6.8 million, $3.0 million and $1.2 million related to the cash coupon, amortization of the deferred financing fees and of the debt discount, respectively. During the three months ended June 30, 2017, we incurred total interest expense on the notes of $2.2 million, of which $1.6 million, $0.4 million and $0.2 million related to the cash coupon, amortization of the deferred financing fees and of the debt discount, respectively. During the six months ended June 30, 2017, we incurred total interest expense on the notes of $4.3 million, of which $3.2 million, $0.7 million and $0.4 million related to the cash coupon, amortization of the deferred financing fees and of the debt discount, respectively. Including the amortization of the deferred financing fees and debt discount, our weighted average total cost of the notes is 7.96% per annum.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

Subsequent Events

In July 2018, we completed the issuance and sale of $245.0 million in aggregate principal amount of 5.25% convertible senior notes (the 5.25% Convertible Notes) through two private placements, including $15.0 million of the initial purchaser s over-allotment option. The initial purchasers of the 5.25% Convertible Notes have the option to purchase up to an additional $19.5 million of these notes solely to cover over-allotments. The 5.25% Convertible Notes mature in July 2021, unless earlier converted or repurchased by the holders pursuant to their terms, and pay interest semiannually in arrears. We received proceeds totaling $237.2 million, net of the underwriter s discount and fees from these offerings. We used the net proceeds to exchange $99.8 million of our 6.50% Convertible Notes and $127.6 million of our 5.375% Convertible Notes for a combination of $219.8 million in cash (which includes accrued interest) and 6.8 million shares of our common stock to settle such exchanges. The remaining net proceeds were used for general corporate purposes.

Junior Subordinated Notes

In the first quarter of 2017, we purchased, at a discount, $20.9 million of our junior subordinated notes with a carrying value of $19.8 million and recorded a gain on extinguishment of debt of $7.1 million. As a result, we settled our related equity investment and extinguished $21.5 million of notes. The carrying value of borrowings under our junior subordinated notes was $139.9 million and $139.6 million at June 30, 2018 and December 31, 2017, respectively, which is net of a deferred amount of $12.3 million and $12.5 million, respectively, (which is amortized into interest expense over the life of the notes) and deferred financing fees of $2.2 million in both periods. These notes have maturities ranging from March 2034 through April 2037 and pay interest quarterly at a fixed or floating rate of interest based on LIBOR. The current weighted average note rate was 5.18% and 4.53% at June 30, 2018 and December 31, 2017, respectively. Including certain fees and costs, the weighted average note rate was 5.28% and 4.63% at June 30, 2018 and December 31, 2017, respectively.

Related Party Financing

In connection with the Acquisition, we entered into a five year $50.0 million preferred equity interest financing agreement with ACM to finance a portion of the aggregate purchase price. At December 31, 2017, the outstanding principal balance was $50.0 million. In January 2018, we paid $50.0 million in full satisfaction of this debt. During the six months ended June 30, 2018, we recorded interest expense of $0.3 million and, during the three and six months ended June 30, 2017, we recorded interest expense of $1.0 million and $1.9 million, respectively.

Debt Covenants

Credit Facilities and Repurchase Agreements. The credit facilities and repurchase agreements contain various financial covenants, including, but not limited to, minimum liquidity requirements, minimum net worth requirements, as well as certain other debt service coverage ratios, debt to equity ratios and minimum servicing portfolio tests. We were in compliance with all financial covenants and restrictions at June 30, 2018.

CLOs. 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 June 30, 2018, as well as on the most recent determination dates in July 2018. 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 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) 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.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

A summary of our CLO compliance tests as of the most recent determination dates in July 2018 is as follows:

Cash Flow Triggers	CLO VI	CLO VII	CLO VIII	CLO IX	CLO X
Overcollateralization (1)					
Current	129.87%	129.03%	129.03%	134.68%	126.98%
Limit	128.87%	128.03%	128.03%	133.68%	125.98%
Pass / Fail	Pass	Pass	Pass	Pass	Pass
Interest Coverage (2)					
Current	191.10%	216.08%	252.91%	255.51%	201.62%
Limit	120.00%	120.00%	120.00%	120.00%	120.00%
Pass / Fail	Pass	Pass	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.

Our CLO overcollateralization ratios as of the determination dates subsequent to each quarter are as follows:

Determination (1)	CLO VI	CLO VII	CLO VIII	CLO IX	CLO X
July 2018	129.87%	129.03%	129.03%	134.68%	126.98%
April 2018	129.87%	129.03%	129.03%	134.69%	
January 2018	129.87%	129.03%	129.03%	134.68%	
October 2017	129.87%	129.03%	129.03%		
July 2017	129.87%	129.03%			

(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 presented.

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 11 Allowance for Loss-Sharing Obligations

Our allowance for loss-sharing obligations related to the Fannie Mae DUS program is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Beginning balance	$ 31,097	$ 32,219	$ 30,511	$ 32,407
Provisions for loss sharing	1,134	1,890	2,339	4,145
Provisions reversal for loan repayments				