ARBOR REALTY TRUST INC
Form 10-K
February 15, 2019

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Item 8. Financial Statements and Supplementary Data

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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, 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**

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 every Interactive Data File required to be submitted 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 such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. 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 ý	Non-accelerated filer o	Smaller reporting company o
			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 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, 2018 (computed based on the closing price on such date as reported on the NYSE) was $632.7 million. As of February 8, 2019, the registrant had 85,358,282 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant's 2019 Annual Meeting of Stockholders (the "2019 Proxy Statement"), to be filed within 120 days after the end of the registrant's fiscal year ended December 31, 2018 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. 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," "could," "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 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 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 "Arbor," "we," "us," "our," or the "Company" unless we specifically state otherwise or the context indicates otherwise.

Overview

Arbor is a Maryland corporation formed in 2003. We operate through two business segments: our Structured Loan Origination and Investment Business, or "Structured Business," and our Agency Loan Origination and Servicing Business, or "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 "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.

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. 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 REIT 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. In general, our TRS entities may hold assets that the REIT cannot hold directly and may engage in real estate or non-real estate-related business.

Business Objectives and Strategy

Our principle business objectives are to maximize the difference between the yield on our investments and the cost of financing these investments, to grow the stable earnings associated with the servicing portfolio of our agency platform, to generate cash available for distribution and facilitate capital appreciation. We believe we can achieve these objectives and maximize the total return to our stockholders through the following investment strategies.

Investment Strategy

The financing of multifamily and commercial real estate offers opportunities that demand customized financing solutions. We believe that providing both structured products and agency loans

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through direct originations and in-house underwriting capabilities throughout our national network of sales offices and lending solutions through various GSE and HUD programs provides us with a competitive advantage, since this allows us to meet the multiple needs of our borrowers through a fully integrated, comprehensive product offering. We employ the following investment strategies:

Provide Customized Financing. We provide customized financing to meet the needs of our borrowers. We target borrowers whose options may be limited by conventional bank financing, have demonstrated a history of enhancing the value of the properties they operate and who may benefit from the customized financing solutions 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 associated with our investment portfolio. 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 investments to improve credit quality and yield.

Use Our Relationships with Existing Borrowers. We have relationships with a large borrower base nationwide and a strong reputation in the commercial real estate finance industry. Based on the experience of our originators, we can offer a wide range of customized financing solutions and can benefit from the existing customer base and use existing business to create potential refinancing opportunities.

Long-Established Relationships with GSEs. Our Agency Business benefits from our long-established relationships with Fannie Mae, Freddie Mac and HUD enabling us to offer a broad range of loan products and services which maximizes our ability to meet our borrowers' needs.

Leverage the Experience of Executive Officers and Our Employees. Our executive officers and employees have extensive experience originating and managing structured commercial real estate investments. Our senior management team has, on average, over 30 years of experience in the financial services industry.

Our Primary Targeted Investments

We pursue short-term and long-term lending and investment opportunities and primarily target transactions where we believe we have competitive advantages, particularly our lower cost structure and in-house underwriting capabilities.

Through our Structured Business, we focus primarily on the following investment types:

Bridge Financing. We offer bridge financing products to borrowers who are typically seeking short-term capital to use 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 without encumbering it with restrictive, long-term debt that may not reflect optimal leverage for a non-stabilized property.

Our bridge loans are predominantly secured by first mortgage liens on the property. 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

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flows of the property. Borrowers typically use the proceeds of a conventional mortgage to repay a bridge loan.

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. Similar to our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests.

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. Similar to 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. Similar to our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests.

Structured Transactions. We also periodically invest in structured transactions, which are primarily comprised of joint ventures formed to acquire, develop and/or sell real estate related assets. These joint ventures are generally not majority owned or controlled by us and are primarily accounted for under the equity method of accounting.

Through our Agency Business, we focus primarily on the following investment types:

GSE and HUD Agency Lending. We are one of 25 approved lenders that participate in Fannie Mae's DUS program and one of 23 lenders approved as a Freddie Mac Multifamily Conventional Loan lender for multifamily, manufactured, student, affordable and certain seniors housing properties, one of 11 participants in the Freddie Mac SBL program and an approved HUD MAP and LEAN lender providing construction permanent loans to developers and owners of multifamily housing, affordable housing, seniors housing and healthcare facilities. Our Agency Business underwrites, originates, sells and services multifamily mortgage loans across the U.S. through these programs and also originates and sells loans through the conduit markets. Our focus is primarily on small balance loans. We retain the servicing rights and asset management responsibilities on substantially all loans made under the GSE and HUD programs.

Other Investment Opportunities

Real Property. We have, and may in the future, obtain real estate by foreclosure, through partial or full settlement of mortgage debt related to our loans. We may identify such assets and initiate an asset-specific plan to maximize the value of the investment, which may include appointing a third party property manager, renovating the property, leasing or increasing occupancy, or selling the asset. As such, these transactions may require the use of additional capital prior to completion of the specific plan.

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Freddie Mac SBL Program Securities. We have, and may in the future, invest in bond securities issued by Freddie Mac SBL securitizations from loans originated under the Freddie Mac SBL program. These securities are carried at cost and are usually purchased at a discount to their face value which is accreted into interest income, if deemed to be collectable, over the expected remaining life of the related security as a yield adjustment.

Structured Business Portfolio Overview

Product type and asset class information about our loan and investment portfolio as of December 31, 2018 is as follows ($ in thousands):

Type	Asset Class	Number	Unpaid Principal	Wtd. Avg. Pay Rate(1)	Wtd. Avg. Remaining Months to Maturity
Bridge Loans	Multifamily	131	$ 2,194,147	6.97%	18.7
	Self Storage	13	301,830	7.16%	21.1
	Land	8	136,295	1.32%	7.5
	Healthcare	6	122,775	8.15%	26.0
	Office	5	122,167	7.14%	14.9
	Other	4	115,600	8.48%	18.1
		167	2,992,814	6.84%	18.5
Preferred Equity	Multifamily	8	179,081	8.02%	78.8
	Other	2	2,580	5.12%	22.2
		10	181,661	7.97%	78.0
Mezzanine Loans	Multifamily	5	54,692	10.25%	14.3
	Hotel	1	19,975	15.50%	20.0
	Land	2	15,333	4.70%	6.8
	Other	5	18,867	11.06%	59.6
		13	108,867	10.57%	22.1
Total		190	$ 3,283,342	7.02%	22.0

(1) "Weighted Average Pay Rate" is a weighted average, based on each loans unpaid principal balances ("UPB"), of our interest rate 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.

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Asset class and geographic information for our loan and investment portfolio as of December 31, 2018 is as follows ($ in thousands):

Asset Class	UPB	Percentage	Geographic Location	UPB	Percentage
Multifamily	$ 2,427,920	74%	New York	$ 746,333	23%
Self Storage	301,830	9%	Texas	574,868	18%
Land	151,628	5%	Georgia	236,093	7%
Office	132,047	4%	California	191,316	6%
Healthcare	122,775	4%	Other(1)	1,534,732	46%
Other	147,142	4%			
Total	$ 3,283,342	100%	Total	$ 3,283,342	100%

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

The overall yield on our loan and investment portfolio in 2018 was 6.97% on average assets of $3.26 billion. This yield was computed by dividing the interest income earned during 2018 by the average assets during 2018. Our cost of funds in 2018 was 5.20% on average borrowings of $2.65 billion. This cost of funds was computed by dividing the interest expense incurred during 2018 by the average borrowings during 2018. As of December 31, 2018, our loan and investment portfolio was comprised of 88% floating rate loans and 12% fixed rate loans.

We also own unconsolidated investments in equity affiliates totaling $21.6 million, which consists primarily of a joint venture formed to invest in a residential mortgage banking business.

Agency Business Lending and Servicing Overview

One of the Agency Business's primary sources of revenue are the gains and fees recognized from the origination and sale of mortgage loans under GSE and HUD programs. Loans originated under GSE and HUD programs are generally sold within 60 days from the loan origination date. Our loan activity in 2018 was comprised of originations totaling $5.12 billion and sales totaling $4.92 billion. Our gains and fees as a percentage of our loan sales volume ("sales margin,") was 142 basis points for 2018.

We also retain the mortgage servicing rights ("MSRs") on substantially all of the loans we originate, and record as revenue the fair value of the expected net future cash flows associated with the servicing of these loans. Servicing revenue is generated from the fees we receive for servicing the loans and on escrow deposits held on behalf of borrowers, net of amortization on the MSR assets.

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Product and geographic concentration information about our Agency Business servicing portfolio as of December 31, 2018 is as follows ($ in thousands):

Product Concentrations						Geographic Concentrations	
Product	Loan Count	UPB	Percent of Total	Wtd. Avg. Servicing Fee Rate (basis points)	Wtd. Avg. Life of Servicing Portfolio (years)	State	UPB
Fannie Mae	2,232	$ 13,562,667	73%	51.3	7.4	Texas	20%
Freddie Mac	1,415	4,394,287	24%	30.8	10.8	North Carolina	10%
FHA	91	644,687	3%	15.5	19.6	New York	8%
Total	3,738	$ 18,601,641	100%	45.2	8.6	California	8%
						Georgia	6%
						Florida	6%
						Other(1)	42%
						Total	100%

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

Management Agreement

In connection with the acquisition of the agency platform of Arbor Commercial Mortgage, LLC ("ACM" or our "Former Manager") in the third quarter of 2016 (the "Acquisition"), we had the option to fully internalize our management team and terminate the management agreement we had with ACM. Effective May 31, 2017, we exercised our option to fully internalize our management team and terminate the existing management agreement for $25.0 million. In addition, we also entered into a shared services agreement with ACM where we provide limited support services to ACM and it reimburses us for the costs of performing such services.

Operations

The following describes our lending and investment process for both our Structured and Agency Businesses.

Origination. We have a network of sales offices in California, Georgia, Indiana, Massachusetts, New Jersey, New York, Oklahoma and Texas that staff approximately 23 loan originators who solicit property owners, developers and mortgage loan brokers. In some instances, the originators accept loan applications which meet our underwriting criteria from a select group of mortgage loan brokers. Once potential borrowers have been identified, we determine which of our financing products best meet the borrower's needs. Loan originators in every sales office are able to offer borrowers the full array of finance products for both the Structured and Agency businesses. After identifying a suitable product, we work with the borrower to prepare a loan application. Upon completion by the borrower, the application is forwarded to our underwriters for due diligence.

Underwriting and Risk Management. Our underwriters perform due diligence on all proposed transactions prior to approval and commitment using several tools to manage and mitigate potential loan losses and risk sharing exposure. The underwriters analyze each loan application in accordance with the guidelines below to determine the loan's conformity with the guidelines. Key factors considered in credit decisions include, but are not limited to, debt service coverage, loan to value ratios

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and property financial and operating performance. In general, our underwriting guidelines require evaluation of the following:

- The borrower and each person directing a borrowing entity's activities (a "key principal"), including a review of their experience, credit, operating, bankruptcy and foreclosure history;
- Historic and current property revenues and expenses;
- 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;
- Proposed ownership structure, financial strength and real estate experience of the borrower and property management;
- Third party appraisal, environmental review, flood certification, zoning 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;
- 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; and
- For any application for one of our Agency products, we will underwrite the loan to the relevant agency's guidelines.

With respect to our Fannie Mae loans, we maintain concentration limits to further mitigate risk. Geographic concentrations of such loans are limited, based on regional employment concentration and trends, and we limit the aggregate amount of such loans subject to full risk-sharing for any one borrower and elect to use modified risk-sharing for such loans of more than $50.0 million, in accordance with Fannie Mae requirements. We also rely heavily on loan surveillance and credit risk management. We have a dedicated group of employees whose sole function is to monitor and analyze loan performance from closing to payoff, with the primary goal of managing and mitigating risk within the Fannie Mae portfolio.

We continuously refine our underwriting criteria based upon actual loan portfolio experience and as market conditions and investor requirements evolve.

Investment Approval Process. We apply an established investment approval process to all loans and other investments proposed for our Structured Business portfolio before submitting each proposal for final approval. A written report is generated for every loan or other investment that is submitted to our credit committee for approval, which consists of our chief executive officer, chief credit officer and executive vice president of structured finance. 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. The report also includes an analysis of borrower liquidity, net worth, cash investment, income, credit history and operating experience. All transactions require the approval of a majority of the members of our credit committee. Following the approval of a transaction, our underwriting and servicing departments, together with our asset management group, assure that all loan approval terms have been satisfied and conform to lending requirements established for that particular transaction.

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Our loan approval process for the Agency Business requires the submission of a detailed loan package in accordance with our underwriting checklist to our agency loan committee for approval. Our agency loan committee consists of multiple members of our senior and executive management teams, including our chief underwriter for the Agency Business and its chief operating officer. All transactions require the approval of up to four members, depending on the size of the loan. In addition, we are required to submit a completed loan underwriting package to Freddie Mac and HUD for approval prior to origination.

Servicing. We service all loans and investments through our internal loan servicing department in Depew, New York. Our 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 data processing system, which provides monthly billing statements, tracks payment performance and processes contractual interest rate adjustments on variable rate loans. The servicing group works closely with our asset management group to ensure the appropriate level of customer service and monitoring of loans.

For most loans serviced under the Fannie Mae DUS program, we are required to advance, in the event of a borrower failing to pay, the principal and interest payments and tax and insurance escrow amounts associated with a loan for four months. We are reimbursed by Fannie Mae for these advances, which may be used to offset any losses incurred under our risk-sharing obligations once the loan and the related loss share is settled.

Under the HUD program, we are obligated to advance tax and insurance escrow amounts and principal and interest payments on the Ginnie Mae securities until the Ginnie Mae security is fully paid. In the event of a default on a HUD-insured loan, we can elect to assign the loan to HUD and file a mortgage insurance claim. HUD will reimburse approximately 99% of any losses of principal and interest on the loan and Ginnie Mae will reimburse substantially all of the remaining losses.

Asset Management. Effective asset and portfolio management is essential to maximize the performance and value of a real estate investment. The asset management group customizes a 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. This 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 the existing property management may not have the requisite expertise to manage the workout process effectively, our 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 to maximize the value of an investment.

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

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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 Structured Business leverage (including junior subordinated notes as equity) will generally not exceed 80% of the UPB of our assets, in the aggregate; (6) we will not co-invest with our Former 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 Former 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 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. 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 structured finance investments are financed primarily by collateralized loan obligations ("CLOs"), credit facilities and repurchase agreements with institutional lenders, and senior and convertible debt instruments. Although we expect that these will be the principal means of leveraging these investments, we may issue common stock, preferred stock or secured, unsecured or convertible notes of any maturity if it appears advantageous to do so.

Our Agency Business finances loan originations with several committed and uncommitted warehouse credit facilities on a short-term basis, as these loans are generally transferred or sold within 60 days from the loan origination date. We also meet our restricted liquidity requirements and purchase and loss obligations with Fannie Mae and Freddie Mac through letters of credit issued by a financial institution.

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, including our chief credit officer and our asset management group, review and monitor credit risk and other risks of loss associated with each investment. In addition, we seek 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 we determine is in the best interest of our stockholders, given the cost of such hedges and the need to

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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, 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. We may elect to bear a level of interest rate risk that could otherwise be hedged when we believe, based on all relevant facts, that bearing such risk is worthwhile.

Disposition Policies. We evaluate the asset portfolio in our Structured Business on a regular basis to determine if it continues to satisfy our investment criteria. Subject to certain restrictions applicable to REITs, we may sell our investments opportunistically and use the proceeds for debt reduction, additional originations, 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 and convertible debt instruments, 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. 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 ACM face conflicts of interests because of our relationships with each other. ACM has approximately 19% of the voting interest in our stock as of December 31, 2018. Our chairman and chief executive officer is also the chief executive officer of ACM and beneficially owns approximately 75% of the outstanding membership interests of ACM. One of our directors is the chief operating officer of Arbor Management, LLC (the managing member of ACM) and a trustee of two trusts that own noncontrolling membership interests in ACM. Our general counsel is also the general counsel to ACM. Our chief financial officer is the chief financial officer of ACM. Our treasurer is the treasurer of ACM. Our chief executive officer, one of our directors, general counsel, chief financial officer and treasurer, as well as our executive vice president of structured finance, executive vice president of structured securitization and chief credit officer, are members of ACM's executive committee and, excluding our chief executive officer, own minority membership interests in ACM.

We have implemented several policies, through board action and through the terms of our charter and our agreements with ACM, 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; and

Decisions concerning our participation in any transaction with ACM, or its affiliates, including our ability to purchase securities and mortgages or other assets from ACM, or our ability to sell securities and assets to ACM, must be reviewed and approved 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 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 affects 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 ACM, the

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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.

Federal and State Regulation of Commercial Real Estate Lending Activities

Our multifamily and commercial real estate lending, servicing and asset management businesses are subject, in certain instances, to supervision and regulation by federal and state governmental authorities in the U.S. In addition, these businesses may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things, regulate lending activities and conduct with borrowers, establish maximum interest rates, finance charges and other charges require disclosures to borrowers and prohibit illegal discrimination. Although many states do not regulate commercial finance, certain states impose limitations on interest rates, as well as other charges on certain collection practices and creditor remedies. Some states also require licensing of lenders, loan brokers and loan servicers and adequate disclosure of certain contract terms. We are required to comply with certain provisions of, among other statutes and regulations, the USA PATRIOT Act, regulations promulgated by the U.S. Department of the Treasury's Office of Foreign Asset Control and other federal and state securities laws and regulations. These legal and regulatory requirements that apply to us are subject to change from time to time and may become more restrictive, making compliance with applicable requirements more difficult, expensive or otherwise restrict our ability to conduct our business in the manner that it is now conducted.

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 endeavor to ensure 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.

Requirements of the GSEs and HUD

To maintain our status as an approved lender for Fannie Mae and Freddie Mac and as a HUD-approved mortgagee and issuer of Ginnie Mae securities, we are required to meet and maintain various eligibility criteria established by these entities, such as minimum net worth, operational liquidity

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and collateral requirements and compliance with reporting requirements. We are required to originate loans and perform our loan servicing functions in accordance with the applicable program requirements and guidelines established by these agencies. If we fail to comply with the requirements of any of these programs, the agencies may terminate or withdraw our licenses and approvals to participate in the GSE or HUD programs. In addition, the agencies have the authority under their guidelines to terminate a lender's authority to sell loans to it and service their loans. The loss of one or more of these approvals would have a material adverse impact on our operations and could result in further disqualification with other counterparties.

Competition

We face significant competition across our business, including, but not limited to, 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 name recognition, financial resources and lower costs of capital available to them. In addition, there are numerous institutions with asset acquisition objectives similar to ours, and others may be organized in the future which may increase competition. 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 originating the loans that we have targeted.

We compete on the basis of quality of service, relationships, loan structure, terms, pricing and industry experience, including the knowledge of local and national commercial real estate market conditions, loan product expertise and the ability to analyze and manage credit risk. Our competitors also seek to compete aggressively on the basis of these factors and our success depends on our ability to offer attractive loan products, provide superior service, demonstrate our industry knowledge and experience, maintain and capitalize on relationships with investors, borrowers and key loan correspondents and remain competitive in pricing. In addition, future changes in laws, regulations and GSE/HUD program requirements, and consolidation in the commercial real estate finance market could lead to the entry of more competitors, or enhance the competitive strength of our existing competitors.

Although we believe 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 increased competition in the future that could limit our ability to compete effectively.

Employees

At December 31, 2018, we employed 468 individuals, none of which are represented by a union or subject to a collective bargaining agreement.

Corporate Governance and Internet Address

Our internet address is www.arbor.com. All of our filings with the Securities and Exchange Commission ("SEC") are made available free of charge through our website, including this report, 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 committees 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. The below listed risk factors should not be considered an all-inclusive list. New risk factors emerge periodically and we cannot guarantee that the factors described below list all risks that may become material to us at any later time. Some of the risk factors discussed below may have different impacts on our Structured and Agency Businesses.

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 results of operations, financial condition, business prospects and our ability to make distributions to 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, which last occurred in 2007 through 2010. 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. 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. 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 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.

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 loan and investment portfolio and could cause us to experience increases in loan loss reserves, potential defaults and other asset impairment charges.

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The implementation of a new accounting standard could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board ("FASB") has adopted a new accounting standard that will be effective for us beginning in 2020. This standard, referred to as Current Expected Credit Loss, or "CECL," will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans and debt securities, including loans sold to certain GSEs, and recognize the expected credit losses through the statement of income. This will change the current method of providing credit losses that are probable, which we expect may require us to increase our credit losses, and to greatly increase the data we would need to collect and review to determine the appropriate level of expected losses. Any increase in our credit losses, or expenses incurred to determine the appropriate level of credit losses, may have a material adverse effect on our financial condition and results of operations.

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

We perform a quarterly evaluation of our loans to determine whether an impairment charge is necessary and adequate to absorb probable losses. The valuation process for our loan and investment portfolio requires us to make certain estimates and judgments, which are particularly difficult to determine during a period in which the available 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 loan maturity, 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, particularly our Structured Business, loan repayments have been a significant source of liquidity for us. If borrowers are unable to refinance loans at 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 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

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to identify attractive opportunities to invest our equity capital, which would adversely affect our results of operations.

The price of our common stock may be volatile.

The trading price of our common stock may be highly volatile and could be subject to fluctuations in response to a number of factors beyond our control, including 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.

The market value of our stock is based primarily on 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.

Furthermore, in recent years, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions and interest rate changes, may negatively impact the market price of our stock. If the market price of our stock declines, you may not realize any return on your investment in us and may lose some or all of your investment.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert management's attention from other business concerns, which could also harm our business.

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

Conditions in the capital markets could lead to a reduction in our loan and investment 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.

Changes in interest rates could have an adverse effect on our net investment income.

A significant portion of our loans and borrowings in our Structured Business 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 may be 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.

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. It is unclear whether or not LIBOR will cease to exist at that time or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, announced replacement of U.S.

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dollar LIBOR with a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities called the Secured Overnight Financing Rate ("SOFR"). The first publication of SOFR was released in April 2018. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question and the future of LIBOR at this time is uncertain. If LIBOR ceases to exist, we may need to renegotiate with borrowers and financing institutions that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established. As such, the potential effect of any such event on our cost of capital and interest income cannot yet be determined.

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 key personnel. In particular, the mortgage lending experience of our chief executive officer and executive vice president of structured finance and the extent and nature of relationships they have developed with developers and owners of multifamily and commercial properties and other financial institutions, are critical to our success. We cannot assure their continued employment as our officers. The loss of services of one or more members of our management team could harm our business and our prospects.

We may not be able to hire and retain qualified loan originators or grow and maintain our relationships with key customers, and if we are unable to do so, our ability to implement our business and growth strategies could be limited.

We depend on our loan originators to generate borrower clients by, among other things, developing relationships with commercial property owners, real estate agents and brokers, developers and others, which leads to repeat and referral business. Accordingly, we must be able to attract, motivate and retain skilled loan originators. The market for loan originators is highly competitive and may lead to increased costs to hire and retain them. We cannot guarantee that we will be able to attract or retain qualified loan originators. If we cannot attract, motivate or retain a sufficient number of skilled loan originators, or even if we can motivate or retain them but at higher costs, we could be materially and adversely affected.

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, particularly in our Structured Business, 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 have not anticipated may occur and may have a significant effect on the actual rate of return received

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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 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 making a loan to a borrower, we assess the strength and skills of such entity's management and other factors we believe are material to the performance of the investment. In performing our due diligence, we 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 process will uncover all relevant facts or that any investment will be successful.

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

In our Structured Business, 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 entity 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 mezzanine loans which are subject to a greater risk of loss than loans with a first priority lien on the underlying real estate.

In our Structured Business, 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.

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.

In our Structured Business, 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

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non-performing investments. The higher risks associated with a subordinate position in any investment we make could subject us to increased risk of losses.

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 may 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 past 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 negatively impact our operating results.

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 in our Structured Business portfolio, 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.

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

Our ability to manage our structured 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 noncontrolling 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

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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 real estate properties through foreclosure proceedings or investment. Such 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 15 Commitments and Contingencies 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 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.

The Terrorism Risk Insurance Act, or the TRIA, and other current legislation, 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 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

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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 that 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.

One of our subsidiaries is required to register under the Investment Advisors Act, and is subject to regulation under that Act.

One of our subsidiaries is subject to the extensive regulation prescribed by the Investment Advisers Act. The SEC oversees 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 and other clients, and are not designed to protect holders of our publicly traded stock. Even if a sanction imposed against our subsidiary or its personnel involves a small monetary amount, the adverse publicity related to such sanction could harm our reputation and our relationship with our 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.

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 or regulatory initiatives and

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the extent to which such legislation or regulation, 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.

The loss of, or changes in, our Agency Business's relationships with the GSEs, U.S. Department of HUD and institutional investors would adversely affect our ability to originate commercial real estate loans through GSE and HUD programs, which would materially and adversely affect us.

Currently, the Agency Business originates nearly all of its loans for sale through GSE and HUD programs. The Agency Business is approved as a Fannie Mae DUS lender nationwide, a Freddie Mac Program Plus lender in New York, New Jersey and Connecticut, a Freddie Mac Targeted Affordable Housing, Manufactured Housing Community, Seniors Housing and SBL lender nationwide, a HUD MAP and LEAN lender nationwide, and a Ginnie Mae issuer. Our status as an approved lender affords us a number of advantages and may be terminated by the applicable GSE or HUD at any time. The loss of such status would, or changes in our relationships could, prevent us from being able to originate commercial real estate loans for sale through the particular GSE or HUD, which would materially and adversely affect us. It could also result in a loss of similar approvals from other GSEs or HUD.

We also originate and sell loans to investment banks through the CMBS conduit markets. If these investment banks discontinue their relationship with us and replacement investors cannot be found on a timely basis, we could be adversely affected.

A change to the conservatorship of Fannie Mae and Freddie Mac and related actions, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. federal government, could materially and adversely affect our Agency Business.

Currently, the Agency Business originates nearly all of its loans for sale through GSE and HUD programs. Additionally, a substantial majority of our servicing rights are derived from loans we sell through GSE and HUD programs. Changes in the business charters, structure, or existence of one or both of the GSEs could eliminate or substantially reduce the number of loans we may originate with the GSEs, which in turn would lead to a reduction in fee and interest income we derive with respect to such loans and would also adversely affect our servicing revenue. These effects would likely cause our Agency Business to realize significantly lower revenues from loan originations and servicing fees and ultimately would have a material adverse impact on our financial results.

Conservatorships of the GSEs

The Federal Housing Finance Agency ("FHFA,") the GSEs' regulator, placed each GSE into conservatorship in 2008. The conservatorship is a statutory process designed to preserve and conserve the GSEs' assets and property and put them in a sound and solvent condition. The conservatorships have no specified termination dates and there continues to be significant uncertainty regarding the future of the GSEs, including how long they will continue to exist in their current forms, the extent of their roles in the housing markets, what forms they will have and whether they will continue to exist following conservatorship. In 2014, the FHFA released its strategic plan for the GSEs, in which it changed its goal of "contraction" of the GSEs' multifamily businesses to "maintaining" the businesses.

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Housing Finance Reform

In the past few years, members of Congress have introduced several bills to reform the housing finance system, including the GSEs. Several of the bills require the wind down or receivership of the GSEs within a specified period of enactment and place certain restrictions on the GSEs' activities prior to being wound down or placed into receivership. The Trump Administration has made comments indicating that housing finance reform may be on its agenda, however, it is unclear at this time what its goals are with respect to the future of the GSE's.

We expect Congress will continue to consider housing finance reform, including conducting hearings and considering legislation that would alter the housing finance system, including the activities or operations of the GSEs. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs. As a result, there continues to be significant uncertainty regarding the future of the GSEs.

In November 2018, the FHFA released the GSE 2019 Scorecard ("2019 Scorecard,") which established Fannie Mae's and Freddie Mac's loan origination caps at $35.0 billion ("2019 Caps") each for the multifamily finance market, equal to the 2018 loan origination caps. Affordable housing loans, loans to small multifamily properties, and manufactured housing rental community loans continue to be excluded from the 2019 Caps. The 2019 Scorecard continues to provide FHFA the flexibility to review the estimated size of the multifamily loan origination market quarterly and proactively adjust the 2019 Caps accordingly, however, the FHFA will not reduce the 2019 Caps in the event that the multifamily market is smaller than anticipated. The 2019 Scorecard also continues to provide exclusions for loans to properties in underserved markets and for loans to finance certain energy or water efficiency improvements, however, to qualify for this exclusion, multifamily loans that finance energy or water efficiency improvements must now project a minimum 30% reduction in whole property energy and water consumption and a minimum of 15% of the reduction must be in energy consumption. FHFA is also adding a data collection requirement for all excluded Green Rewards and Green Up/Green Up Plus loans, which requires engagement of a third-party data collection firm prior to closing. Our originations with the GSEs are highly profitable executions as they provide significant gains from the sale of our loans, non-cash gains related to MSRs and servicing revenues. Therefore, a decline in our GSE originations resulting from the 2019 Caps, or otherwise, would negatively impact our financial results. We are unsure whether the FHFA will impose stricter limitations on GSE multifamily production volume in the future.

Our Agency Business is subject to risk of loss in connection with defaults on loans sold under the Fannie Mae DUS program that could materially and adversely affect our results of operations and liquidity.

Under the Fannie Mae DUS program, our Agency Business originates and services multifamily loans for Fannie Mae without having to obtain Fannie Mae's prior approval for certain loans, as long as the loans meet the underwriting guidelines set forth by Fannie Mae. In return for the delegated authority to make loans and the commitment to purchase loans by Fannie Mae, we must maintain minimum collateral with Fannie Mae and we are required to share risk of loss on loans sold through Fannie Mae. Under the full risk-sharing formula, we absorb the first 5% of any losses on the UPB of a loan at the time of loss settlement, and above 5% we share the loss with Fannie Mae, with our maximum loss capped at 20% of the original UPB of a loan. Our Agency Business has modified its risk-sharing obligations on some Fannie Mae DUS loans to reduce potential loss exposure on those loans. In addition, Fannie Mae can double or triple our risk-sharing obligations if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae. As of December 31, 2018, the Agency Business had pledged $44.0 million as collateral against future losses under $13.56 billion of loans outstanding that are subject to risk-sharing obligations. Fannie Mae collateral requirements may change in the future. As of December 31, 2018, the Agency Business's allowance for loss-sharing balance was $34.3 million. We cannot ensure that this balance will be

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sufficient to cover future loss sharing obligations. While our Agency Business originates loans that meet the underwriting guidelines defined by Fannie Mae, in addition to our own internal underwriting guidelines, underwriting criteria may not always protect against loan defaults. Other factors may also affect a borrower's decision to default on a loan, such as property, cash flow, occupancy, maintenance needs and other financing obligations. If loan defaults increase, our risk-sharing obligation payments under the Fannie Mae DUS program may increase and such defaults and payments could have a material adverse effect on our results of operations and liquidity. In addition, any failure to pay our share of losses under the Fannie Mae DUS program could result in the revocation of our license from Fannie Mae and in the exercise of various remedies available to Fannie Mae under the Fannie Mae DUS program, including the transfer of our servicing portfolio to another Fannie Mae approved servicer.

If we fail to act proactively with delinquent borrowers in an effort to avoid a default, the number of delinquent loans could increase, which could have a material adverse effect on us.

As a loan servicer for GSEs and HUD, we are the primary contact with the borrower throughout the life of the loan and we are responsible, pursuant to agreements with the GSEs, HUD and institutional investors, for asset management. We are also responsible, together with the applicable GSE, HUD, or institutional investor, for taking actions to mitigate losses. We believe we have developed an effective asset management process for tracking each loan we service. However, we may be unsuccessful in identifying loans that are in danger of underperforming or defaulting or in taking appropriate action once those loans are identified. While we can make recommendations, decisions regarding loss mitigation are within the control of the GSEs, HUD and institutional investors. When loans become delinquent, we may incur additional expenses in servicing and asset managing the loans and we are required to advance principal and interest payments and tax and insurance escrow amounts. Our Agency Business could also be subject to a loss of its contractual servicing fee, and it could suffer losses of up to 20% (or more for loans that do not meet specific underwriting criteria or default within 12 months) of the UPB of a Fannie Mae DUS loan with full risk-sharing. These items could have a negative impact on our cash flows and a negative effect on the net carrying value of the MSRs on our balance sheet and could result in a charge to our earnings. As a result of the foregoing, a rise in delinquencies could have a material adverse effect on our Agency Business.

A reduction in the prices paid for the loans and services of our Agency Business or an increase in loan or security interest rates by investors could materially and adversely affect our results of operations and liquidity.

The Agency Business's results of operations and liquidity could be materially and adversely affected if the GSEs, HUD or institutional investors lower the price they are willing to pay for loans or services or adversely change the material terms of their loan purchases or servicing arrangements with us. A number of factors determine the price we receive for our agency loans. With respect to Fannie Mae related originations, loans are generally sold as Fannie Mae insured securities to third-party investors. For HUD related originations, loans are generally sold as Ginnie Mae securities to third-party investors. In both cases, the price paid to us reflects, in part, the competitive market bidding process for these securities.

Our Agency Business sells loans directly to Freddie Mac who may choose to hold, sell or later securitize such loans. We believe terms set by Freddie Mac are influenced by similar market factors as those that impact the price of Fannie Mae insured or Ginnie Mae securities, although the pricing process differs. With respect to loans that are placed with institutional investors, the origination fees that we receive from borrowers are determined through negotiations, competition and other market conditions.

Loan servicing fees are based, in part, on the risk-sharing obligations associated with the loan and the market pricing of credit risk. The credit risk premium offered by Fannie Mae for new loans can

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change periodically but remains fixed once we enter into a commitment to sell the loan. Over the past several years, Fannie Mae loan servicing fees have been higher due to the market pricing of credit risk. There can be no assurance that such fees will continue to remain at such levels or that such levels will be sufficient if delinquencies occur.

A significant portion of our Agency Business's revenue is derived from loan servicing fees and declines in, or terminations of, servicing engagements, or breaches of servicing agreements, could have a material adverse effect on us.

We expect that loan servicing fees will constitute a significant portion of our Agency Business's revenues for the foreseeable future. Nearly all of these fees are derived from loans that have been originated by us and sold through GSE and HUD programs. A decline in the number or value of loans that the Agency Business originates for these investors or terminations of its servicing engagements will decrease these fees. HUD has the right to terminate our current servicing engagements for cause. In addition to termination for cause, Fannie Mae and Freddie Mac may terminate our servicing engagements without cause by paying a termination fee, which may not compensate us fully for the loss of the future servicing revenue. The Agency Business is also subject to losses that may arise as a result of servicing errors, such as a failure to maintain insurance, pay taxes or provide required notices. If we fail to perform, or we breach our servicing obligations to the GSEs or HUD, our servicing engagements may be terminated. Declines or terminations of servicing engagements or breaches of such obligations could materially and adversely affect our financial results.

We satisfy all of our restricted liquidity requirements with Fannie Mae with a letter of credit issued by one of our lenders. If the letter of credit became unavailable to us for any reason, we could suffer a significant reduction in our cash flow from operations, or we may breach our obligations to Fannie Mae, which would have a material adverse effect on our Agency Business.

Our Agency Business is required to pledge restricted cash as collateral for possible losses resulting from loans originated under the Fannie Mae DUS program in accordance with the terms of loss sharing agreements with Fannie Mae. As of December 31, 2018, this requirement totaled $43.0 million and was fully satisfied with a $44.0 million letter of credit issued to Fannie Mae by one of our lenders. We have an additional $1.0 million available under this letter of credit and then will be required to post cash for any future increases in this collateral requirement. Our letter of credit facility expires in September 2020. The facility is collateralized by the servicing cash flow generated from the Agency Business's Fannie Mae portfolio and contains certain financial and other covenants. If we fail to satisfy any of these covenants, or we are unable to renew or replace this facility on favorable terms, or at all, it could have a material adverse effect on our cash flow and our financial condition. If we were unable to replace the letter of credit facility with either a similar facility or cash, we would be in breach of our obligations to Fannie Mae, which would have a material adverse effect on our business and operations.

The Agency Business is subject to the risk of failed loan deliveries, and even after a successful closing and delivery, may be required to repurchase the loan or to indemnify the investor if there is a breach of a representation or warranty made by the Agency Business in connection with the sale of the loan through a GSE or HUD program, any of which could have a material adverse effect on us.

Our Agency Business bears the risk that a borrower will choose not to close on a loan that has been pre-sold to an investor or that the investor will choose not to purchase a loan under certain circumstances, including, for example, a significant casualty event that impacts the condition of a property after we fund the loan and prior to the investor purchase date. We also bear the risk of serious errors in loan documentation that prevent timely delivery of the loan prior to the investor purchase date. A complete failure to deliver a loan could be a default under the warehouse line used to finance the loan. Although the Agency Business has experienced only three failed loan deliveries in

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its history, none of which had a material impact on its financial condition or results of operations, we can provide no assurance that we will not experience additional failed deliveries in the future or that any losses will not be material or will be mitigated through property insurance or payment protections.

We must make certain representations and warranties concerning each loan we originate for GSE or HUD programs. The representations and warranties relate to our practices in the origination and servicing of the loans and the accuracy of the information being provided by us. For example, we are generally required to provide the following, among other, representations and warranties: we are authorized to do business and to sell or assign the loan; the loan conforms to the requirements of the GSE or HUD and certain laws and regulations; the underlying mortgage represents a valid first lien on the property and there are no other liens on the property; the loan documents are valid and enforceable; taxes, assessments, insurance premiums, rents and similar other payments have been paid or escrowed; the property is insured, conforms to zoning laws and remains intact; and we do not know of any issues regarding the loan that are reasonably expected to cause the loan to be delinquent or unacceptable for investment or adversely affect its value. We are permitted to satisfy certain of these representations and warranties by furnishing a title insurance policy.

In the event of a breach of any representation or warranty, investors could, among other things, require us to repurchase the full amount of the loan and seek indemnification for losses from it or, in the case of Fannie Mae, increase the level of risk-sharing on the loan. Our obligation to repurchase the loan is independent of our risk-sharing obligations. The GSEs or HUD could require us to repurchase a loan if representations and warranties are breached, even if the loan is not in default. Because the accuracy of many such representations and warranties generally is based on our actions or on third-party reports, such as title reports and environmental reports, we may not receive similar representations and warranties from other parties that would serve as a claim against them. Even if we receive representations and warranties from third parties and have a claim against them in the event of a breach, our ability to recover on any such claim may be limited. Our ability to recover against a borrower that breaches its representations and warranties to us may be similarly limited. Our ability to recover on a claim against any party would also be dependent, in part, upon the financial condition and liquidity of such party. Although we believe that we have capable personnel at all levels, use qualified third parties and have established controls to ensure that all loans are originated pursuant to requirements established by the GSEs and HUD, in addition to our own internal requirements, there can be no assurance that we, our employees or third parties will not make mistakes. Any significant repurchase or indemnification obligations imposed on us could have a material adverse effect on the Agency Business.

For most loans we service under the Fannie Mae and HUD programs, we are required to advance payments due to investors if the borrower is delinquent in making such payments, which requirement could adversely impact our liquidity and harm our results of operations.

For most loans we service under the Fannie Mae DUS program, we are required to advance the principal and interest payments and tax and insurance escrow amounts if the borrower is delinquent in making loan payments. After four continuous months of making advances on behalf of the borrower, we can submit a reimbursement claim to Fannie Mae, which Fannie Mae may approve at its discretion. We are reimbursed by Fannie Mae for these advances in the event the loan is brought current. In the event of a default, any advances made by the Agency Business are used to reduce the proceeds required to settle any loss share. Our advances may also be reimbursed, to the extent that the default settlement proceeds on the collateral exceed the UPB.

Under the HUD program, we are obligated to advance tax and insurance escrow amounts and principal and interest payments on the underlying loan until the Ginnie Mae security has been fully paid. In the event of a default on a HUD insured loan, we can elect to assign the loan to HUD and file a mortgage insurance claim. HUD will reimburse approximately 99% of any losses of principal and

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interest on the loan and Ginnie Mae will reimburse most of the remaining losses of principal and interest.

Although the Agency Business has historically funded all required advances from operating cash flow, there can be no assurance we will be able to do so in the future. If the Agency Business does not have sufficient operating cash flows to fund such advances, we may need to finance such amounts. Such financing may not be available to us, or, if it is available, may be costly and could prevent the Agency Business from pursuing its business and growth strategies.

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 Structured Business loans and investments through a variety of means, including CLOs, credit facilities, senior and convertible debt instruments, and other structured financings. We generally finance our Agency Business loan originations, prior to sale to, or securitization by, an agency, through credit facilities provided by commercial banks. 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 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 financing as credit and repurchase facilities may not accommodate our needs. 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, 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 lender approval. While we actively manage our loan and investment portfolio, a weak economic 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.

In our Structured Business, 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 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 the performance of our Structured Business. 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

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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 debt facilities that we may use to finance our investments may require us to provide additional collateral.

We may use credit facilities and repurchase agreements 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 lender 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, lenders can accelerate the indebtedness, increase interest rates and terminate our ability to borrow. Further, lenders 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, particularly in our Structured Business, such that we minimize the difference between the term of our investments and the term of the leverage we use to finance the 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 by 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 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.

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 the types of assets being financed, 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.

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Our debt service payments reduce the net income available for distributions. Moreover, we may not be able to meet our debt service obligations and, to the extent 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 the leverage and contingent obligations of our subsidiaries.

We may guarantee the performance of the obligations of our subsidiaries 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 in our Structured Business through the issuance of CLOs. During the period 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, which may be held by us, 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 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 CLOs 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 CLOs. Our potential

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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 strategy for our Structured Business 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 in our Structured Business 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 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 during periods of rising and volatile interest rates and as the period covered by the instrument lengthens. 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 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

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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.

Our investments financed in foreign locations may involve significant risks.

We have financed, and, if the opportunities exist in the future, we may continue to finance, certain of our investments outside of the U.S. Financing investments in foreign locations may expose us to additional risks not typically inherent in the U.S. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets, the lack of available information, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although our current transaction outside the U.S. is denominated in U.S. dollars, future transactions may be denominated in a foreign currency, which would subject us to the risk that the value of a particular currency may change in relation to the U.S. dollar. We may employ hedging techniques to minimize such risk, but we can offer no assurance that we will, in fact, hedge currency risk or, that if we do, such strategies will be effective. As a result, a change in currency exchange rates may adversely affect our profitability if future transactions outside the U.S. are denominated in a foreign currency.

Risks Relating to Regulatory Matters

If our Agency Business fails to comply with the numerous government regulations and program requirements of the GSEs and HUD, we may lose our approved lender status with these entities and fail to gain additional approvals or licenses for our business. We are also subject to changes in laws, regulations and existing GSE and HUD program requirements, including potential increases in reserve and risk retention requirements that could increase our costs and affect the way we conduct the Agency Business, which could materially and adversely affect our financial results.

The Agency Business's operations are subject to regulation by federal, state and local government authorities, various laws and judicial and administrative decisions, and regulations and policies of the GSEs and HUD. These laws, regulations, rules and policies impose, among other things, minimum net worth, operational liquidity and collateral requirements. Fannie Mae requires the Agency Business to maintain operational liquidity based on a formula that considers the balance of the loan and the level

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of credit loss exposure (level of risk-sharing). Fannie Mae requires its DUS lenders to maintain collateral, which may include pledged securities, for their risk-sharing obligations. The amount of collateral required under the Fannie Mae DUS program is calculated at the loan level and is based on the balance of the loan, the level of risk-sharing, the seasoning of the loans and the rating of the Fannie Mae DUS lender.

Regulatory authorities also require the Agency Business to submit financial reports and to maintain a quality control plan for the underwriting, origination and servicing of loans. Numerous laws and regulations also impose qualification and licensing obligations on the Agency Business and impose requirements and restrictions affecting, among other things: the Agency Business's loan originations; maximum interest rates, finance charges and other fees that we may charge; disclosures to consumers; the terms of secured transactions; collection, repossession and claims handling procedures; personnel qualifications; and other trade practices. The Agency Business is also subject to inspection by the GSEs, HUD, and regulatory authorities. Any failure to comply with these requirements could lead to, among other things, the loss of a license as an approved GSE or HUD lender, the inability to gain additional approvals or licenses, the termination of contractual rights without compensation, demands for indemnification or loan repurchases, class action lawsuits and administrative enforcement actions.

Regulatory and legal requirements are subject to change. For example, Fannie Mae increased its collateral requirements, on loans classified by Fannie Mae as Tier II, from 60 basis points to 75 basis points in 2013, which applied to a large portion of the Agency Business's outstanding Fannie Mae at risk portfolio. The incremental requirement for any newly originated Fannie Mae Tier II loans will be funded over the 48 months subsequent to the sale of the loan to Fannie Mae. Fannie Mae has indicated that it may increase collateral requirements in the future, which may adversely impact our Agency Business.

If we fail to comply with laws, regulations and market standards regarding the privacy, use, and security of customer information, or if we are the target of a successful cyber-attack, we may be subject to legal and regulatory actions and our reputation would be harmed.

We receive, maintain, and store the non-public personal information of our loan applicants. The technology and other controls and processes designed to secure our customer information and to prevent, detect, and remedy any unauthorized access to that information were designed to obtain reasonable, not absolute, assurance that such information is secure and that any unauthorized access is identified and addressed appropriately. We are not aware of any data breaches, successful hacker attacks, unauthorized access and misuse, or significant computer viruses affecting our networks that may have occurred in the past; however, our controls may not have detected, and may in the future fail to prevent or detect, unauthorized access to our borrower information. If this information is inappropriately accessed and used by a third party or an employee for illegal purposes, such as identity theft, we may be responsible to the affected applicant or borrower for any losses that may have been incurred as a result of misappropriation. In such an instance, we may also be liable to a governmental authority for fines or penalties associated with a lapse in the integrity and security of our customers' information.

Risks Related to Our Corporate and Ownership Structure

We are significantly influenced by ACM and our chief executive officer.

Our chairman, chief executive officer and president and the chief executive officer of ACM, beneficially owns approximately 75% of the outstanding membership interests of ACM. ACM has approximately 19% of the voting power of our outstanding stock as of December 31, 2018. As a result of our chief executive officer's beneficial ownership of stock held by ACM, as well as his beneficial ownership of additional shares of our common stock, our chief executive officer has approximately 20%

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of the voting power of our outstanding stock as of December 31, 2018. Because of his positions with us and ACM, and his ability to effectively vote a substantial minority of our outstanding stock, our chief executive officer 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 (excluding operating partnership units ("OP Units")), 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 our chief executive officer and ACM, in relation to our chief executive officer's controlling equity interest, a former director, as well as four 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 2019, 2020 and 2021, 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.

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 of 1986, as amended (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.

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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 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 hold some of our assets through taxable subsidiary corporations, the income of which would be subject to federal and state income tax.

The Agency Business may have adverse tax consequences.

As REITs, we and Arbor Realty SR, Inc. generally are unable to directly hold certain assets and operations in connection with the Agency Business. As a result, we are holding those assets and operations through our taxable REIT subsidiaries (each, a TRS) of Arbor Realty SR, Inc., which is subject to regular corporate income tax. Moreover, under the REIT asset tests, no more than 20% of our total gross assets may consist of the stock or other securities of one or more TRSs. In addition, although dividends payable by TRSs constitute qualifying income for purposes of the 95% REIT gross income test, they are non-qualifying income for purposes of the 75% REIT gross income test. Accordingly, if the value of our Agency Business or the income generated thereby increases relative to the value of our other, REIT-compliant assets and income, we or Arbor Realty SR, Inc. may fail to satisfy one or more of the requirements applicable to REITs. Although the Agency Business is not expected to adversely affect our ability, or that of Arbor Realty SR, Inc., to continue to qualify as a REIT in the future, no assurances can be given in that regard.

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

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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 20% of the value of our total assets may be represented by securities of one or more TRSs. If we fail to comply with these requirements, 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.

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 REIT-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 a future 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. 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.

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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 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.

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 borrow funds, issue stock or sell investments 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.

The present U.S. federal income tax treatment of REITs and their shareholders may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in our shares. The U.S. federal income tax rules, including those dealing with REITs, are constantly under review by persons involved in the legislative process, the Internal Revenue Service and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations.

The Tax Cuts and Jobs Act enacted in 2017 ("Tax Reform") made substantial changes to the Internal Revenue Code. Among those changes for corporations, beginning in 2018, the corporate federal tax rate (which impacts our TRS) has been permanently reduced from 35% to 21%; various deductions have been eliminated or modified, including substantial limitations on the deductibility of interest; and the deductions of net operating losses are subject to certain additional limitations. Changes that impact individuals and non-corporate taxpayers (which in certain cases apply on a temporary basis subject to "sunset" provisions) include a reduction in the top marginal rate to 37%; capital gain income (including capital gain dividends that we pay) remains subject to tax at 20%; and

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ordinary dividends paid by a REIT (including dividends that we pay that are not capital gain dividends or "qualified dividend income") are generally eligible for a 20% deduction off of the applicable marginal rate. Therefore, the top marginal rate on such dividends is generally 29.6% (80% of the top marginal rate of 37%).

A portion of our dividends (including dividends received from our TRS) may be eligible for preferential rates as "qualified dividend income," which has a top individual tax rate of 20% to U.S. stockholders. 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.

Furthermore, certain provisions of the Tax Reform still require guidance through the issuance of treasury regulations in order to assess their effect. There may be a substantial delay before the issuance of such treasury regulations, increasing the uncertainty as to the ultimate effect of the statutory amendments on us. There may also be further technical corrections legislation proposed with respect to the provisions of the Tax Reform, the effect of which cannot be predicted and may be adverse to 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.

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

None.

Item 2. Properties

Our principle corporate offices are located in leased space at 333 Earle Ovington Boulevard, 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 15 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." On February 8, 2019, there were 35,558 record holders of our common stock, including persons holding shares in broker accounts under street names. The closing sale price for our common stock, as reported on the NYSE on February 8, 2019, was $11.90.

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.

Equity Compensation Plan Information

The following table presents information as of December 31, 2018 regarding the 2017 Amended Omnibus Stock Incentive Plan, as amended and restated (the "2017 Plan"), which is 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:			
2017 Plan	0	N/A	2,530,598
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	0	N/A	2,530,598

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Performance Graph

The graph below compares the cumulative total stockholder return for our common stock with the Russell 2000 Index, the NAREIT All REITs Index and the FTSE NAREIT Mortgage REITs Index for the five year period from December 31, 2013 to December 31, 2018. The graph assumes a $100 investment on January 1, 2014 and the reinvestment of any dividends. This graph is not necessarily indicative of future stock price performance. The information included in the graph and table below was obtained from S&P Global Market Intelligence.

Total Return Performance

	Period Ending					
Index	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**
Arbor Realty Trust, Inc.	100.00	109.51	126.04	143.40	181.52	235.95
Russell 2000 Index	100.00	104.89	100.26	121.63	139.44	124.09
NAREIT All REIT Index	100.00	127.15	130.06	142.13	155.30	148.94
FTSE NAREIT Mortgage REITs Index	100.00	117.88	107.42	131.96	158.08	154.09

In accordance with SEC rules, this "Performance Graph" section 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

The following selected historical consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and related notes included in this report ($ in thousands, except per share data).

	Year Ended December 31,				
	2018	2017	2016(1)	2015	2014
Operating Data:					
Net interest income	$ 97,950	$ 66,105	$ 55,089	$ 64,933	$ 58,813
Total other revenue	233,131	190,487	94,511	27,936	34,287
Total other expenses	169,454	149,889	110,920	74,067	68,649
Total other (losses) gains, net	(3,845)	4,165	24,626	34,627	68,597
Provision for income taxes	(9,731)	(13,359)	(825)		
Net income	148,051	97,509	62,481	53,429	93,048
Preferred stock dividends	7,554	7,554	7,554	7,554	7,256
Net income attributable to common stockholders	108,312	65,835	42,796	45,875	85,792
Share Data:					
Income per share, basic(2)	1.54	1.14	0.83	0.90	1.71
Income per share, diluted(2)	1.50	1.12	0.83	0.90	1.70
Dividends declared per common share	1.13	0.72	0.62	0.58	0.52

	December 31,				
	2018	2017	2016(1)	2015	2014
Balance Sheet Data:					
Loans and investments, net	$ 3,200,145	$ 2,579,127	$ 1,695,732	$ 1,450,334	$ 1,459,476
Total assets	4,612,175	3,625,945	2,970,786	1,827,392	1,866,494
Total debt	3,314,869	2,531,236	2,018,118	1,173,189	1,246,080
Redeemable preferred stock	89,502	89,508	89,508	89,296	89,296
Total equity	1,065,566	864,556	747,038	565,091	535,455

	Year Ended December 31,				
	2018	2017	2016(1)	2015	2014
Loan Volume Data:					
Structured Business Originations					
New loan originations	$ 1,656,020	$ 1,842,974	$ 847,683	$ 828,218	$ 900,666
Loan payoffs / paydowns	955,575	924,120	553,409	828,670	972,312
Agency Business Originations					
Fannie Mae	$ 3,332,100	$ 2,929,481	$ 1,668,581	$	$
Freddie Mac	1,587,958	1,322,498	456,422		
FHA	153,523	189,087	24,630		
CMBS/Conduit	50,908	21,370			
Total	$ 5,124,489	$ 4,462,436	$ 2,149,633	$	$
Total loan commitment volume	$ 5,104,072	$ 4,344,328	$ 2,129,720	$	$

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	Year Ended December 31,				
	2018	2017	2016(1)	2015	2014
Agency Business Loan Sales					
Fannie Mae	$ 3,217,006	$ 3,223,953	$ 1,130,392	$	$
Freddie Mac	1,540,483	1,399,029	332,320		
FHA	115,747	170,554	29,673		
CMBS/Conduit	50,908	21,370			
Total(3)	$ 4,924,144	$ 4,814,906	$ 1,492,385	$	$
Sales margin (fee-based services as a % of loan sales)	1.42%	1.51%	1.65%		
MSR rate (MSR income as a % of loan commitments)	1.94%	1.77%	2.11%		
Other Data:					
Funds from operations(4)	$ 143,704	$ 94,330	$ 56,883	$ 43,902	$ 92,078
Adjusted funds from operations(4)	113,055	83,880	48,992	58,262	95,422
Funds from operations per share, diluted(4)	1.53	1.17	0.92	0.86	1.83
Adjusted funds from operations per share, diluted(4)	1.21	1.04	0.79	1.14	1.89

(1) The 2016 information includes the operating results and financial data of the Acquisition, which was completed on July 14, 2016. See Note 21 Segment Information for details of the operating results and financial data pertaining to the Agency Business acquired.

(2) 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.

(3) Loan sales were $1.91 billion for 2016, including loans that were acquired as part of the Acquisition.

(4) 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 "Forward-Looking Statements," "Risk Factors" and "Selected Financial Data," along with the historical consolidated financial statements including related notes, included in this report.

Overview

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. Through our Agency Business, we originate, sell and service a range of multifamily finance products through GSE, HUD and 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 were previously externally managed and advised by ACM and, on May 31, 2017, we exercised our option to fully internalize our management team and terminate the existing management agreement. We conduct our operations to qualify as a REIT. 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.

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 on our assets increases or the cost or 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. We recognize the bulk of our net interest income from our Structured Business. Additionally, we recognize net interest income from loans originated through our Agency Business, which are generally sold within 60 days of origination.

Fees and other revenue recognized from originating, selling and servicing mortgage loans through the GSE and HUD programs. Revenue recognized from the origination and sale of mortgage loans consists of gains on sale of loans (net of any direct loan origination costs incurred), commitment fees, broker fees, loan assumption fees and loan origination fees. These gains and fees are collectively referred to as gain on sales, including fee-based services, net. We record income from MSRs at the time of commitment to the borrower, which represents the fair value of the expected net future cash flows associated with the rights to service mortgage loans that we originate, with the recognition of a corresponding asset upon sale. We also record servicing revenue which consists of fees received for servicing mortgage loans, net of amortization on the MSR assets recorded. Although we have long-established relationships with the GSE and HUD agencies, our operating performance would be negatively impacted if our business relationships with these agencies deteriorate.

Income earned from our structured transactions. Our structured transactions are primarily comprised of investments in equity affiliates, which represent unconsolidated joint venture investments formed to acquire, develop and/or sell real estate-related assets. If interest rates continue to rise, it is likely that income from these investments will continue to be significantly impacted, particularly from our investment in a residential mortgage banking business, since rising interest rates generally decrease the demand for residential real estate loans and the number of loan originations. In addition, we periodically receive distributions from our equity investments. It is difficult to forecast the timing of such payments, which can be substantial in any given quarter. We account for structured transactions within our Structured Business.

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Credit quality of our loans and investments, including our servicing portfolio. Effective portfolio management is essential to maximize the performance and value of our loan and investment and servicing portfolios. Maintaining the credit quality of the loans in our portfolios is of critical importance. Loans that do not perform in accordance with their terms may have a negative impact on earnings and liquidity.

Significant Developments During 2018

Capital Markets Activity. We raised $546.5 million of capital, primarily through two issuances of additional senior debt and two public offerings of our common stock. We used a significant portion of the proceeds from these capital raises and the issuance of shares of our common stock to redeem substantially all of our higher cost senior debt. The remaining net proceeds of $217.1 million were used to make investments and for general corporate purposes. See Note 11 Debt Obligations and Note 17 Equity for details.

Financing Activity.

- We increased the capacity in our credit facilities and repurchase agreements by approximately $1.00 billion, which primarily includes a $400.0 million increase to an existing Agency Business repurchase facility, a $250.0 million increase to the Agency Business ASAP agreement and a $150.0 million temporary increase to an Agency Business credit facility, which expired in January 2019 (see Note 11 Debt Obligations for details);

- We closed our tenth collateralized securitization vehicle (CLO X) totaling $560.0 million of real estate related assets and cash, of which $441.0 million of investment grade notes were issued to third party investors and $53.2 million of below investment-grade notes and a $65.8 million equity interest in the portfolio were retained by us;

- We completed the unwind of CLO V, redeeming $267.8 million of outstanding notes which were repaid primarily from refinancing 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; and

- We paid $50.0 million in full satisfaction of the preferred equity interest financing agreement we entered into with ACM to finance a portion of the Acquisition purchase price.

Dividend. We raised our quarterly common dividend twice during 2018 to $0.27 per share, a 42% increase over the dividend declared in the fourth quarter of 2017 of $0.19 per share. In addition, in December 2018, our Board of Directors declared a special dividend of $0.15 per common share, which was paid in a combination of $2.5 million of cash and 901,432 common shares in January 2019.

Agency Business Activity.

- Loan originations and sales totaled $5.12 billion and $4.92 billion, respectively; and

- Our fee-based servicing portfolio grew 15% to $18.60 billion from $16.21 billion at December 31, 2017.

Structured Business Activity.

- Our Structured loan and investment portfolio grew 24% to $3.28 billion on loan originations totaling $1.66 billion, partially offset by loan runoff totaling $955.6 million;

- We received net proceeds of $10.2 million from the settlement of a litigation related to a prior investment, which was recognized as a gain; and

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We recorded a net total provision for loan losses of $8.4 million, primarily related to a $12.3 million provision recorded on six loans secured by a land development project, partially offset by reserve recoveries of $3.1 million related to previously written-off loans and investments. See Note 3 Loans and Investments for details.

Current Market Conditions, Risks and Recent Trends

Our ability to execute our business strategy, particularly the growth of our Structured Business portfolio of loans and investments, depends on many factors, including our ability to access capital and financing on favorable terms. The past economic downturn had a significant negative impact on both us and our borrowers and limited our ability for growth. 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. While we have been successful in generating capital through the debt and equity markets over the past several quarters, there can be no assurance that we will continue to have access to such markets. If we were to experience a 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 Federal Reserve increased its targeted federal rate 100 basis points during 2018 and 175 basis points over the past two years. To date, we have not been significantly impacted by these increases and do not anticipate a significant decline in origination volume or profitability as interest rates remain at relatively low levels. However, we cannot be certain that such a trend will continue as the number, timing, and magnitude of additional increases by the Federal Reserve, combined with other macroeconomic and market factors, may have a different effect on the commercial real estate market and on us.

The Trump administration continues to focus on several issues that could impact interest rates and the U.S. economy, including the recently enacted Tax Reform, which went into effect beginning in 2018. As a result of the Tax Reform, we realized a benefit from the reduction of the corporate federal income tax rate from 35% to 21%, as our Agency Business operates in a TRS. While there is uncertainty regarding the specifics and timing of any future policy changes, any such actions could impact our business.

We are a national originator with Fannie Mae and Freddie Mac, and the GSEs remain the most significant providers of capital to the multifamily market. In November 2018, the FHFA released the 2019 Scorecard, which established Fannie Mae's and Freddie Mac's 2019 Caps at $35.0 billion each for the multifamily finance market, mirroring the 2018 loan origination caps. Affordable housing loans, loans to small multifamily properties, and manufactured housing rental community loans continue to be excluded from the 2019 Caps. The 2019 Scorecard continues to provide FHFA the flexibility to review the estimated size of the multifamily loan origination market quarterly and proactively adjust the 2019 Caps accordingly, however, the FHFA will not reduce the 2019 Caps in the event that the multifamily market is smaller than anticipated. The 2019 Scorecard also continues to provide exclusions for loans to properties in underserved markets and for loans to finance certain energy or water efficiency improvements, however, to qualify for this exclusion, multifamily loans that finance energy or water efficiency improvements must now project a minimum 30% reduction in whole property energy and water consumption and a minimum of 15% of the reduction must be in energy consumption. FHFA is also adding a data collection requirement for all excluded Green Rewards and Green Up/Green Up Plus loans, which requires engagement of a third-party data collection firm prior to closing. Our originations with the GSEs are highly profitable executions as they provide significant gains from the

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sale of our loans, non-cash gains related to MSRs and servicing revenues. Therefore, a decline in our GSE originations would negatively impact our financial results. We are unsure whether the FHFA will impose stricter limitations on GSE multifamily production volume in the future.

The commercial real estate markets remain strong, 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 and commercial real estate markets. In addition, the growth in multifamily rental rates seen over the past few years are showing signs of stabilizing. If real estate values decline and/or rent growth subsides, it may limit our new mortgage loan originations since borrowers often use increases in the value of, and revenues produced from, 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 results of operations, financial condition, business prospects and our ability to make distributions to our stockholders.

The economic environment over the past few years has seen continued improvement in commercial real estate values, which has generally increased payoffs and reduced the credit exposure in our loan and investment portfolio. 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 delinquencies have generally declined as property values have increased and borrowers' access to financing has improved. If the markets were to deteriorate and the U.S. experienced a prolonged economic downturn, we believe there could be additional loan modifications and delinquencies, which may result in reduced net interest margins and additional losses throughout our sector.

Changes in Financial Condition

Assets Comparison of balances at December 31, 2018 to December 31, 2017:

Restricted cash increased $41.2 million, primarily due to payoffs on our CLO loans in excess of loans transferred into our CLO vehicles. 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 Structured loan and investment portfolio balance was $3.28 billion and $2.65 billion at December 31, 2018 and 2017, respectively. This increase was primarily due to loan originations exceeding payoffs and other reductions by $700.4 million. See below for details.

Our portfolio had a weighted average current interest pay rate of 7.02% and 6.28% at December 31, 2018 and 2017, respectively. Including certain fees earned and costs associated with the structured portfolio, the weighted average current interest rate was 7.66% and 6.99% at December 31, 2018 and 2017, respectively. Advances on our financing facilities totaled $2.89 billion and $2.24 billion at December 31, 2018 and 2017, respectively, with a weighted average funding cost of 4.66% and 4.12%, respectively, which excludes financing costs. Including financing costs, the weighted average funding rate was 5.24% and 4.83% at December 31, 2018 and 2017, respectively.

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Activity from our Structured Business portfolio was comprised of the following ($ in thousands):

	Year Ended December 31,	
	2018	2017
Loans originated	$ 1,656,020	$ 1,842,974
Number of loans	90	93
Weighted average interest rate	7.36%	7.04%
Loans paid-off / paid-down	$ 955,575	$ 924,120
Number of loans	79	64
Weighted average interest rate	7.60%	7.10%
Loans extended	$ 425,162	$ 426,183
Number of loans	27	48

Loans held-for-sale from the Agency Business increased $184.2 million, primarily related to loan originations exceeding loan sales during 2018 as noted in the following table (in thousands). These loans are generally sold within 60 days from the loan origination date.

	Loan Originations	Loan Sales
Fannie Mae	$ 3,332,100	$ 3,217,006
Freddie Mac	1,587,958	1,540,483
FHA	153,523	115,747
CMBS/Conduit	50,908	50,908
Total	$ 5,124,489	$ 4,924,144

Capitalized mortgage servicing rights increased $21.2 million, primarily due to MSRs recorded on new loan originations, partially offset by amortization and write-offs. Our capitalized mortgage servicing rights represent the estimated value of our rights to service mortgage loans for others. At December 31, 2018, the weighted average estimated life remaining of our MSRs was 7.6 years.

Securities held-to-maturity increased $48.5 million as a result of additional purchases of B Piece bonds from Freddie Mac SBL program securitizations. See Note 7 Securities Held-to-Maturity for details.

Other assets increased $23.8 million, primarily due to an increase in interest and other receivables from new loan originations, as well as increases in the fair market value of our rate lock commitments and deferred tax assets in our Agency Business.

Liabilities Comparison of balances at December 31, 2018 to December 31, 2017:

Credit facilities and repurchase agreements increased $607.1 million, primarily due to funding of new structured loan activity and an increase in financings on our loans held-for-sale, as a result of loan originations exceeding loan sales during 2018.

Collateralized loan obligations increased $175.1 million, primarily due to the issuance of a new CLO, where we issued $441.0 million of notes to third party investors, partially offset by the unwind of a CLO totaling $267.8 million.

Senior unsecured notes increased $27.2 million, primarily due to the issuance of $125.0 million aggregate principal amount of our 5.625% senior unsecured notes, partially offset by the full redemption of our 7.375% Notes totaling $97.9 million.

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Convertible senior unsecured notes, net increased $23.5 million, primarily due to the issuance of $264.5 million of 5.25% Convertible Notes, partially offset by the settlements of $138.3 million of our 5.375% Convertible Notes and $99.9 million of our 6.50% Convertible Notes.

In January 2018, we paid $50.0 million in full satisfaction of the related party financing entered into with ACM to finance a portion of the Acquisition purchase price.

Due to borrowers decreased $21.2 million, primarily due to a decrease in funds held on loan originations.

Other liabilities increased $19.0 million, primarily due to the accrual of the special dividend declared by our Board of Directors in December 2018.

Equity

We completed a public offering where we sold 8,700,000 shares of our common stock for $11.57 per share, and received net proceeds of $100.5 million. We used a portion of the net proceeds from this offering to purchase an aggregate of 870,000 shares of our common stock from our chief executive officer, ACM and an estate planning family vehicle established by our chief executive officer, at the same price the underwriters paid to purchase the shares.

We completed a public offering where we sold 5,500,000 shares of our common stock for $8.72 per share, and received net proceeds of $47.8 million.

We issued 7,296,893 shares of our common stock in connection with the initial exchanges and subsequent settlements of our 5.375% Convertible Notes and 6.50% Convertible Notes.

Distributions

The following table presents dividends declared (on a per share basis) for 2018:

Common Stock		Preferred Stock			
			Dividend(1)		
Declaration Date	Dividend	Declaration Date	Series A	Series B	Series C
December 13, 2018(2)	$ 0.15	October 31, 2018	$ 0.515625	$ 0.484375	$ 0.53125
October 31, 2018	$ 0.27	August 1, 2018	$ 0.515625	$ 0.484375	$ 0.53125
August 1, 2018	$ 0.25	May 2, 2018	$ 0.515625	$ 0.484375	$ 0.53125
May 2, 2018	$ 0.25	February 2, 2018	$ 0.515625	$ 0.484375	$ 0.53125
February 21, 2018	$ 0.21				

(1) The dividend declared on October 31, 2018 was for September 1, 2018 through November 30, 2018. The dividend declared on August 1, 2018 was for June 1, 2018 through August 31, 2018. The dividend declared on May 2, 2017 was for March 1, 2018 through May 31, 2018. The dividend declared on February 3, 2018 was for December 1, 2017 through February 28, 2018.

(2) On December 13, 2018, our Board of Directors declared a special dividend of $0.15 per common share, which was paid in a combination of $2.5 million of cash and 901,432 common shares in January 2019.

Common Stock On February 13, 2019, the Board of Directors declared a cash dividend of $0.27 per share of common stock. The dividend is payable on March 20, 2019 to common stockholders of record as of the close of business on March 1, 2019.

Preferred Stock On February 1, 2019, 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

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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, 2018 through February 28, 2019 and are payable on February 28, 2019 to preferred stockholders of record on February 15, 2019.

Deferred Compensation

In 2018, we issued 329,028 shares of restricted stock to our employees, including our chief executive officer, and 67,002 shares to the independent members of the Board of Directors. We also issued up to 381,503 performance-based restricted common stock units and 294,985 shares of performance-based restricted stock to our chief executive officer. See Note 17 Equity for details.

Comparison of Results of Operations for Years Ended 2018 and 2017

The following table provides our consolidated operating results ($ in thousands):

	Year Ended December 31,		Increase / (Decrease)	
	2018	2017	Amount	Percent
Interest income	$ 251,768	$ 156,177	$ 95,591	61%
Interest expense	153,818	90,072	63,746	71%
Net interest income	97,950	66,105	31,845	48%
Other revenue:				
Gain on sales, including fee-based services, net	70,002	72,799	(2,797)	(4)%
Mortgage servicing rights	98,839	76,820	22,019	29%
Servicing revenue, net	46,034	29,210	16,824	58%
Property operating income	10,095	10,973	(878)	(8)%
Other income, net	8,161	685	7,476	nm
Total other revenue	233,131	190,487	42,644	22%
Other expenses:				
Employee compensation and benefits	110,470	92,126	18,344	20%
Selling and administrative	37,074	30,738	6,336	21%
Property operating expenses	10,431	10,482	(51)	0%
Depreciation and amortization	7,453	7,385	68	1%
Impairment loss on real estate owned	2,000	3,200	(1,200)	(38)%
Provision for loss sharing (net of recoveries)	3,843	(259)	4,102	nm
Provision for loan losses (net of recoveries)	8,353	(456)	8,809	nm
Littigation settlement gain	(10,170)		(10,170)	nm
Management fee related party		6,673	(6,673)	nm
Total other expenses	169,454	149,889	19,565	13%
Income before extinguishment of debt, income from equity affiliates and income taxes	161,627	106,703	54,924	51%
(Loss) gain on extinguishment of debt	(5,041)	7,116	(12,157)	nm
Income (loss) from equity affiliates	1,196	(2,951)	4,147	nm
Provision for income taxes	(9,731)	(13,359)	3,628	(27)%
Net income	148,051	97,509	50,542	52%
Preferred stock dividends	7,554	7,554		
Net income attributable to noncontrolling interest	32,185	24,120	8,065	33%
Net income attributable to common stockholders	$ 108,312	$ 65,835	$ 42,477	65%

nm not meaningful

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

	Year Ended December 31,					
	2018			2017		
	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)
Structured Business interest-earning assets:						
Bridge loans	$ 2,769,871	$ 196,847	7.11%	$ 1,775,793	$ 118,396	6.67%
Preferred equity investments	162,740	16,354	10.05%	105,947	9,335	8.81%
Mezzanine / junior participation loans	88,884	10,909	12.27%	96,329	7,616	7.91%
Core interest-earning assets	3,021,495	224,110	7.42%	1,978,069	135,347	6.84%
Cash equivalents	233,646	2,640	1.13%	198,860	1,179	0.59%
Total interest-earning assets	$ 3,255,141	$ 226,750	6.97%	$ 2,176,929	$ 136,526	6.27%
Structured Business interest-bearing liabilities:						
CLO	$ 1,519,870	$ 68,469	4.50%	$ 983,807	$ 39,442	4.01%
Warehouse lines	527,932	24,120	4.57%	223,856	9,531	4.26%
Unsecured debt	378,994	32,285	8.52%	214,634	18,018	8.39%
Trust preferred	154,379	7,892	5.11%	155,692	6,420	4.12%
Debt fund	68,255	4,953	7.26%	8,978	530	5.90%
Interest rate swaps					195	
Total interest-bearing liabilities	$ 2,649,430	137,719	5.20%	$ 1,586,967	74,136	4.67%
Net interest income		$ 89,031			$ 62,390	

(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

The increase in interest income is primarily due to an increase of $90.2 million, or 66%, from our Structured Business, which was primarily the result of a 53% increase in our average core interest-earning assets (due to loan originations exceeding loan runoff) and an 8% increase in the average yield on core interest-earning assets (largely due to increases in the average LIBOR rate, partially offset by lower fee income received from accelerated runoff).

The increase in interest expense is primarily due to an increase of $63.6 million, or 86%, from our Structured Business, partially offset by a decrease of $3.5 million from the pay off in January 2018 of the seller financing entered into in connection with the Acquisition. The increase from our Structured Business was primarily due to a 67% increase in the average balance of our interest-bearing liabilities and an 11% increase

in the average cost of our interest-bearing liabilities. The increase in the average debt balance was due to growth in our loan portfolio, resulting in the issuance of additional CLOs, unsecured debt and a Luxembourg commercial real estate debt fund ("Debt Fund"). The increase in the average cost of our interest-bearing liabilities was primarily due to $5.3 million of accelerated deferred financing costs recorded in 2018 related to the redemption of unsecured debt and the unwind of a CLO, along with an increase in the average LIBOR rate.

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Agency Business Revenue

The increase in income from MSRs was primarily due to a $759.7 million, or 17%, increase in loan commitment volume, along with a 10% increase in the MSR rate (income from MSRs as a percentage of loan commitment volume) from 1.77% to 1.94% in 2018.

The increase in servicing revenue, net was primarily due to an increase in our servicing portfolio and an increase in earnings on escrows due to an increase in the average LIBOR rate. Our servicing portfolio increased 15% from $16.21 billion at December 31, 2017 to $18.60 billion at December 31, 2018. Our servicing revenue, net in 2018 and 2017 included $48.1 million and $47.2 million, respectively, of amortization expense.

The increase in other income, net was comprised primarily of a $6.0 million increase due to changes in the fair value of rate lock commitments in our Agency Business. See note 14 Fair Value for details.

Other Expenses

The increase in employee compensation and benefits expense is comprised of $10.4 million from our Agency Business and $7.9 million from our Structured Business. The increase in both businesses is partially due to compensation expense recorded directly by each business for the full year of 2018 associated with the employees that transferred to us as a result of the internalization of our management team in May 2017. Such costs were previously charged through the management fee prior to the termination of our management agreement with ACM. In addition, higher compensation costs from increased headcount associated with each business's portfolio growth also contributed to the increase.

The increase in selling and administrative expenses is comprised of $3.9 million from our Structured Business and $2.5 million from our Agency Business. These increases are primarily due to increased professional fees in 2018 compared to 2017. In addition, certain costs (rent, marketing, etc.) were also higher in 2018 due to each business's portfolio growth and such costs being recorded directly or allocated to each business in 2018 that were included in the management fee prior to the termination of the management agreement in May 2017.

Impairment losses on real estate owned were $2.0 million and $3.2 million for 2018 and 2017, respectively. During these periods, we received market analysis which resulted in impairment losses on our real estate properties. See Note 9 Real Estate Owned and Held-For-Sale for details.

The increase in our provision for loss sharing was primarily related to a $3.3 million reversal of a specific reserve in 2017 related to a Fannie Mae DUS loan that settled with no loss share in our Agency Business.

The provision for loan losses in 2018 was primarily related to a $12.3 million provision recorded on six loans secured by a land development project, partially offset by reserve recoveries of $3.1 million related to previously written-off loans and investments. The recovery of loan losses for 2017 was due to the pay-off of a fully reserved mezzanine loan with a UPB of $1.8 million and a $0.7 million reserve recovery on a multifamily bridge loan, partially offset by a $2.0 million provision on a preferred equity investment. See Note 3 Loans and Investments for details.

In July 2018, we received net proceeds of $10.2 million from the settlement of a litigation related to a prior investment, which was recognized as a gain in 2018.

The decrease in management fee related party was due to the internalization of our management team and termination of the existing management agreement with ACM effective May 31, 2017.

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(Loss) Gain on Extinguishment of Debt

The loss on extinguishment of debt in 2018 was due to the exchange of our 5.375% Convertible Notes and 6.50% Convertible Notes, utilizing the proceeds from our 5.25% Convertible Notes and the issuance of common shares. The gain on extinguishment of debt in 2017 was due to our discounted purchase of our junior subordinated notes. See Note 11 Debt Obligations for details.

Income (loss) from Equity Affiliates

Income from equity affiliates in 2018 was comprised primarily of distributions from an equity investment totaling $2.5 million and income from our investment in a residential mortgage banking business of $0.7 million, partially offset by an other-than-temporary impairment of $2.2 million recorded on one of our investments. The loss from equity affiliates in 2017 was comprised primarily of a $5.5 million charge for our proportionate share of a litigation settlement and a $1.7 million loss incurred from our investment in a residential mortgage banking business, partially offset by distributions from other equity investments totaling $4.0 million. See Note 8 Investments in Equity Affiliates for details.

Provision for Income Taxes

The provision for income taxes primarily represents federal and state taxes related to the Agency Business. The provision for income taxes in both 2018 and 2017 includes the effects of the reduced corporate federal income tax rate of 21% on our Agency Business as a result of the Tax Reform.

The provision for income taxes in 2018 consisted of a current tax provision of $21.8 million and a deferred tax benefit of $12.0 million. The deferred tax benefit in 2018 was due primarily to our January 2018 payoff of the $50.0 million preferred equity interest entered into with ACM to finance a portion of the Acquisition purchase price. The provision for income taxes in 2017 consisted of a current tax provision of $20.8 million and a deferred tax benefit of $7.4 million. The deferred income tax benefit in 2017 includes a $5.3 million deferred tax benefit as a result of applying the new lower income tax rates to our net long-term deferred tax assets and liabilities recorded on our consolidated balance sheets.

Net Income Attributable to Noncontrolling Interest

The noncontrolling interest relates to the outstanding OP Units issued as part of the Acquisition. There were 20,653,584 OP Units and 21,230,769 OP Units outstanding as of December 31, 2018 and 2017, respectively, which represented 19.7% and 25.6% of our outstanding stock at December 31, 2018 and 2017, respectively.

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Comparison of Results of Operations for Years Ended 2017 and 2016

The following table provides our consolidated operating results ($ in thousands):

	Year Ended December 31,		Increase / (Decrease)	
	2017	2016	Amount	Percent
Interest income	$ 156,177	$ 116,173	$ 40,004	34%
Other interest income, net		2,539	(2,539)	nm
Interest expense	90,072	63,623	26,449	42%
Net interest income	66,105	55,089	11,016	20%
Other revenue:				
Gain on sales, including fee-based services, net	72,799	24,594	48,205	196%
Mortgage servicing rights	76,820	44,941	31,879	71%
Servicing revenue, net	29,210	9,054	20,156	nm
Property operating income	10,973	14,881	(3,908)	(26)%
Other income, net	685	1,041	(356)	(34)%
Total other revenue	190,487	94,511	95,976	102%
Other expenses:				
Employee compensation and benefits	92,126	38,647	53,479	138%
Selling and administrative	30,738	17,587	13,151	75%
Acquisition costs		10,262	(10,262)	nm
Property operating expenses	10,482	13,501	(3,019)	(22)%
Depreciation and amortization	7,385	5,022	2,363	47%
Impairment loss on real estate owned	3,200	11,200	(8,000)	(71)%
Provision for loss sharing (net of recoveries)	(259)	2,235	(2,494)	nm
Provision for loan losses (net of recoveries)	(456)	(134)	(322)	nm
Management fee related party	6,673	12,600	(5,927)	(47)%
Total other expenses	149,889	110,920	38,969	35%
Income before extinguishment of debt, sale of real estate, income from equity affiliates and income taxes	106,703	38,680	68,023	176%
Gain on extinguishment of debt	7,116		7,116	nm
Gain on sale of real estate		11,631	(11,631)	nm
(Loss) income from equity affiliates	(2,951)	12,995	(15,946)	nm
Provision for income taxes	(13,359)	(825)	(12,534)	nm
Net income	97,509	62,481	35,028	56%
Preferred stock dividends	7,554	7,554		
Net income attributable to noncontrolling interest	24,120	12,131	11,989	99%
Net income attributable to common stockholders	$ 65,835	$ 42,796	$ 23,039	54%

nm not meaningful

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

	Year Ended December 31,					
	2017			2016		
	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)
Structured Business interest-earning assets:						
Bridge loans	$ 1,775,793	$ 118,396	6.67%	$ 1,510,811	$ 95,211	6.28%
Preferred equity investments	105,947	9,335	8.81%	78,620	5,809	7.37%
Mezzanine / junior participation loans	96,329	7,616	7.91%	111,018	7,762	6.97%
Core interest-earning assets	1,978,069	135,347	6.84%	1,700,449	108,782	6.38%
Cash equivalents	198,860	1,179	0.59%	206,971	840	0.41%
Total interest-earning assets	$ 2,176,929	$ 136,526	6.27%	$ 1,907,420	$ 109,622	5.73%
Structured Business interest-bearing liabilities:						
CLO	$ 983,807	$ 39,442	4.01%	$ 846,324	$ 30,239	3.56%
Warehouse lines	223,856	9,531	4.26%	181,169	6,427	3.54%
Unsecured debt	214,634	18,018	8.39%	117,983	9,718	8.21%
Trust preferred	155,692	6,420	4.12%	175,858	6,358	3.61%
Debt fund	8,978	530	5.90%			
Interest rate swaps		195			5,201	
Total interest-bearing liabilities	$ 1,586,967	74,136	4.67%	$ 1,321,334	57,943	4.37%
Net interest income		$ 62,390			$ 51,679	

(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

The increase in interest income is comprised of $26.9 million from our Structured Business and $13.1 million from our Agency Business. The $26.9 million, or 25%, increase from our Structured Business was primarily due to a 16% increase in our average core interest-earning assets, as a result of loan originations exceeding loan payoffs, and a 7% increase in the average yield on core interest-earning assets, largely due to increases in the average LIBOR rate and acceleration fees from early runoff. The increase in our Agency Business is due to the full period impact in 2017 of the Acquisition completed in the third quarter of 2016.

Other interest income, net was $2.5 million in 2016. During 2015, we acquired a $116.0 million defaulted first mortgage at par, which paid off during 2015. In 2016, additional funds held in escrow from the note payoff were released following an arbitration proceeding and we

recognized net other interest income totaling $2.5 million.

The increase in interest expense is comprised of $16.2 million from our Structured Business, $8.2 million from our Agency Business and $2.1 million from the seller financing entered into in connection with the Acquisition. The $16.2 million, or 28%, increase from our Structured Business was

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primarily due to a 20% increase in the average balance of our interest-bearing liabilities and a 7% increase in the average cost of our interest-bearing liabilities. The increase in the average debt balance was due to growth in our loan portfolio, resulting in the issuance of our convertible senior unsecured notes, CLOs and a Debt Fund. The increase in the average cost of our interest-bearing liabilities was primarily due to an increase in the average LIBOR rate, partially offset by the runoff of swaps in the first quarter of 2017. The increases from our Agency Business and seller financing are due to the full period impact in 2017 of the Acquisition.

Agency Business Revenue

The increase in gain on sales, including fee-based services was primarily due to a $3.32 billion increase in loan sales, as a result of the full period impact in 2017 of the Acquisition, as well as loans originated late in 2016 that sold in 2017, partially offset by a 14 basis point decrease in the sales margin (gain on sales, including fee-based services, net as a percentage of loan sales volume) from 1.65% to 1.51% in 2017, primarily due to an increase in larger Fannie Mae loans originated in 2017 which generally yield a lower sales margin.

The increase in income from MSRs was primarily due to a $2.21 billion increase in loan commitment volume, primarily a result of the full period impact in 2017 of the Acquisition. This increase was partially offset by a 34 basis point decrease in the MSR rate (income from MSRs as a percentage of loan commitment volume) from 2.11% to 1.77% in 2017, primarily due to an increase in the percentage of Freddie Mac SBL loans commitment volume in 2017, which carry lower servicing fees.

The increase in servicing revenue was primarily due to an increase in our servicing portfolio and the full period impact in 2017 of the Acquisition. Our servicing portfolio increased 20% from $13.56 billion at December 31, 2016 to $16.21 billion at December 31, 2017. Our servicing revenue, net in 2017 and 2016 includes $47.2 million and $21.7 million of amortization expense, respectively.

Other Expenses

The increase in employee compensation and benefits expense is comprised of $48.8 million from our Agency Business and $4.7 million from our Structured Business. The increase in our Agency Business was primarily due to the full period impact in 2017 of the Acquisition, an increase in commissions and headcount as a result of portfolio growth and compensation expense recorded directly by the Agency Business, which was previously charged through the management fee prior to the internalization of our management team and termination of our existing management agreement with our Former Manager effective May 31, 2017. The $4.7 million, or 31%, increase from our Structured Business was primarily associated with the employees that transferred to us as a result of the internalization of our management team and termination of the existing management agreement.

The increase in selling and administrative expenses is comprised of $11.1 million from our Agency Business and $2.1 million from our Structured Business. The increase in our Agency Business is primarily due to the full period impact in 2017 of the Acquisition. The $2.1 million, or 21%, increase from our Structured Business was primarily due to an increase in professional fees, as well as rent expense that was recorded directly by the Structured Business, which was previously charged through the management fee prior to the Acquisition, as the lease contracts were assumed in connection with the Acquisition.

Acquisition costs in 2016 represent costs incurred related to the Acquisition, which was completed in July 2016.

The increase in depreciation and amortization is comprised of $3.0 million from our Agency Business partially offset by a $0.7 million decrease from our Structured Business. The increase in our Agency Business is due to the full period impact in 2017 of the amortization of intangibles related to the Acquisition.

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Impairment loss on real estate owned was $3.2 million and $11.2 million in 2017 and 2016, respectively. During 2016, we determined that our hotel property exhibited indicators of impairment and, as a result, we recorded an impairment loss. The impairment loss in 2017 primarily relates to a further impairment of $2.7 million on this property resulting from additional market analyses received.

The decrease in our provision for loss sharing was primarily related to a $3.3 million reversal of a specific reserve related to a Fannie Mae DUS loan that settled with no loss share in our Agency Business, partially offset by the full period impact in 2017 of the Acquisition.

The decrease in management fee related party was due to the internalization of our management team and termination of the existing management agreement with our Former Manager effective May 31, 2017.

Gain on Extinguishment of Debt

During 2017, we purchased, at a discount, certain 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.

Gain on Sale of Real Estate

During 2016, we sold three multifamily properties and a hotel property for $50.7 million and recognized a gain of $11.6 million.

(Loss) Income from Equity Affiliates

Loss from equity affiliates was $3.0 million in 2017 comprised primarily of a $5.5 million charge for our proportionate share of a litigation settlement and a $1.7 million loss incurred from our investment in a residential mortgage banking business, partially offset by distributions from other equity investments totaling $4.0 million. We recognized income from equity affiliates of $13.0 million in 2016 comprised primarily of $10.0 million of income from our investment in a residential mortgage banking business and a $2.8 million distribution from one of our investments.

Provision for Income Taxes

Our 2017 results of operations included the impact of the enactment of the Tax Reform, which was signed into law on December 22, 2017. Among numerous provisions included in the new tax law was the reduction of the corporate federal income tax rate from 35% to 21%. The provision for income taxes for 2017 includes the newly enacted corporate federal income tax rate of 21% resulting in approximately a $5.3 million deferred income tax benefit, which is reflected in the consolidated statements of income. The deferred income tax benefit was primarily the result of applying the new lower income tax rates to our net long-term deferred tax assets and liabilities recorded on our consolidated balance sheets.

The provision for income taxes was $13.4 million for 2017, which consisted of a current provision of $20.8 million and a deferred benefit of $7.4 million. The deferred tax benefit includes the effect of the reduction in the newly enacted corporate federal income tax rate on our Agency Business. The provision for income taxes primarily represents federal and state taxes related to the Agency Business, which was acquired by the TRS Consolidated Group in July 2016.

Net Income Attributable to Noncontrolling Interest

The noncontrolling interest relates to the 21,230,769 OP Units issued to satisfy a portion of the aggregate purchase price of the Acquisition, which represented approximately 25.6% of our outstanding stock at December 31, 2017. The OP Units are redeemable for cash, or at our option, for shares of our common stock on a one-for-one basis.

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Liquidity and Capital Resources

Sources of Liquidity. Liquidity is a measure of our ability to meet our potential cash requirements, including ongoing commitments to repay borrowings, satisfaction of collateral requirements under the Fannie Mae DUS risk-sharing agreement and, as an approved designated seller/servicer of Freddie Mac's SBL program, operational liquidity requirements of the GSE agencies, fund new 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. We closely monitor our liquidity position and believe our existing sources of funds and access to additional liquidity will be adequate to meet our liquidity needs.

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 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. Cash flows used in operating activities totaled $37.7 million during 2018 and consisted primarily of net cash outflows of $180.8 million, as a result of loan originations exceeding loan sales in our Agency Business, partially offset by consolidated net income of $148.1 million.

Cash flows used in investing activities totaled $681.9 million during 2018. Loan and investment activity (originations and payoffs/paydowns) comprise the bulk of our investing activities. Loan originations from our Structured Business totaling $1.55 billion, net of payoffs and paydowns of $960.8 million, resulted in net cash outflows of $584.7 million. Cash used in investing activities also included $65.2 million to fund holdbacks and reserves on our loans and investments and $47.5 million to purchase B Piece bonds from SBL program securitizations.

Cash flows provided by financing activities totaled $816.5 million during 2018, and consisted primarily of $830.5 million of net proceeds from the issuances of a CLO and unsecured notes, net cash inflows of $607.2 million from debt facility activities (funded loan originations were greater than facility paydowns) and $156.4 million of net proceeds from issuances of our common stock. These cash inflows were partially offset by outflows of $593.9 million for the redemption of a CLO and certain unsecured notes, $96.3 million distributed to our stockholders and OP Unit holders and $50.0 million for full satisfaction of the seller financing related to the Acquisition of the Agency Business.

Agency Business Requirements. The Agency Business is subject to supervision by certain regulatory agencies. Among other things, these agencies require us to meet certain minimum net worth, operational liquidity and restricted liquidity collateral requirements, purchase and loss obligations and compliance with reporting requirements. Our adjusted net worth and operational liquidity exceeded the agencies' requirements as of December 31, 2018. Our restricted liquidity and purchase and loss obligations were satisfied with letters of credit totaling $49.0 million. See Note 15 Commitments and Contingencies for details about our performance regarding these requirements.

We also enter into contractual commitments with borrowers providing rate lock commitments while simultaneously entering into forward sale commitments with investors. These commitments are outstanding for short periods of time (generally less than 60 days) and are described in Note 13 Derivative Financial Instruments and Note 14 Fair Value.

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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 and all of our loans held-for-sale. The following is a summary of our debt facilities (in thousands):

	December 31, 2018			
Debt Facilities	**Commitment(1)**	**UPB(2)**	**Available**	**Maturity Dates**
Structured Business				
Credit facilities and repurchase agreements	$ 1,000,903	$ 665,844	$ 335,059	2019 - 2021
Collateralized loan obligations(3)	1,609,524	1,609,524		2019 - 2023
Debt fund(3)	70,000	70,000		2020 - 2023
Senior unsecured notes	125,000	125,000		2023
Convertible senior unsecured notes	270,057	270,057		2019 - 2021
Junior subordinated notes	154,336	154,336		2034 - 2037
Structured Business total	3,229,820	2,894,761	335,059	
Agency Business				
Credit facilities(4)	1,800,000	472,291	1,327,709	2019 - 2020
Consolidated total	$ 5,029,820	$ 3,367,052	$ 1,662,768	

(1) Includes temporary increases to committed amounts which have not expired as of December 31, 2018.

(2) Excludes the impact of deferred financing costs.

(3) Maturity dates represent the weighted average remaining maturity based on the underlying collateral as of December 31, 2018.

(4) The ASAP agreement we have with Fannie Mae has no expiration date.

These debt facilities, including their restrictive covenants, are described in Note 11 Debt Obligations.

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Contractual Obligations. As of December 31, 2018, we had the following material contractual obligations (in thousands):

	Payments Due by Period(1)						
	Year Ending December 31,						
Contractual Obligations	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Totals**
Credit facilities and repurchase agreements	$ 586,257	$ 424,089	$ 9,678	$	$	$ 118,111	$ 1,138,135
Collateralized loan obligations(2)	212,627	612,205	638,787	145,905			1,609,524
Debt fund(3)		33,686	19,500		16,814		70,000
Senior unsecured notes					125,000		125,000
Convertible senior unsecured notes	90	5,467	264,500				270,057
Junior subordinated notes(4)						154,336	154,336
Outstanding unfunded commitments(5)	60,460	44,029	23,536	2,605	292		130,922
Operating leases(6)	5,468	5,210	2,953	2,703	2,051	4,764	23,149
Totals	$ 864,902	$ 1,124,686	$ 958,954	$ 151,213	$ 144,157	$ 277,211	$ 3,521,123

(1) Represents principal amounts due based on contractual maturities. Excludes the total projected interest payments on our debt obligations of $132.7 million in 2019, $105.7 million in 2020, $66.0 million in 2021, $29.0 million in 2022, $17.5 million in 2023 and $145.9 million thereafter based on current LIBOR rates.

(2) Comprised of debt totaling $250.3 million for CLO VI, $279.0 million for CLO VII, $282.9 million for CLO VIII, $356.4 million for CLO IX and $441.0 million for CLO X with a weighted average contractual maturity of 2.35 years, 2.02 years, 2.10 years, 1.65 years and 2.20 years, respectively, as of December 31, 2018.

(3) The weighted average contractual maturity of the underlying loans is 2.69 years.

(4) Represents the face amount due upon maturity. The carrying value is $140.3 million, which is net of a deferred amount of $12.0 million and deferred financing fees of $2.1 million at December 31, 2018.

(5) 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. The payment due by period is based on the maturity date of underlying loans and is included in loans and investments, net in the consolidated balance sheet.

(6) Represents the operating lease payments due in connection with our lease of office space and equipment for our corporate headquarters and loan origination, support and servicing offices located throughout the U.S. Certain of the office leases have escalation clauses. The total rent expense was $5.4 million and $4.7 million in 2018 and 2017, respectively.

Off-Balance-Sheet Arrangements. At December 31, 2018, we had no 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

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interest-earning assets and interest-bearing liabilities have floating rates of interest. See "Quantitative and Qualitative Disclosures about Market Risk" below.

Derivative Financial Instruments

We enter into derivative financial instruments in the normal course of business through the origination and sale of mortgage loans and the management of potential loss exposure caused by fluctuations of interest rates. See Note 13 Derivative Financial Instruments for details surrounding our derivative financial instruments.

Significant Accounting Estimates

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 FASB 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 Basis of Presentation and Significant Accounting Policies. Many of these accounting policies require judgment and the use of estimates and assumptions when applying these policies in the preparation of our consolidated financial statements. Each quarter, we assess these estimates and assumptions based on several factors, including historical experience, which we believe to be reasonable under the circumstances. These estimates are subject to change in the future if any of the underlying assumptions or factors change.

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 real 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, income from MSRs, changes in fair value of certain derivatives that temporarily flow through earnings, amortization and write-offs of MSRs, deferred tax benefit and amortization of convertible senior notes conversion options. We also add back one-time charges such as acquisition costs and impairment losses on real estate and gains on sales of real estate. We are generally not in the business of operating real estate property and had 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 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 ($ in thousands, except share and per share data):

	Year Ended December 31,		
	2018	2017	2016
Net income attributable to common stockholders	$ 108,312	$ 65,835	$ 42,796
Adjustments:			
Net income attributable to noncontrolling interest	32,185	24,120	12,131
Impairment loss on real estate owned	2,000	3,200	11,200
Depreciation real estate owned	708	769	2,012
Depreciation investments in equity affiliates	499	406	375
Gain on sale of real estate			(11,631)
Funds from operations(1)	$ 143,704	$ 94,330	$ 56,883
Adjustments:			
Income from mortgage servicing rights	(98,839)	(76,820)	(44,941)
Impairment loss on real estate owned	(2,000)	(3,200)	(11,200)
Deferred tax benefit	(12,033)	(7,399)	(1,532)
Amortization and write-offs of MSRs	73,182	63,034	21,704
Depreciation and amortization	9,618	7,697	3,170
Net (gain) loss on changes in fair value of derivatives	(6,672)	1,398	(499)
Gain on sale of real estate			11,631
Stock-based compensation	6,095	4,840	3,514
Acquisition costs			10,262
Adjusted funds from operations(1)	$ 113,055	$ 83,880	$ 48,992
Diluted FFO per share(1)	$ 1.53	$ 1.17	$ 0.92
Diluted AFFO per share(1)	$ 1.21	$ 1.04	$ 0.79
Diluted weighted average shares outstanding(1)	93,642,168	80,311,252	61,649,847

(1) Amounts are attributable to common stockholders and OP Units holders. The OP Units are redeemable for cash, or at our option for shares of our common stock on a one-for-one basis.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to loss due to factors that affect the overall performance of the financial markets such as changes in interest rates, availability of capital, equity prices, real estate values and credit ratings. The primary market risks that we are exposed to are capital markets risk, real estate values, credit risk and interest rate risk.

Capital Markets Risk. We are exposed to the risks related to the equity and debt capital markets and our ability to raise capital or finance our business operations through these markets. As a REIT, we are required to distribute at least 90% of our taxable income annually, which significantly limits our ability to accumulate operating cash flow and, therefore, requires us to utilize the equity and debt capital markets to

finance our business. To mitigate this risk, we monitor both the equity and debt capital markets to make informed decisions on the amount, timing, type and terms of the capital we raise.

Real Estate Values and Credit 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, net operating income derived from such properties, and borrowers' credit ratings are subject to

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volatility and may be negatively affected by a number of factors, including, but not limited to, events such as natural disasters, acts of war, terrorism, local economic and/or real estate conditions (such as industry slowdowns, oversupply of real estate space, occupancy rates, construction delays and costs) and other macroeconomic factors beyond our control. The performance and value of our loan and investment and servicing portfolios depend on the borrowers' ability to operate the properties that serve as collateral so that they produce adequate cash flow to pay their loans. We attempt to mitigate these risks through our underwriting and asset management processes. Our asset management team reviews our portfolios consistently and is in regular contact with borrowers to monitor the performance of the collateral and enforce our rights as necessary.

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.

The operating results of our Structured Business depend in large part on differences between the income from our loans and our borrowing costs. Most of our Structured Business 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. We also have various fixed rate loans in our portfolio that are financed with variable rate LIBOR borrowings. Additionally, loans are sometimes extended and, consequently, do not pay off on their original maturity dates. If a loan is extended, our exposure to interest rate risk may be increased. In these instances, we could have a fixed rate loan financed with variable debt with no corresponding hedge, which may result in debt which is unprotected from interest rate risk. Some of our loans and borrowings are subject to interest rate floors. As a result, the impact of a change in interest rates may be different on our interest income than on our interest expense. We have utilized interest rate swaps in the past 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, assuming an instantaneous increase or decrease of both 25 and 50 basis points in LIBOR (in thousands).

	Assets (Liabilities) Subject to Interest Rate Sensitivity(1)	25 Basis Point Increase	25 Basis Point Decrease(2)	50 Basis Point Increase	50 Basis Point Decrease(2)
Interest income from loans and investments	$ 3,283,342	$ 7,203	$ (6,738)	$ 14,418	$ (12,732)
Interest expense from debt obligations	(2,894,761)	6,242	(6,242)	12,484	(12,484)
Total net interest income		$ 961	$ (496)	$ 1,934	$ (248)

(1) Represents the UPB of our loan portfolio and the principal balance of our debt.

(2) The quoted one-month LIBOR rate was 2.50% as of December 31, 2018.

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.

Our Agency Business originates, sells and services a range of multifamily finance products with Fannie Mae, Freddie Mac and HUD. Our loans held-for-sale to Fannie Mae, Freddie Mac and HUD are not currently exposed to interest rate risk during the loan commitment, closing and delivery process. The sale or placement of each loan to an investor is negotiated prior to closing on the loan

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with the borrower, and the sale or placement is generally effectuated within 60 days of closing. The coupon rate for the loan is set after we established the interest rate with the investor.

In addition, the fair value of our MSRs is subject to market risk since a significant driver of the fair value of these assets is the discount rates. A 100 basis point increase in the weighted average discount rate would decrease the fair value of our MSRs by approximately $10.8 million as of December 31, 2018, while a 100 basis point decrease would increase the fair value by approximately $11.4 million.

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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

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Arbor Realty Trust, Inc. and Subsidiaries (the Company) as of December 31, 2018 and 2017, 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, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, based on our audits and the report of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We did not audit the 2016 financial statements of Cardinal Financial Company, Limited Partnership, an entity in which the Company has a 16.3% interest as of December 31, 2016. In the consolidated financial statements, the Company's equity in the net income of Cardinal Financial Company, Limited Partnership is stated at $9,487,795 in 2016. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cardinal Financial Company, Limited Partnership, is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, 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 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP
We have served as the Company's auditor since 2003.

New York, New York
February 15, 2019

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Report of Independent Registered Public Accounting Firm

To the Partners
Cardinal Financial Company, Limited Partnership
Charlotte, North Carolina

We have audited the balance sheet of Cardinal Financial Company, Limited Partnership (the "Company") as of December 31, 2016, and the related statements of operations, changes in partners' equity, and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cardinal Financial Company, Limited Partnership as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Richey, May & Co., LLP
Englewood, Colorado

February 13, 2017

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2018	**2017**
Assets:		
Cash and cash equivalents	$ 160,063	$ 104,374
Restricted cash	180,606	139,398
Loans and investments, net	3,200,145	2,579,127
Loans held-for-sale, net	481,664	297,443
Capitalized mortgage servicing rights, net	273,770	252,608
Securities held-to-maturity, net	76,363	27,837
Investments in equity affiliates	21,580	23,653
Real estate owned, net	14,446	16,787
Due from related party	1,287	688
Goodwill and other intangible assets	116,165	121,766
Other assets	86,086	62,264
Total assets	$ 4,612,175	$ 3,625,945
Liabilities and Equity:		
Credit facilities and repurchase agreements	$ 1,135,627	$ 528,573
Collateralized loan obligations	1,593,548	1,418,422
Debt fund	68,183	68,084
Senior unsecured notes	122,484	95,280
Convertible senior unsecured notes, net	254,768	231,287
Junior subordinated notes to subsidiary trust issuing preferred securities	140,259	139,590
Related party financing		50,000
Due to borrowers	78,662	99,829
Allowance for loss-sharing obligations	34,298	30,511
Other liabilities	118,780	99,813
Total liabilities	3,546,609	2,761,389
Commitments and contingencies (Note 15)		
Equity:		
Arbor Realty Trust, Inc. stockholders' equity:		
Preferred stock, cumulative, redeemable, $0.01 par value: 100,000,000 shares authorized; special voting preferred shares; 20,653,584 and 21,230,769 shares issued and outstanding, respectively; 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% Series C, $22,500 aggregate liquidation preference; 900,000 shares issued and outstanding	89,502	89,508
Common stock, $0.01 par value: 500,000,000 shares authorized; 83,987,707 and 61,723,387 shares issued and outstanding, respectively	840	617
Additional paid-in capital	879,029	707,450
Accumulated deficit	(74,133)	(101,926)
Accumulated other comprehensive income		176
Total Arbor Realty Trust, Inc. stockholders' equity	895,238	695,825
Noncontrolling interest	170,328	168,731

Total equity	1,065,566	864,556
Total liabilities and equity	$ 4,612,175	$ 3,625,945

Note: Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities, or VIEs, as we are the primary beneficiary of these VIEs. As of December 31, 2018 and 2017, assets of our consolidated VIEs totaled $2,198,096 and $1,989,491, respectively, and the liabilities of our consolidated VIEs totaled $1,665,139 and $1,488,552, respectively. Refer to Note 16 Variable Interest Entities for discussion of our VIEs.

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

	Year Ended December 31,		
	2018	**2017**	**2016**
Interest income	$ 251,768	$ 156,177	$ 116,173
Other interest income, net			2,539
Interest expense	153,818	90,072	63,623
Net interest income	97,950	66,105	55,089
Other revenue:			
Gain on sales, including fee-based services, net	70,002	72,799	24,594
Mortgage servicing rights	98,839	76,820	44,941
Servicing revenue, net	46,034	29,210	9,054
Property operating income	10,095	10,973	14,881
Other income, net	8,161	685	1,041
Total other revenue	233,131	190,487	94,511
Other expenses:			
Employee compensation and benefits	110,470	92,126	38,647
Selling and administrative	37,074	30,738	17,587
Acquisition costs			10,262
Property operating expenses	10,431	10,482	13,501
Depreciation and amortization	7,453	7,385	5,022
Impairment loss on real estate owned	2,000	3,200	11,200
Provision for loss sharing (net of recoveries)	3,843	(259)	2,235
Provision for loan losses (net of recoveries)	8,353	(456)	(134)
Litigation settlement gain	(10,170)		
Management fee related party		6,673	12,600
Total other expenses	169,454	149,889	110,920
Income before extinguishment of debt, sale of real estate, income from equity affiliates and income taxes	161,627	106,703	38,680
(Loss) gain on extinguishment of debt	(5,041)	7,116	
Gain on sale of real estate			11,631
Income (loss) from equity affiliates	1,196	(2,951)	12,995
Provision for income taxes	(9,731)	(13,359)	(825)
Net income	148,051	97,509	62,481
Preferred stock dividends	7,554	7,554	7,554
Net income attributable to noncontrolling interest	32,185	24,120	12,131
Net income attributable to common stockholders	$ 108,312	$ 65,835	$ 42,796
Basic earnings per common share	$ 1.54	$ 1.14	$ 0.83

Diluted earnings per common share	$ 1.50	$ 1.12	$ 0.83
Weighted average shares outstanding:			
Basic	70,208,165	57,890,574	51,305,095
Diluted	93,642,168	80,311,252	51,730,553

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year Ended December 31,		
	2018	**2017**	**2016**
Net income	$ 148,051	$ 97,509	$ 62,481
Reclassification of net unrealized gains on available-for-sale securities into accumulated deficit	(176)		
Unrealized (loss) gain on securities available-for-sale, at fair value		(382)	147
Unrealized loss on derivative financial instruments, net			(193)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings		237	5,208
Comprehensive income	147,875	97,364	67,643
Less:			
Comprehensive income attributable to noncontrolling interest	32,142	24,091	12,883
Preferred stock dividends	7,554	7,554	7,554
Comprehensive income attributable to common stockholders	$ 108,179	$ 65,719	$ 47,206

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

($ in thousands, except shares)

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Arbor Realty Trust, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance December 31, 2015	3,711,500	$ 89,296	50,962,516	$ 510	$ 616,244	$ (136,117)	$ (4,841)	$ 565,092	$	$ 565,092
Issuance of special voting preferred shares and operating partnership units	21,230,769	212						212	154,560	154,772
Stock-based compensation			439,780	4	3,509			3,513		3,513
Forfeiture of unvested restricted stock			(1,001)							
Issuance of convertible senior unsecured notes, net					2,179			2,179		2,179
Distributions common stock						(31,798)		(31,798)		(31,798)
Distributions preferred stock						(7,554)		(7,554)		(7,554)
Distributions preferred stock of private REIT						(15)		(15)		(15)
Distributions noncontrolling interest									(6,794)	(6,794)
Net income						50,350		50,350	12,131	62,481
Unrealized gain on securities available-for-sale							147	147		147
Unrealized loss on derivative financial instruments, net							(193)	(193)		(193)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings							5,208	5,208		5,208
Balance December 31, 2016	24,942,269	$ 89,508	51,401,295	$ 514	$ 621,932	$ (125,134)	$ 321	$ 587,141	$ 159,897	$ 747,038
Issuance of common stock			9,500,000	95	76,130			76,225		76,225
Stock-based compensation			827,283	8	4,832			4,840		4,840
Forfeiture of unvested restricted stock			(5,191)							
Issuance of convertible senior unsecured notes, net					4,556			4,556		4,556
Distributions common stock						(42,612)		(42,612)		(42,612)
Distributions preferred stock						(7,554)		(7,554)		(7,554)
Distributions preferred stock of private REIT						(15)		(15)		(15)
Distributions noncontrolling interest									(15,286)	(15,286)
Net income						73,389		73,389	24,120	97,509
Unrealized loss on securities available-for-sale							(382)	(382)		(382)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings							237	237		237
Balance December 31, 2017	24,942,269	$ 89,508	61,723,387	$ 617	$ 707,450	$ (101,926)	$ 176	$ 695,825	$ 168,731	$ 864,556

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

($ in thousands, except shares)

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Arbor Realty Trust, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Issuance of common stock from convertible debt			7,296,893	73	80,118			80,191		80,191
Extinguishment of convertible senior unsecured notes					(70,271)			(70,271)		(70,271)
Issuance of convertible senior unsecured notes, net					9,436			9,436		9,436
Issuance of common stock			15,152,700	152	156,265			156,417		156,417
Repurchase of common stock			(870,000)	(9)	(10,057)			(10,066)		(10,066)
Stock-based compensation			691,015	7	6,088			6,095		6,095
Forfeiture of unvested restricted stock			(6,288)							
Distributions common stock						(80,681)		(80,681)		(80,681)
Distributions preferred stock						(7,554)		(7,554)		(7,554)
Distributions preferred stock of private REIT						(14)		(14)		(14)
Distributions noncontrolling interest									(23,749)	(23,749)
Redemption of operating partnership units	(577,185)	(6)						(6)	(6,839)	(6,845)
Net income						115,866		115,866	32,185	148,051
Reclassification of net unrealized gains on available-for-sale securities into accumulated deficit						176	(176)			
Balance December 31, 2018	24,365,084	$ 89,502	83,987,707	$ 840	$ 879,029	$ (74,133)	$	$ 895,238	$ 170,328	$ 1,065,566

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2018	**2017**	**2016**
Operating activities:			
Net income	$ 148,051	$ 97,509	$ 62,481
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	7,453	7,385	5,022
Stock-based compensation	6,095	4,840	3,514
Amortization and accretion of interest and fees, net	9,291	4,682	4,563
Amortization of capitalized mortgage servicing rights	48,124	47,202	21,705
Impairment loss on real estate owned	2,000	3,200	11,200
Originations of loans held-for-sale	(5,074,662)	(4,444,939)	(2,154,732)
Proceeds from sales of loans held-for-sale, net of gain on sale	4,893,886	4,814,906	1,916,470
Mortgage servicing rights	(98,839)	(76,820)	(44,941)
Write-off of capitalized mortgage servicing rights from payoffs	25,058	15,832	5,796
Provision for loan losses (net of recoveries)	8,353	(456)	(134)
Provision for loss sharing (net of recoveries)	3,843	(259)	2,235
Net charge-offs for loss sharing obligations	(56)	(1,638)	(2,444)
Deferred tax benefit	(12,033)	(7,399)	
(Income) loss from equity affiliates	(1,196)	2,951	(12,995)
Loss (gain) on extinguishment of debt	5,041	(7,116)	
Payoffs and paydowns of loans held-for-sale	61	132	
Gain on sale of real estate			(11,631)
Changes in operating assets and liabilities	(8,205)	(308)	(4,624)
Net cash (used in) provided by operating activities	(37,735)	459,704	(198,515)
Investing Activities:			
Loans and investments funded, originated and purchased, net	(1,545,499)	(1,867,393)	(870,166)
Payoffs and paydowns of loans and investments	960,769	959,696	667,902
Internalization of management team		(25,000)	
Acquisition of the Agency Business, net of cash acquired			(63,356)
Deferred fees	13,114	10,982	11,938
Investments in real estate, net	(367)	(672)	(588)
Contributions to equity affiliates	(2,493)	(693)	(6,091)
Distributions from equity affiliates	3,122	4,671	12,452
Proceeds from sale of real estate, net			49,030
Proceeds from sale of available-for-sale securities			1,567
Due to borrowers and reserves	(65,213)	38,372	395
Purchases of securities held-to-maturity, net	(47,499)	(27,173)	
Payoffs and paydowns of securities held-to-maturity	2,269	460	
Purchases of capitalized mortgage servicing rights		(1,199)	
(Distributions of) proceeds from insurance settlements, net	(78)	1,104	
Net cash used in investing activities	(681,875)	(906,845)	(196,917)
Financing activities:			
Proceeds from repurchase agreements, credit facilities and notes payable	9,166,255	8,215,669	3,922,394
Paydowns and payoffs of repurchase agreements and credit facilities	(8,559,057)	(8,593,411)	(3,571,929)
Proceeds from issuance of collateralized loan obligations	441,000	918,274	250,250
Payoffs and paydowns of collateralized loan obligations	(267,750)	(219,000)	(281,250)
Proceeds from issuance of convertible senior unsecured notes	264,500	157,500	86,250
Extinguishment of convertible senior unsecured notes	(228,287)		
Proceeds from issuance of senior unsecured notes	125,000		
Payoffs of senior unsecured notes	(97,860)		
Proceeds from issuance of common stock	156,417	76,225	
Distribution for repurchase of common stock	(10,066)		

Redemption of operating partnership units	(6,845)		
Distributions paid on common stock	(68,083)	(42,612)	(31,798)
Distributions paid on noncontrolling interest	(20,650)	(15,286)	(6,794)
Distributions paid on preferred stock	(7,554)	(7,554)	(7,554)
Distributions paid on preferred stock of private REIT	(14)	(15)	(15)
Payoffs of related party financing	(50,000)		
Payment of deferred financing costs	(20,499)	(24,576)	(10,617)
Proceeds from debt fund		70,000	
Payoffs of junior subordinated notes to subsidiary trust issuing preferred securities		(12,691)	
Receipts on swaps and returns of margin calls from counterparties		430	4,600
Paydowns and payoffs of mortgage note payable real estate owned			(27,155)
Net cash provided by financing activities	816,507	522,953	326,382
Net increase (decrease) in cash, cash equivalents and restricted cash	96,897	75,812	(69,050)
Cash, cash equivalents and restricted cash at beginning of period	243,772	167,960	237,010
Cash, cash equivalents and restricted cash at end of period	$ 340,669	$ 243,772	$ 167,960

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)

	Year Ended December 31,		
	2018	**2017**	**2016**
Supplemental cash flow information:			
Cash used to pay interest	$ 118,923	$ 75,582	$ 53,012
Cash used to pay taxes	$ 20,026	$ 20,823	$ 264
Supplemental schedule of non-cash investing and financing activities:			
Issuance of common stock from convertible debt	$ 80,118	$	$
Extinguishment of convertible senior unsecured notes	$ (70,271)	$	$
Distributions accrued for special dividend declared	$ 15,696	$	$
Fair value of conversion feature of convertible senior unsecured notes	$ 9,750	$ 4,703	$ 2,280
Distributions accrued on 8.25% Series A preferred stock	$ 267	$ 267	$ 267
Distributions accrued on 7.75% Series B preferred stock	$ 203	$ 203	$ 203
Distributions accrued on 8.50% Series C preferred stock	$ 159	$ 159	$ 159
Issuance of special voting preferred shares and operating partnership units in connection with the Acquisition	$	$	$ 154,772

Related party financing	$	$	$ 50,000

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

Note 1 Description of Business

Arbor is a Maryland corporation formed in 2003. 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 Fannie Mae, Freddie Mac, Ginnie Mae, FHA, HUD and 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 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 SBL lender, seller/servicer, nationally and a HUD MAP and LEAN senior housing/healthcare lender nationally.

Substantially all of our operations are conducted through our operating partnership, ARLP, for which we serve as the general partner, and ARLP's subsidiaries. We are organized to qualify as a REIT for federal income tax purposes. See Note 18 Income Taxes for details.

In July 2016, we acquired the Agency platform of ACM and in May 2017, we terminated our existing management agreement with ACM and internalized our management team.

Note 2 Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The consolidated financial statements and accompanying notes have been prepared in accordance with GAAP. In the opinion of management, 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.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation. See the following "Recently Adopted Accounting Pronouncements" section below 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.

Principles of Consolidation

The 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 16 Variable Interest Entities for information about our VIEs. All significant inter-company transactions and balances have been eliminated in consolidation.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that could materially affect the amounts reported in the consolidated financial statements and accompanying notes. As future events cannot be determined with precision, actual results could differ from those estimates.

Significant Accounting Policies

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.

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, we determine whether such investment should be accounted for as a loan, equity interest or as real estate. To date, we have determined that all such investments are properly accounted for and reported as loans.

At the time of purchase, we designate a debt security as available-for-sale, held-to-maturity, or trading depending on our ability and intent for the security. Securities available-for-sale, which are included as a component of other assets in the consolidated balance sheets, are reported at fair value with the net unrealized gains or losses and other-than-temporary impairments up to their credit component recognized through earnings. Held-to-maturity securities are carried at cost net of any unamortized premiums or discounts, which are amortized or accreted over the life of the securities. For securities classified as held-to-maturity, an evaluation is performed as to whether a decline in fair value below the amortized cost basis is other-than-temporary.

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 includes, 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. We closely monitor market conditions on which we base such decisions.

Impaired Loans, Allowance for Loan Losses and Charge-offs. We consider a loan impaired when, based upon current information, 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 have in relation to the underlying collateral. We evaluate this

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

information at both a loan level and general market trends level 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 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 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. 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.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

Loans Held-for-Sale, Net. Loans held-for-sale, net represents commercial real estate loans originated in our Agency Business, which are generally transferred or sold within 60 days from the date the loan is funded. Such loans are reported at the lower of cost or market on an aggregate basis and include the value allocated to the associated future MSRs. During the period prior to its sale, interest income on a loan held-for-sale is calculated in accordance with the terms of the individual loan and the loan origination fees and direct loan origination costs are deferred until the loan is sold. All of our held-for-sale loans are financed with matched borrowings from credit facilities contracted to finance such loans. Interest income and expense are earned or incurred after a loan is closed and before a loan is sold.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated, put presumptively beyond the reach of the entity, even in bankruptcy, (2) the transferee (or if the transferee is an entity whose sole purpose is to engage in securitization and the entity is constrained from pledging or exchanging the assets it receives, each third-party holder of its beneficial interests) has the right to pledge or exchange the transferred financial assets, and (3) we or our agents does not maintain effective control over the transferred financial assets or third-party beneficial interest related to those transferred assets through an agreement to repurchase them before their maturity. We have determined that all loans sold have met these specific conditions and account for all transfers of mortgage loans as completed sales.

Allowance for Loss-Sharing Obligations. When a loan is sold under the Fannie Mae DUS program, we undertake an obligation to partially guarantee the performance of the loan. Generally, we are responsible for losses equal to the first 5% of the UPB and a portion of any additional losses to an overall maximum of 20% of the original principal balance. Fannie Mae bears any remaining loss. In addition, under the terms of the master loss-sharing agreement with Fannie Mae, we are responsible for funding 100% of mortgage delinquencies (principal and interest) and servicing advances (taxes, insurance and foreclosure costs) until the amounts advanced exceeds 5% of the UPB at the date of default. Thereafter, we may request interim loss-sharing adjustments which allow us to fund 25% of such advances until final settlement.

At inception, a liability for the fair value of the obligation undertaken in issuing the guaranty is recognized. In determining the fair value of the guaranty obligation, we consider the risk profile of the collateral and the historical loss experience in our portfolio. The guaranty obligation is removed only upon either the expiration or settlement of the guaranty.

We evaluate the allowance for loss-sharing obligations by monitoring the performance of each loss-sharing loan for events or conditions that may signal a potential default. Historically, initial loss recognition occurs at or before a loan becomes 60 days delinquent. In instances where payment under the guaranty on a loan is determined to be probable and estimable (as the loan is probable of, or is, in foreclosure), we record a liability for the estimated allowance for loss-sharing (a "specific reserve") by transferring the guarantee obligation recorded on the loan to the specific reserve with any adjustments to this reserve amount recorded in provision for loss sharing in the statements of income. The amount of the allowance considers our assessment of the likelihood of repayment by the borrower or key principal(s), the risk characteristics of the loan, the loan's risk rating, historical loss experience, adverse situations affecting individual loans, the estimated disposition value of the underlying collateral, and the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

level of risk sharing. We regularly monitor the specific reserves and update loss estimates as current information is received.

Capitalized Mortgage Servicing Rights. We recognize, as separate assets, rights to service mortgage loans for others, including such rights from our origination of mortgage loans sold with the servicing rights retained, as well as rights associated with acquired MSRs. Income from MSRs related to loans we originate are recognized when we record a derivative asset upon the commitment to originate a loan with a borrower and sell the loan to an investor. This commitment asset is recognized at fair value based on the discounted expected net cash flows associated with the servicing of the loan. When a mortgage loan we originate is sold, we retain the right to service the loan and recognize the MSR at the initial capitalized valuation. We amortize our MSRs using the amortization method, which requires the MSRs to be amortized over the period of estimated net servicing income or loss and that the servicing assets or liabilities be assessed for impairment, or increased obligation, based on the fair value at each reporting date. Amortization of MSRs is recorded as a reduction of servicing revenues, net in the consolidated statements of income. The following assumptions were used in calculating the fair value of our MSRs for the periods presented:

Key rates: We used discount rates ranging from 8% to 15%, representing a weighted average discount rate of 12%, based on our best estimate of market discount rates to determine the present value of MSRs. The inflation rate used for adequate compensation was 3%.

Servicing Cost: A market participant's estimated future cost to service the loan for the estimated life of the MSR is subtracted from the estimated future cash flows.

Estimated Life: We estimate the life of our MSRs based upon the stated yield maintenance and/or prepayment protection term of the underlying loan and are reduced using prepayment rates that consider the note rate of the loan and the expiration of various types of prepayment penalty and/or lockout provisions prior to that stated maturity date.

MSRs are initially recorded at fair value and are carried at amortized cost. The fair value of MRSs from loans we originate and sell are estimated considering market prices for similar MSRs, when available, and by estimating the present value of the future net cash flows of the capitalized MSRs, net of adequate compensation for servicing. Adequate compensation is based on the market rate of similar servicing contracts. The fair value of MSRs acquired approximate the purchase price paid.

We evaluate the MSR portfolio for impairment on a quarterly basis based on the difference between the aggregate carrying amount of the MSRs and their aggregate fair value. We engage an independent third-party valuation expert to assist in determining an estimated fair value of our MSR portfolio on a quarterly basis. For purposes of impairment evaluation, the MSRs are stratified based on predominant risk characteristics of the underlying loans, which we have identified as loan type, note rate and yield maintenance provisions. To the extent that the carrying value of the MSRs exceeds fair value, a valuation allowance is established.

We record write-offs of MSRs related to loans that were repaid prior to their expected maturity and loans that have defaulted and determined to be unrecoverable. When this occurs, the write-off is recorded as a direct write-down to the carrying value of MSRs and is included as a component of servicing revenue, net in the consolidated statements of income. This direct write-down permanently

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

reduces the carrying value of the MSRs, precluding recognition of subsequent recoveries. For loans that payoff prior to maturity, we may collect a prepayment fee which is included as a component of servicing revenue, net.

Real Estate Owned and Held-For-Sale. Real estate acquired is recorded at its estimated fair value at acquisition and is shown net of accumulated depreciation and impairment charges. Costs incurred in connection with the acquisition of a property are expensed as incurred.

We allocate the purchase price of our real estate acquisitions to land, building, tenant improvements, origination asset of the in-place leases, intangibles for the value of any above or below market leases at fair value and to any other identified intangible assets or liabilities. We finalize our purchase price allocation within one year of the acquisition. We amortize the value allocated to 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 above or below market leases are amortized over the remaining lease term as an adjustment to rental income.

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 reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of an asset may not be recoverable. We recognize impairment if the undiscounted estimated cash flows to be generated by an asset is less than the carrying amount of such asset. Measurement of impairment is based on the asset's estimated fair value. In evaluating 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 the asset 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 we commit 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 at the lower of the asset's carrying amount or its 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.

Investments in Equity Affiliates. We invest in joint ventures that are formed to invest in real estate related assets or businesses. These joint ventures are not majority owned or controlled by us, or are VIEs for which we are 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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

appropriate. We evaluate these investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. We recognize an impairment loss if the estimated fair value of the investment is less than its carrying amount and we determine that the impairment is other-than-temporary. 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 as income or losses from equity affiliates in the consolidated statements of income.

Goodwill and Other Intangible Assets. Significant judgement is required to estimate the fair value of intangible assets and in assigning their estimated useful lives. Accordingly, we typically seek the assistance of independent third party valuation specialists for significant intangible assets. The fair value estimates are based on available historical information and on future expectations and assumptions we deem reasonable.

We generally use an income based valuation method to estimate the fair value of intangible assets, which discounts expected future cash flows to present value using estimates and assumptions we deem reasonable. For intangible assets related to acquired technology, we use the replacement cost method to determine fair value.

Determining the estimated useful lives of intangible assets also requires judgment. Certain intangible assets, such as GSE licenses, have been deemed to have indefinite lives while other intangible assets, such as broker and borrower relationships, above/below market rent and acquired technology have been deemed to have finite lives. Our assessment as to which intangible assets are deemed to have finite or indefinite lives is based on several factors including economic barriers of entry for the acquired product lines, scarcity of available GSE licenses, technology life cycles, retention trends and our operating plans, among other factors.

Goodwill and indefinite-lived intangible assets are not amortized, while finite-lived intangible assets are amortized over the estimated useful lives of the assets on a straight-line basis. Indefinite-lived intangible assets, including goodwill, are tested for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. In addition, with respect to goodwill, an impairment analysis is performed at least annually. We have elected to make the first day of our fiscal fourth quarter the annual impairment assessment date for goodwill. We first assess qualitative factors to determine whether it is more likely than not that the fair value is less than the carrying value. If, based on that assessment, we believe it is more likely than not that the fair value is less than the carrying value, then a two-step goodwill impairment test is performed. Based on the impairment analysis performed as of October 1, 2018, there was no indication that the indefinite-lived intangible assets, including goodwill, were impaired and there were no events or changes in circumstances indicating impairment at December 31, 2018.

Business Combinations. Business combinations are accounted for under the acquisition method of accounting, under which the purchase price is allocated to the fair value of the assets acquired and liabilities assumed at acquisition. The excess of the purchase price over the amount allocated to the assets acquired and liabilities assumed is recorded as goodwill. Adjustments to the assets acquired and liabilities assumed made during the measurement period are recorded in the period in which the adjustment is identified, with a corresponding adjustment to goodwill. If any adjustments are made

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Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

subsequent to the measurement period, which could be up to one year after the acquisition, these adjustments are recorded to the consolidated statements of income. Acquisition related costs are expensed as incurred.

Hedging Activities and Derivatives. We measure derivative instruments at fair value and record them as assets or liabilities. 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 trading or speculation. Fair values are estimated based on current market data 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. These derivative instruments must be effective in reducing risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or 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 earnings. In cases where a derivative instrument is terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. We may also enter into derivative contracts that are intended to economically hedge certain 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 may hedge a portion of our interest rate risk by entering into derivative instrument contracts 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 have used, and may again in the future, 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.

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Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

Our rate lock and forward sales commitments associated with the Agency Business meet the definition of a derivative and are recorded at fair value. The estimated fair value of rate lock commitments includes the effects of interest rate movements as well as the fair value of the expected net cash flows associated with the servicing of the loan which is recorded as income from MSRs in the consolidated statements of income. The estimated fair value of forward sale commitments includes the effects of interest rate movements between the trade date and balance sheet date. Adjustments to the fair value are reflected as a component of other income, net in the consolidated statements of income.

Revenue Recognition. Interest income is recognized on the accrual basis as it is earned. 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 our opinion, 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 our determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the asset. If we 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 do not recognize 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.

Gain on sales, including fee-based services, net Gain on sales, including fee-based services, net includes commitment fees, broker fees, loan assumption fees, loan origination fees and gains on sale of loans of our Agency Business. In some instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, net of any direct loan origination costs incurred, which is

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December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

recognized upon the sale of the loan. Revenue recognition occurs when the related services are performed, unless significant contingencies exist, and for the sale of loans, when all the incidence of ownership passes to the buyer. Interest income is recognized on the accrual basis as it is earned from loans held-for-sale.

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 and defeasance, as well as broker fees, miscellaneous asset management fees associated with our loan and investment portfolio, and changes in the fair value of certain derivatives. 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.

Stock-Based Compensation. We grant stock awards to certain of our employees and directors, 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 at the grant date (for 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 and the Board of Directors.

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.

The Agency Business mainly operates through a TRS, which is a part of our TRS Consolidated Group and is subject to U.S. federal, state and local income taxes. In general, our TRS entities may hold assets that the REIT cannot hold directly and may engage in real estate or non-real estate-related business. Current and deferred taxes are recorded on the portion of earnings (losses) recognized by us with respect to our interest in TRSs. Deferred income tax assets and liabilities are calculated based on temporary differences between our GAAP consolidated financial statements and the federal, state, local tax basis of assets and liabilities as of the consolidated balance sheets. We evaluate the realizability of our deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognize a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of our deferred tax assets will not be realized. When evaluating the realizability of our deferred tax assets, we consider estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available and the general and industry specific economic outlook.

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Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

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.

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.

Recently Adopted Accounting Pronouncements

Description	Adoption Date	Effect on Financial Statements
In March 2018, the FASB issued ASU 2018-05, Income Taxes: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 which allowed SEC registrants to record provisional amounts in earnings for the year ended December 31, 2017 due to complexities involved in accounting for the enacted Tax Reform.	N/A	We recognized the estimated impact of the Tax Reform in our consolidated financial statements for the year ended December 31, 2017.

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Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

Description	Adoption Date	Effect on Financial Statements
Since 2014, the 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 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.	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.
In May 2017, the FASB issued ASU 2017-09, Compensation Stock Compensation: Scope of Modification Accounting. This ASU clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Many entities today apply the modification accounting guidance when any of the terms or conditions of an award are changed, even if the changes are not substantive. Under the new guidance, modification accounting will not apply to a share-based payment award if all of the following are the same immediately before and after the change; (1) the award's fair value; (2) the award's vesting conditions; and (3) the award's classification as an equity or liability instrument.	First quarter of 2018	This ASU required prospective adoption, therefore, any future award changes will be evaluated under the amended guidance.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

Description	Adoption Date	Effect on Financial Statements
In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business. This ASU changes the definition of a business to assist with evaluating when a set of transferred assets and activities constitutes a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs.	First quarter of 2018	This ASU required prospective adoption, therefore, any future acquisitions will be evaluated under the amended guidance.
In November 2016, the FASB issued 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.

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Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

Description	Adoption Date	Effect on Financial Statements
In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows, which 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 $1.1 million of net proceeds from insurance settlements from net cash provided by operating activities to net cash used in investing activities in 2017. We also chose the cumulative earnings approach for distributions received from equity method investees, which did not result in any changes in how we account for such distributions. The following table shows the impact of the adoption of ASU 2016-15 and ASU 2016-18.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

Description	Adoption Date	Effect on Financial Statements

	Year Ended December 31,	
(in thousands)	**2017**	**2016**
As previously reported under GAAP applicable at the time		
Cash and cash equivalents at beginning of period	$ 138,645	$ 188,709
Net decrease in cash and cash equivalents	(34,271)	(50,064)
Cash and cash equivalents at end of period	104,374	138,645
Net cash provided by (used in) operating activities: changes in operating assets and liabilities	822	(3,727)
Net cash used in investing activities	(907,949)	(201,917)
Net cash provided by financing activities	412,844	349,471
As currently reported under ASU 2016-18 and ASU 2016-15		
Cash, cash equivalents and restricted cash at beginning of period	$ 167,960	$ 237,010
Net increase (decrease) in cash, cash equivalents and restricted cash	75,812	(69,050)
Cash, cash equivalents and restricted cash at end of period	243,772	167,960
Net cash provided by (used in) operating activities: changes in operating assets and liabilities	(308)	(4,624)
Net cash used in investing activities	(906,845)	(196,917)
Net cash provided by financing activities	522,953	326,382

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

Description	Effective Date	Effect on Financial Statements
In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will be required to use forward-looking information to better form their credit loss estimates. This ASU also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses.	First quarter of 2020 with early adoption permitted beginning in the first quarter of 2019	We are evaluating the timing of our adoption and the impact this guidance may have on our consolidated financial statements.
In November 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities. This ASU amends the guidance for determining whether a decision-making fee is a variable interest and requires companies to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety (as currently required in GAAP).	First quarter of 2020	We are currently evaluating this guidance to determine the impact to our consolidated financial statements.
In August 2018, the FASB issued ASU 2018-15, Intangibles Goodwill and Other Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. The amended guidance requires companies to apply the internal-use software guidance in ASC 350-40 to implementation costs incurred in a hosting arrangement that is a service contract to determine whether to capitalize certain implementation costs or expense them as incurred.	First quarter of 2020	We are currently evaluating this guidance to determine the impact to our consolidated financial statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 2 Basis of Presentation and Significant Accounting Policies (Continued)

Description	Effective Date	Effect on Financial Statements
In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement, which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with changes between hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. Early adoption is permitted upon issuance of the update.	First quarter of 2020	We do not expect the adoption of this guidance to have a significant impact to our consolidated financial statements.
Since 2016, the FASB has issued several amendments to its guidance on leases. The amended guidance, among other things, requires lessees to record most leases on their balance sheet through operating and finance lease liabilities and corresponding right-of-use assets. It has also added additional footnote disclosures of key information about those arrangements and provides transition relief on comparative period reporting through a cumulative-effect adjustment at the beginning of the period of adoption.	First quarter of 2019	We have evaluated this ASU and expect the adoption of this guidance to increase both our total assets and total liabilities by less than 1%. The adoption will not have an impact on our consolidated results of operations.
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 this ASU and determined the adoption of this guidance will not have a significant impact on our consolidated financial statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 3 Loans and Investments

The composition of our Structured Business loan and investment portfolio is as follows ($ in thousands):

	December 31, 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	$ 2,992,814	91%	167	6.84%	18.5	0%	74%
Preferred equity investments	181,661	6%	10	7.97%	78.0	66%	89%
Mezzanine loans	108,867	3%	13	10.57%	22.1	28%	72%
	3,283,342	100%	190	7.02%	22.0	5%	75%
Allowance for loan losses	(71,069)						
Unearned revenue	(12,128)						
Loans and investments, net	$ 3,200,145						

	December 31, 2017	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	$ 2,422,105	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)						
	$ 2,579,127						

Loans and investments, net	

(1) "Weighted Average Pay Rate" is a weighted average, based on the UPB of each loan in our portfolio, of the interest rate 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 December 31, 2018, the UPB related to 45 loans with five different borrowers represented 22% of total assets. At December 31, 2017, the UPB related to 42 loans with five different borrowers represented 24% of total assets. During both 2018 and 2017, no single loan or investment represented more than 10% of our total assets and no single investor

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 3 Loans and Investments (Continued)

group generated over 10% of our revenue. For details on our concentration of related party loans and investments, see Note 19 Agreements and Transactions with Related Parties.

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 December 31, 2018 and 2017, we identified eight loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of $128.7 million and $126.5 million, respectively, and a weighted average last dollar LTV ratio of 99% and 93%, respectively.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 3 Loans and Investments (Continued)

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

	December 31, 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	$ 2,427,920	74%	pass/watch	5%	75%
Self Storage	301,830	9%	pass/watch	0%	72%
Land	151,628	5%	substandard	0%	90%
Office	132,047	4%	special mention	3%	68%
Healthcare	122,775	4%	pass/watch	0%	77%
Hotel	100,075	3%	pass/watch	13%	66%
Retail	45,367	1%	pass/watch	6%	65%
Commercial	1,700	<1%	doubtful	63%	63%
Total	$ 3,283,342	100%	pass/watch	5%	75%

	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 December 31, 2018, 23% and 18% of the outstanding balance of our loan and investment portfolio had underlying properties in New York and Texas, 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. No other states represented 10% or more of the total loan and investment portfolio.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 3 Loans and Investments (Continued)

Impaired Loans and Allowance for Loan Losses

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

	Year Ended December 31,		
	2018	2017	2016
Allowance at beginning of period	$ 62,783	$ 83,712	$ 86,762
Provision for loan losses	13,986	2,000	59
Charge-offs	(3,173)	(20,473)	(2,959)
Recoveries of reserves	(2,527)	(2,456)	(150)
Allowance at end of period	$ 71,069	$ 62,783	$ 83,712

During 2018, we determined that the fair value of the underlying collateral (land development project) securing six loans with a carrying value of $121.4 million was less than the net carrying value of the loans, which resulted in a provision for loan losses of $12.3 million. We also fully reserved a bridge loan and recorded a provision for loan loss of $1.7 million.

In addition, during 2018, we received $31.6 million to settle a non-performing preferred equity investment in a hotel property with a UPB of $34.8 million and a net carrying value of $29.1 million, resulting in a charge-off of $3.2 million and a reserve recovery of $2.5 million. We also received payments and recorded recoveries of $3.1 million related to previously written-off loans and investments, which are included as a component of provision for loan losses (net of recoveries) on the consolidated statements of income.

During 2017, we incurred a $20.5 million charge-off of a fully reserved junior participation loan and we determined that the fair value of the underlying collateral securing a preferred equity investment with an aggregate carrying value of $34.8 million was less than the net carrying value of the investment, which resulted in a $2.0 million provision for loan losses. In addition, a fully reserved mezzanine loan with a UPB of $1.8 million paid off in full, which resulted in a $1.8 million reserve recovery, and we recorded a reserve recovery of $0.7 million on a multifamily bridge loan.

During 2016, we received a $1.8 million discounted payoff on an impaired bridge loan with a carrying value before reserves of $4.8 million, resulting in the recognition of an additional provision for loan losses of $0.1 million and a charge-off of $3.0 million.

The ratio of net recoveries (charge-offs) to the average loans and investments outstanding was 0.1%, (0.8)% and (0.2)% for 2018, 2017 and 2016, respectively.

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 December 31, 2018, 2017 and 2016.

We have six loans with a carrying value totaling $121.4 million at December 31, 2018 that are collateralized by a land development project. These loans were scheduled to mature in September 2018 and were extended to September 2019. The loans do not carry a current pay rate of interest, but five of the loans with a carrying value totaling $112.0 million entitle us to a weighted average accrual rate of interest of 9.09%. In 2008, we suspended the recording of the accrual rate of interest on these loans, as

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 3 Loans and Investments (Continued)

they were impaired and we deemed the collection of this interest to be doubtful. At December 31, 2018 and 2017, we had cumulative allowances for loan losses of $61.4 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.

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

	December 31, 2018			Year Ended December 31, 2018	
Asset Class	UPB	Carrying Value(1)	Allowance for Loan Losses	Average Recorded Investment(2)	Interest Income Recognized
Land	$ 134,215	$ 127,869	$ 67,869	$ 132,651	$ 103
Hotel				17,375	
Office	2,266	2,266	1,500	2,277	127
Commercial	1,700	1,700	1,700	1,700	
Total	$ 138,181	$ 131,835	$ 71,069	$ 154,003	$ 230

	December 31, 2017			Year Ended December 31, 2017	
Land	$ 131,086	$ 124,812	$ 53,883	$ 131,086	$
Hotel	34,750	34,750	5,700	34,750	371
Office	2,288	2,288	1,500	14,926	107
Commercial	1,700	1,700	1,700	1,700	
Multifamily				1,271	22
Total	$ 169,824	$ 163,550	$ 62,783	$ 183,733	$ 500

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

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

At December 31, 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.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 3 Loans and Investments (Continued)

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

	December 31, 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
Office	832		832			
Hotel				34,750		34,750
Total	$ 2,532	$	$ 2,532	$ 36,450	$	$ 36,450

At both December 31, 2018 and 2017, we had no loans contractually past due 90 days or more that are still accruing interest.

There were no loan modifications, refinancing's and/or extensions during 2018 that were considered troubled debt restructurings. During 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 2017. This loan was subsequently classified as non-performing in 2017 and paid off during 2018. 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 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 December 31, 2018, we had total interest reserves of $48.9 million on 110 loans with an aggregate UPB of $2.22 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.

Note 4 Loans Held-for-Sale, Net

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

	December 31, 2018	December 31, 2017
Fannie Mae	$ 358,790	$ 243,717
Freddie Mac	95,004	47,545
FHA	19,170	987
	472,964	292,249
Fair value of future MSR	10,253	5,806
Unearned discount	(1,553)	(612)
Loans held-for-sale, net	$ 481,664	$ 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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 4 Loans Held-for-Sale, Net (Continued)

income. During 2018 and 2017, we sold $4.92 billion and $4.81 billion, respectively, of loans held-for-sale and recorded gains on sales of $65.5 million and $68.3 million, respectively. During 2016, we sold $1.49 billion of loans held-for-sale, excluding $418.2 million of sales related to loans that were acquired as part of the Acquisition, and recorded gains on sales of $22.8 million.

Note 5 Capitalized Mortgage Servicing Rights

Our capitalized MSRs reflect commercial real estate MSRs derived from loans sold in our Agency Business, or MSRs acquired as part of the Acquisition or in the open market from third parties. The weighted average estimated life remaining of our MSRs held at December 31, 2018 and 2017 was 7.6 years and 7.2 years, respectively.

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

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Acquired	Originated	Total	Acquired	Originated	Total
Balance at beginning of period	$ 143,270	$ 109,338	$ 252,608	$ 194,800	$ 32,943	$ 227,743
Additions		94,344	94,344	1,199	86,700	87,899
Amortization	(28,958)	(19,166)	(48,124)	(37,470)	(9,732)	(47,202)
Write-offs	(17,228)	(7,830)	(25,058)	(15,259)	(573)	(15,832)
Balance at end of period	$ 97,084	$ 176,686	$ 273,770	$ 143,270	$ 109,338	$ 252,608

We collected prepayment fees of $21.9 million and $12.7 million during 2018 and 2017, respectively, which are included as a component of servicing revenue, net on the consolidated statements of income. As of December 31, 2018 and 2017, we had no valuation allowance recorded on any of our MSRs.

The expected amortization of capitalized MSRs recorded as of December 31, 2018 is as follows (in thousands). Actual amortization may vary from these estimates.

Year	Amortization
2019	$ 48,546
2020	44,364
2021	37,990
2021	31,189
2022	26,508
Thereafter	85,173
Total	$ 273,770

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 6 Mortgage Servicing

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

	December 31, 2018				
	Product Concentrations			Geographic Concentrations	
Product	UPB	Percent of Total		State	UPB Percent of Total
Fannie Mae	$ 13,562,667	73%		Texas	20%
Freddie Mac	4,394,287	24%		North Carolina	10%
FHA	644,687	3%		New York	8%
Total	$ 18,601,641	100%		California	8%
				Georgia	6%
				Florida	6%
				Other(1)	42%
				Total	100%

	December 31, 2017				
	Product Concentrations			Geographic Concentrations	
Product	UPB	Percent of Total		State	UPB Percent of Total
Fannie Mae	$ 12,502,699	77%		Texas	22%
Freddie Mac	3,166,134	20%		North Carolina	10%
FHA	537,482	3%		New York	8%
Total	$ 16,206,315	100%		California	8%
				Georgia	6%
				Florida	6%
				Other(1)	40%
				Total	100%

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

At December 31, 2018 and 2017, our weighted average servicing fee was 45.2 basis points and 47.7 basis points, respectively. At December 31, 2018 and 2017, we held total escrow balances of $824.1 million and $750.8 million, respectively, which is not reflected in our consolidated balance sheets. Of the total escrow balances, we held $521.2 million and $477.9 million at December 31, 2018 and 2017, respectively, related to loans we are servicing within our Agency Business. These escrows are maintained in separate accounts at several federally insured depository institutions, which may exceed FDIC insured limits. We earn interest income on the total escrow deposits, generally based on a market rate of interest negotiated with the financial institutions that hold the escrow deposits. Interest earned on total escrows, net of interest paid to the borrower, was $12.8 million, $5.2 million and $1.1 million during 2018, 2017 and 2016, respectively, and is a component of servicing revenue, net in the consolidated statements of income.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 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 2018, we purchased four B Piece bonds with an initial face value of $65.2 million, at a discount, for $47.5 million. As of December 31, 2018, we retained 49%, or $106.2 million initial face value, of seven B Piece bonds, which were purchased at a discount for $74.7 million, and sold the remaining 51% to a third party at par. These held-to-maturity debt 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 3.74% and have an estimated weighted average maturity of 5.7 years. The weighted average effective interest rate was 10.94% and 12.97% at December 31, 2018 and 2017, respectively, including the accretion of discount. Approximately $15.8 million is estimated to mature within one year, $45.9 million is estimated to mature after one year through five years, $28.0 million is estimated to mature after five years through ten years and $13.8 million is estimated to mature after ten years.

A summary of our B Piece bonds classified as debt securities held-to-maturity is as follows (in thousands):

Period	Face Value	Carrying Value	Unrealized Gain	Estimated Fair Value
December 31, 2018	$ 103,515	$ 76,363	$ 2,734	$ 79,097
December 31, 2017	$ 40,566	$ 27,837	$ 602	$ 28,439

As of December 31, 2018, no impairment was recorded on these held-to-maturity securities. During 2018 and 2017, we recorded interest income of $2.5 million and $0.8 million, respectively, related to these investments.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 8 Investments in Equity Affiliates

We account for all investments in equity affiliates under the equity method. A summary of our investments in equity affiliates is as follows (in thousands):

Equity Affiliates	Investments in Equity Affiliates at December 31, 2018	Investments in Equity Affiliates at December 31, 2017	UPB of Loans to Equity Affiliates at December 31, 2018
Arbor Residential Investor LLC	$ 19,260	$ 19,193	$
Lightstone Value Plus REIT L.P.	1,895	1,895	
JT Prime	425	425	
West Shore Café		2,140	1,688
Lexford Portfolio			280,500
East River Portfolio			
Total	$ 21,580	$ 23,653	$ 282,188

Arbor Residential Investor LLC ("ARI"). In 2015, we invested $9.6 million for 50% of our Former 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 the mortgage banking business, which was subject to dilution upon attaining certain profit hurdles of the business, and at December 31, 2018, our indirect interest was 16.3%. During 2018, 2017 and 2016, we recorded income of $0.7 million, a loss of $7.3 million and income of $9.5 million, respectively, to income (loss) from equity affiliates in the consolidated statements of income related to this investment. The loss in 2017 included a $5.5 million charge for our proportionate share of a litigation settlement that will be paid over a two-year period. During the first quarter of 2018, we made a $2.4 million payment for our proportionate share of the litigation settlement, which was distributed back to us by our equity affiliate. See Note 19 Agreements and Transactions with Related Parties for details.

In 2015, we invested $1.7 million through ARI for a 50% noncontrolling interest in a joint venture that invests in non-qualified residential mortgages purchased from the mortgage banking business's origination platform. We funded additional mortgage purchases of $0.6 million and $5.9 million during 2017 and 2016, respectively. During 2018, 2017 and 2016, we received cash distributions totaling $0.7 million, $3.2 million and $13.0 million as a result of the joint venture selling most of its mortgage assets, which were classified as returns of capital. During 2018, 2017 and 2016, we recorded income of less than $0.1 million, $0.1 million and $0.5 million, respectively, to income (loss) from equity affiliates in our consolidated statements of income related to this investment. Our basis in this investment was less than $0.1 million at December 31, 2018.

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"). We also own a 50% noncontrolling interest in an unconsolidated joint venture, JT Prime, which holds common operating partnership units of Lightstone at a carrying value of $0.4 million. The income associated with these investments for all periods presented was de minimis.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 8 Investments in Equity Affiliates (Continued)

West Shore Café. We own a 50% noncontrolling interest in the West Shore Lake Café, a restaurant/inn lakefront property in Lake Tahoe, California. We provided a $1.7 million first mortgage loan to an affiliated entity to acquire property adjacent to the original property, which is scheduled to mature in May 2019 and bears interest at LIBOR plus 4.0%. During 2018, we determined that this investment exhibited indicators of impairment and, as a result of an impairment analysis performed; we recorded an other-than-temporary impairment of $2.2 million to income (loss) from equity affiliates in the consolidated statement of income for the full carrying amount of this investment. Also during 2018, we recorded a provision for loan loss of $1.7 million, fully reserving the first mortgage loan.

Lexford Portfolio. We own a $44,000 noncontrolling equity interest in Lexford, a portfolio of multifamily assets. In 2018, 2017 and 2016, we received distributions from this equity investment and recognized income totaling $2.5 million, $2.5 million and $2.8 million, net of expenses, respectively. See Note 19 Agreements and Transactions with Related Parties for details.

East River Portfolio. 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 (which includes, among other unaffiliated investors, certain of our officers, our chief executive officer and certain other related parties) who together own an interest of 95%. We originated a $1.7 million bridge loan to the joint venture with an interest rate of 5.5% over LIBOR that was repaid in full during 2017. In connection with the debt repayment, we received a $0.1 million distribution bringing our basis in this investment to zero. See Note 19 Agreements and Transactions with Related Parties for details.

Equity Participation Interest. During 2017, we received $1.5 million from the redemption of a 25% equity participation interest we held in a multifamily property, which is included in income (loss) from equity affiliates in our consolidated statements of income. Our basis in this investment was zero prior to this transaction.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 8 Investments in Equity Affiliates (Continued)

Summarized Financial Information

The condensed combined balance sheets for our unconsolidated investments in equity affiliates are as follows (in thousands):

	December 31,					
	2018			2017		
Condensed Combined Balance Sheets	**ARI**	**Other**	**Total**	**ARI**	**Other**	**Total**
Assets:						
Cash and cash equivalents	$ 12,812	$ 36,220	$ 49,032	$ 26,419	$ 36,304	$ 62,723
Real estate assets	471,021	565,076	1,036,097	303,098	584,580	887,678
Other assets	85,192	32,888	118,080	137,782	54,537	192,319
Total assets	569,025	634,184	1,203,209	467,299	675,421	1,142,720
Liabilities:						
Notes payable	463,511	664,139	1,127,650	357,410	702,495	1,059,905
Other liabilities	23,209	17,539	40,748	34,964	15,885	50,849
Total liabilities	486,720	681,678	1,168,398	392,374	718,380	1,110,754
Stockholders' equity Arbor	19,260	2,320	21,580	19,193	4,460	23,653
Stockholders' equity	63,045	(49,814)	13,231	55,732	(47,419)	8,313
Total stockholders' equity	82,305	(47,494)	34,811	74,925	(42,959)	31,966
Total liabilities and equity	$ 569,025	$ 634,184	$ 1,203,209	$ 467,299	$ 675,421	$ 1,142,720

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 8 Investments in Equity Affiliates (Continued)

The condensed combined statements of operations for our unconsolidated investments in equity affiliates are as follows (in thousands):

	Year Ended December 31,								
	2018			2017			2016		
Statements of Operations:	**ARI**	**Other**	**Total**	**ARI**	**Other**	**Total**	**ARI**	**Other**	**Total**
Revenue:									
Rental income	$	$ 109,225	$ 109,225	$	$ 103,873	$ 103,873	$	$ 99,417	$ 99,417
Interest income	17,200	259	17,459	9,248	259	9,507	11,726	259	11,985
Operating income	217,587		217,587	143,743		143,743	195,905		195,905
Reimbursement income		7,861	7,861		7,378	7,378		7,085	7,085
Other income	14,195	9,019	23,214	2,909	8,420	11,329	213	8,060	8,273
Total revenues	248,982	126,364	375,346	155,900	119,930	275,830	207,844	114,821	322,665
Expenses:									
Operating expenses	226,868	63,602	290,470	154,837	58,289	213,126	142,297	56,679	198,976
Interest expense	17,694	35,608	53,302	11,436	32,918	44,354	13,331	32,687	46,018
Depreciation and amortization	1,815	27,724	29,539	1,384	29,155	30,539	1,127	29,249	30,376
Other expenses		487	487	22,000	471	22,471		91	91
Total expenses	246,377	127,421	373,798	189,657	120,833	310,490	156,755	118,706	275,461
Net income (loss)	$ 2,605	$ (1,057)	$ 1,548	$ (33,757)	$ (903)	$ (34,660)	$ 51,089	$ (3,885)	$ 47,204
Arbor's share of income (loss)(1)	$ 700	$ 496	$ 1,196	$ (7,247)	$ 2,796	$ (4,451)	$ 9,950	$ 3,045	$ 12,995

(1) Amount for the year ended December 31, 2017, when combined with the $1.5 million equity participation interest received, equals a loss of $3.0 million.

Note 9 Real Estate Owned and Held-For-Sale

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

Real Estate Owned

	December 31, 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	31,066	2,010	33,076	30,699	2,010	32,709

Less: Impairment loss	(13,307)	(2,500)	(15,807)	(13,307)	(500)	(13,807)
Less: Accumulated depreciation and amortization	(9,778)	(848)	(10,626)	(9,228)	(690)	(9,918)
Real estate owned, net	$ 11,275	$ 3,171	$ 14,446	$ 11,458	$ 5,329	$ 16,787

During 2018, 2017 and 2016, our hotel property had a weighted average occupancy rate of approximately 49%, 52% and 54%, respectively, a weighted average daily rate of approximately $108, $108 and $100, respectively, and weighted average revenue per available room of approximately $53,

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 9 Real Estate Owned and Held-For-Sale (Continued)

$56 and $54, respectively. The operation of a hotel property is seasonal with the majority of revenues earned in the first two quarters of the calendar year.

Our office building was fully occupied by a single tenant until April 2017, when the lease expired. The building is currently vacant.

Through site visits and discussions with market participants, we determined that our real estate assets exhibited indicators of impairment and, based on our impairment analyses performed, we recorded impairment losses of $2.0 million, $3.2 million and $11.2 million in 2018, 2017 and 2016, respectively.

Our real estate assets had restricted cash balances totaling $0.5 million and $0.7 million at December 31, 2018 and 2017, respectively, due to escrow requirements.

Real Estate Held-For-Sale

In 2016, we sold our remaining multifamily properties and a hotel property that were classified as held-for-sale for a total of $50.7 million and recognized a gain of $11.6 million. A portion of the sales proceeds were used to payoff the outstanding debt on the multifamily properties of $27.1 million. The results of operations for properties that were classified as held-for-sale during 2016 were de minimis.

Note 10 Goodwill and Other Intangible Assets

Goodwill. In 2017, we determined that the purchase price allocation related to the Acquisition in 2016 incorrectly omitted a deferred tax liability related to the book-to-tax difference in the value assigned to certain assets acquired. The impact of this omission to our 2016 consolidated financial statements was a $4.9 million understatement of goodwill and a corresponding understatement of other liabilities in our consolidated balance sheets. This omission had no impact on our results of operations and was corrected in 2017, resulting in a $4.9 million increase to goodwill and a corresponding increase in other liabilities.

The following table sets forth the goodwill activity (in thousands):

	Year Ended December 31, 2018	Year Ended December 31, 2017
Beginning balance	$ 56,626	$ 26,747
Additions from internalization of management team(1)		25,000
Purchase price allocation adjustment		4,879
Ending balance	$ 56,626	$ 56,626

(1) Goodwill additions from the internalization of our management team completed in 2017 were allocated $12.5 million each to our two reporting segments.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 10 Goodwill and Other Intangible Assets (Continued)

Other Intangible Assets. The following table sets forth the other intangible assets activity (in thousands):

	December 31, 2018			December 31, 2017		
	Gross Carrying Value	Accumulated Amortization	Total	Gross Carrying Value	Accumulated Amortization	Total
Finite-lived intangible assets:						
Broker relationships	$ 25,000	$ (7,683)	$ 17,317	$ 25,000	$ (4,558)	$ 20,442
Borrower relationships	14,400	(3,540)	10,860	14,400	(2,100)	12,300
Below market leases	4,010	(1,811)	2,199	4,010	(1,075)	2,935
Acquired technology	900	(737)	163	900	(437)	463
Infinite-lived intangible assets:						
Fannie Mae DUS license	17,100		17,100	17,100		17,100
Freddie Mac Program Plus license	8,700		8,700	8,700		8,700
FHA license	3,200		3,200	3,200		3,200
	$ 73,310	$ (13,771)	$ 59,539	$ 73,310	$ (8,170)	$ 65,140

The amortization expense recorded for these intangible assets were $5.6 million, $5.6 million and $2.6 million during 2018, 2017 and 2016, respectively.

At December 31, 2018, the weighted average remaining lives of our amortizable finite-lived intangible assets and the estimated amortization expense for each of the succeeding five years are as follows ($ in thousands):

	Wtd. Avg. Remaining Life (in years)	Estimated Amortization Expense for the Years Ending December 31,				
		2019	2020	2021	2022	2023
Finite-lived intangible assets:						
Broker relationships	5.5	$ 3,125	$ 3,125	$ 3,125	$ 3,125	$ 3,125
Borrower relationships	7.5	1,440	1,440	1,440	1,440	1,440
Below market leases	4.8	737	684	126	126	126
Acquired technology	0.5	163				
	6.2	$ 5,465	$ 5,249	$ 4,691	$ 4,691	$ 4,691

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 11 Debt Obligations

Credit Facilities and Repurchase Agreements

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

	December 31, 2018				December 31, 2017			
	UPB(1)	Debt Carrying Value(1)	Collateral Carrying Value	Wtd. Avg. Note Rate	UPB(1)	Debt Carrying Value(1)	Collateral Carrying Value	Wtd. Avg. Note Rate
Structured Business								
$375 million repurchase facility	$ 336,428	$ 334,696	$ 467,680	4.75%	$ 103,818	$ 102,350	$ 145,850	3.90%
$100 million repurchase facility	71,017	70,837	98,597	4.31%	2,835	2,445	6,600	3.61%
$75 million credit facility	10,237	10,237	16,889	4.31%				
$75 million credit facility					9,000	8,999	16,000	3.61%
$50 million credit facility	14,160	14,159	17,700	4.57%	32,560	32,538	40,700	3.61%
$50 million credit facility					3,700	3,581	4,625	4.88%
$35.9 million credit facility	30,855	30,512	44,100	4.87%				
$25.5 million credit facility	18,552	18,552	34,000	5.07%	14,065	13,920	18,753	4.12%
$25 million working capital facility					10,000	10,000		4.12%
$23.2 million credit facility	23,175	23,175	30,900	4.87%				
$20 million credit facility	20,000	19,912	41,650	5.07%				
$17.4 million credit facility	12,462	12,462	15,844	4.97%				
$8 million credit facility	8,000	7,946	10,000	5.07%				
$7.5 million credit facility					7,472	7,432	9,340	4.37%
Repurchase facilities securities(2)	118,112	118,112		5.07%	53,938	53,938		4.45%
$3 million master security agreement	1,168	1,168		3.19%	1,834	1,834		3.21%
$2.2 million master security agreement	1,678	1,678		4.66%				
Structured Business total	$ 665,844	$ 663,446	$ 777,360	4.78%	$ 239,222	$ 237,037	$ 241,868	4.02%
Agency Business								
$750 million ASAP agreement	$ 104,619	$ 104,619	$ 104,619	3.55%	$ 121,880	$ 121,880	$ 121,880	2.61%
$500 million repurchase facility	130,917	130,906	130,917	3.78%	24,873	24,827	24,873	2.91%
$250 million credit facility	26,651	26,651	26,651	3.75%	23,785	23,785	23,785	2.86%
$150 million credit facility	113,685	113,666	113,685	3.80%	21,821	21,802	21,821	2.96%
$150 million credit facility	96,419	96,339	96,419	3.80%	99,357	99,242	99,357	2.91%
Agency Business total	$ 472,291	$ 472,181	$ 472,291	3.74%	$ 291,716	$ 291,536	$ 291,716	2.78%
Consolidated total	$ 1,138,135	$ 1,135,627	$ 1,249,651	4.35%	$ 530,938	$ 528,573	$ 533,584	3.34%

(1) The debt carrying value for the Structured Business at December 31, 2018 and 2017 was net of unamortized deferred finance costs of $2.4 million and $2.2 million, respectively. The debt carrying value for the Agency Business at December 31, 2018 and 2017 was net of unamortized deferred finance costs of $0.1 million and $0.2 million, respectively.

(2) At December 31, 2018 and 2017, these facilities were collateralized by CLO bonds retained by us with an aggregate principal balance of $114.2 million and $61.0 million, respectively, and B Piece bonds with an aggregate carrying value of $76.4 million and $27.8 million, respectively.

Structured Business. We utilize credit facilities and repurchase agreements with various financial institutions to finance our Structured Business loans and investments as described below.

At December 31, 2018 and 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 5.07% and 4.51%, respectively. The leverage on our loan and investment portfolio financed through our credit facilities and repurchase agreements, excluding the securities repurchase facilities, working capital line of credit and the security agreements

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 11 Debt Obligations (Continued)

used to finance leasehold and capital expenditure improvements at our corporate office, was 70% and 72% at December 31, 2018 and 2017, respectively.

We have a $300.0 million repurchase facility that bears interest at a rate of 175 basis points over LIBOR on multifamily senior mortgage loans, 350 basis points over LIBOR on junior mortgage loans and matures in March 2020, with a one-year extension option. The committed amount under the facility was temporarily increased $75.0 million to $375.0 million, which expires in March 2019. If the estimated market value of the loans financed in this facility decrease, we may be required to pay down borrowings under this facility.

We have a $100.0 million repurchase facility to finance multifamily bridge loans that bears interest at a rate ranging from 175 basis points to 200 basis points over LIBOR (depending on the class of loan financed) and matures in June 2019, with a one-year extension option. The facility has a maximum advance rate of 80%.

We have a $75.0 million credit facility to finance multifamily bridge loans that was scheduled to mature in February 2019 and bears interest at 175 basis points over LIBOR. In February 2019, we temporarily extended the maturity date to March 2019, with a one-month extension option, and are currently in negotiations to further amend the agreement. This facility includes a $25.0 million sublimit to finance healthcare related loans at an interest rate ranging from 212.5 basis points to 250 basis points over LIBOR depending on the type of healthcare facility financed and the advance rate. The facility has a maximum advance rate of 75% on multifamily bridge loans and 65% on healthcare related loans.

We have another $75.0 million credit facility to finance bridge loans that bears interest at a rate of 200 basis points over LIBOR and matures in June 2019. The facility has a maximum advance rate of 70% to 75%, depending on the property type.

We have a $50.0 million credit facility to finance multifamily loans that bears interest at a rate of 200 basis points over LIBOR and is scheduled to mature in February 2019. We are currently in negotiations to amend the agreement and extend its maturity. This facility has a maximum advance rate of 80%.

We have another $50.0 million credit facility that bears interest at a rate ranging from 250 basis points to 325 basis points over LIBOR, depending on the type of healthcare facility financed, and matures in September 2019. The facility includes two one-year extension options and has a maximum advance rate of 80%.

In the fourth quarter of 2018, we entered into a $35.9 million credit facility to finance a hotel property bridge loan. The facility bears interest at a rate of 230 basis points over LIBOR and matures in May 2020, with a six-month extension option.

We have a $25.5 million credit facility used to finance a multifamily bridge loan. The facility bears interest at a rate of 250 basis points over LIBOR and matures in October 2019.

We have a $25.0 million unsecured working capital line of credit that bears interest at a rate of 225 basis points over LIBOR. This line is scheduled to mature in June 2019 and is renewable annually.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 11 Debt Obligations (Continued)

We have a $23.2 million credit facility used 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.

We have a $20.0 million credit facility used 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.

We have a $17.4 million credit facility used 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.

We have an $8.0 million credit facility used to finance a healthcare facility bridge loan. The facility bears interest at a rate of 250 basis points over LIBOR and matures in August 2021.

We had a $7.5 million credit facility used to finance a healthcare related bridge loan. The facility bore interest at a rate of 275 basis points over LIBOR and in September 2018 the loan collateralizing this facility paid off and we simultaneously repaid this facility.

We have two uncommitted repurchase facilities that are used to finance securities we retained in connection with our CLOs and our purchases of B Piece bonds from SBL program securitizations. The facilities bear interest at rates ranging from 175 basis points to 315 basis points over LIBOR and have no stated maturity date.

We have two notes payable under a master security agreement that was used to finance leasehold improvements to our corporate office, which were assumed as part of the Acquisition. The two notes bear interest at a weighted average fixed rate of 3.19%, require monthly amortization payments and mature in 2020.

We have a master security agreement 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 March 2021.

Agency Business. We utilize credit facilities with various financial institutions to finance substantially all of our loans held-for-sale as described below.

In the fourth quarter of 2018, we amended our Multifamily As Soon as Pooled ® Plus ("ASAP") agreement with Fannie Mae increasing the available credit to $750.0 million from $500.0 million. The ASAP agreement provides us with a warehousing credit facility for mortgage loans that are to be sold to Fannie Mae and serviced under the Fannie Mae DUS program. The ASAP agreement is not a committed line, has no expiration date and bears interest at a rate of 105 basis points over LIBOR, with a LIBOR Floor of 0.35%.

In the fourth quarter of 2018, we amended our $200.0 million repurchase facility increasing the committed amount $300.0 million to $500.0 million. The facility also includes an accordion feature to increase the committed amount to $750.0 million, which is available through the maturity date. The facility bears interest at a rate of 127.5 basis points over LIBOR and matures in August 2019. The financial institution that provided this facility has a security interest in the underlying mortgage notes that serve as collateral for this facility.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 11 Debt Obligations (Continued)

We have a $100.0 million repurchase facility that bears interest at a rate of 125 basis points over LIBOR and matures in June 2019. The committed amount under the facility was temporarily increased $150.0 million to $250.0 million, which expired in January 2019. The financial institution that provided this facility has a security interest in the underlying mortgage notes that serve as collateral for this facility.

We have a $150.0 million credit facility that bears interest at a rate of 130 basis points over LIBOR that was scheduled to mature in January 2019. In January 2019, we amended this facility to extend the maturity date one year to January 2020 and reduce the interest rate 10 basis points to 120 basis points over LIBOR. The financial institution that provided this facility has a security interest in the underlying mortgage notes that serve as collateral for this facility.

We have another $150.0 million credit facility that bears interest at a rate of 130 basis points over LIBOR and matures in July 2019. The financial institution that provided this facility has a security interest in the underlying mortgage notes that serve as collateral for this facility.

We have a $50.0 million letter of credit facility with a financial institution to secure obligations under the Fannie Mae DUS program and the Freddie Mac SBL program. The facility bears interest at a fixed rate of 2.875%, matures in September 2020 and is primarily collateralized by our servicing revenue as approved by Fannie Mae and Freddie Mac. The facility includes a $5.0 million sublimit for an obligation under the Freddie Mac SBL program. At December 31, 2018, the letters of credit outstanding include $44.0 million for the Fannie Mae DUS program and $5.0 million for the Freddie Mac SBL program.

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.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 11 Debt Obligations (Continued)

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

	Debt			Collateral(3)		
				Loans		Cash
	Face Value	Carrying Value(1)	Wtd. Avg. Rate(2)	UPB	Carrying Value	Restricted Cash(4)
December 31, 2018						
CLO X	$ 441,000	$ 436,384	4.01%	$ 539,007	$ 536,869	$ 20,993
CLO IX	356,400	352,244	3.92%	440,906	439,691	20,094
CLO VIII	282,874	279,857	3.87%	354,713	353,574	10,287
CLO VII	279,000	276,527	4.56%	325,057	324,195	30,725
CLO VI	250,250	248,536	5.05%	279,348	278,364	41,404
Total CLOs	$ 1,609,524	$ 1,593,548	4.22%	$ 1,939,031	$ 1,932,693	$ 123,503
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 $16.0 million and $17.9 million of deferred financing fees at December 31, 2018 and 2017, respectively.

(2) At December 31, 2018 and 2017, the aggregate weighted average note rate for our CLOs, including certain fees and costs, was 4.73% and 4.08%, respectively.

(3) As of December 31, 2018 and 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 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 stated maturity date in June 2028 and 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, which were subsequently utilized, resulting in the issuer owning loan

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 11 Debt Obligations (Continued)

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 IX. In December 2017, we completed CLO IX, issuing five tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling $388.2 million. Of the total CLO notes issued, $356.4 million were investment grade notes issued to third party investors and $31.8 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 $387.3 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has a stated maturity date in December 2027 and a 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 $92.7 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the CLO closing date, which were subsequently utilized, resulting in the issuer owning loan obligations with a face value of $480.0 million, representing leverage of 74%. We retained a residual interest in the portfolio with a notional amount of $123.6 million, including the $31.8 million below investment grade notes. The notes had an initial weighted average interest rate of 1.36% plus LIBOR and interest payments on the notes are payable monthly.

CLO VIII. In August 2017, we completed CLO VIII, issuing six tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling $312.1 million. Of the total CLO notes issued, $282.9 million were investment grade notes issued to third party investors and $29.2 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 $293.7 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has a stated maturity date in August 2027 and a 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 $71.3 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the CLO closing date, which were subsequently utilized, resulting in the issuer owning loan obligations with a face value of $365.0 million, representing leverage of 78%. We retained a residual interest in the portfolio with a notional amount of $82.1 million, including the $29.2 million below investment grade notes. The notes had an initial weighted average interest rate of 1.31% plus LIBOR and interest payments on the notes are payable monthly.

CLO VII. In April 2017, we completed CLO VII, issuing to third party investors three tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries totaling $279.0 million. As of the CLO closing date, the notes were secured by a portfolio of loan obligations with a face value of $296.2 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has a stated maturity date in April 2027 and a three-year replacement period that allows the principal proceeds and sale proceeds (if any) of the loan obligations to be reinvested in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 11 Debt Obligations (Continued)

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 $63.8 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the CLO closing date, which were subsequently utilized, resulting in the issuer owning loan obligations with a face value of $360.0 million, representing leverage of 78%. We retained a residual interest in the portfolio with a notional amount of $81.0 million. The notes had an initial weighted average interest rate of 1.99% plus LIBOR and interest payments on the notes are payable monthly.

CLO VI. In August 2016, we completed CLO VI, issuing to third party investors three tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries totaling $250.3 million. As of the CLO closing date, the notes were secured by a portfolio of loan obligations with a face value of $275.4 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has a stated maturity date in September 2026 and a 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 $49.6 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the closing date of the CLO, which were subsequently utilized, resulting in the issuer owning loan obligations with a face value of $325.0 million, representing leverage of 77%. We retained a residual interest in the portfolio with a notional amount of $74.8 million. The notes had an initial weighted average interest rate of 2.48% plus LIBOR and interest payments on the notes are payable monthly.

CLO V. In June 2018, we unwound 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.

CLO IV. In September 2017, we unwound CLO IV, redeeming $219.0 million of our outstanding notes which were repaid primarily from the refinancing of the remaining assets within our existing financing facilities (including CLO VIII), as well as with cash held by CLO IV, and expensed $1.1 million of deferred financing fees into interest expense on the consolidated statements of income.

CLO III. In December 2016, we unwound CLO III, redeeming $281.3 million of our outstanding notes which were repaid primarily from the refinancing of the remaining assets within our financing facilities, as well as with cash held by the CLO, and expensed $1.0 million of deferred fees into interest expense in the consolidated statements of income.

Luxembourg Debt Fund

In November 2017, we formed a $100.0 million Debt Fund and issued $70.0 million of floating rate notes to third party investors which bore 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 and cash with a face value of $100.0 million, which

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December 31, 2018

Note 11 Debt Obligations (Continued)

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.

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

				Collateral(3)		
		Debt		Loans		Cash
Period	Face Value	Carrying Value(1)	Wtd. Avg. Rate(2)	UPB	Carrying Value	Restricted Cash(4)
December 31, 2018	$ 70,000	$ 68,183	6.75%	$ 69,186	$ 68,924	$ 30,814
December 31, 2017	$ 70,000	$ 68,084	5.79%	$ 96,995	$ 96,564	$ 3,005

(1) Debt carrying value is net of $1.8 million and $1.9 million of deferred financing fees at December 31, 2018 and 2017, respectively.

(2) At December 31, 2018 and 2017, the aggregate weighted average note rate, including certain fees and costs, was 7.49% and 6.05%, respectively.

(3) At both December 31, 2018 and 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% 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 December 31, 2018, the debt carrying value of the 5.625% Notes was $122.5 million, net of $2.5 million of deferred financing fees, and the weighted average note rate was 6.08%, including certain fees and costs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 11 Debt Obligations (Continued)

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 July 2018, we issued $264.5 million in aggregate principal amount of 5.25% Convertible Notes through two separate private placement offerings, which includes the exercised purchaser's total over-allotment option of $34.5 million. The 5.25% Convertible Notes pay interest semiannually in arrears and are scheduled to mature in July 2021, unless earlier converted or repurchased by the holders pursuant to their terms. The initial conversion rates of the two offerings ($115.0 million issued on July 3, 2018 and $149.5 million issued on July 20, 2018) were 86.9943 shares and 77.8331 shares of common stock per $1,000 of principal, respectively, representing a conversion price of $11.50 per share and $12.85 per share of common stock, respectively. At December 31, 2018, the conversion rates of the two offerings ($115.0 million issued on July 3, 2018 and $149.5 million issued on July 20, 2018) were 88.3681 shares and 79.0623 shares of common stock per $1,000 of principal, respectively, representing a conversion price of $11.32 per share and $12.65 per share of common stock, respectively.

We received proceeds totaling $256.1 million from the offerings of our 5.25% Convertible Notes, net of the underwriter's discount and fees, which is being amortized through interest expense over the life of such notes. We used the net proceeds from the issuance primarily for the initial exchange of $127.6 million of our 5.375% Convertible Notes and $99.8 million of our 6.50% Convertible Notes for a combination of $219.8 million in cash (which includes accrued interest) and 6,820,196 shares of our common stock. The remaining net proceeds were used for general corporate purposes. During 2018, we recorded a loss on extinguishment of debt of $5.0 million in connection with these exchanges, which included an inducement charge of $1.1 million.

At December 31, 2018, there were $5.5 million and $0.1 million aggregate principal amount remaining of our 5.375% Convertible Notes and 6.50% Convertible Notes, respectively. The initial conversion rates of the 5.375% Convertible Notes and 6.50% Convertible Notes were 107.7122 shares and 119.3033 shares, respectively, of common stock per $1,000 of principal, which represented a conversion price of $9.28 per share and $8.38 per share of common stock, respectively. At December 31, 2018, the 5.375% Convertible Notes and 6.50% Convertible Notes had conversion rates of 111.4750 shares and 126.1380 shares, respectively, of common stock per $1,000 of principal, which represented a conversion price of $8.97 per share and $7.93 per share of common stock, respectively. The 5.375% Convertible Notes and 6.50% Convertible Notes pay interest semiannually in arrears and have scheduled maturity dates in November 2020 and October 2019, respectively, unless earlier converted or repurchased by the holders pursuant to their terms.

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, plus accrued and unpaid interest, if we undergo a fundamental change specified in the agreements. We intend to settle the principal balance of our convertible debt in cash and have not assumed share settlement of the principal balance for purposes of computing EPS. At the time of issuance, there is no

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December 31, 2018

Note 11 Debt Obligations (Continued)

precedent or policy that would indicate that we would settle the principal in shares or the conversion spread in cash.

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 2.49 years and 2.41 years at December 31, 2018 and 2017, respectively, on a weighted average basis.

The UPB, unamortized discount and net carrying amount of the liability and equity components of our 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
December 31, 2018	$ 270,057	$ 8,229	$ 7,060	$ 254,768	$ 9,436
December 31, 2017	$ 243,750	$ 5,742	$ 6,721	$ 231,287	$ 6,733

During 2018, we incurred total aggregate interest expense on the notes of $21.1 million, of which $13.4 million, $4.8 million and $2.9 million related to the cash coupon, amortization of the deferred financing fees and of the debt discount, respectively. During 2017, we incurred total aggregate interest expense on the notes of $10.1 million, of which $7.4 million, $1.6 million and $1.1 million related to the cash coupons, 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 was 7.45% and 7.96% at December 31, 2018 and 2017, respectively.

Junior Subordinated Notes

In 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 were $140.3 million and $139.6 million at December 31, 2018 and 2017, respectively, which is net of a deferred amount of $12.0 million and $12.5 million, respectively, (which is amortized into interest expense over the life of the notes) and deferred financing fees of $2.1 million and $2.2 million, respectively. These notes have maturities ranging from March 2034 through April 2037 and pay interest quarterly at a floating rate based on LIBOR. The current weighted average note rate was 5.66% and 4.53% at December 31, 2018 and 2017, respectively. Including certain fees and costs, the weighted average note rate was 5.75% and 4.63% at December 31, 2018 and 2017, respectively.

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December 31, 2018

Note 11 Debt Obligations (Continued)

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 2018 and 2017, we recorded interest expense of $0.3 million and $3.8 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 December 31, 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 December 31, 2018, as well as on the most recent determination dates in January 2019. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 11 Debt Obligations (Continued)

A summary of our CLO compliance tests as of the most recent determination dates in January 2019 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	180.38%	207.52%	263.21%	252.03%	234.48%
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.

A summary of our CLO overcollateralization ratios as of the determination dates subsequent to each quarter is as follows:

Determination(1)	CLO VI	CLO VII	CLO VIII	CLO IX	CLO X
January 2019	129.87%	129.03%	129.03%	134.68%	126.98%
October 2018	129.87%	129.03%	129.03%	134.68%	126.98%
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%	

(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.

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December 31, 2018

Note 11 Debt Obligations (Continued)

The ratio fluctuates based on the performance of the underlying assets, transfers of assets into the CLOs prior to 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 12 Allowance for Loss-Sharing Obligations

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

	Year Ended December 31,	
	2018	2017
Beginning balance	$ 30,511	$ 32,408
Provision for loss sharing	7,126	6,358
Provision reversal for loan repayments	(3,283)	(6,617)
Charge-offs, net	(56)	(1,638)
Ending balance	$ 34,298	$ 30,511

When we settle a loss under the DUS loss-sharing model, the net loss is charged-off against the previously recorded loss-sharing obligation. The settled loss is often net of any previously advanced principal and interest payments in accordance with the DUS program, which are reflected as reductions to the proceeds needed to settle losses. At both December 31, 2018 and 2017, we had outstanding advances of $0.1 million, which were netted against the allowance for loss-sharing obligations.

At December 31, 2018 and 2017, our allowance for loss-sharing obligations represented 0.25% and 0.24%, respectively, of the Fannie Mae servicing portfolio.

At December 31, 2018 and 2017, the maximum quantifiable liability associated with our guarantees under the Fannie Mae DUS agreement was $2.46 billion and $2.24 billion, respectively. The maximum quantifiable liability is not representative of the actual loss we would incur. We would be liable for this amount only if all of the loans we service for Fannie Mae, for which we retain some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement.

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Note 13 Derivative Financial Instruments

A summary of our non-qualifying derivative financial instruments held by our Agency Business is as follows ($ in thousands):

December 31, 2018

	Notional Value			Fair Value	
Derivative	**Count**	**Notional Value**	**Balance Sheet Location**	**Derivative Assets**	**Derivative Liabilities**
Rate Lock Commitments	4	$ 18,161	Other Assets/ Other Liabilities	$ 324	$ (95)
Forward Sale Commitments	90	491,125	Other Assets/ Other Liabilities	5,789	(637)
		$ 509,286		$ 6,113	$ (732)

December 31, 2017

Rate Lock Commitments	3	$ 38,578	Other Assets/ Other Liabilities	$ 276	$ (278)
Forward Sale Commitments	75	330,827	Other Assets/ Other Liabilities	408	(1,028)
		$ 369,405		$ 684	$ (1,306)

We enter into contractual commitments to originate and sell mortgage loans at fixed prices with fixed expiration dates. The commitments become effective when the borrower "rate locks" a specified interest rate within time frames established by us. All potential borrowers are evaluated for creditworthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the rate lock by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, we enter into a forward sale commitment with the investor simultaneous with the rate lock commitment with the borrower. The forward sale contract locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. Sale commitments with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

These commitments meet the definition of a derivative and are recorded at fair value, including the effects of interest rate movements which are reflected as a component of other income, net in the consolidated statements of income. The estimated fair value of rate lock commitments also includes the fair value of the expected net cash flows associated with the servicing of the loan which is recorded as income from MSRs in the consolidated statements of income. During 2018, 2017 and 2016, we recorded net gains of $6.0 million, net losses of $1.4 million and net gains of $0.5 million, respectively, from changes in the fair value of these derivatives in other income, net and $98.8 million, $76.8 million and $44.9 million, respectively, of income from MSRs. See Note 14 Fair Value for details.

Note 14 Fair Value

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The following table

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 14 Fair Value (Continued)

summarizes the principal amounts, carrying values and the estimated fair values of our financial instruments (in thousands):

	December 31, 2018			December 31, 2017		
	Principal / Notional Amount	Carrying Value	Estimated Fair Value	Principal / Notional Amount	Carrying Value	Estimated Fair Value
Financial assets:						
Loans and investments, net	$ 3,283,342	$ 3,200,145	$ 3,249,499	$ 2,652,538	$ 2,579,127	$ 2,652,520
Loans held-for-sale, net	472,964	481,664	489,546	292,249	297,443	302,883
Capitalized mortgage servicing rights, net	n/a	273,770	322,463	n/a	252,608	286,073
Securities held-to-maturity, net	103,515	76,363	79,097	40,566	27,837	28,439
Derivative financial instruments	400,661	6,113	6,113	77,984	684	684
Financial liabilities:						
Credit and repurchase facilities	$ 1,138,135	$ 1,135,627	$ 1,135,774	$ 530,938	$ 528,573	$ 529,992
Collateralized loan obligations	1,609,524	1,593,548	1,588,989	1,436,274	1,418,422	1,436,871
Debt fund	70,000	68,183	70,154	70,000	68,084	70,000
Senior unsecured notes	125,000	122,484	123,750	97,860	95,280	99,582
Convertible senior unsecured notes, net	270,057	254,768	267,324	243,750	231,287	254,335
Junior subordinated notes	154,336	140,259	95,873	154,336	139,590	94,215
Related party financing				50,000	50,000	49,682
Derivative financial instruments	108,625	732	732	291,421	1,306	1,306

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 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, such as government, agency and equity securities.

Level 2 Inputs (other than quoted prices included in Level 1) are observable for the asset or liability through correlation with market data. Level 2 inputs may include quoted market prices for a similar asset or liability, interest rates and credit risk. Examples include non-government securities, certain mortgage and asset-backed securities, certain corporate debt and certain derivative instruments.

Level 3 Inputs reflect our best estimate of what market participants would use in pricing the asset or liability and are based on significant unobservable inputs that require a considerable amount of judgment and assumptions. Examples include certain mortgage and asset-backed securities, certain corporate debt and certain derivative instruments.

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.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 14 Fair Value (Continued)

Loans and investments, net. Fair values of loans and investments that are not impaired are estimated using Level 3 inputs based on direct capitalization rate and discounted cash flow methodologies using discount rates, which, in our opinion, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Fair values of impaired loans and investments are estimated using Level 3 inputs that require significant judgments, which include assumptions regarding discount rates, capitalization rates, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan and other factors.

Loans held-for-sale, net. Consists of originated loans that are generally transferred or sold within 60 days of loan funding, and are valued using pricing models that incorporate observable inputs from current market assumptions or a hypothetical securitization model utilizing observable market data from recent securitization spreads and observable pricing of loans with similar characteristics (Level 2). Fair value includes the fair value allocated to the associated future MSRs and is calculated pursuant to the valuation techniques described below for capitalized mortgage servicing rights, net (Level 3).

Capitalized mortgage servicing rights, net. Fair values are estimated using Level 3 inputs based on discounted future net cash flow methodology. The fair value of MSRs carried at amortized cost are estimated using a process that involves the use of independent third-party valuation experts, supported by commercially available discounted cash flow models and analysis of current market data. The key inputs used in estimating fair value include the contractually specified servicing fees, prepayment speed of the underlying loans, discount rate, annual per loan cost to service loans, delinquency rates, late charges and other economic factors.

Securities held-to-maturity, net. Fair values are approximated using Level 3 inputs based on current market quotes received from financial sources that trade such securities and are based on prevailing market data and, in some cases, are derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions.

Derivative financial instruments. The fair values of rate lock and forward sale commitments are estimated using valuation techniques, which include internally-developed models developed based on changes in the U.S. Treasury rate and other observable market data (Level 2). The fair value of rate lock commitments includes the fair value of the expected net cash flows associated with the servicing of the loans, see capitalized mortgage servicing rights, net above for details on the applicable valuation technique (Level 3). We also consider the impact of counterparty non-performance risk when measuring the fair value of these derivatives. Given the credit quality of our counterparties, the short duration of interest rate lock commitments and forward sale contracts, and our historical experience, the risk of nonperformance by our counterparties is not significant.

Credit facilities and repurchase agreements. Fair values for credit facilities and repurchase agreements of the Structured Business are estimated at Level 3 using discounted cash flow methodology, using discount rates, which, in our opinion, best reflect current market interest rates for financing with similar characteristics and credit quality. The majority of our credit facilities and repurchase agreement for the Agency Business bear interest at rates that are similar to those available in the market currently and the fair values are estimated using Level 2 inputs. For these facilities, the fair values approximate their carrying values.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 14 Fair Value (Continued)

Collateralized loan obligations, Debt Fund, junior subordinated notes and related party financing. 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 when current market quotes received from active markets are available. If quotes from active markets are unavailable, then the fair values are estimated at Level 2 utilizing current market quotes received from inactive markets.

Convertible senior unsecured notes, net. Fair values are estimated at Level 2 based on current market quotes received from inactive markets.

We measure certain financial assets and financial liabilities at fair value on a recurring basis. The fair values of these financial assets and liabilities were determined using the following input levels as of December 31, 2018 (in thousands):

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Derivative financial instruments	$ 6,113	$ 6,113	$	$ 5,789	$ 324
Financial liabilities:					
Derivative financial instruments	$ 732	$ 732	$	$ 732	$

We measure certain financial and non-financial assets at fair value on a nonrecurring basis. The fair values of these financial and non-financial assets were determined using the following input levels as of December 31, 2018 (in thousands):

	Net Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Impaired loans, net(1)	$ 60,766	$ 60,766	$	$	$ 60,766
Non-financial assets:					
Long-lived assets(2)	$ 14,446	$ 14,446	$	$	$ 14,446

(1) We had an allowance for loan losses of $71.1 million relating to five loans with an aggregate carrying value, before loan loss reserves, of $131.8 million at December 31, 2018.

(2) We recorded a $2.0 million impairment loss during 2018 on the office building we own. See Note 9 Real Estate Owned and Held-For-Sale for details.

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, it is probable that we will be unable to collect all amounts due for both principal and interest according to the contractual

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 14 Fair Value (Continued)

terms of the loan agreement. We evaluate 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, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan and other factors. The table above and below includes all impaired loans, regardless of the period in which the impairment was recognized.

Long-lived assets. We review our real estate owned assets when events or circumstances change, indicating that the carrying amount of an asset may not be partially or fully recoverable. In the evaluation of a real estate owned asset for impairment, many factors are considered, including broker quotes, estimated current and expected operating cash flows from the asset 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 the asset in the ordinary course of business. We first compare the undiscounted cash flows to be generated by the asset to the carrying value of such asset. If the undiscounted cash flows are less than the carrying value, we recognize an impairment loss by comparing the carrying value of the asset to its fair value.

Quantitative information about Level 3 fair value measurements at December 31, 2018 were as follows ($ in thousands):

	Fair Value	Valuation Techniques	Significant Unobservable Inputs	
Financial assets:				
Impaired loans:				
Land	$ 60,000	Discounted cash flows	Discount rate	23.00%
			Revenue growth rate	3.00%
Office	766	Discounted cash flows	Discount rate	11.00%
			Capitalization rate	9.00%
			Revenue growth rate	2.50%
Derivative financial instruments:				
Rate lock commitments	324	Discounted cash flows	W/A discount rate	13.06%
Long-lived assets:				
Office building	3,171	Broker quotes	N/A	N/A

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 14 Fair Value (Continued)

The derivative financial instruments using Level 3 inputs are outstanding for short periods of time (generally less than 60 days). A roll-forward of Level 3 derivative instruments were as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs for the Year Ended December 31,		
	2018	2017	2016
Derivative assets			
Balance at beginning of period	$ 276	$ 2,816	$
Additions from the Acquisition			4,529
Settlements	(98,791)	(79,360)	(26,157)
Realized gains recorded in earnings	98,515	76,544	21,628
Unrealized gains recorded in earnings	324	276	2,816
Balance at end of period	$ 324	$ 276	$ 2,816

The components of fair value and other relevant information associated with our rate lock commitments, forward sales commitments and the estimated fair value of cash flows from servicing on loans held-for-sale were as follows (in thousands):

	Notional/ Principal Amount	Fair Value of Servicing Rights	Interest Rate Movement Effect	Total Fair Value Adjustment
December 31, 2018				
Rate lock commitments	$ 18,161	$ 324	$ (95)	$ 229
Forward sale commitments	491,125		95	95
Loans held-for-sale, net(1)	472,964	10,253		10,253
Total		$ 10,577	$	$ 10,577

(1) Loans held-for-sale, net are recorded at the lower of cost or market on an aggregate basis and includes fair value adjustments related to estimated cash flows from MSRs.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 14 Fair Value (Continued)

We measure certain assets and liabilities for which fair value is only disclosed. The fair values of these assets and liabilities were determined using the following input levels as of December 31, 2018 (in thousands):

			Fair Value Measurements Using Fair Value Hierarchy		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans and investments, net	$ 3,200,145	$ 3,249,499	$	$	$ 3,249,499
Loans held-for-sale, net	481,664	489,546		479,293	10,253
Capitalized mortgage servicing rights, net	273,770	322,463			322,463
Securities held-to-maturity, net	76,363	79,097			79,097
Financial liabilities:					
Credit and repurchase facilities	$ 1,135,627	$ 1,135,774	$	$ 472,181	$ 663,593
Collateralized loan obligations	1,593,548	1,588,989			1,588,989
Debt fund	68,183	70,154			70,154
Senior unsecured notes	122,484	123,750	123,750		
Convertible senior unsecured notes, net	254,768	267,324		267,324	
Junior subordinated notes	140,259	95,873			95,873

Note 15 Commitments and Contingencies

Agency Business Commitments. Our Agency Business is subject to supervision by certain regulatory agencies. Among other things, these agencies require us to meet certain minimum net worth, operational liquidity and restricted liquidity collateral requirements, and compliance with reporting requirements. Our adjusted net worth and liquidity required by the agencies for all periods presented exceeded these requirements.

As of December 31, 2018, we were required to maintain at least $13.2 million of liquid assets in one of our subsidiaries to meet our operational liquidity requirements for Fannie Mae and we had operational liquidity in excess of this requirement.

We are generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program and are required to secure this obligation by assigning restricted cash balances and/or a letter of credit to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level by a Fannie Mae assigned tier which considers the loan balance, risk level of the loan, age of the loan and level of risk-sharing. Fannie Mae requires restricted liquidity for Tier 2 loans of 75 basis points, 15 basis points for Tier 3 loans and 5 basis points for Tier 4 loans, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. A significant portion of our Fannie Mae DUS serviced loans for which we have risk sharing are Tier 2 loans. As of December 31, 2018, we met the restricted liquidity requirement with a $44.0 million letter of credit.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 15 Commitments and Contingencies (Continued)

As of December 31, 2018, reserve requirements for the Fannie Mae DUS loan portfolio will require us to fund $32.2 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within our at-risk portfolio. Fannie Mae periodically reassesses these collateral requirements and may make changes to these requirements in the future. We generate sufficient cash flow from our operations to meet these capital standards and do not expect any changes to have a material impact on our future operations; however, future changes to collateral requirements may adversely impact our available cash.

We are subject to various capital requirements in connection with seller/servicer agreements that we have entered into with secondary market investors. Failure to maintain minimum capital requirements could result in our inability to originate and service loans for the respective investor and, therefore, could have a direct material effect on our consolidated financial statements. As of December 31, 2018, we met all of Fannie Mae's quarterly capital requirements and our Fannie Mae adjusted net worth was in excess of the required net worth. We are also subject to capital requirements on an annual basis for Ginnie Mae and FHA and we believe we have met all requirements as of December 31, 2018.

As an approved designated seller/servicer under Freddie Mac's SBL program, we are required to post collateral to ensure that we are able to meet certain purchase and loss obligations required by this program. Under the SBL program, we are required to post collateral equal to $5.0 million, which is satisfied with a $5.0 million letter of credit.

We enter into contractual commitments with borrowers providing rate lock commitments while simultaneously entering into forward sale commitments with investors. These commitments are outstanding for short periods of time (generally less than 60 days) and are described in Note 13 Derivative Financial Instruments and Note 14 Fair Value.

Debt Obligations and Operating Leases. As of December 31, 2018, the maturities of our debt obligations and the minimum annual operating lease payments under leases with a term in excess of one year were as follows (in thousands):

Year	Debt Obligations	Minimum Annual Operating Lease Payments	Total
2019	$ 798,974	$ 5,468	$ 804,442
2020	1,075,447	5,210	1,080,657
2021	932,465	2,953	935,418
2022	162,719	2,703	165,422
2023	125,000	2,051	127,051
Thereafter	272,447	4,764	277,211
Total	$ 3,367,052	$ 23,149	$ 3,390,201

Unfunded Commitments. In accordance with certain structured loans and investments, we have outstanding unfunded commitments of $130.9 million as of December 31, 2018 that we are obligated to fund as borrowers meet certain requirements. Specific requirements include, but are not limited to,

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 15 Commitments and Contingencies (Continued)

property renovations, building construction and conversions based on criteria met by the borrower in accordance with the loan agreements.

Litigation. We are currently neither subject to any material litigation nor, to the best of our knowledge, threatened by any material litigation other than the following:

In June 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, ACM 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 ACM, 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 ACM and ABT-ESI LLC, together with a number of other defendants and 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.

In June 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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 15 Commitments and Contingencies (Continued)

$139.0 million in the aggregate, plus interest from the date of the alleged unlawful transfers, 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 in March 2014, the Court heard oral argument on the motion to dismiss and adjourned the case pending a ruling. Subsequent to that hearing, a new judge was assigned to the case and, in November 2016, the new judge entered an order directing the parties to file supplemental briefs addressing new cases decided since the last round of briefing. Oral arguments regarding the motion to dismiss were heard at a hearing held in January 2017. The Court reserved decision at that hearing.

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.

Litigation Settlement. In the third quarter of 2018, we received net proceeds of $10.2 million from the settlement of a litigation related to a prior investment, which was recognized as a gain.

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.

Note 16 Variable Interest Entities

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 have determined that our operating partnership, ARLP, and our CLO and Debt Fund entities, which we consolidate, are VIEs. ARLP is already consolidated in our financial statements, therefore, the identification of this entity as a VIE had no impact on our consolidated financial statements.

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 16 Variable Interest Entities (Continued)

The assets and liabilities related to these consolidated CLOs and Debt Fund are as follows (in thousands):

	December 31, 2018	December 31, 2017
Assets:		
Restricted cash	$ 179,855	$ 138,736
Loans and investments, net	2,001,617	1,836,744
Other assets	16,624	14,011
Total assets	$ 2,198,096	$ 1,989,491
Liabilities:		
Collateralized loan obligations	$ 1,593,548	$ 1,418,422
Debt fund	68,183	68,084
Other liabilities	3,408	2,046
Total liabilities	$ 1,665,139	$ 1,488,552

Assets held by the CLOs and Debt Fund are restricted and can only be used to settle obligations of the CLOs and Debt Fund, respectively. The liabilities of the CLOs and Debt Fund are non-recourse to us and can only be satisfied from each respective asset pool. See Note 11 Debt Obligations for details. We are not obligated to provide, have not provided, and do not intend to provide financial support to any of the consolidated CLOs or Debt Fund.

Unconsolidated VIEs. We determined that we are not the primary beneficiary of 24 VIEs in which we have a variable interest as of December 31, 2018 because we do not have the ability to direct the activities of the VIEs that most significantly impact each entity's economic performance.

A summary of our variable interests in identified VIEs, of which we are not the primary beneficiary, as of December 31, 2018 is as follows (in thousands):

Type	Carrying Amount(1)
Loans	$ 289,392
B Piece bonds	76,363
Agency interest only strips	3,231
Total	$ 368,986

(1) Represents the carrying amount of loans and investments before reserves. At December 31, 2018, $130.1 million of loans to VIEs had corresponding loan loss reserves of $69.4 million. See Note 3 Loans and Investments for details. In addition, the maximum loss exposure as of December 31, 2018 would not exceed the carrying amount of our investment.

These unconsolidated VIEs have exposure to real estate debt of approximately $4.18 billion at December 31, 2018.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 17 Equity

Preferred Stock. The Series A and B preferred stock became redeemable by us in February 2018 and May 2018, respectively. The Series C preferred stock may not be redeemed by us before February 25, 2019.

Common Stock. In December 2018, we completed a public offering where we sold 8,700,000 shares of our common stock for $11.57 per share, and received net proceeds of $100.5 million. We used these net proceeds to make investments relating to our business and for general corporate purposes. We also used a portion of the net proceeds to purchase an aggregate of 870,000 shares of our common stock from our chief executive officer, ACM and an estate planning family vehicle established by our chief executive officer, at the same price the underwriters paid to purchase the shares.

In May 2018, we completed a public offering where we sold 5,500,000 shares of our common stock for $8.72 per share, and received net proceeds of $47.8 million. We used these net proceeds to make investments relating to our business and for general corporate purposes.

During 2018, we issued approximately 7,300,000 shares of our common stock in connection with the exchanges and subsequent settlements of our 5.375% Convertible Notes and 6.50% Convertible Notes.

We have an "At-The-Market" equity offering sales agreement with JMP Securities LLC ("JMP,") which entitles us to issue and sell up to 7,500,000 shares of our common stock through JMP. 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 2018, we sold 952,700 shares for net proceeds of $8.1 million. As of December 31, 2018, we had approximately 6,500,000 shares available under this agreement.

As of December 31, 2018, we had $399.3 million available under our $500.0 million shelf registration statement that was declared effective by the SEC in June 2018.

Noncontrolling Interest. Noncontrolling interest relates to the OP Units issued to satisfy a portion of the Acquisition purchase price. Upon the closing of the Acquisition in 2016, we issued 21,230,769 OP Units. Each of these OP Units are paired with one share of our special voting preferred shares having a par value of $0.01 per share and is entitled to one vote each on any matter submitted for stockholder approval. In August 2018, ACM distributed 577,185 OP Units and special voting preferred shares to certain of its members in consideration for their respective membership interests, which were redeemed by us for cash totaling $6.8 million. At December 31, 2018, there were 20,653,584 OP Units outstanding, which represented 19.7% of the voting power of our outstanding stock. The OP Units are entitled to receive distributions if and when our Board of Directors authorizes and declares common stock distributions. The OP Units are also redeemable for cash, or at our option, for shares of our common stock on a one-for-one basis.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 17 Equity (Continued)

Distributions. Dividends declared (on a per share basis) for the year ended December 31, 2018 are as follows:

Common Stock		Preferred Stock			
			Dividend(1)		
Declaration Date	Dividend	Declaration Date	Series A	Series B	Series C
December 13, 2018(2)	$ 0.15	October 31, 2018	$ 0.515625	$ 0.484375	$ 0.53125
October 31, 2018	$ 0.27	August 1, 2018	$ 0.515625	$ 0.484375	$ 0.53125
August 1, 2018	$ 0.25	May 2, 2018	$ 0.515625	$ 0.484375	$ 0.53125
May 2, 2018	$ 0.25	February 2, 2018	$ 0.515625	$ 0.484375	$ 0.53125
February 21, 2018	$ 0.21				

(1) The dividend declared on October 31, 2018 was for September 1, 2018 through November 30, 2018. The dividend declared on August 1, 2018 was for June 1, 2018 through August 31, 2018. The dividend declared on May 2, 2017 was for March 1, 2018 through May 31, 2018. The dividend declared on February 3, 2018 was for December 1, 2017 through February 28, 2018.

(2) On December 13, 2018, our Board of Directors declared a special dividend of $0.15 per common share, which was paid in a combination of $2.5 million of cash and 901,432 common shares in January 2019.

Common Stock On February 13, 2019, the Board of Directors declared a cash dividend of $0.27 per share of common stock. The dividend is payable on March 20, 2019 to common stockholders of record as of the close of business on March 1, 2019.

Preferred Stock On February 1, 2019, 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, 2018 through February 28, 2019 and are payable on February 28, 2019 to preferred stockholders of record on February 15, 2019.

We have determined that 100% of the common stock and preferred stock dividends paid during 2018, 2017 and 2016 represented ordinary income to our stockholders for income tax purposes. Pursuant to Internal Revenue Code Section 59(d), alternative minimum tax ("AMT") could be apportioned between a REIT and its stockholders' to the extent the REIT distributes its regular taxable income. However, among the numerous provisions included in the Tax Reform enacted in December 2017, the AMT was repealed for corporate taxpayers. Therefore, the apportionment of AMT between a REIT and its stockholders is no longer applicable for tax years beginning after December 31, 2017.

Deferred Compensation. We have a stock incentive plan under which the Board of Directors has the authority to issue shares of stock to certain employees, officers, directors and, prior to May 31, 2017, employees of our Former Manager.

In 2018, 2017 and 2016, we granted 265,444 shares, 299,750 shares and 282,405 shares, respectively, of restricted common stock with a total grant date fair value of $2.3 million, $2.4 million and $1.9 million, respectively, to certain employees of ours and our Former Manager. One third of the

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 17 Equity (Continued)

shares vested as of the grant date and one third will vest on each of the first and second anniversaries of the grant date. In 2018, 2017 and 2016, we also granted 67,002 shares, 74,375 shares and 67,260 shares, respectively, of fully vested common stock with a grant date fair value of $0.6 million, $0.6 million and $0.4 million, respectively, to the independent members of our Board of Directors.

Effective January 1, 2017, we entered into an amended and restated annual incentive agreement (the "2017 annual incentive agreement") with our chief executive officer. The chief executive officer's annual cash bonus and value of his annual long-term equity awards under the 2017 annual incentive agreement each increased 10% as a result of the Company meeting the equity capitalization growth goals in his previous incentive agreement. In addition, the chief executive officer is also eligible to receive a $3.0 million performance-based restricted stock award annually for five years subject to meeting certain goals related to the integration of the Acquisition. Each $3.0 million award vests in full three years after the grant date and is subject to the chief executive officer's continued employment. All other terms of the 2017 annual incentive agreement are consistent with the chief executive officer's previous incentive agreement.

In 2018, 2017 and 2016, we granted our chief executive officer 63,584 shares 74,830 shares 70,225 shares, respectively, of restricted common stock with a grant date fair value of $0.6 million, $0.6 million and $0.5 million, respectively, and up to 381,503, 448,980 and 421,348, respectively, of performance-based restricted stock units with a grant date fair value of $0.8 million, $1.0 million and $0.9 million, respectively. One quarter of the restricted common stock vested on the grant date and one quarter will vest on each of the first, second and third anniversaries of the grant date. The performance-based restricted stock units vest at the end of a four-year performance period based on our achievement of certain total stockholder return objectives. To date, our chief executive officer was granted in the aggregate up to 1,697,595 performance-based restricted stock units, of which 445,765 units fully vested based on achieving the performance objectives for the four-year period ended December 31, 2018.

In 2018 and 2017, we also granted our chief executive officer 294,985 shares and 357,569 shares, respectively, of performance-based restricted stock with a grant date fair value of $3.4 million and $2.7 million, respectively, as a result of achieving goals related to the integration of the Acquisition. The performance-based restricted stock vests in full three years after the grant date.

During 2018, 2017 and 2016, we recorded total stock-based compensation expense of $5.4 million, $3.2 million and $1.6 million, respectively, to employee compensation and benefits and $0.6 million, $1.7 million and $1.9 million, respectively, to selling and administrative expense.

During 2018, 426,079 shares of restricted stock with a grant date fair value of $3.4 million vested.

As of December 31, 2018 and 2017, there were 1,033,616 shares and 774,972 shares, respectively, of unvested restricted common stock with a grant date fair value of $9.5 million and $6.2 million, respectively.

At December 31, 2018, total unrecognized compensation cost related to unvested restricted common stock was $5.5 million, which is expected to be recognized ratably over the remaining weighted-average vesting period of 2.0 years.

Earnings Per Share. Basic EPS is calculated by dividing net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during each

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 17 Equity (Continued)

period inclusive of participating securities, consisting of unvested restricted stock that receive nonforfeitable dividends, similar to shares of common stock requiring the two-class method of computing earnings per share. 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.

The following tables reconcile the numerator and denominator of our basic and diluted EPS computations ($ in thousands, except share and per share data):

	Year Ended December 31,					
	2018		2017		2016	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income attributable to common stockholders(1)	$ 108,312	$ 108,312	$ 65,835	$ 65,835	$ 42,796	$ 42,796
Net income attributable to noncontrolling interest(2)		32,185		24,120		
Net income attributable to common stockholders and noncontrolling interest	$ 108,312	$ 140,497	$ 65,835	$ 89,955	$ 42,796	$ 42,796
Weighted average shares outstanding	70,208,165	70,208,165	57,890,574	57,890,574	51,305,095	51,305,095
Dilutive effect of OP Units(2)		21,033,103		21,230,769		
Dilutive effect of restricted stock units(3)		1,476,653		1,092,072		425,458
Dilutive effect of convertible notes(4)		908,861		97,837		
Dilutive effect of stock dividend(5)		15,386				
Weighted average shares outstanding	70,208,165	93,642,168	57,890,574	80,311,252	51,305,095	51,730,553
Net income per common share(1)	$ 1.54	$ 1.50	$ 1.14	$ 1.12	$ 0.83	$ 0.83

(1) Net of preferred stock dividends.

(2) We consider OP Units to be common stock equivalents as the holders have voting rights, the right to distributions and the right to redeem the OP Units for the cash value of a corresponding number of shares of common stock or a corresponding number of shares of common stock, at our election. For 2016, the OP Units were considered anti-dilutive and excluded from diluted EPS.

(3)

Our chief executive officer was granted restricted stock units in 2018, 2017 and 2016 which vest at the end of a four-year performance period based upon our achievement of total stockholder return objectives.

(4)

The convertible senior unsecured notes impact diluted earnings per share if the average price of our common stock exceeds the conversion price, as calculated in accordance with the terms of the indenture.

(5)

Represents the dilutive effect of the portion of the special dividend that was paid with common shares.

Note 18 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. A REIT is generally not subject to federal income tax on

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 18 Income Taxes (Continued)

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. Certain REIT income may be subject to state and local income taxes. We did not have any REIT federal taxable income, net of dividends paid and net operating loss deductions, for 2018, 2017 and 2016, and therefore, have not provided for REIT federal income tax expense. The REIT incurred state tax (benefit)/expense for 2018, 2017 and 2016 of $(0.1) million, $1.0 million and $0.5 million, respectively. 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.

Certain of our assets and operations that would not otherwise comply with the REIT requirements, such as the Agency Business, are owned or conducted through our TRS Consolidated Group, the majority of the income of which is subject to U.S. federal, state and local income taxes. The TRS Consolidated Group has federal net operating losses from prior years which will be used against the income from the Agency Business. For 2018, 2017 and 2016, we recorded a provision for income taxes related to the assets held in the TRS Consolidated Group and the REIT of $9.7 million, $13.4 million and $0.8 million, respectively. In 2018, a valuation allowance was recorded at the TRS Consolidated Group of $0.3 million on the deferred tax assets related to capital loss carryforwards. In 2017 and 2016, the valuation allowance of $3.5 million and $5.4 million, respectively, previously recorded at the TRS Consolidated Group was released.

In January 2018, the $50.0 million preferred equity interest entered into with ACM to finance a portion of the Acquisition purchase price was paid off. When we entered into the Acquisition, we established a deferred tax liability in connection with the preferred equity interest. Upon payoff in January 2018, the deferred tax liability was written off and we recorded a deferred tax benefit of $12.5 million. See Note 11 Debt Obligations for details.

A summary of our pre-tax GAAP income is as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Pre-tax GAAP income:			
REIT	$ 64,260	$ 66,988	$ 35,151
TRS Consolidated Group	93,522	43,880	8,470
Total pre-tax GAAP income	$ 157,782	$ 110,868	$ 43,621

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 18 Income Taxes (Continued)

Our provision for (benefit from) income taxes was comprised as follows (in thousands):

	Year Ended December 31,		
	2018	**2017**	**2016**
Current tax provision			
Federal	$ 17,479	$ 17,201	$ 768
State	4,285	3,557	1,589
Total	21,764	20,758	2,357
Deferred tax (benefit) provision			
Federal	$ (9,446)	$ (2,928)	$ 1,449
State	(2,867)	(929)	2,380
Valuation allowance	280	(3,542)	(5,361)
Total	(12,033)	(7,399)	(1,532)
Total income tax expense	$ 9,731	$ 13,359	$ 825

A reconciliation of our effective income tax rate as a percentage of pre-tax income to the U.S. federal statutory rate is as follows:

	Year Ended December 31,		
	2018	**2017**	**2016**
U.S. federal statutory rate	21.0%	35.0%	35.0%
REIT non-taxable income	(8.6)	(21.2)	(28.2)
State and local income taxes, net of federal tax benefit	0.6	1.6	6.9
Change in valuation allowance	0.2	(1.3)	(12.3)
Preferred equity interest deferred tax write-off	(6.3)		
Tax rate change		(4.8)	
Other	(0.7)	2.7	0.5
Effective income tax rate	6.2%	12.0%	1.9%

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 18 Income Taxes (Continued)

The significant components of our deferred tax assets and liabilities of our TRS Consolidated Group were as follows (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Expenses not currently deductible	$ 11,853	$ 9,750
Loan loss reserves	8,614	10,036
Net operating and capital loss carryforwards	417	137
Valuation allowance	(3,698)	(3,418)
Deferred tax assets, net	$ 17,186	$ 16,505
Deferred tax liabilities:		
Interest in equity affiliates net	$ 136	$ 2,841
Intangibles	9,674	15,673
Mortgage servicing rights	5,290	7,493
Other	807	1,252
Deferred tax liabilities, net	$ 15,907	$ 27,259

The Tax Reform was signed into law on December 22, 2017. Among numerous provisions included in the new tax law was the reduction of the corporate federal income tax rate from 35% to 21%. The provision for income taxes for 2018 reflects the newly enacted corporate federal income tax rate of 21%. We applied the guidance in Staff Accounting Bulletin No. 118 when accounting for the enactment-date effects of the Tax Reform throughout 2018 and in 2017. At December 31, 2018, we have completed our accounting for the enactment-date income tax effects of the Tax Reform and no material adjustments have been recorded. At December 31, 2017, the provision for income taxes for 2017 included the newly enacted corporate federal income tax rate of 21%, which resulted in a deferred income tax benefit of $5.3 million, primarily from applying the new lower income tax rates to our net long term deferred tax assets and liabilities recorded on our consolidated balance sheets.

At December 31, 2018, our TRS Consolidated Group had $17.2 million of deferred tax assets, net of a $3.7 million valuation allowance. The deferred tax assets consist of expenses not currently deductible, loan loss reserves, net operating loss and capital loss carryforwards. Our TRS Consolidated Group's deferred tax assets are offset by $15.9 million in deferred tax liabilities consisting of timing differences from investments in equity affiliates, intangibles and mortgage servicing rights.

At December 31, 2017, our TRS Consolidated Group had $16.5 million of deferred tax assets, net of a $3.4 million valuation allowance. The deferred tax assets consist of expenses not currently deductible, loan loss reserves and net operating loss carryforwards. Our TRS Consolidated Group's deferred tax assets were offset by $27.3 million in deferred tax liabilities consisting of timing differences from investments in equity affiliates, intangibles and mortgage servicing rights.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 18 Income Taxes (Continued)

As of December 31, 2018, the REIT (excluding the TRS Consolidated Group) had no federal net operating loss carryforwards remaining and no capital loss carryforwards. As of December 31, 2017, the REIT (excluding the TRS Consolidated Group) had $3.3 million of federal net operating loss carryforwards and no capital loss carryforwards.

At both December 31, 2018 and 2017, the TRS Consolidated Group had federal and state net operating loss carryforwards of $0.5 million, which will expire through 2031. As of December 31, 2018, the TRS Consolidated Group had capital loss carryforwards of $1.1 million, which will expire through 2023.

We have assessed our tax positions for all open years, which include 2015-2018, and have concluded that there were no material uncertainties to be recognized. We have not recognized any interest and penalties related to tax uncertainties for the years ended 2015 through 2018.

Note 19 Agreements and Transactions with Related Parties

Management Agreement. Prior to May 31, 2017, we had a management agreement with ACM, pursuant to which ACM provided us with a variety of professional and advisory services vital to our operations, including underwriting, accounting and treasury, compliance, marketing, information technology and human resources. Pursuant to the terms of the management agreement, we reimbursed ACM for its actual costs incurred in connection with managing our business through a base management fee, and, under certain circumstances, an annual incentive fee. In May 2017, we terminated the existing management agreement. We incurred base management fees of $6.7 million and $12.6 million in 2017 and 2016, respectively.

We have a shared services agreement with ACM where we provide limited support services to ACM and they reimburse us for the costs of performing such services. During 2018 and 2017, we incurred $1.3 million and $0.7 million, respectively, of costs for services provided to ACM, which are included in due from related party on the consolidated balance sheets.

Other Related Party Transactions. Due from related party was $1.3 million and $0.7 million at December 31, 2018 and 2017, respectively, which consisted primarily of amounts due from ACM for costs incurred in connection with the shared services agreement described above.

In November 2018, we originated a $61.2 million bridge loan (which $15.0 million was funded as of December 31, 2018) on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 10% of the borrowing entity. The loan has an interest rate of LIBOR plus 4.50% with a LIBOR floor of 2.00% and matures in October 2021. Interest income recorded from this loan totaled $0.2 million for 2018.

In October 2018, we acquired a $19.5 million bridge loan originated by ACM. The loan was used to purchase several multifamily properties by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 85% of the borrowing entity. The loan has an interest rate of LIBOR plus 4.0% with a LIBOR floor of 2.125% and matures in July 2021. Interest income recorded from this loan totaled $0.3 million for 2018.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 19 Agreements and Transactions with Related Parties (Continued)

In August 2018, we originated a $17.7 million bridge loan to an entity owned, in part, by an immediate family member of our chief executive officer, who owns a 10.8% interest in the borrowing entity. The loan was used to purchase several undeveloped parcels of land. The loan has a fixed interest rate of 10% and matures in May 2019. Interest income recorded from this loan totaled $0.8 million for 2018.

In June 2018, we originated a $21.7 million bridge loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 75% in the borrowing entity. The loan has an interest rate of LIBOR plus 4.75% with a LIBOR floor of 1.25% and matures in June 2021. Interest income recorded from this loan totaled $0.6 million for 2018.

In April 2018, we acquired a $9.4 million bridge loan originated by ACM. The loan was used to purchase several multifamily properties by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 75% of the borrowing entity. The loan has an interest rate of LIBOR plus 5.0% with a LIBOR floor of 1.25% and matures in January 2021. Interest income recorded from this loan totaled $0.3 million for 2018.

In January 2018, we paid $50.0 million in full satisfaction of the related party financing we entered into with ACM to finance a portion of the Acquisition purchase price. We incurred interest expense related to this financing of $0.3 million, $3.8 million and $1.8 million for 2018, 2017 and 2016, respectively.

In December 2017, we acquired a $32.8 million bridge loan originated by ACM. The loan was used to purchase several multifamily properties by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 90% of the borrowing entity. The loan has an interest rate of LIBOR plus 5.0% with a LIBOR floor of 1.13% and matures in June 2020. Interest income recorded from this loan totaled $2.4 million and $0.1 million for 2018 and 2017, respectively.

In the fourth quarter of 2017, we originated two bridge loans totaling $28.0 million on two multifamily properties owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 45% of the borrowing entity. The loans have an interest rate of LIBOR plus 5.25% with LIBOR floors ranging from 1.24% to 1.54% and mature in the fourth quarter of 2020. Interest income recorded from these loans totaled $2.1 million and $0.2 million for 2018 and 2017, respectively.

In July 2017, we originated a $36.0 million bridge loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns a 95% interest in the borrowing entity. The loan had an interest rate of LIBOR plus 4.5% with a LIBOR floor of 1% and was scheduled to mature in July 2020. This loan was repaid in full in August 2018. Interest income recorded from this loan totaled $1.9 million and $0.9 million for 2018 and 2017, respectively.

In May 2017, we originated a $46.9 million Fannie Mae loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers) which owns a 21.4% interest in the borrowing entity. We carry a maximum loss-sharing

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December 31, 2018

Note 19 Agreements and Transactions with Related Parties (Continued)

obligation with Fannie Mae on this loan of up to 5% of the original UPB. Servicing revenue recorded from this loan was $0.1 million and less than $0.1 million for 2018 and 2017, respectively.

In March 2017, a consortium of investors (which includes, among other unaffiliated investors, our chief executive officer and ACM) invested $2.0 million for a 26.1% ownership interest in two portfolios of multifamily properties which has two bridge loans totaling $14.8 million originated by us in 2016. The loans had an interest rate of LIBOR plus 5.25% with a LIBOR floor of 0.5% and were scheduled to mature in November 2018. One of the loans was repaid in full in the fourth quarter of 2017 and the remaining loan paid off in June 2018. Interest income recorded from these loans totaled $0.3 million and $1.0 million for 2018 and 2017, respectively.

In January 2017, we modified a $5.0 million preferred equity investment, subsequently increasing our balance to $15.0 million, with a commitment to fund an additional $5.0 million. This investment had a fixed interest rate of 11% that was scheduled to mature in January 2020. We also entered into an agreement with a consortium of investors (which include, among other unaffiliated investors, certain of our officers and our chief executive officer) which admitted them as a member to fund the remaining $5.0 million preferred equity investment, which was generally subordinate to our investment. The principal balance was repaid in full in the fourth quarter of 2017. Interest income recorded from our investment totaled $1.1 million for 2017.

In January 2017, Ginkgo Investment Company LLC ("Ginkgo"), of which one of our directors is a 33% managing member, purchased a multifamily apartment complex which assumed an existing $8.3 million Fannie Mae loan that we service. Ginkgo subsequently sold the majority of its interest in this property and owned a 3.6% interest at December 31, 2018. We carry a maximum loss-sharing obligation with Fannie Mae on this loan of up to 20% of the original UPB. Upon the sale, we received a 1% loan assumption fee which was governed by existing loan agreements that were in place when the loan was originated in 2015, prior to such purchase. Servicing revenue recorded from this loan was $0.1 million for both 2018 and 2017.

In September 2016, we originated $48.0 million of bridge loans on six multifamily properties owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns interests ranging from 10.5% to 12.0% in the borrowing entities. The loans have an interest rate of LIBOR plus 4.5% with a LIBOR floor of 0.25% and mature in September 2019. In 2017, a $6.8 million loan on one property paid off in full and in 2018 four additional loans totaling $28.3 million paid off in full. Interest income recorded from these loans totaled $1.9 million, $2.7 million and $0.7 million for 2018, 2017 and 2016, 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 in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns a 50% interest in the borrowing entity. The loan has an interest rate of LIBOR plus 4.5% with a LIBOR floor of 0.25% and was scheduled to mature in January 2019. The preferred equity investment has a fixed interest rate of 10% and was scheduled to mature in November 2018. We are currently in negotiations with the borrower to amend the agreements and extend the maturity dates. Interest income recorded from these loans totaled $1.4 million, $1.3 million and $1.2 million for 2018, 2017 and 2016, respectively.

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Note 19 Agreements and Transactions with Related Parties (Continued)

In January 2016, we originated a $19.0 million bridge loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns a 7.5% interest in the borrowing entity. The loan had an interest rate of LIBOR plus 4.5% with a LIBOR floor of 0.25% and was scheduled to mature in January 2019. In January 2018, this loan paid off in full. Interest income recorded from this loan totaled $0.3 million, $1.1 million and $1.0 million for 2018, 2017 and 2016, respectively.

In 2015, we originated a $7.1 million bridge loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns a 7.5% interest in the borrowing entity. In August 2017, this loan paid off in full. The loan had an interest rate of LIBOR plus 4.5% with a LIBOR floor of 0.25%. Interest income recorded from this loan totaled $0.3 million and $0.4 million for 2017 and 2016, respectively.

In 2015, we originated two bridge loans totaling $16.7 million secured by multifamily properties acquired by a third party investor. The properties were owned and were sold in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers, our chief executive officer and certain other related parties). The loans have an interest rate of LIBOR plus 5% with a LIBOR floor of 0.25% and were scheduled to mature in October 2018. These loans both paid off in full during the third and four quarters of 2018. Interest income recorded from these loans totaled $1.0 million, $1.1 million and $1.0 million for 2018, 2017 and 2016, respectively.

In 2015, we originated a $3.0 million mezzanine loan on a multifamily property that had a $47.0 million first mortgage initially originated by ACM. The loan bore interest at a fixed rate of 12.5% and was scheduled to mature in April 2025. In January 2018, this loan paid off in full. Interest income recorded from this loan totaled $0.1 million, $0.3 million and $0.4 million for 2018, 2017 and 2016, respectively.

In 2015, we originated a $6.3 million bridge loan on a multifamily property owned by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers, including our chief executive officer and ACM) who together own an interest of 90% in the borrowing entity. The loan had an interest rate of LIBOR plus 4.5% with a LIBOR floor of 0.25% and was scheduled to mature in April 2018. The loan was repaid in full in 2016. Interest income recorded from this loan totaled $0.4 million for 2016.

In 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 was scheduled to mature in February 2018. To accomplish the modification, we formed a joint venture with a consortium of investors (which includes, among other unaffiliated investors, certain of our officers, including our chief executive officer, and other related parties) to invest an additional $2.0 million preferred equity investment that is generally subordinate to ours. During 2016, the preferred equity investment was repaid in full and we received proceeds of $1.0 million. Interest income recorded from this loan was $1.0 million for 2016.

In 2015, we invested $9.6 million for 50% of ACM'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. Since the initial investment, we invested an additional $16.1 million through this joint venture in non-qualified residential mortgages

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December 31, 2018

Note 19 Agreements and Transactions with Related Parties (Continued)

purchased from the mortgage banking business's origination platform and we received cash distributions totaling $16.9 million (that were classified as returns of capital) as a result of the joint venture selling most of its mortgage assets (which $0.7 million was received in 2018). We recorded income from these investments of $0.9 million, a loss of $7.2 million and income of $10.0 million for 2018, 2017 and 2016, respectively. In connection with a litigation settlement related to this investment, we provided a guaranty of up to 50% of any amounts payable in connection with the settlement. ACM has also provided us with a guaranty to pay up to 50% of any amounts we may pay under this guaranty. As of December 31, 2018, our maximum exposure under this guaranty totals $1.9 million. We have not accrued this amount as we do not believe that we will be required to make any nonrefundable payments under this guaranty.

Interest income recorded from loans originated in 2014 or prior years with our affiliates totaled $0.2 million, $4.1 million and $4.6 million for 2018, 2017 and 2016, respectively.

We, along with an executive officer of ours and a consortium of independent outside investors, hold equity investments in a portfolio of multifamily properties referred to as the "Lexford" portfolio, which is managed by an entity owned primarily by a consortium of affiliated investors, including our chief executive officer and an executive officer of ours. Based on the terms of the management contract, the management company 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 restructuring of the debt. In June 2018, the owners of Lexford restructured part of its debt and we originated twelve bridge loans totaling $280.5 million, which were used to repay in full certain existing mortgage debt and to renovate 72 multifamily properties included in the portfolio. The loans which we originated in June 2018 have interest rates of 400 basis points over LIBOR and mature in June 2021 (with 2 one-year extension options). Interest income recorded from these loans totaled $10.1 million during 2018. Further, as part of this June 2018 restructuring, $50.0 million in unsecured financing was provided by an unsecured lender to certain parent entities of the property owners. ACM owns slightly less than half of the unsecured lender entity and, therefore, provided slightly less than half of the unsecured lender financing. In addition, in connection with our equity investment, we received distributions totaling $2.5 million, $2.5 million and $2.8 million during 2018, 2017 and 2016, respectively, which were recorded as income from equity affiliates. Separate from the loans we originated in June 2018, we provide limited ("bad boy") guarantees for certain other 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, 2018, this debt had an aggregate outstanding balance of $320.7 million and is scheduled to mature between 2019 and 2025.

Several of our executives, including our chief financial officer, general counsel and our chairman, chief executive officer and president, hold similar positions for ACM. Our chief executive officer and his affiliated entities ("the Kaufman Entities") together beneficially own approximately 80% of the outstanding membership interests of ACM and certain of our employees and directors also hold an ownership interest in ACM. Furthermore, one of our directors serves as the trustee and co-trustee of two of the Kaufman Entities that hold membership interests in ACM. Upon the closing of the Acquisition in 2016, we issued 21,230,769 OP Units, each paired with one share of our special voting preferred shares. In December 2017 and August 2018, ACM distributed 5,780,348 and 577,185 OP Units, respectively, to certain of its members, which include the Kaufman Entities and certain of our

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

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December 31, 2018

Note 19 Agreements and Transactions with Related Parties (Continued)

officers and employees. At December 31, 2018, ACM holds 4,945,837 shares of our common stock and 14,873,236 OP Units, which represents 18.9% of the voting power of our outstanding stock. Our Board of Directors approved a resolution under our charter allowing our chief executive officer and ACM, (which our chief executive officer has a controlling equity interest in), to own more than the 5% ownership interest limit of our common stock as stated in our amended charter.

Note 20 Employee Benefits

We assumed a 401(k) defined contribution plan (the "401(k) Plan") and a non-qualified deferred compensation plan (the "Deferred Comp Plan") in connection with the Acquisition.

The 401(k) Plan is available to all employees who have completed six months of continuous service. The 401(k) Plan matches 25% of the first 6% of each employee's contribution. We have the option to increase the employer match based on our operating results. In 2018, 2017 and 2016, we recorded $0.6 million, $0.6 million and $0.3 million, respectively, of expenses associated with the 401(k) Plan, which is included in employee compensation and benefits in our consolidated statements of income.

The Deferred Comp Plan is offered to certain full-time employees and is subject to the rules of section 409(a) of the Internal Revenue Code. Under the Deferred Comp Plan, which can be modified or discontinued at any time, participating employees may defer a portion of their compensation and we are contractually obligated to match the contribution, as specified in the Deferred Comp Plan, and fund such amounts upon vesting and an election by participants to redeem their interests. All employee deferrals vest immediately and matching contributions vest over a nine-year period beginning after year five. For 2018, 2017 and 2016, there were $3.4 million, $2.4 million and $0.7 million, respectively, of employee deferrals. As of December 31, 2018 and 2017, we had recorded liabilities totaling $8.8 million and $5.9 million, respectively, and assets of $5.9 million and $4.5 million, respectively, related to the Deferred Comp Plan, which is included in other liabilities and other assets, respectively, in our consolidated balance sheets.

Note 21 Segment Information

The summarized statements of income and balance sheet data, as well as certain other data, by segment are included in the following tables ($ in thousands). Specifically identifiable costs are recorded directly to each business segment. For items not specifically identifiable, costs have been allocated between the business segments using the most meaningful allocation methodologies, which was predominately direct labor costs (i.e., time spent working on each business segment). Such costs include, but are not limited to, compensation and employee related costs, selling and administrative

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December 31, 2018

Note 21 Segment Information (Continued)

expenses, management fees (through May 31, 2017 effective date of the termination of the existing management agreement with ACM) and stock-based compensation.

	Year Ended December 31, 2018			
	Structured Business	Agency Business	Other / Eliminations(1)	Consolidated
Interest income	$ 226,750	$ 25,018	$	$ 251,768
Interest expense	137,719	15,770	329	153,818
Net interest income	89,031	9,248	(329)	97,950
Other revenue:				
Gain on sales, including fee-based services, net		70,002		70,002
Mortgage servicing rights		98,839		98,839
Servicing revenue		94,158		94,158
Amortization of MSRs		(48,124)		(48,124)
Property operating income	10,095			10,095
Other income, net	1,490	6,671		8,161
Total other revenue	11,585	221,546		233,131
Other expenses:				
Employee compensation and benefits	27,456	83,014		110,470
Selling and administrative	15,642	21,432		37,074
Property operating expenses	10,431			10,431
Depreciation and amortization	1,851	5,602		7,453
Impairment loss on real estae owned	2,000			2,000
Provision for loss sharing (net of recoveries)		3,843		3,843
Provision for loan losses (net of recoveries)	8,353			8,353
Litigation settlement gain	(10,170)			(10,170)
Total other expenses	55,563	113,891		169,454
Income before extinguishment of debt, income from equity affiliates and income taxes	45,053	116,903	(329)	161,627
Loss on extinguishment of debt	(5,041)			(5,041)
Income from equity affiliates	1,196			1,196
Benefit from (provision for) income taxes	774	(10,505)		(9,731)
Net income	41,982	106,398	(329)	148,051
Preferred stock dividends	7,554			7,554
Net income attributable to noncontrolling interest			32,185	32,185
Net income attributable to common stockholders	$ 34,428	$ 106,398	$ (32,514)	$ 108,312

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 21 Segment Information (Continued)

	Year Ended December 31, 2017			
	Structured Business	Agency Business	Other / Eliminations(1)	Consolidated
Interest income	$ 136,526	$ 19,651	$	$ 156,177
Interest expense	74,136	12,089	3,847	90,072
Net interest income	62,390	7,562	(3,847)	66,105
Other revenue:				
Gain on sales, including fee-based services, net		72,799		72,799
Mortgage servicing rights		76,820		76,820
Servicing revenue		76,412		76,412
Amortization of MSRs		(47,202)		(47,202)
Property operating income	10,973			10,973
Other income, net	2,083	(1,398)		685
Total other revenue	13,056	177,431		190,487
Other expenses:				
Employee compensation and benefits	19,555	72,571		92,126
Selling and administrative	11,765	18,973		30,738
Property operating expenses	10,482			10,482
Depreciation and amortization	1,784	5,601		7,385
Impairment loss on real estate owned	3,200			3,200
Provision for loss sharing (net of recoveries)		(259)		(259)
Provision for loan losses (net of recoveries)	(456)			(456)
Management fee related party	3,259	3,414		6,673
Total other expenses	49,589	100,300		149,889
Income before extinguishment of debt, loss from equity affiliates and income taxes	25,857	84,693	(3,847)	106,703
Gain on extinguishment of debt	7,116			7,116
Loss from equity affiliates	(2,951)			(2,951)
Provision for income taxes	(957)	(12,402)		(13,359)
Net income	29,065	72,291	(3,847)	97,509
Preferred stock dividends	7,554			7,554
Net income attributable to noncontrolling interest			24,120	24,120
Net income attributable to common stockholders	$ 21,511	$ 72,291	$ (27,967)	$ 65,835

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 21 Segment Information (Continued)

The Agency Business information for 2016 in the following table includes only the operating results of the Acquisition from July 14, 2016 (Acquisition closing date) to December 31, 2016.

	Year Ended December 31, 2016			
	Structured Business	Agency Business	Other / Eliminations(1)	Consolidated
Interest income	$ 109,622	$ 6,551	$	$ 116,173
Other interest income, net	2,539			2,539
Interest expense	57,943	3,887	1,793	63,623
Net interest income	54,218	2,664	(1,793)	55,089
Other revenue:				
Gain on sales, including fee-based services, net		24,594		24,594
Mortgage servicing rights		44,941		44,941
Servicing revenue		30,759		30,759
Amortization of MSRs		(21,705)		(21,705)
Property operating income	14,881			14,881
Other income, net	542	499		1,041
Total other revenue	15,423	79,088		94,511
Other expenses:				
Employee compensation and benefits	14,884	23,763		38,647
Selling and administrative	9,714	7,873		17,587
Acquisition costs			10,262	10,262
Property operating expenses	13,501			13,501
Depreciation and amortization	2,454	2,568		5,022
Impairment loss on real estae owned	11,200			11,200
Provision for loss sharing (net of recoveries)		2,235		2,235
Provision for loan losses (net of recoveries)	(134)			(134)
Management fee related party	9,044	3,556		12,600
Total other expenses	60,663	39,995	10,262	110,920
Income before sale of real estate, income from equity affiliates and income taxes	8,978	41,757	(12,055)	38,680
Gain on sale of real estate	11,631			11,631
Income from equity affiliates	12,995			12,995
Provision for income taxes		(825)		(825)
Net income	33,604	40,932	(12,055)	62,481
Preferred stock dividends	7,554			7,554
Net income attributable to noncontrolling interest			12,131	12,131
Net income attributable to common stockholders	$ 26,050	$ 40,932	$ (24,186)	$ 42,796

(1) Includes certain corporate expenses not allocated to the two reportable segments, such as financing costs associated with the Acquisition, as well as income allocated to the noncontrolling interest holders.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 21 Segment Information (Continued)

	December 31, 2018			
	Structured Business	Agency Business	Other / Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 89,457	$ 70,606	$	$ 160,063
Restricted cash	180,606			180,606
Loans and investments, net	3,200,145			3,200,145
Loans held-for-sale, net		481,664		481,664
Capitalized mortgage servicing rights, net		273,770		273,770
Securities held-to-maturity, net		76,363		76,363
Investments in equity affiliates	21,580			21,580
Goodwill and other intangible assets	12,500	103,665		116,165
Other assets	81,494	20,325		101,819
Total assets	$ 3,585,782	$ 1,026,393	$	$ 4,612,175
Liabilities:				
Debt obligations	$ 2,842,688	$ 472,181	$	$ 3,314,869
Allowance for loss-sharing obligations		34,298		34,298
Other liabilities	159,413	38,029		197,442
Total liabilities	$ 3,002,101	$ 544,508	$	$ 3,546,609

	December 31, 2017			
	Structured Business	Agency Business	Other / Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 37,056	$ 67,318	$	$ 104,374
Restricted cash	139,398			139,398
Loans and investments, net	2,579,127			2,579,127
Loans held-for-sale, net		297,443		297,443
Capitalized mortgage servicing rights, net		252,608		252,608
Securities held-to-maturity, net		27,837		27,837
Investments in equity affiliates	23,653			23,653
Goodwill and other intangible assets	12,500	109,266		121,766
Other assets	66,227	13,512		79,739
Total assets	$ 2,857,961	$ 767,984	$	$ 3,625,945

Liabilities:				
Debt obligations	$ 2,189,700	$ 291,536	$ 50,000	$ 2,531,236
Allowance for loss-sharing obligations		30,511		30,511
Other liabilities	155,814	42,819	1,009	199,642
Total liabilities	$ 2,345,514	$ 364,866	$ 51,009	$ 2,761,389

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 21 Segment Information (Continued)

	Year Ended December 31,		
	2018	**2017**	**2016**
Origination Data:			
Structured Business			
New loan originations	$ 1,656,020	$ 1,842,974	$ 847,683
Loan payoffs / paydowns	955,575	924,120	553,409
Agency Business			
Origination Volumes by Investor:			
Fannie Mae	$ 3,332,100	$ 2,929,481	$ 1,668,581
Freddie Mac	1,587,958	1,322,498	456,422
FHA	153,523	189,087	24,630
CMBS/Conduit	50,908	21,370	
Total	$ 5,124,489	$ 4,462,436	$ 2,149,633
Total loan commitment volume	$ 5,104,072	$ 4,344,328	$ 2,129,720
Loan Sales Data:			
Agency Business			
Fannie Mae	$ 3,217,006	$ 3,223,953	$ 1,130,392
Freddie Mac	1,540,483	1,399,029	332,319
FHA	115,747	170,554	29,673
CMBS/Conduit	50,908	21,370	
Total	$ 4,924,144	$ 4,814,906	$ 1,492,384(1)
Sales margin (fee-based services as a % of loan sales)	1.42%	1.51%	1.65%
MSR rate (MSR income as a % of loan commitments)	1.94%	1.77%	2.11%

(1) Loan sales were $1.91 billion for 2016, including loans that were acquired as part of the Acquisition.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 21 Segment Information (Continued)

	December 31, 2018		
Key Servicing Metrics for Agency Business:	**UPB of Servicing Portfolio**	**Wtd. Avg. Servicing Fee Rate (basis points)**	**Wtd. Avg. Life of Servicing Portfolio (in years)**
Fannie Mae	$ 13,562,667	51.3	7.4
Freddie Mac	4,394,287	30.8	10.8
FHA	644,687	15.5	19.6
Total	$ 18,601,641	45.2	8.6

	December 31, 2017		
Fannie Mae	$ 12,502,699	53.6	6.9
Freddie Mac	3,166,134	29.5	10.5
FHA	537,482	16.5	19.6
Total	$ 16,206,315	47.7	8.1

Note 22 Selected Quarterly Financial Data Unaudited

Summarized quarterly financial data for 2018 and 2017 is as follows ($ in thousands, except per share data):

	Three Months Ended			
	December 31, 2018	**September 30, 2018**	**June 30, 2018**	**March 31, 2018**
Net interest income	$ 30,361	$ 27,952	$ 21,411	$ 18,225
Total other revenue	77,464	55,580	46,923	53,162
Total other expenses	50,255	34,739	40,610	43,849
Income before extinguishment of debt, income from equity affiliates and income taxes	57,570	48,793	27,724	27,538
Loss on extinguishment of debt	(82)	(4,960)		
Income (loss) from equity affiliates	91	(1,028)	1,387	746
(Provision for) benefit from income taxes	(8,635)	(5,381)	(4,499)	8,784
Net income	48,944	37,424	24,612	37,068
Preferred stock dividends	1,888	1,888	1,888	1,888
Net income attributable to noncontrolling interest	9,838	7,799	5,557	8,991
Net income attributable to common stockholders	$ 37,218	$ 27,737	$ 17,167	$ 26,189

Basic earnings per common share(1)	$ 0.48	$ 0.37	$ 0.26	$ 0.42
Diluted earnings per common share(1)	$ 0.47	$ 0.36	$ 0.25	$ 0.42

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2018

Note 22 Selected Quarterly Financial Data Unaudited (Continued)

	Three Months Ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Net interest income	$ 19,671	$ 18,290	$ 14,057	$ 14,088
Total other revenue	51,431	47,989	44,735	46,332
Total other expenses	37,999	36,596	37,043	38,254
Income before extinguishment of debt, income from equity affiliates and income taxes	33,103	29,683	21,749	22,166
Gain on extinguishment of debt				7,116
(Loss) income from equity affiliates	(4,706)	995	(3)	763
Benefit from (provision for) income taxes	2,885	(6,708)	(3,435)	(6,101)
Net income	31,282	23,970	18,311	23,944
Preferred stock dividends	1,888	1,888	1,888	1,888
Net income attributable to noncontrolling interest	7,524	5,661	4,494	6,442
Net income attributable to common stockholders	$ 21,870	$ 16,421	$ 11,929	$ 15,614
Basic earnings per common share(1)	$ 0.35	$ 0.27	$ 0.21	$ 0.30
Diluted earnings per common share(1)	$ 0.35	$ 0.26	$ 0.21	$ 0.30

(1) The sum of the quarterly amounts may not equal amounts reported for year-to-date periods, due to the effects of rounding for each period.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

SCHEDULE IV LOANS AND OTHER LENDING INVESTMENTS

DECEMBER 31, 2018

($ in thousands)

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	2020 - 2021	LIBOR + 3.40% - 11.95% Floor 0.25% - 1.36%	$	$ 429,500	$ 429,621	$
Bridge loans less than 3% of carrying amount of total loans(6):								
Multifamily	Various	IO / PI	2019 - 2023	LIBOR + 3.00% - 12.98% Floor 0.16% - 2.50% Fixed 3.00% - 12.00%		1,764,647	1,757,259	
Self Storage	Various	IO	2019 - 2022	LIBOR + 3.90% - 10.60% Floor 0.78% - 1.57%	11,800	301,830	300,534	
Land	Various	IO	2019	LIBOR + 4.00% Floor 0.15% Fixed 0.00% - 11.64%		136,295	68,268	
Office	Various	IO / PI	2019 - 2020	LIBOR + 3.10% - 8.00% Floor 0.24% - 2.13%		122,167	120,096	
Healthcare	Various	IO	2019 - 2021	LIBOR + 4.75% - 11.60% Floor 1.12% - 2.50%		122,775	122,064	
Hotel	NY	IO	2019 - 2020	LIBOR + 5.30% - 8.28% Floor 0.45% - 2.38%		80,100	79,664	
Retail	Various	IO	2019 - 2021	LIBOR + 4.95% - 6.00% Floor 2.13% - 2.38%		35,500	35,264	
Total Bridge Loans less than 3% of carrying amount of total loans					11,800	2,563,314	2,483,149	
Total Bridge Loans					11,800	2,992,814	2,912,770	
Preferred Equity Investments:								
Preferred equity investments less than 3% of carrying amount of total loans(6):								
Multifamily	Various	IO / PI	2019 - 2029	Fixed 6.00% - 14.00%	755,446	179,081	178,024	
Commercial	NY	IO	2019	Fixed 6.00%	29,792	1,700		
Office	SC	PI	2024	Fixed 15.00%	9,978	880	870	
Total Preferred Equity Investments					795,216	181,661	178,894	

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

SCHEDULE IV LOANS AND OTHER LENDING INVESTMENTS (Continued)

DECEMBER 31, 2018

($ in thousands)

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
Mezzanine Loans:								
Mezzanine loans less than 3% of carrying amount of total loans(6):								
Multifamily	Various	IO	2019 - 2023	Fixed 2.00% - 11.50%	33,193	54,692	54,529	
Hotel	NY	IO	2020	LIBOR + 13.00% Floor 1.23%	60,625	19,975	19,835	
Land	Various	IO	2019	Fixed 0.00% - 12.00%		15,333	15,318	
Retail	Various	IO / PI	2021 - 2024	Fixed 12.00%	31,191	9,867	9,822	
Office	Various	IO	2020 - 2028	LIBOR + 11.81% Floor 2.13% Fixed 9.00%	60,000	9,000	8,977	
Total Mezzanine Loans					185,009	108,867	108,481	
Total Loans					$ 992,025	$ 3,283,342	$ 3,200,145	$

(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 2018, $425.2 million of loans were extended.

(5) The federal income tax basis is approximately $3.28 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, 2018

($ in thousands)

The following table reconciles our loans and investments carrying amounts for the periods indicated (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	$ 2,579,127	$ 1,695,732	$ 1,450,334
Additions during period:			
New loan originations	1,658,732	1,842,974	847,683
Loan charge-offs	3,173	20,473	2,959
Funding of unfunded loan commitments(1)	21,027	51,689	7,851
Accretion of unearned revenue	9,278	6,519	4,297
Recoveries of reserves	2,527	2,456	193
Deductions during period:			
Loan payoffs and paydowns	(957,163)	(929,796)	(556,893)
Unfunded loan commitments(1)	(88,617)	(77,233)	(50,691)
Use of loan charge-offs	(3,173)	(20,473)	(2,959)
Provision for loan losses	(13,986)	(2,000)	(59)
Unearned revenue and costs	(10,780)	(11,214)	(6,983)
Balance at end of year	$ 3,200,145	$ 2,579,127	$ 1,695,732

(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 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

None.

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, 2018. 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, 2018.

No change in internal control over financial reporting occurred during the quarter ended December 31, 2018 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 GAAP 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 GAAP, 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.

We assessed the effectiveness of our internal control over financial reporting at December 31, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013 Framework). Based on this assessment, we concluded that, as of December 31, 2018, 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

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

Opinion on Internal Control over Financial Reporting

We have audited Arbor Realty Trust, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2018, 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). In our opinion, Arbor Realty Trust, Inc. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, 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, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated February 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

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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.

/s/ Ernst & Young LLP

New York, New York
February 15, 2019

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Based solely on our review of the copies of such forms received by it, or written representations from certain reporting persons that no filings were required for those persons, we believe that during and with respect to the fiscal year ended December 31, 2018 all filings required by Section 16(a) of the Exchange Act were made timely, except for: (1) a Form 4 filed by Ivan Kaufman for the sale of 1,378,175 partnership common units and preferred shares on August 22, 2018 to a trust for the benefit of his immediate family administered by independent trustees (which was reported on August 31, 2018); and (2) a Form 4 filed by Melvin Lazar for the purchase of 230 shares of our common stock on March 19, 2018 (which was reported on April 2, 2018).

The information regarding our directors and executive officers set forth under the captions "Board of Directors" and "Executive Officers" of the 2019 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" of the 2019 Proxy Statement is incorporated herein by reference.

The information regarding our corporate governance under the caption "Board Committees" in the 2019 Proxy Statement is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the section captioned "Executive Compensation" of the 2019 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 2019 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 2019 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 2019 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 and schedules 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	Articles Supplementary designating Special Voting Preferred Stock.**
3.8	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	Indenture, dated May 12, 2014, between Arbor Realty Trust, Inc., as issuer, and U.S. Bank National Association, as trustee.§§§
4.6	First Supplemental Indenture, dated May 12, 2014, between Arbor Realty Trust, Inc., as issuer, and U.S. Bank National Association, as trustee.§§§
4.7	Second Supplemental Indenture, dated as of October 5, 2016, between Arbor Realty Trust, Inc. and U.S. Bank National Association, as trustee.♠♠
4.8	Third Supplemental Indenture, dated as of November 13, 2017, between Arbor Realty Trust, Inc. and U.S. Bank National Association, as trustee. ♠♠♠
4.9	Indenture, dated March 13, 2018, between Arbor Realty Trust, Inc. and U.S. Bank National Association, as trustee. ♦
4.10	Indenture, dated July 3, 2018, between Arbor Realty Trust, Inc. and U.S. Bank National Association, as trustee. ♦♦
4.11	Indenture, dated July 20, 2018, between Arbor Realty Trust, Inc. and U.S. Bank National Association, as trustee. ♦♦♦

10.1 Non-Competition Agreement, dated July 14, 2016, by and among Arbor Realty Trust, Inc., Arbor Realty Limited Partnership, Arbor Commercial Mortgage, LLC and Ivan Kaufman.**

10.2 Third Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated July 14, 2016, by and among Arbor Realty GPOP, Inc., Arbor Realty LPOP, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Trust, Inc.**

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Exhibit Number	Description
10.3	Registration Rights Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Commercial Mortgage, LLC.*
10.4	Form of Restricted Stock Agreement.*
10.5	Benefits Participation Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Management, LLC.*
10.6	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.
10.7	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.
10.8	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.
10.9	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.
10.10	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.
10.11	Amended and restated Annual Incentive Agreement, dated March 31, 2017, by and between Arbor Realty Trust, Inc. and Ivan Kaufman. ♦♦♦♦
10.12	First Amendment to Amended and restated Annual Incentive Agreement, dated October 31, 2018, by and between Arbor Realty Trust, Inc. and Ivan Kaufman.
10.13	Asset Purchase Agreement, dated February 25, 2016, by and among Arbor Realty Trust, Inc., Arbor Realty Limited Partnership, ARSR Acquisition Company, LLC, Arbor Commercial Funding, LLC and Arbor Commercial Mortgage, LLC (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K).♠
10.14	Voting and Standstill Agreement, dated February 25, 2016, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Arbor Commercial Funding, LLC and the other Persons whose names appear on the signature pages hereto. ♠
10.15	Option Agreement, dated July14, 2016, by and among Arbor Realty Trust, Inc., Arbor Realty Limited Partnership, Arbor Realty SR, Inc. and Arbor Commercial Mortgage, LLC.**
10.16	Amendment No. 1 to the Option Agreement, dated May 9, 2017, by and among Arbor Realty Trust, Inc., Arbor Realty Limited Partnership, Arbor Realty SR, Inc. and Arbor Commercial Mortgage, LLC.***
10.17	Pairing Agreement, dated July 14, 2016, by and among Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Arbor Commercial Mortgage, LLC.**
10.18	Amended and Restated Limited Liability Company Operating Agreement of ARSR PE, LLC, dated July 14, 2016, by and between Arbor Multifamily Lending, LLC and Arbor Commercial Mortgage, LLC.**
21.1	List of Significant Subsidiaries of Arbor Realty Trust, Inc.

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Exhibit Number	Description
23.1	Consent of Ernst & Young LLP.
23.2	Consent of Richey, May & Co., LLP.
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, 2018, filed on February 15, 2019, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements and (vii) Schedule IV.

Exhibit Index

Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Incorporated by reference to Exhibit 99.2 of Form 8-K filed December 11, 2017.

* Incorporated by reference to Registration Statement on Form S-11 (No. 333-110472), as amended, filed November 13, 2003.

** Incorporated by reference to Form 8-K filed July 15, 2016.

*** Incorporated by reference to Exhibit 1.1 of Form 8-K filed May 10, 2017.

**** Incorporated by reference to Registration Statement on Form S-11/A (No. 333-110472), as amended, filed December 31, 2003.

Incorporated by reference to Form 8-A filed February 1, 2013.

Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

♠ Incorporated by reference to Form 8-K filed March 2, 2016.

♠♠ Incorporated by reference to Form 8-K filed October 5, 2016.

♠♠♠ Incorporated by reference to Form 8-K filed November 13, 2017.

§ Incorporated by reference to Form 8-A filed May 8, 2013.

§§ Incorporated by reference to Form 8-A filed February 24, 2014.

§§§ Incorporated by reference to Form 8-K filed May 12, 2014.

♦ Incorporated by reference to Exhibit 4.1 of Form 8-K filed March 13, 2018.

♦♦ Incorporated by reference to Exhibit 4.1 of Form 8-K filed July 3, 2018.

♦♦♦ Incorporated by reference to Exhibit 4.1 of Form 8-K filed July 20, 2018.

♦♦♦♦ Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

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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

Date: February 15, 2019

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 and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ IVAN KAUFMAN Ivan Kaufman	Chairman of the Board of Directors, Chief Executive Officer and President (Principal Executive Officer)	February 15, 2019
/s/ PAUL ELENIO Paul Elenio	Chief Financial Officer (Principal Financial Officer)	February 15, 2019
/s/ ARCHIE R. DYKES Archie R. Dykes	Director	February 15, 2019
/s/ EDWARD FARRELL Edward Farrell	Director	February 15, 2019
/s/ WILLIAM C. GREEN William C. Green	Director	February 15, 2019
/s/ WILLIAM HELMREICH William Helmreich	Director	February 15, 2019
/s/ MELVIN F. LAZAR Melvin F. Lazar	Director	February 15, 2019
/s/ JOSEPH MARTELLO Joseph Martello	Director	February 15, 2019
/s/ ELLIOT SCHWARTZ Elliot Schwartz	Director	February 15, 2019
/s/ GEORGE TSUNIS	Director	February 15, 2019

George Tsunis

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