ARBOR REALTY TRUST INC
Form 10-K
February 13, 2015

Use these links to rapidly review the document
TABLE OF CONTENTS
TABLE OF CONTENTS 2

Table of Contents

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, 2014

or

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

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

Arbor Realty Trust, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's common stock, all of which is voting, held by non-affiliates of the registrant as of June 30, 2014 (computed based on the closing price on such date as reported on the NYSE) was $298.0 million. As of February 13, 2015, the registrant had 50,477,308 shares of common stock outstanding (excluding 2,650,767 shares held in treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant's 2015 Annual Meeting of Stockholders (the "2015 Proxy Statement"), to be filed within 120 days after the end of the registrant's fiscal year ended December 31, 2014 are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

INDEX

Table of Contents

FORWARD LOOKING STATEMENTS

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

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

Table of Contents

PART I

ITEM 1. BUSINESS

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

Overview

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

We commenced operations in July 2003 and conduct substantially all of our operations and investing activities through our operating partnership, Arbor Realty Limited Partnership, and its subsidiaries. We serve as the general partner of our operating partnership, and own a 100% partnership interest in our operating partnership as of December 31, 2014.

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

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

We believe our Manager's experience and reputation positions it to originate attractive investment opportunities for us. Our management agreement with our Manager was developed to capitalize on synergies with our Manager's origination infrastructure, existing business relationships and management expertise. Our Manager has granted us a right of first refusal to pursue all structured finance investment opportunities in the multifamily or commercial real estate markets that are identified by our Manager or its affiliates. Our Manager continues to originate and service multifamily and commercial mortgage loans under Fannie Mae, Freddie Mac (beginning in 2014), Federal Housing Administration and conduit commercial lending programs. We believe that the customer relationships established from these lines of business may generate additional real estate investment opportunities for our business.

Our Investment Strategy

We invest in bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity, mortgage-backed securities and other real estate-related assets predominantly in the multifamily and commercial real estate markets and actively manage our investment portfolio. We believe the financing of multifamily and commercial real estate offers opportunities that demand customized financing solutions. We believe we can achieve our primary business objectives through the following investment strategies:

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

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

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

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

Offer Broader Products and Expand Customer Base. We have the ability to offer a larger number of financing alternatives than our Manager has been able to offer to its customers in the past. Our potential borrowers are able to choose from products offering various lengths of maturity, rate types and larger principal amounts than our Manager could offer.

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

Our Targeted Investments

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

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

Bridge Financing. We offer bridge financing products to borrowers who are typically seeking short-term capital to be used in an acquisition of property. The borrower has usually identified an undervalued asset that has been under managed and/or is located in a recovering market. From the borrower's perspective, shorter term bridge financing is advantageous because it allows for time to

Table of Contents

improve the property value through repositioning the property without encumbering it with restrictive long-term debt that may not reflect optimal leverage for a non-stabilized property.

The bridge loans we currently make typically range in size from $5 million to $30 million, have terms of up to five years, and are predominantly secured by first mortgage liens on the property. At December 31, 2014 our target interest rate range is generally 5% to 6% over 30-day LIBOR. Additional yield enhancements may include origination fees, deferred interest, yield look-backs, and participating interests, which are equity interests in the borrower that share in a percentage of the underlying cash flows of the property. Borrowers generally use the proceeds of a conventional mortgage to repay a bridge loan.

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

The mezzanine loans we currently make typically range in size from $1 million to $10 million and have terms of up to ten years. At December 31, 2014 our target interest rate is generally 12% to 14%. As in the case with our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests. We hold a majority of our mezzanine loans through subsidiaries of our operating partnership that are pass-through entities for tax purposes.

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

The junior participation loans we currently make typically range in size from $1 million to $10 million and have terms of up to ten years. At December 31, 2014 our target interest rate is generally 12% to 14%. As in the case with our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests.

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

The preferred equity investments we currently make typically range in size from $1 million to $10 million and have terms up to ten years. At December 31, 2014 our target return is generally 12% to 14%.

Other Investment Opportunities

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

Table of Contents

completion of the specific plan. Additionally, we may identify real estate investment opportunities such as domestic real estate for repositioning and/or renovation and then disposition at an anticipated significant return. In these situations, we may act solely on our own behalf or in partnership with other investors. Typically, these transactions are analyzed with the expectation that we will have the ability to sell the property within a one to three year time period, achieving a significant return on invested capital. In connection with these transactions, speed of execution is often the most critical component to success. We may seek to finance a portion of the acquisition price through short-term financing, if available. Repayment of the short-term financing will either come from the sale of the property or conventional permanent debt.

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

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

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

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

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

Our Structured Finance Investments

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

Table of Contents

At December 31, 2014, we had 139 loans and investments in our portfolio, totaling $1.6 billion. We have an allowance for loan losses of $115.5 million at December 31, 2014 related to 10 loans in our portfolio with an aggregate carrying value, before loan loss reserves, of $221.6 million. The loan loss reserves were determined during our quarterly risk rating review process, which is based on several factors including current market conditions, values and the operating status of these properties. We continue to actively manage all loans and investments in the portfolio in a manner consistent with our underwriting and asset management policy and procedures with the goal of maintaining the credit quality of our portfolio and limiting potential losses.

The overall yield on our loan and investments portfolio in 2014 was 6.47% on average assets of $1.6 billion. This yield was computed by dividing the interest income earned during the year by the average assets during the year. Our cost of funds in 2014 was 3.99% on average borrowings of $1.2 billion. This cost of funds was computed by dividing the interest expense incurred during the year by the average borrowings during the year.

Our average net investment (average assets less average borrowings) in 2014 was $443.1 million, resulting in average leverage (average borrowings divided by average assets) of 73.0%. Including average junior subordinated notes of $175.9 million as equity, our average leverage was 62.4%. The net interest income earned in 2014 yielded a 13.2% return on our average net investment during the year. This yield was computed by dividing net interest (interest income less interest expense) earned in 2014 by average equity (computed as average assets minus average borrowings) invested during the year.

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

Table of Contents

The following table sets forth information regarding our loan and investment portfolio as of December 31, 2014:

Type	Asset Class	Number	Unpaid Principal (in thousands)	Weighted Average Pay Rate(1)	Weighted Average Remaining Maturity (months)
Bridge Loans	Multi Family	84	$ 980,928	5.58%	18.7
	Office	7	146,976	6.10%	19.5
	Land	9	114,035	0.16%	31.2
	Hotel	1	31,500	7.50%	14.0
		101	1,273,439	5.19%	19.8
Mezzanine Loans	Multi Family	14	54,482	11.40%	39.5
	Office	1	9,419	9.39%	3.0
	Land	1	9,333		32.0
	Retail	1	3,158	12.00%	113.0
		17	76,392	9.78%	37.1
Junior Participations	Office	3	72,092	6.67%	17.7
	Multi Family	1	32,000		
		4	104,092	4.62%	12.3
Preferred Equity	Multi Family	13	90,052	6.86%	42.8
	Hotel	1	34,750	2.96%	55.0
	Land	1	5,000	11.00%	6.0
	Office	1	2,004	15.00%	113.0
	Commercial	1	1,700	6.00%	31.0
		17	133,506	6.11%	45.5
Total		139	$ 1,587,429	5.45%	22.3

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

Table of Contents

The following table sets forth geographic and asset class information regarding our loan and investment portfolio as of December 31, 2014:

Geographic Location	Unpaid Principal (in thousands)	Percentage	Asset Class	Unpaid Principal (in thousands)	Percentage
New York	$ 442,175	27.9%	Multi Family	$ 1,157,462	72.9%
Florida	226,942	14.3%	Office	230,491	14.5%
Texas	153,080	9.6%	Land	128,368	8.1%
Maryland	145,245	9.1%	Hotel	66,250	4.2%
California	135,187	8.5%	Retail	3,158	0.2%
North Carolina	58,755	3.7%	Commercial	1,700	0.1%
Georgia	49,010	3.1%			
Illinois	34,750	2.2%			
Alabama	34,536	2.2%			
Tennessee	33,861	2.1%			
Ohio	33,300	2.1%			
Missouri	32,007	2.0%			
Kentucky	31,100	2.0%			
Diversified	66,809	4.2%			
Other(1)	110,672	7.0%			
Total	$ 1,587,429	100.0%	Total	$ 1,587,429	100.0%

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

Regulatory Aspects of Our Investment Strategy

Real Estate Exemption from Investment Company Act. We believe that we conduct, and we intend to conduct, our business at all times in a manner that avoids registration as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. Entities that are primarily engaged in the business of purchasing or otherwise acquiring "mortgages and other liens on and interests in real estate," are currently exempt from registration under the Investment Company Act if they maintain at least 55% of their assets directly in qualifying real estate assets and meet certain other requirements. Assets that qualify for purposes of this 55% test include, among other things, direct investments in real estate and mortgage loans. Our bridge loans, which are secured by first mortgage liens on the underlying properties, and our loans that are secured by second mortgage liens on the underlying properties generally qualify for purposes of this 55% test. These two types of loans constituted more than 55% of our assets as of December 31, 2014. Our investment guidelines provide that no more than 15% of our assets may consist of any type of mortgage-related securities and that the percentage of our investments in mortgage-related securities as compared to our structured finance investments be monitored on a regular basis. The regulatory authorities may from time to time review the interpretive guidance under the above exemption. Refer to Item 1A "Risk Factors Risks Related to Our Business" for more information.

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

Management Agreement

Pursuant to the terms of the management agreement, our Manager has agreed to service and manage our investments and to provide us with multifamily and commercial real estate-related

Table of Contents

structured finance investment opportunities, finance and other services necessary to operate our business. Our Manager is required to provide a dedicated management team to provide these services to us, the members of which will devote as much of their time to our management as our independent directors reasonably deem necessary and appropriate, commensurate with our level of activity from time to time. We rely to a significant extent on the facilities and resources of our Manager to conduct our operations. For performing services under the management agreement, our Manager is eligible to receive a base management fee, incentive compensation and "success-based" compensation as described in Note 14 "Agreements and Transactions with Related Parties" of this report.

Operations

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

Origination. Our Manager originates most of our investments. Our Manager has a network of sales offices in Los Angeles and San Francisco, CA; Baltimore, MD; Boston, MA; Bloomfield Hills, MI; New York and Uniondale, NY; Englewood Cliffs, NJ; Cleveland, OH; and Dallas and Plano, TX. These offices are staffed by approximately 20 loan originators who solicit property owners, developers and mortgage loan brokers. In some instances, the originators accept loan applications meeting our underwriting criteria from a select group of mortgage loan brokers. While a large portion of our Manager's marketing effort occurs at the branch level, our Manager also markets its products in national industry publications and targeted direct mailings. Our Manager markets its own loan offerings and our product offerings using the same methods. Once potential borrowers have been identified, our Manager determines which financing products best meet the borrower's needs. Loan originators in every branch office are able to offer borrowers the full array of our Manager's loan offerings and our structured finance products. After identifying a suitable product, our Manager works with the borrower to prepare a loan application. Upon completion by the borrower, the application is forwarded to our Manager's underwriters for due diligence.

Underwriting. Our Manager's underwriters perform due diligence on all proposed transactions prior to loan approval and commitment. The underwriters analyze each loan application in accordance with the guidelines set forth below in order to determine the loan's conformity with respect to such guidelines. In general, our Manager's underwriting guidelines require it to evaluate the following: the historic and current property revenues and expenses; the potential for near-term revenue growth and opportunity for expense reduction and increased operating efficiencies; the property's location, its attributes and competitive position within its market; the proposed ownership structure, financial strength and real estate experience of the borrower and property management; third party appraisal, environmental and engineering studies; market assessment, including property inspection, review of tenant lease files, surveys of property comparables and an analysis of area economic and demographic trends; review of an acceptable mortgagee's title policy and an "as built" survey; construction quality of the property to determine future maintenance and capital expenditure requirements; and the requirements for any reserves, including those for immediate repairs or rehabilitation, replacement reserves, tenant improvement and leasing commission costs, real estate taxes and property casualty and liability insurance. Key factors considered in credit decisions include, but are not limited to, debt service coverage, loan to value ratios and property, financial and operating performance. Consideration is also given to other factors, such as the experience and financial strength of the borrower's principals, additional forms of security and identifying likely strategies to affect repayment. Our Manager continuously refines its underwriting criteria based upon actual loan portfolio experience and as market conditions and investor requirements evolve.

Investment Approval Process. Our Manager applies its established investment approval process to all loans and other investments proposed for our portfolio before submitting each proposal to us for final approval. A written report is generated for every loan or other investment that is submitted to our Manager's credit committee for approval. The report includes a description of the prospective borrower and any guarantors, the collateral and the proposed use of investment proceeds, as well as borrower and property consolidated financial statements and analysis. In addition, the report includes an analysis of borrower liquidity, net worth, cash investment, income, credit history and operating experience. If the transaction is approved by a majority of our Manager's credit committee, it is presented for approval to our credit committee, which consists of our chief executive officer, chief credit officer, and executive vice president of structured finance. All transactions require the approval of a majority of the members of our credit committee. Following the approval of any such transaction, our Manager's underwriting and servicing departments, together with our asset management group, assure that all loan approval terms have been satisfied and conform with lending requirements established for that particular transaction. If our credit committee rejects the loan and our independent directors allow our Manager or one of its affiliates to pursue it, our Manager will have the opportunity to execute the transaction.

Servicing. Our Manager services our loans and investments through its internal servicing operations. Our Manager currently services an expanding portfolio, consisting of 2,314 loans with outstanding balances of approximately $11.1 billion through its loan administration department in Buffalo, New York. Our Manager's loan servicing operations are designed to provide prompt customer service and accurate and timely information for account follow up, financial reporting and management review. Following the funding of an approved loan, all pertinent loan data is entered into our Manager's data processing system, which provides monthly billing statements, tracks payment performance and processes contractual interest rate adjustments on variable rate loans. Our Manager works closely with our asset management group to ensure the appropriate level of customer service and monitoring of our loans.

Our Asset Management Operations. Our asset management group is comprised of 30 employees. Effective asset and portfolio management is essential to maximize the performance and value of a real estate investment. The asset management group customizes an asset management plan with the loan originators and underwriters to track each investment from origination through disposition. This group monitors each investment's operating history, local economic trends and rental and occupancy rates and evaluates the underlying property's competitiveness within its market. This group assesses ongoing and potential operational and financial performance of each investment in order to evaluate and ultimately improve its operations and financial viability. The asset management group performs frequent onsite inspections, conducts meetings with borrowers and evaluates and participates in the budgeting process, financial and operational review and renovation plans of each underlying property. The asset management group also focuses on increasing the productivity of onsite property managers and leasing brokers. This group communicates the status of each transaction against its established asset management plan to senior management, in order to enhance and preserve capital, as well as to avoid litigation and potential exposure.

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

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

Operating Policies and Strategies

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

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

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

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

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

We may enter into hedging transactions to protect our investment portfolio from interest rate fluctuations and other changes in market conditions. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, mortgage derivatives and other hedging instruments. These instruments may be used to hedge as much of the interest rate risk as our Manager determines is in the best interest of our stockholders, given the cost of such hedges and the need to maintain our status as a REIT. In general, income from hedging transactions does not constitute qualifying income for purposes of the REIT gross income requirements. To the extent, however, that a hedging contract reduces interest rate risk on indebtedness incurred to acquire or carry real estate assets, any income that is derived from the hedging contract, would not give rise to non-qualifying income for purposes of the 75% or 95% gross income tests. Our Manager may elect to have us bear a level of interest rate risk that could otherwise be hedged when it believes, based on all relevant facts, that bearing such risk is advisable.

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

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

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

Conflicts of Interest Policies. We, our executive officers, and our Manager face conflicts of interests because of our relationships with each other. Our Manager has approximately 11% of the voting interest in our common stock as of December 31, 2014. Mr. Kaufman, our chairman and chief executive officer, is the chief executive officer of our Manager and beneficially owns approximately 92% of the outstanding membership interests of our Manager. Mr. Martello, one of our directors, is the chief operating officer of Arbor Management, LLC (the managing member of our Manager) and a trustee of two trusts that own minority membership interests in our Manager. Mr. Bishar, our secretary, is general counsel to our Manager. Mr. Elenio, our chief financial officer and treasurer, is the chief financial officer of our Manager. Each of Messrs. Kaufman, Martello, Bishar, and Elenio, as well as Mr. Weber, our executive vice president of structured finance, Mr. Kilgore, our executive vice president of structured securitization and Mr. Guziewicz, our chief credit officer, are members of our Manager's executive committee and, excluding Mr. Kaufman, own minority membership interests in our Manager.

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

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

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

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

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

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

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

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

Compliance with Federal, State and Local Environmental Laws

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

Competition

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

Employees

We have 37 employees, including Messrs. Kaufman, Weber, Kilgore and Guziewicz, and including a 30 person asset management group. Mr. Elenio is a full time employee of our Manager and is not directly compensated by us (other than an annual bonus and pursuant to our equity incentive plans), however, a portion of his compensation is reimbursed by the management fee that we pay to our Manager. Beginning January 1, 2014, Mr. Ivan Kaufman is compensated directly as our employee.

Corporate Governance and Internet Address

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

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

ITEM 1A. *RISK FACTORS*

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

Risks Related to Our Business

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

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

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

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

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

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

Table of Contents

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

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

Loan repayments are less likely in a volatile market environment.

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

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

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

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

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

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

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

- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;

- our financial performance; and

- general stock and bond market conditions.

Table of Contents

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

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

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

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

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

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

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

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

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

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

We originate or acquire investments based on our estimates or projections of overall rates of return on such investments, which in turn are based upon, among other considerations, assumptions regarding the performance of assets, the amount and terms of available financing to obtain desired leverage and the manner and timing of dispositions, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that we have not anticipated may occur and may have a significant effect on the actual rate of return received on an investment.

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Real estate property may fail to perform as expected.

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

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

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

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

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

In addition, the enactment of the Terrorism Risk Insurance Act of 2002, or the TRIA, and the subsequent enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, which extended TRIA through the end of 2014, 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. A further extension of TRIA through December 31, 2020 has been signed into law.

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

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

Table of Contents

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

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

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

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

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

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

Risks Related to Our Financing and Hedging Activities

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

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

Table of Contents

Credit facilities may contain restrictive covenants relating to our operations.

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

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

Our return on investment depends, in part, upon our ability to grow our portfolio of invested assets through the use of leverage at a cost of debt that is lower than the yield earned on our investments. We typically obtain leverage through the issuance of CDOs, 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 our performance. Moreover, we may be dependent upon a few lenders to provide financing under credit agreements for our origination or acquisition of loans and investments and there can be no assurance that these agreements will be renewed or extended at expiration. Our ability to obtain financing through CDOs and CLOs is subject to conditions in the debt capital markets which are impacted by factors beyond our control that may at times be adverse and reduce the level of investor demand for such securities.

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

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

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

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

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

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

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

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

We may guarantee some of our leverage and contingent obligations.

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

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

We have financed, and, if the opportunities exist in the future, we may continue to finance certain of our investments through the issuance of CDOs and CLOs. During the period that we are acquiring investments for eventual long-term financing through CDOs and 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 CDO or CLO securitization. As a result, we are subject to the risk

Table of Contents

that we will not be able to acquire a sufficient amount of eligible investments to maximize the efficiency of a CDO or CLO issuance. In addition, conditions in the debt capital markets may make the issuance of CDOs and CLOs less attractive to us even when we do have a sufficient pool of collateral, or we may not be able to execute a CDO or CLO transaction on terms favorable to us or at all. If we are unable to issue a CDO or CLO to finance these investments, we may be required to utilize other forms of potentially less attractive financing.

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

The terms of CDOs and 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, CDO and CLO terms provide that, if certain delinquencies and/or losses or other factors cause a decline in collateral or cash flow levels, the cash flow otherwise payable on subordinated classes may be redirected to repay senior classes of CDOs and 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 CDOs and 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 CDO and CLO financings will increase. With respect to future CDOs and CLOs we may issue, we cannot assure, in advance of completing negotiations with the rating agencies or other key transaction parties as to the actual terms of the delinquency tests, over-collateralization and interest coverage terms, cash flow release mechanisms or other significant factors upon which net income to us will be calculated. Failure to obtain favorable terms with regard to these matters may adversely affect the availability of net income to us.

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

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

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

If any of the loans we originate or acquire and sell or securitize through CDOs and 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.

Table of Contents

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

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

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

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

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

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

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

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

Certain of our derivative contracts, which are designed to hedge interest rate risk associated with a portion of our loans and investments, could require the funding of additional cash collateral for changes in the market value of these contracts. Due to the continued volatility in the financial markets, the values of these contracts have declined substantially. As a result, as of December 31, 2014, we funded approximately $9.6 million in cash related to these contracts. If we continue to experience significant changes in the outlook of interest rates, these contracts could continue to decline in value, which would require additional cash to be funded. However, at maturity, the values of these contracts return to par and all cash will be recovered. We may not have available cash to meet these requirements, which could result in the early termination of these derivatives, leaving us exposed to interest rate risk associated with these loans and investments, which could adversely impact our financial condition.

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

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

Risks Related to Our Corporate and Ownership Structure

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

Mr. Ivan Kaufman, our chairman, chief executive officer and president and the chief executive officer of our Manager, beneficially owns approximately 92% of the outstanding membership interests of our Manager. Our Manager has approximately 11% of the voting power of our outstanding stock as of December 31, 2014. As a result of Mr. Kaufman's beneficial ownership of stock held by our Manager as well as his beneficial ownership of additional shares of our common stock, Mr. Kaufman has approximately 11% of the voting power of our outstanding stock as of December 31, 2014. Because of his position with us and our Manager and his ability to effectively vote a substantial minority of our outstanding stock, Mr. Kaufman has significant influence over our policies and strategy.

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

For the purpose of preserving our REIT qualification, our charter generally prohibits a beneficial or constructive ownership by any person of more than 5% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock or 5% (by value) of our outstanding shares of stock of all classes or series, unless an exemption is granted by the Board of Directors. Our charter's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than these percentages of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of these percentages of the outstanding stock and thus be subject to our charter's ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without

Table of Contents

the consent of the Board of Directors will result in the shares being automatically transferred to a charitable trust or otherwise voided. Our Board of Directors have approved resolutions under our charter allowing Ivan Kaufman and our Manager, in relation to Mr. Kaufman's controlling equity interest, C. Michael Kojaian, a former director, as well as two 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 III, Class I and Class II directors will expire in 2015, 2016 and 2017, 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 Conflicts of Interest with Our Manager

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

We have only 37 employees, including Messrs. Kaufman, Weber, Kilgore, and Guziewicz, and are dependent upon our Manager to provide services to us that are vital to our operations. Our Manager has approximately 11% of the voting power of the outstanding shares of our capital stock as of December 31, 2014 and Mr. Kaufman, our chairman and chief executive officer and the chief executive officer of our Manager, beneficially owns these shares. Mr. Martello, one of our directors, is the chief operating officer of Arbor Management, LLC (the managing member of our Manager) and a trustee of two trusts which own minority membership interests in our Manager. Mr. Bishar, our secretary, is general counsel to our Manager. Mr. Elenio, our chief financial officer and treasurer, is the chief financial officer of our Manager. Each of Messrs. Kaufman, Martello, Bishar, Elenio, Weber, Kilgore and Guziewicz are members of our Manager's executive committee and all, but excluding Mr. Kaufman, own minority membership interests in our Manager.

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

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

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

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

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

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

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

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

Risks Related to Our Status as a REIT

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

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

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

- we would be taxed as a regular domestic corporation, which, among other things, means we would be unable to deduct distributions to stockholders in computing taxable income and would be subject to federal income tax on our taxable income at regular corporate rates;

Table of Contents

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

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

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

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

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

Table of Contents

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

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

Liquidation of collateral may jeopardize our REIT status.

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

From time to time, we may generate taxable income greater than our net income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to our stockholders. If we do not have other funds available in these situations we could be required to borrow funds, issue stock or sell investments and our equity securities at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year.

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

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

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

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

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

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

Table of Contents

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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

	High	Low	Dividends Declared		High	Low	Dividends Declared
2014				***2013***			
Fourth Quarter(1)	$ 7.18	$ 6.32	$ 0.13	Fourth Quarter	$ 7.05	$ 6.26	$ 0.13
Third Quarter	$ 7.30	$ 6.60	$ 0.13	Third Quarter	$ 7.74	$ 6.11	$ 0.13
Second Quarter	$ 7.36	$ 6.77	$ 0.13	Second Quarter	$ 8.08	$ 5.78	$ 0.13
First Quarter	$ 7.26	$ 6.61	$ 0.13	First Quarter	$ 8.60	$ 5.97	$ 0.12

(1) On February 11, 2015, our Board of Directors declared a dividend of $0.13 per common share for the fourth quarter of 2014.

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

On February 11, 2015, the closing sale price for our common stock, as reported on the NYSE, was $7.40 and there were 8,164 record holders of our common stock, including persons holding shares in broker accounts under street names.

Table of Contents

Equity Compensation Plan Information

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

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders:			
2014 Omnibus Stock Incentive Plan(1)	0	N/A	1,659,000
Incentive compensation pursuant to management agreement(2)	0	N/A	See Note 3
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	0	N/A	1,659,000

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

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

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

Table of Contents

Performance Graph

The graph below compares the cumulative total stockholder return on shares of our common stock with the cumulative total return of the NAREIT All REIT Index and the Russell 2000 Index for the five year period from December 31, 2009 to December 31, 2014. The graph assumes an investment of $100 on January 1, 2010 and the reinvestment of any dividends. This graph is not necessarily indicative of future price performance. The information included in the graph and table below was obtained from SNL Financial LC, Charlottesville, VA ©2015.

Total Return Performance

	Period Ended					
Index	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**
Arbor Realty Trust, Inc.	100.00	299.50	176.88	317.03	377.32	413.21
Russell 2000	100.00	126.86	121.56	141.43	196.34	205.95
NAREIT All REIT Index	100.00	127.58	136.86	164.44	169.71	215.78

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

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

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

	Year ended December 31,				
	2014	2013	2012	2011	2010
Operating Data					
Interest income	$ 106,716,344	$ 99,031,623	$ 79,998,762	$ 73,867,556	$ 95,487,325
Interest expense	47,903,458	42,065,151	40,866,832	51,651,933	62,979,036
Net interest income	58,812,886	56,966,472	39,131,930	22,215,623	32,508,289
Total other revenue	34,286,714	32,417,974	31,454,043	22,125,735	1,069,454
Provision for loan losses (net of recoveries)	(308,511)	4,287,652	22,946,396	38,542,888	82,811,753
Management fee related party	9,900,000	10,900,000	10,000,000	8,300,000	26,365,448
Gain on sale of equity interests, net	66,745,517				
Gain on extinguishment of debt		4,930,772	30,459,023	10,878,218	229,321,130
Income (loss) from continuing operations	93,048,490	21,298,737	16,388,417	(37,096,165)	113,637,487
Net income (loss)	93,048,490	21,298,737	21,716,455	(40,096,057)	113,125,954
Preferred stock dividends	7,256,255	4,506,583			
Net income (loss) attributable to Arbor Realty Trust, Inc. common stockholders	85,792,235	16,667,955	21,500,888	(40,311,713)	112,910,211
Share Data					
Income (loss) from continuing operations per share, basic(1)	1.71	0.39	0.60	(1.49)	4.46
Income (loss) per share, basic(1)	1.71	0.39	0.80	(1.61)	4.44
Income (loss) from continuing operations per share, diluted(1)(2)	1.70	0.39	0.59	(1.49)	4.41
Income (loss) per share, diluted(1)(2)	1.70	0.39	0.79	(1.61)	4.39
Dividends declared per common share	0.52	0.50	0.285		

	At December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data					
Loans and investments, net	$ 1,459,475,650	$ 1,523,699,653	$ 1,325,667,053	$ 1,302,440,660	$ 1,414,225,388
Total assets	1,880,422,590	1,877,472,482	1,701,881,280	1,776,714,330	1,731,207,928
Total debt	1,260,008,968	1,278,790,435	1,294,590,321	1,438,380,573	1,343,297,498
Redeemable preferred stock	89,295,905	67,654,655			
Total equity	535,455,471	437,596,282	231,261,122	173,060,533	206,415,243

Table of Contents

	Year ended December 31,				
	2014	2013	2012	2011	2010
Other Data					
New loan originations	$ 900,666,405	$ 591,537,200	$ 274,516,550	$ 206,477,919	$ 24,749,342
Loan payoffs / paydowns	972,311,886	402,162,170	269,904,723	189,521,473	422,526,107
Funds from operations(3)	92,078,433	25,008,952	23,541,918	(32,578,644)	112,148,929
Adjusted funds from operations(3)	95,421,635	25,609,094	28,073,563	(32,620,944)	113,790,865
Funds from operations per share, diluted(3)	1.83	0.58	0.87	(1.30)	4.36
Adjusted funds from operations per share, diluted(3)	1.89	0.60	1.03	(1.31)	4.42

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

(2) In 2009, we issued one million warrants as part of a debt restructuring which had a dilutive effect for the years ended December 31, 2013, 2012 and 2010. In 2014, we acquired and canceled all of the warrants.

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

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

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

Our operating performance is primarily driven by the following factors:

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

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

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

Significant Developments During 2014

Loan and Investment Activity We originated 80 loans totaling $900.7 million with a weighted average interest rate of 7.03%. We received full satisfaction of 81 loans totaling $931.0 million with a weighted average interest rate of 6.05% and partial paydowns on four loans totaling $41.3 million with a weighted average interest rate of 4.17%. We recorded $9.3 million of cash recoveries of previously recorded loan loss reserves and recognized provision for loan losses totaling $9.0 million, resulting in net recoveries of $0.3 million during 2014.

Capital Raising Activities We raised $121.0 million of capital through several offerings in 2014, including:

$92.9 million raised through the issuance of 7.375% senior unsecured notes due in 2021 through two offerings in May and August 2014;

- $21.6 million raised from the issuance of 8.50% Series C cumulative redeemable preferred stock in February 2014; and

- $6.5 million raised through an "At-The-Market" ("ATM") common stock offering in the first quarter of 2014.

Financing Activities In April 2014, we closed our third CLO totaling $375.0 million of real estate related assets and cash. We issued $281.3 million of investment grade notes in this CLO and we used a portion of the funds raised in this CLO issuance and the senior unsecured notes offering to substantially pay down three credit facilities and to fully pay off two facilities totaling $53.0 million. During 2014, we also increased the capacity on three financing facilities by an aggregate of $70.0 million and added a $15.0 million term debt facility. In December 2014, we utilized the capacity in our warehouse lines to redeem the $87.5 million in outstanding CLO I bonds and exit this CLO vehicle.

Equity Investment Transactions Significant equity investment transactions during 2014 included:

- In May 2014, our interest in two commercial properties was sold. In connection with this transaction, we received $7.9 million in cash and recorded a gain on sale of equity interest of $7.9 million.

- In July 2014, we recognized a $77.1 million deferred gain as well as a $19.0 million prepaid incentive management fee for a non-cash net gain of $58.1 million related to the 450 West 33rd Street investment.

- In December 2014, we sold our remaining interest in the 450 West 33rd Street investment and recognized a gain on sale of $0.8 million.

Real Estate Owned Assets We sold three Multifamily Portfolio properties during 2014:

- In July 2014, we sold a property for $3.1 million and recognized a loss of $0.2 million on the sale.

- During the fourth quarter of 2014, we sold two properties for a total of $19.0 million and recognized a total gain of $1.8 million on these sales.

Other Transactions

- During the first quarter of 2014, we sold the majority of our RMBS securities available-for-sale for $33.9 million and recognized a net gain of $0.5 million.

- In July 2014, we acquired and canceled 1,000,000 outstanding warrants for $2.6 million.

Subsequent Events The following events have occurred during the first quarter of 2015:

- We completed the unwind of two legacy CDO's, CDO I and CDO II, redeeming $167.9 million of the outstanding notes primarily with a new $150.0 million warehouse facility, our existing financing facilities, as well as with CDO cash, generating approximately $30.0 million of cash equity that was previously held in these CDO vehicles. We also terminated the related basis and interest rate swaps and expect to incur a loss of $4.3 million and reduced the balance of estimated interest by $11.0 million, recording a gain in the first quarter of 2015. See Note 7 "Debt Obligations Collateralized Debt Obligations" of this report.

We sold two real estate properties classified as held-for-sale for approximately $18.8 million and expect to recognize a total gain of approximately $4.1 million.

We acquired 50% of our Manager's indirect interest in a residential mortgage banking company for approximately $9.6 million. As a result of this transaction, we will own a 22.5% indirect interest in this entity and expect to account for our interest under the equity method of accounting.

Table of Contents

Current Market Conditions, Risks and Recent Trends

Our ability to execute our business strategy, particularly the growth of our portfolio of loans and investments, is dependent on many factors, including our ability to access capital and financing on favorable terms. Although U.S. economic and market conditions have generally improved over the past two years, the overall market recovery remains uncertain. The impact of the previous economic downturn had a significant negative impact on both us and our borrowers. If economic conditions weaken 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.

The capital markets began to substantially open up in 2012 and access to the equity and debt markets continued to improve in 2014. We rely on these markets to generate capital for financing the growth of our business. During 2014, we raised over $120.0 million of capital through several offerings. We also closed a third CLO offering, whereby we issued $281.3 million of investment grade notes. While there can be no assurance that we will continue to have access to the equity and debt markets, we will continue to pursue these and other available market opportunities as means to increase our liquidity and capital base. If we were to experience another prolonged downturn in the stock or credit markets, it could cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly.

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

During 2014, we recorded $9.0 million of new provisions for loan losses, primarily due to declining collateral values, and $9.3 million in net recoveries of reserves. During 2013, we recorded $6.5 million of new provisions for loan losses, due to declining collateral values, and $2.2 million in net recoveries of reserves. In addition, during 2014 and 2013, we recorded impairment losses on a real estate owned asset of $0.3 million and $1.0 million, respectively. We have made, and continue to make modifications and extensions to loans when it is economically feasible to do so. In some cases, a modification is a more viable alternative to foreclosure proceedings when a borrower cannot comply with loan terms. In doing so, lower borrower interest rates, combined with non-performing loans, would lower our net interest margins when comparing interest income to our costs of financing. However, since 2013, the levels of modifications and extensions have declined and repayments of loans increased as borrowers' access to financing improved. If these trends were to continue to deteriorate and another prolonged economic downturn was to occur, we believe there could be additional loan modifications and delinquencies which may result in reduced net interest margins and additional losses throughout our sector. Refer to Item 1A of this Annual Report for additional risk factors.

Primary Sources of Operating Revenues

We derive our operating revenues primarily through interest received from making real estate-related bridge, mezzanine and junior participation loans and preferred equity investments. Interest income earned on these loans and investments represented approximately 76%, 75% and 72% of our total revenues in 2014, 2013 and 2012, respectively.

Property operating income is derived from our hotel and multifamily real estate owned assets. Property operating income represented approximately 23%, 23% and 27% of our total revenues in 2014, 2013 and 2012, respectively. The operation of a portfolio of hotel properties that we own is seasonal with the majority of revenues earned in the first two quarters of the calendar year.

Changes in Financial Condition

Assets Comparison of balances at December 31, 2014 to December 31, 2013:

Cash and cash equivalents decreased $10.0 million primarily due to funding new loan originations and investments and payment of distributions to our stockholders, net of proceeds received from our debt and equity offerings in 2014, as well as loan payoffs and interest from our investments.

Restricted cash increased $163.1 million primarily due to the timing of loan payoffs received in the fourth quarter of 2014 in our CDOs and CLOs. Restricted cash is kept on deposit with the trustees for our CDOs and CLOs, and primarily represents proceeds received from loan payoffs and paydowns that have not yet been disbursed to bondholders or redeployed into new assets, as well as unfunded loan commitments and interest payments received from loans.

Our loan and investment portfolio balance, including our available-for-sale securities was $1.59 billion and $1.70 billion at December 31, 2014 and 2013, respectively. The decline in our portfolio balance was primarily due to loan payoffs exceeding loan originations by $78.9 million and selling our available-for-sale RMBS securities totaling $33.4 million during 2014.

Our portfolio had a weighted average current interest pay rate of 5.44% and 5.21% at December 31, 2014 and 2013, respectively. Including certain fees and costs associated with the loan and investment portfolio, the weighted average current interest rate was 6.16% and 5.69%, respectively. Advances on our financing facilities totaled $1.23 billion and $1.22 billion at December 31, 2014 and 2013, respectively, with a weighted average funding cost of 3.65% and 3.03%, respectively, which excludes changes in the market value of certain interest rate swaps and financing costs. Including the financing costs, the weighted average funding rate was 4.07% and 3.34%, respectively.

Loan and investment activity during 2014 was primarily comprised of:

Originated 80 loans totaling $900.7 million with a weighted average interest rate of 7.03%.

Received full satisfaction of 81 loans totaling $931.0 million that had a weighted average interest rate of 6.05%.

Received partial pay downs on four loans totaling $41.3 million that had a weighted average interest rate of 4.17%.

Modified and extended a loan for $35.0 million resulting in an increase in the interest rate from 1.95% to 2.95%.

Extended 45 loans totaling $596.5 million.

Our allowance for loan losses was $115.5 million at December 31, 2014, a decrease of $6.8 million from December 31, 2013. The reduction was the result of $9.3 million in recoveries received and $6.5 million in charge-offs recorded, partially offset by a $9.0 million increase to the provision.

Since December 31, 2014, we have originated six new loans for a total of $112.0 million and received a total of $83.6 million for the repayment in full of five loans.

Table of Contents

Real estate owned and held-for-sale We sold three real estate properties with a combined carrying value of $19.7 million and paid down the related mortgage note payable by $18.8 million in 2014. We recognized a net gain of $1.6 million on these sales.

Prepaid management fee related party decreased $19.0 million. In July 2014, we recognized a non-cash gain as a result of our debt guarantee on the 450 West 33rd Street property being terminated in connection with a refinancing of the existing debt on this property. As a result, we also recorded a $19.0 million incentive management fee that had been prepaid in 2007 in relation to the transaction.

Liabilities Comparison of balances at December 31, 2014 to December 31, 2013:

Credit facilities and repurchase agreements increased $21.3 million. During 2014, we utilized the capacity in our warehouse lines to redeem the $87.5 million in outstanding CLO I notes and added a new $15.0 million term debt facility. These increases were partially offset by the repayment of $53.0 million in short-term credit facilities with proceeds from our third CLO and debt offering in the second quarter, as well as the payoff of our repurchase agreements totaling $26.9 million due to the sale of the RMBS available-for-sale securities.

Collateralized debt obligations decreased $308.2 million primarily due to proceeds received from CDO loan runoff used to repay CDO bond investors.

Collateralized loan obligations increased $193.8 million primarily due to the completion of our third CLO in April 2014 in which we issued $281.3 million of investment grade notes, partially offset by the redemption of the $87.5 million in outstanding CLO I notes in December 2014.

Senior unsecured notes we issued $97.9 million aggregate principal amount of 7.375% senior unsecured notes due in 2021, raising net proceeds of $92.9 million after deducting the underwriting discount and offering expenses.

Deferred revenue decreased $77.1 million. In July 2014, we recognized a non-cash gain of $77.1 million as a result of our debt guarantee on the 450 West 33rd Street investment being terminated.

Equity

In February 2014, we completed an underwritten public offering of 900,000 shares of 8.50% Series C cumulative redeemable preferred stock with a liquidation preference of $25.00 per share, generating net proceeds of $21.6 million after deducting the underwriting discount and other offering expenses.

In February 2014, we entered into an ATM equity offering sales agreement with JMP whereby, in accordance with the terms of the agreement, from time to time we may issue and sell through JMP up to 7,500,000 shares of our common stock. Sales of the shares are made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. As of December 31, 2014, we sold 1,000,000 shares for net proceeds of $6.5 million.

We used the net proceeds from these offerings to make investments, to repurchase or pay liabilities and for general corporate purposes.

Table of Contents

In May 2014, we issued 278,000 shares of restricted common stock under the 2014 Plan to certain employees of ours and our Manager and recorded $0.3 million to employee compensation and benefits and $0.3 million to selling and administrative expense in our consolidated statements of income. One third of the shares vested as of the date of grant, one third will vest in May 2015, and the remaining third will vest in May 2016. Also in May 2014, we issued 63,000 shares of fully vested common stock to the independent members of the Board of Directors under the 2014 Plan and recorded $0.4 million to selling and administrative expense.

As of February 13, 2015, we have $330.4 million available under our $500.0 million shelf registration statement that was declared effective by the SEC in August 2013.

In connection with a debt restructuring with Wachovia Bank in 2009, we issued Wachovia 1,000,000 warrants at an average strike price of $4.00 and an expiration date in July 2015. On July 1, 2014, we acquired and canceled all of the warrants in return for the payment of $2.6 million, recorded to additional paid in capital, which reflects a 5% discount to the prior day closing price of our common stock of $6.95.

The following table presents dividends declared (on a per share basis) for the year ended December 31, 2014:

Common Stock		**Preferred Stock**			
				Dividend(1)	
Declaration Date	**Dividend**	**Declaration Date**	**Series A**	**Series B**	**Series C**
February 12, 2014	$ 0.13	February 3, 2014	$ 0.515625	$ 0.484375	N/A
April 29, 2014	$ 0.13	April 29, 2014	$ 0.515625	$ 0.484375	$ 0.5549
July 30, 2014	$ 0.13	July 30, 2014	$ 0.515625	$ 0.484375	$ 0.53125
November 5, 2014	$ 0.13	November 3, 2014	$ 0.515625	$ 0.484375	$ 0.53125

(1) The dividend declared on February 3, 2014 for the Series A and B preferred stock was for the period December 1, 2013 through February 28, 2014. The dividend declared on April 29, 2014 for the Series A, B and C preferred stock was for the period March 1, 2014 through May 31, 2014. The dividend declared on July 30, 2014 for the Series A, B and C preferred stock was for the period June 1, 2014 through August 31, 2014. The dividend declared on November 3, 2014 for the Series A, B and C preferred stock was for the period September 1, 2014 through November 30, 2014.

Common Stock On February 11, 2015, the Board of Directors declared a cash dividend of $0.13 per share of common stock. The dividend is payable on March 2, 2015 to common stockholders of record as the close of business on February 25, 2015.

Preferred Stock On February 2, 2015, 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, 2014 through February 28, 2015 and are payable on March 2, 2015 to preferred stockholders of record on February 15, 2015.

Table of Contents

Comparison of Results of Operations for Years Ended 2014 and 2013

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

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

nm not meaningful

Table of Contents

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

	Year Ended December 31,					
	2014			2013		
	Average Carrying Value(1)	Interest Income/ Expense	W/A Yield/ Financing Cost(2)	Average Carrying Value(1)	Interest Income/ Expense	W/A Yield/ Financing Cost(2)
Interest-earning assets:						
Bridge loans	$ 1,200,160	$ 75,583	6.30%	$ 1,189,782	$ 67,110	5.64%
Mezzanine / junior participation loans	327,171	22,734	6.95%	353,955	19,901	5.62%
Preferred equity investments	112,683	8,024	7.12%	106,408	7,492	7.04%
Securities	3,891	70	1.80%	57,829	2,479	4.29%
Other investments				41,730	1,789	4.29%
Core interest-earning assets	1,643,905	106,411	6.47%	1,749,704	98,771	5.65%
Cash equivalents	170,681	305	0.18%	97,370	261	0.27%
Total interest-earning assets	$ 1,814,586	106,716	5.88%	$ 1,847,074	99,032	5.36%
Interest-bearing liabilities:						
Warehouse lines	$ 90,396	3,519	3.89%	$ 60,714	2,544	4.19%
CDO	413,196	17,409	4.21%	726,045	21,375	2.94%
CLO	450,519	15,755	3.50%	251,404	8,793	3.50%
Other non-recourse	4,048	211	5.21%	38,407	1,342	3.49%
Trust preferred	175,858	5,604	3.19%	175,858	5,830	3.32%
Unsecured debt	65,648	5,383	8.20%	14,552	1,495	10.27%
Securities financing	1,185	22	1.86%	37,946	686	1.81%
Total interest-bearing liabilities	$ 1,200,850	47,903	3.99%	$ 1,304,926	42,065	3.22%
Net interest income		$ 58,813			$ 56,967	

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

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

Net Interest Income

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

Interest expense increased $5.8 million, or 14%, for 2014 as compared to 2013. The increase was primarily due to a 24% increase in the average cost of these interest-bearing liabilities from 3.22% for 2013 to 3.99% for 2014, primarily due to an overall increase in our CDO debt cost as a result of runoff in these vehicles, the proceeds of which are used to paydown low cost debt within these CDO's, $1.0 million in accelerated fees related to the redemption of CLO I in December 2014 and the issuance

Table of Contents

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

Other Revenue

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

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

Other Expenses

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

Selling and administrative expense decreased $1.0 million, or 9%, for 2014 as compared to 2013. These costs include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, travel and placement fees, director's fees, licensing fees and stock-based compensation relating to our directors and certain employees of our Manager. This decrease was primarily due to $1.4 million in costs and fees incurred in 2013 in connection with the exploration and evaluation of a potential transaction with our Manager. No similar costs were incurred in 2014.

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

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

Gain on Sale of Equity Interest / Incentive Management Fee

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

Table of Contents

Gain on Extinguishment of Debt

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

Gain on Sale of Real Estate

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

Preferred Stock Dividends

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

Table of Contents

Comparison of Results of Operations for Years Ended 2013 and 2012

The following table sets forth our results of operations for the years ended December 31, 2013 and 2012:

	Year Ended December 31,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Interest income	$ 99,031,623	$ 79,998,762	$ 19,032,861	24%
Interest expense	42,065,151	40,866,832	1,198,319	3%
Net interest income	56,966,472	39,131,930	17,834,542	46%
Other revenue:				
Property operating income	30,127,260	30,173,754	(46,494)	nm
Other income	2,290,714	1,280,289	1,010,425	79%
Total other revenue	32,417,974	31,454,043	963,931	3%
Other expenses:				
Employee compensation and benefits	12,042,332	10,173,572	1,868,760	18%
Selling and administrative	10,603,247	7,882,914	2,720,333	35%
Property operating expenses	26,728,174	27,963,386	(1,235,212)	(4)%
Depreciation and amortization	7,250,601	5,794,013	1,456,588	25%
Impairment loss on real estate owned	1,000,000		1,000,000	100%
Provision for loan losses (net of recoveries)	4,287,652	22,946,396	(18,658,744)	(81)%
Management fee related party	10,900,000	10,000,000	900,000	9%
Total other expenses	72,812,006	84,760,281	(11,948,275)	(14)%
Income (loss) from continuing operations before gain on extinguishment of debt, loss from equity affiliates and benefit from income taxes	16,572,440	(14,174,308)	30,746,748	nm
Gain on extinguishment of debt	4,930,772	30,459,023	(25,528,251)	(84)%
Loss from equity affiliates	(204,475)	(697,856)	493,381	(71)%
Income before benefit from income taxes	21,298,737	15,586,859	5,711,878	37%
Benefit from income taxes		801,558	(801,558)	(100)%
Income from continuing operations	21,298,737	16,388,417	4,910,320	30%
Gain on sale of real estate held-for-sale		3,953,455	(3,953,455)	(100)%
Income from operations of real estate held-for-sale		1,374,583	(1,374,583)	(100)%
Income from discontinued operations		5,328,038	(5,328,038)	(100)%
Net income	21,298,737	21,716,455	(417,718)	(2)%
Preferred stock dividends	4,506,583		4,506,583	nm
Net income attributable to noncontrolling interest	124,199	215,567	(91,368)	(42)%
Net income attributable to Arbor Realty Trust, Inc. common stockholders	$ 16,667,955	$ 21,500,888	$ (4,832,933)	(22)%

nm not meaningful

Table of Contents

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

	Year Ended December 31,					
	2013			2012		
	Average Carrying Value(1)	Interest Income/ Expense	W/A Yield/ Financing Cost(2)	Average Carrying Value(1)	Interest Income/ Expense	W/A Yield/ Financing Cost(2)
Interest-earning assets:						
Bridge loans	$ 1,189,782	$ 67,110	5.64%	$ 1,051,690	$ 55,896	5.31%
Mezzanine / junior participation loans	353,955	19,901	5.62%	343,187	14,438	4.21%
Preferred equity investments	106,408	7,492	7.04%	87,284	3,766	4.31%
Securities	57,829	2,479	4.29%	65,547	2,955	4.51%
Other investments	41,730	1,789	4.29%	56,141	2,660	4.74%
Core interest-earning assets	1,749,704	98,771	5.65%	1,603,849	79,715	4.97%
Cash equivalents	97,370	261	0.27%	78,245	284	0.36%
Total interest-earning assets	$ 1,847,074	99,032	5.36%	$ 1,682,094	79,999	4.76%
Interest-bearing liabilities:						
Warehouse lines	$ 75,266	4,039	5.37%	$ 58,323	2,773	4.75%
CDO	726,045	21,375	2.94%	897,360	26,700	2.98%
CLO	251,404	8,793	3.50%	23,733	1,043	4.39%
Other non-recourse	38,407	1,342	3.49%	63,402	2,543	4.01%
Trust preferred	175,858	5,830	3.32%	176,340	7,095	4.02%
Securities financing	37,946	686	1.81%	44,341	713	1.61%
Total interest-bearing liabilities	$ 1,304,926	42,065	3.22%	$ 1,263,499	40,867	3.23%
Net interest income		$ 56,967			$ 39,132	

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

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

Net Interest Income

Interest income increased $19.0 million, or 24%, in 2013 as compared to 2012. This increase was primarily due to a 14% increase in the average yield on core interest-earning assets from 4.97% for 2012 to 5.65% for 2013, due to higher interest rates on our net originations. The increase was also due to a 9% increase in our average core interest-earning assets from $1.60 billion for 2012 to $1.75 billion for 2013, due to originations, net of payoffs.

Interest expense increased $1.2 million, or 3%, for 2013 as compared to 2012. The increase was primarily due to a 3% increase in the average balance of our interest-bearing liabilities from $1.26 billion for 2012 to $1.30 billion for 2013. The increase in the average balance was primarily due to the addition of a new CLO financing facility, net of a reduction in our CDO debt due to runoff and amortization and the repurchase of three CDO notes.

48

Table of Contents

Other Revenue

Other income, net increased $1.0 million, or 79%, for 2013 as compared to 2012, primarily due to a $1.1 million gain on the sale of a CDO bond investment in the second quarter of 2013, an increase in net interest income of $1.0 million on our linked transactions as well as an increase of $0.7 million in miscellaneous asset management fees on our loan and investment portfolio, and is net of a $1.8 million decrease in the fair value of our linked transactions.

Other Expenses

Employee compensation and benefits expense increased $1.9 million, or 18%, for 2013 as compared to 2012. An increase in staffing resulting from higher loan origination volume from 2012 to 2013 contributed $1.5 million of this increase, while stock-based compensation recorded for the issuance of restricted common stock to certain employees in 2013 contributed an additional $0.4 million.

Selling and administrative expense increased $2.7 million, or 35%, for 2013 as compared to 2012. The increase was primarily due to $1.4 million of legal, consulting and director's fees incurred in connection with the exploration and evaluation of a potential transaction with our Manager. The increase was also due to $0.6 million of stock-based compensation recorded for the issuance of restricted common stock to certain employees of our Manager in 2013 as well as a $0.4 million increase in professional fees.

Depreciation and amortization expense increased $1.5 million, or 25%, for 2013 as compared to 2012, primarily due to an increase in capital expenditures associated with two real estate investments.

Impairment loss on real estate owned of $1.0 million for 2013 resulted from our determination of impairment based on the analysis of one of the properties in our Multifamily Portfolio in the fourth quarter of 2013.

Provision for loan losses (net of recoveries) totaled $4.3 million for 2013 and $22.9 million for 2012. During 2013, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing five impaired loans with an aggregate carrying value of $31.5 million was less than the net carrying value of the loans, resulting in us recording an additional $6.5 million provision for loan losses. We also recorded $2.2 million of recoveries of previously recorded loan loss reserves in 2013, netting the provision to $4.3 million for 2013. During 2012, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing eight impaired loans with an aggregate carrying value of $94.6 million was less than the net carrying value of the loans, resulting in us recording an additional $23.8 million provision for loan losses. We also recorded $0.9 million of net recoveries of previously recorded loan loss reserves in 2012, netting the provision to $22.9 million for 2012.

Management fees increased $0.9 million, or 9%, for 2013 as compared to 2012. These amounts represent compensation in the form of base management fees, on a cost reimbursement basis. The increase in management fees was due to an increase in allocable costs incurred by our Manager in managing our business from 2012 to 2013.

Gain on Extinguishment of Debt

Gain on extinguishment of debt totaled $4.9 million for 2013 and $30.5 million for 2012. During 2013, we purchased, at a discount, $9.9 million of investment grade rated Class H notes originally issued by our CDO II and CDO III issuing entities from third party investors and recorded a net gain on early extinguishment of debt of $4.9 million. During 2012, we purchased, at a discount, $66.2 million of investment grade rated Class B, C, D, E, F, G and H notes originally issued by our CDO II and

Table of Contents

CDO III issuing entities from third party investors and recorded a net gain on early extinguishment of debt of $30.5 million.

Income Taxes

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As a REIT, we are generally not subject to federal income tax on our REIT taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT taxable income and meet certain other requirements. As of December 31, 2013 and 2012, we were in compliance with all REIT requirements and, therefore, have not recorded a provision for income taxes on our REIT taxable income for the years ended December 31, 2013 and 2012. The tax benefit recognized in 2012 primarily reflects a refund received in 2012 of federal income taxes paid by a taxable REIT subsidiary in a prior year.

Income from Discontinued Operations

We recorded income from discontinued operations of $5.3 million in 2012 primarily from gains recognized on the sale of two properties totaling $4.0 million. In addition, we recognized $1.2 million of income related to the reversal of accrued liabilities that were not incurred in connection with the surrender of a property to the first mortgage lender in full satisfaction of the mortgage note payable.

Preferred Stock Dividends

During 2013 we incurred expenses totaling $4.5 million related to dividends declared on preferred stock. Of this total, $2.9 million relates to our 8.25% Series A cumulative redeemable preferred stock and $1.6 million relates to our 7.75% Series B cumulative redeemable preferred stock.

Liquidity and Capital Resources

Sources of Liquidity

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

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

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

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

Our cash flows from operating activities increased by $8.3 million during 2014 as compared to 2013, primarily due to increases in the net cash interest income generated on our investments and net operating income earned on our real estate owned assets.

Cash provided by investing activities totaled $145.0 million during 2014. We originated 80 new loans during 2014 totaling $900.7 million; the majority of these loans were multifamily bridge loans. Including net amounts for additional funding on existing loans, holdbacks, etc., total loan volume was $908.8 million. Loan originations during 2014 were outpaced by payoffs and paydowns on loans and investments totaling $987.7 million resulting in net cash inflow of approximately $78.9 million related to our loan and investment portfolio. Other significant cash inflows during 2014 included the proceeds of $33.9 million from the sale of our available-for-sale RMBS securities and proceeds of $21.9 million from the sales of three real estate properties in our Multifamily Portfolio. We generated a net gain on the sales of our RMBS securities and real estate properties totaling $2.1 million. We also received $9.1 million in distributions from equity affiliates, the majority of which totaled $7.9 million related to the sale of our equity interest in two commercial properties.

Cash flows used in financing activities totaled $185.7 million during 2014. Significant cash outflows in 2014 included $382.0 million in payoffs and paydowns on our debt facilities, $307.5 million in payoffs on our three CDO vehicles, all of which are past their replenishment period, $87.5 million in CLO payoffs as a result of redeeming our CLO I notes and $33.1 million in dividend payments to common and preferred stockholders. We also incurred an increase in restricted cash of $162.4 million as a result of timing of loan payoffs received in the fourth quarter of 2014 in our CDOs and CLOs, and repaid $22.8 million of mortgage notes payable in connection with the sale of three real estate properties in our Multifamily Portfolio. Significant cash inflows in 2014 included $402.1 million of proceeds from the utilization of our debt facilities, including increasing the capacity on three facilities by a total of $70.0 million and adding a new $15.0 million term facility, $281.3 million of proceeds from the issuance of CLO III and $97.9 million from the issuance of senior unsecured notes. We also received $28.2 million of net proceeds from issuing common and preferred stock during 2014.

Table of Contents

Debt Facilities

We maintain various forms of short-term and long-term financing arrangements. Borrowings underlying these arrangements are primarily secured by a significant amount of our loans and investments. The following is a summary of our debt facilities as of December 31, 2014:

	December 31, 2014			
Debt Facilities	**Commitment**	**Debt Carrying Value**	**Available**	**Maturity Dates**
Credit facilities	$ 250,000,000	$ 180,386,200	$ 69,613,800	2015
Collateralized debt obligations**(1)(2)**	331,395,126	331,395,126		2015 - 2017
Collateralized loan obligations**(2)**	458,250,000	458,250,000		2016 - 2017
Senior unsecured notes	97,860,025	97,860,025		2021
Junior subordinated notes**(3)**	159,833,260	159,833,260		2034 - 2037
Note payable	1,300,000	1,300,000		2015
	$ 1,298,638,411	$ 1,229,024,611	$ 69,613,800	

(1) In the first quarter of 2015, we completed the unwind of our CDO I and CDO II vehicles, redeeming $167.9 million of our outstanding notes primarily with a new $150.0 million warehouse repurchase facility and CDO cash.

(2) Maturity dates represent the weighted average remaining maturity based on the underlying collateral as of December 31, 2014.

(3) Represents a total face amount of $175.9 million less a total deferred amount of $16.0 million.

We also have a first lien mortgage in connection with real estate owned and held-for-sale in our Multifamily Portfolio. At December 31, 2014, the outstanding balance of this mortgage note payable was $31.0 million.

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

Our CDO and CLO vehicles contain interest coverage and asset over collateralization covenants that must be met as of the waterfall distribution date in order for us to receive such payments. If we fail these covenants in any of our CDOs or CLOs, all cash flows from the applicable CDO or CLO would be diverted to repay principal and interest on the outstanding CDO or CLO bonds and we would not receive any residual payments until that CDO or CLO regained compliance with such tests. Our CDOs and CLOs were in compliance with all such covenants as of December 31, 2014 as well as on the most recent determination dates in January 2015. In the event of a breach of the CDO or CLO covenants that could not be cured in the near-term, we would be required to fund our non-CDO or non-CLO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO or 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 CDOs or CLOs. However, we may not have sufficient liquidity available to do so at such time.

Table of Contents

Contractual Commitments

As of December 31, 2014, we had the following material contractual obligations (in thousands):

	Payments Due by Period(1)						
Contractual Obligations	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**	**Total**
Credit facilities	$ 180,386	$	$	$	$	$	$ 180,386
Collateralized debt obligations(2)	109,564	91,783	66,479		17,375	46,194	331,395
Collateralized loan obligations(3)	25,090	162,094	244,465	26,601			458,250
Senior unsecured notes						97,860	97,860
Junior subordinated notes(4)						175,858	175,858
Notes payable	1,300						1,300
Mortgage note payable real estate owned and held-for-sale	30,984						30,984
Outstanding unfunded commitments(5)	7,646	4,210	2,671				14,527
Totals	$ 354,970	$ 258,087	$ 313,615	$ 26,601	$ 17,375	$ 319,912	$ 1,290,560

(1) Represents principal amounts due based on contractual maturities. Does not include total projected interest payments on our debt obligations of $36.0 million in 2015, $28.4 million in 2016, $20.7 million in 2017, $13.7 million in 2018, $13.0 million in 2019 and $98.3 million thereafter based on current LIBOR rates.

(2) Comprised of $75.4 million of CDO I debt, $103.5 million of CDO II debt and $152.5 million of CDO III debt with a weighted average contractual maturity of 0.56, 0.90 and 2.89 years, respectively, as of December 31, 2014. The balance of estimated interest due through maturity on CDO bonds reissued in 2010, which is included in the carrying values of the CDOs, totaled $19.3 million at December 31, 2014. In the first quarter of 2015, we unwound our CDO I and CDO II vehicles and reduced the balance of estimated interest by $11.0 million, recording a gain.

(3) Represents $177.0 million of CLO II debt and $281.3 million of CLO III debt with a weighted average contractual maturity of 2.01 and 2.52 years, respectively, as of December 31, 2014.

(4) Represents the face amount due upon maturity. The carrying value is $159.8 million, which is net of a deferred amount of $16.0 million at December 31, 2014.

(5) In accordance with certain loans and investments, we have outstanding unfunded commitments of $14.5 million as of December 31, 2014, 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. Our restricted cash balance contained approximately $5.3 million which was available to fund the portion of the unfunded commitments for loans financed by our CDO and CLO vehicles.

Off-Balance-Sheet Arrangements

At December 31, 2014, we did not have any off-balance-sheet arrangements.

Inflation

Changes in the general level of interest rates prevailing in the economy in response to changes in the rate of inflation generally have little effect on our income because the majority of our interest-earning assets and interest-bearing liabilities have floating rates of interest. However, the significant

Table of Contents

decline in interest rates in the past triggered LIBOR floors on certain of our variable rate interest-earning assets. This resulted in an increase in interest rate spreads on certain assets as the rates we pay on variable rate interest-bearing liabilities declined at a greater pace than the rates we earned on our variable rate interest-earning assets. The number of loans impacted by LIBOR floors have significantly decreased over this time as a majority of the loans with such floors were paid off, monetized, modified or restructured. Additionally, we have various fixed rate loans in our portfolio which are financed with variable rate LIBOR borrowings. In connection with these loans, we have entered into various interest swaps to hedge our exposure to the interest rate risk on our variable rate LIBOR borrowings as it relates to certain fixed rate loans in our portfolio. However, the value of our interest-earning assets, our ability to realize gains from the sale of assets, and the average life of our interest-earning assets, among other things, may be affected. See "Quantitative and Qualitative Disclosures about Market Risk" below.

Agreements and Transactions with Related Parties

We have a management agreement with our Manager, pursuant to which our Manager provides certain services and we pay our Manager a base management fee and under certain circumstances, an annual incentive fee. We incurred $9.9 million, $10.9 million and $10.0 million of base management fees for services rendered in 2014, 2013 and 2012, respectively.

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

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

In June 2013, our Board of Directors formed a special committee consisting of independent directors in connection with the exploration and evaluation of a potential transaction with our Manager involving the acquisition of the Manager's Fannie Mae, DUS, FHA and CMBS platforms, as well as the internalization of the management of our current business. There were preliminary discussions between the special committee and representatives of our Manager regarding a potential transaction during 2013. In connection therewith, the special committee engaged legal, financial and accounting advisors resulting in approximately $1.4 million of advisory fees during 2013. In late June of 2014, preliminary discussions regarding a possible transaction resumed but we cannot provide any assurance whether any transaction between us and our Manager will occur, or if a transaction did occur, any information on the timing, terms or form of any such transaction, including the amount or type of consideration (including the issuance of common stock) or related financing. No advisory fees or other related fees were incurred during 2014.

Significant Accounting Estimates and Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with the Financial Accounting Standards Board ("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 "Summary of

Table of Contents

Significant Accounting Policies." Set forth below are the accounting policies that management believes are critical to the preparation of the consolidated financial statements included in this report:

Loans, Investments and Securities

Impaired Loans, Allowance for Loan Losses, Loss on Sale and Restructuring of Loans and Charge-offs

Real Estate Owned and Held-For-Sale

Revenue Recognition

Income Taxes

Hedging Activities and Derivatives

Variable Interest Entities

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

Non-GAAP Financial Measures

Funds from Operations and Adjusted Funds from Operations

We present funds from operations ("FFO") and adjusted funds from operations ("AFFO") because we believe they are important supplemental measures of our operating performance in that they are frequently used by analysts, investors and other parties in the evaluation of REITs. The National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income (loss) attributable to common stockholders (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated real properties, plus impairments of depreciated properties and real estate related depreciation and amortization, and after adjustments for unconsolidated ventures. Income (losses) from discontinued operations is not excluded when calculating FFO.

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

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

Table of Contents

FFO for the years ended December 31, 2014, 2013 and 2012 are as follows:

	Year Ended December 31,		
	2014	2013	2012
Net income attributable to Arbor Realty Trust, Inc. common stockholders	$ 85,792,235	$ 16,667,955	$ 21,500,888
Subtract:			
Gain on sale of real estate, net	(1,603,763)		(3,953,455)
Add:			
Impairment loss on real estate owned	250,000	1,000,000	
Depreciation real estate owned and held-for-sale	7,371,737	7,250,601	5,904,089
Depreciation investments in equity affiliates	268,224	90,396	90,396
FFO	$ 92,078,433	$ 25,008,952	$ 23,541,918
Subtract:			
Impairment loss on real estate owned	(250,000)	(1,000,000)	
Add:			
Gain on sale of real estate, net	1,603,763		3,953,455
Stock-based compensation	1,989,439	1,600,142	578,190
AFFO	$ 95,421,635	$ 25,609,094	$ 28,073,563
Diluted FFO per common share	$ 1.83	$ 0.58	$ 0.87
Diluted AFFO per common share	$ 1.89	$ 0.60	$ 1.03
Diluted weighted average shares outstanding	50,368,344	42,835,144	27,211,287

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

Adjusted Book Value per Common Share

We believe adjusted book value per common share is an additional appropriate measure given the significance of the unrealized gain/loss position of our qualifying derivative instruments as well as the historical deferral structure of the 450 West 33rd Street transaction from 2007. We recognized the deferred gain on the 450 West 33rd Street transaction during the third quarter of 2014 (see Note 14 "Agreements and Transactions with Related Parties" for further details) so this transaction will no longer be a component of adjusted book value per common share. As of December 31, 2014, adjusted book value per common share currently reflects the impact of the removal of the temporary nature of unrealized gains/losses as a component of equity from qualifying interest rate swaps on our financial position. Over time, as these qualifying interest rate swaps reach their maturity, the fair value of these swaps will return to their original par value. We consider this non-GAAP financial measure to be an effective indicator of our financial condition. We do not advocate that investors consider this non-GAAP financial measure in isolation from, or as a substitute for, financial measures prepared in accordance with GAAP.

Table of Contents

GAAP book value per share and adjusted book value per share as of December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
GAAP Arbor Realty Trust, Inc. Stockholders' Equity	$ 535,455,471	$ 437,596,282	$ 229,329,349
Subtract: Cumulative redeemable preferred stock	(89,295,905)	(67,654,655)	
GAAP Arbor Realty Trust, Inc. Common Stockholders' Equity	446,159,566	369,941,627	229,329,349
Add: 450 West 33rd Street transaction deferred revenue		77,123,133	77,123,133
Unrealized loss on derivative instruments	13,908,163	24,794,051	37,754,775
Subtract: 450 West 33rd Street transaction prepaid management fee		(19,047,949)	(19,047,949)
Adjusted Arbor Realty Trust, Inc. Common Stockholders' Equity	$ 460,067,729	$ 452,810,862	$ 325,159,308
Adjusted book value per common share	$ 9.11	$ 9.22	$ 10.41
GAAP book value per common share	$ 8.84	$ 7.53	$ 7.34
Common shares outstanding	50,477,308	49,136,308	31,249,225

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Market Conditions

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

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

Real Estate Risk

Commercial mortgage assets may be viewed as exposing an investor to greater risk of loss than residential mortgage assets since such assets are typically secured by larger loans to fewer obligors than residential mortgage assets. Multifamily and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, events such as natural disasters including hurricanes and earthquakes, acts of war and/or terrorism and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investment; national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction delays, construction cost, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as

energy costs). In the event net operating income decreases, a borrower may have difficulty repaying our loans, which could result in losses to us. In addition, decreases in property values reducing the value of collateral, and a lack of liquidity in the market, could reduce the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses. Even when the net operating income is sufficient to cover the related property's debt service, there can be no assurance that this will continue to be the case in the future.

Interest Rate Risk

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

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

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

The following table projects the potential impact on interest income and interest expense for a 12-month period, and the potential change in fair value of our derivative financial instruments as of December 31, 2014, assuming an instantaneous increase or decrease of both 25 and 50 basis points in LIBOR and forward interest rate curves, adjusted for the effects of our interest rate hedging activities.

	Assets (Liabilities) Subject to Interest Rate Sensitivity(1)	25 Basis Point Increase	25 Basis Point Decrease(2)	50 Basis Point Increase	50 Basis Point Decrease(2)
Interest income from loans and investments	$ 1,593,584,588	$ 2,248,690	$ (555,558)	$ 4,895,815	$ (555,558)
Interest expense from debt obligations	(1,225,725,280)	2,145,610	(1,469,743)	4,291,220	(1,469,743)
Total net interest income		$ 103,080	$ 914,185	$ 604,595	$ 914,185
Fair value of derivative financial instruments	$ (13,906,168)	$ 849,605	$ (852,643)	$ 1,694,346	$ (1,613,037)

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

(2) Assumes the LIBOR rate will not decrease below zero. The quoted one-month LIBOR rate was 0.17% as December 31, 2014.

Table of Contents

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.

In connection with our CDOs described in "Management's Discussion and Analysis of Financial Condition and Results of Operations," we entered into interest rate swap agreements to hedge the exposure to the risk of changes in the difference between three-month LIBOR and one-month LIBOR interest rates. These interest rate swaps became necessary due to the investors' return being paid based on a three-month LIBOR index while the assets contributed to the CDOs are yielding interest based on a one-month LIBOR index.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Table of Contents

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Arbor Realty Trust, Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, 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 13, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 13, 2015

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	$ 50,417,745	$ 60,389,552
Restricted cash (includes $216,405,894 and $54,051,439 from consolidated VIEs, respectively)	218,100,529	54,962,316
Loans and investments, net (includes $968,600,472 and $1,196,434,032 from consolidated VIEs, respectively)	1,459,475,650	1,523,699,653
Available-for-sale securities, at fair value	2,499,709	37,315,652
Investments in equity affiliates	4,869,066	4,680,306
Real estate owned, net (includes $80,732,144 and $80,787,215 from consolidated VIEs, respectively)	84,925,641	111,718,177
Real estate held-for-sale, net	14,381,733	11,477,676
Due from related party (includes $0 and $91,988 from consolidated VIEs, respectively)	36,515	98,058
Prepaid management fee related party		19,047,949
Other assets (includes $14,949,956 and $19,861,310 from consolidated VIEs, respectively)	45,716,002	54,083,143
Total assets	$ 1,880,422,590	$ 1,877,472,482
Liabilities and Equity:		
Credit facilities and repurchase agreements	$ 180,386,200	$ 159,125,023
Collateralized debt obligations (includes $331,395,126 and $639,622,981 from consolidated VIEs, respectively)	331,395,126	639,622,981
Collateralized loan obligations (includes $458,250,000 and $264,500,000 from consolidated VIEs, respectively)	458,250,000	264,500,000
Senior unsecured notes	97,860,025	
Junior subordinated notes to subsidiary trust issuing preferred securities	159,833,260	159,291,427
Notes payable	1,300,000	2,500,000
Mortgage note payable real estate owned	21,865,136	42,745,650
Mortgage note payable real estate held-for-sale	9,119,221	11,005,354
Due to related party	2,653,333	2,794,087
Due to borrowers	32,972,606	20,326,030
Deferred revenue		77,123,133
Other liabilities (includes $7,385,474 and $13,944,737 from consolidated VIEs, respectively)	49,332,212	60,842,515
Total liabilities	1,344,967,119	1,439,876,200
Commitments and contingencies		
Equity:		
Preferred stock, cumulative, redeemable, $0.01 par value: 100,000,000 shares authorized; 8.25% Series A, $38,787,500 aggregate liquidation preference; 1,551,500 shares issued and outstanding at December 31, 2014 and 2013; 7.75% Series B, $31,500,000 aggregate liquidation preference; 1,260,000 shares issued and outstanding at December 31, 2014 and 2013; 8.50% Series C, $22,500,000 aggregate liquidation preference; 900,000 shares issued and outstanding at December 31, 2014, no shares issued and outstanding at December 31, 2013	89,295,905	67,654,655
Common stock, $0.01 par value: 500,000,000 shares authorized; 53,128,075 shares issued, 50,477,308 shares outstanding at December 31, 2014 and 51,787,075 shares issued, 49,136,308 shares outstanding at December 31, 2013	531,280	517,870
Additional paid-in capital	629,880,774	623,993,245
Treasury stock, at cost 2,650,767 shares at December 31, 2014 and 2013	(17,100,916)	(17,100,916)
Accumulated deficit	(152,483,322)	(212,231,319)
Accumulated other comprehensive loss	(14,668,250)	(25,237,253)
Total equity	535,455,471	437,596,282
Total liabilities and equity	$ 1,880,422,590	$ 1,877,472,482

See notes to consolidated financial statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2014	**2013**	**2012**
Interest income	$ 106,716,344	$ 99,031,623	$ 79,998,762
Interest expense	47,903,458	42,065,151	40,866,832
Net interest income	58,812,886	56,966,472	39,131,930
Other revenue:			
Property operating income	32,641,249	30,127,260	30,173,754
Other income, net	1,645,465	2,290,714	1,280,289
Total other revenue	34,286,714	32,417,974	31,454,043
Other expenses:			
Employee compensation and benefits	13,978,223	12,042,332	10,173,572
Selling and administrative	9,600,139	10,603,247	7,882,914
Property operating expenses	27,857,460	26,728,174	27,963,386
Depreciation and amortization	7,371,737	7,250,601	5,794,013
Impairment loss on real estate owned	250,000	1,000,000	
Provision for loan losses (net of recoveries)	(308,511)	4,287,652	22,946,396
Management fee related party	9,900,000	10,900,000	10,000,000
Total other expenses	68,649,048	72,812,006	84,760,281
Income from continuing operations before gain on sale of equity interests, incentive management fee, gain on extinguishment of debt, gain on sale of real estate, net, income (loss) from equity affiliates and benefit from income taxes	24,450,552	16,572,440	(14,174,308)
Gain on sale of equity interests	85,793,466		
Incentive management fee equity interest related party	(19,047,949)		
Gain on extinguishment of debt		4,930,772	30,459,023
Gain on sale of real estate, net	1,603,763		
Income (loss) from equity affiliates	248,658	(204,475)	(697,856)
Income before benefit from income taxes	93,048,490	21,298,737	15,586,859
Benefit from income taxes			801,558
Income from continuing operations	93,048,490	21,298,737	16,388,417
Gain on sale of real estate held-for-sale			3,953,455
Income from operations of real estate held-for-sale			1,374,583
Income from discontinued operations			5,328,038
Net income	93,048,490	21,298,737	21,716,455
Preferred stock dividends	7,256,255	4,506,583	
Net income attributable to noncontrolling interest		124,199	215,567
Net income attributable to Arbor Realty Trust, Inc. common stockholders	$ 85,792,235	$ 16,667,955	$ 21,500,888
Basic earnings per common share:			

Income from continuing operations, net of noncontrolling interest and preferred stock dividends	$	1.71	$	0.39	$	0.60
Income from discontinued operations						0.20
Net income attributable to Arbor Realty Trust, Inc. common stockholders	$	1.71	$	0.39	$	0.80
Diluted earnings per common share:						
Income from continuing operations, net of noncontrolling interest and preferred stock dividends	$	1.70	$	0.39	$	0.59
Income from discontinued operations						0.20
Net income attributable to Arbor Realty Trust, Inc. common stockholders	$	1.70	$	0.39	$	0.79
Weighted average number of shares of common stock outstanding:						
Basic		50,143,648		42,399,872		26,956,938
Diluted		50,368,344		42,835,144		27,211,287

See notes to consolidated financial statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2014	**2013**	**2012**
Net income	$ 93,048,490	$ 21,298,737	$ 21,716,455
Unrealized (loss) gain on securities available-for-sale, net	(335,157)	382,130	(723,632)
Net unrealized gain on securities transferred to available- for-sale from held-to-maturity		431,476	
Reclassification of unrealized gain on securities available-for-sale realized into earnings	(431,476)	(100,000)	
Unrealized loss on derivative financial instruments, net	(1,318,318)	(520,195)	(7,698,630)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	12,653,954	14,131,036	16,564,607
Comprehensive income	103,617,493	35,623,184	29,858,800
Less:			
Preferred stock dividends	7,256,255	4,506,583	
Comprehensive income attributable to noncontrolling interest		124,199	215,567
Comprehensive income attributable to Arbor Realty Trust, Inc. common stockholders	$ 96,361,238	$ 30,992,402	$ 29,643,233

See notes to consolidated financial statements.

Table of Contents

ARBOR REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Arbor Realty Trust, Inc. Stockholders' Equity	Non-controlling Interest	Tota
e December 31,		$	26,778,737	$ 267,787	$ 455,994,695	(2,480,597)	$ (16,416,152)	$ (221,015,880)	$ (47,704,045)	$ 171,126,405	$ 1,934,128	$ 173,06
e of common			7,000,000	70,000	36,575,500					36,645,500		36,64
se of treasury						(170,170)	(684,764)			(684,764)		(68
based nsation			121,255	1,213	641,027					642,240		64
utions common								(8,031,029)		(8,031,029)		(8,03
utions preferred f private REIT								(12,236)		(12,236)		(1
ome								21,500,888		21,500,888	215,567	21,71
ution to ntrolling											(217,922)	(21
ized loss on es le-for-sale									(723,632)	(723,632)		(72
ized loss on ive financial nents, net									(7,698,630)	(7,698,630)		(7,69
sification of ized loss on ives ted as cash edges into s									16,564,607	16,564,607		16,56
e December 31,		$	33,899,992	$ 339,000	$ 493,211,222	(2,650,767)	$ (17,100,916)	$ (207,558,257)	$ (39,561,700)	$ 229,329,349	$ 1,931,773	$ 231,26
e of common			17,625,000	176,250	129,184,501					129,360,751		129,36
e of 8.25% A preferred	1,551,500	37,315,694								37,315,694		37,31
e of 7.75% B preferred	1,260,000	30,338,961								30,338,961		30,33
based nsation			262,750	2,627	1,597,515					1,600,142		1,60
ure of unvested ed stock			(667)	(7)	7							
utions common								(21,326,517)		(21,326,517)		(21,32
utions preferred								(4,506,583)		(4,506,583)		(4,50
utions preferred f private REIT								(14,500)		(14,500)		(1
ome								21,174,538		21,174,538	124,199	21,29
se in ntrolling											(2,055,972)	(2,05
									382,130	382,130		38

zed gain on es le-for-sale, net			
realized gain urities rred to le-for-sale eld-to-maturity	431,476	431,476	43
sification of zed gain on es le-for-sale d into earnings	(100,0		