

SANDERSON FARMS INC
Form 8-K
May 31, 2018

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 24, 2018

SANDERSON FARMS, INC.

(Exact name of registrant as specified in its charter)

**Mississippi
(State or other jurisdiction
of incorporation)**

**1-14977
(Commission
File Number)**

**64-0615843
(I.R.S. Employer
Identification No.)**

**127 Flynt Road
Laurel, Mississippi**

39443

(Address of principal executive offices)

(Zip Code)

(601) 649-4030

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Section 2 Financial Information

Item 2.02 Results of Operations and Financial Condition.

On May 24, 2018, the Registrant issued a press release announcing its earnings for its fiscal quarter ended April 30, 2018. The press release is furnished herewith as Exhibit 99.1. On May 24, 2018, the Registrant held a conference call to discuss its earnings for its fiscal quarter ended April 30, 2018. A transcript of the conference call is furnished herewith as Exhibit 99.2. The information in the press release and transcript is not to be considered filed for purposes of the Securities Exchange Act of 1934, as amended (the Exchange Act), and is not incorporated by reference into the Registrant's filings under the Securities Act of 1933, as amended (the Securities Act).

CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES

THAT MAY AFFECT FUTURE PERFORMANCE

Exhibit 99.2 to this Current Report may include forward-looking statements within the meaning of the Safe Harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements are based on a number of assumptions about future events and are subject to various risks, uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and estimates expressed in such statements. These risks, uncertainties and other factors include, but are not limited to, the risks described in Exhibit 99.1 to this Current Report and in the Registrant's Annual Report on Form 10-K for the year ended October 31, 2017, and in subsequent Quarterly Reports on Form 10-Q. The risks cannot be controlled by the Registrant. Readers are cautioned not to place undue reliance on forward-looking statements made by or on behalf of the Registrant. Each such statement speaks only as of the day it was made. The Registrant undertakes no obligation to update or to revise any forward-looking statements. The factors cannot be controlled by the Registrant. When used in Exhibit 99.2 to this Current Report, the words believes, estimates, plans, expects, should, could, outlook, and anticipates and other words are intended to identify forward-looking statements. Examples of forward-looking statements include statements about management's beliefs about future earnings, production levels, capital expenditures, grain prices, global economic conditions, supply and demand factors, growth plans and other industry conditions.

Section 9 Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

Exhibit No.	Description
99.1	<u>Press release of Sanderson Farms, Inc. dated May 24, 2018.</u>
99.2	<u>Transcript of conference call held by Sanderson Farms, Inc. on May 24, 2018.</u>

EXHIBIT INDEX

Exhibit No.	Description
99.1	<u>Press release of Sanderson Farms, Inc. dated May 24, 2018.</u>
99.2	<u>Transcript of conference call held by Sanderson Farms, Inc. on May 24, 2018.</u>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SANDERSON FARMS, INC.

(Registrant)

Date: May 31, 2018

*By: /s/ D. Michael Cockrell
D. Michael Cockrell*

Treasurer and Chief Financial Officer

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	7,799
	5,662
	22,347
	16,597
Net income attributable to common stockholders	
\$	27,737

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\$ 16,421

\$ 71,093

\$ 43,964

Basic earnings per common share

\$ 0.37

\$ 0.27

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\$	1.05
\$	0.78
Diluted earnings per common share	
\$	0.36
\$	0.26
\$	1.03
\$	0.77

Weighted average shares outstanding:

Basic	74,802,582
	61,582,796
	67,490,132
	56,602,504
Diluted	98,435,964
	83,918,117

91,133,607

78,942,919

Dividends declared per common share

\$

0.25

\$

0.18

\$

0.71

\$

0.53

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 37,424	\$ 23,971	\$ 99,105	\$ 66,226
Unrealized loss on securities available-for-sale, at fair value		(235)		(353)
Reclassification of net unrealized gains on available-for-sale securities into accumulated deficit (Note 2)			(176)	
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings				237
Comprehensive income	37,424	23,736	98,929	66,110
Less:				
Comprehensive income attributable to noncontrolling interest	7,799	5,602	22,303	16,574
Preferred stock dividends	1,888	1,888	5,665	5,665
Comprehensive income attributable to common stockholders	\$ 27,737	\$ 16,246	\$ 70,961	\$ 43,871

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

(\$ in thousands, except shares)

Nine Months Ended September 30, 2018

	Preferred Stock Shares	Preferred Value	Common Stock Shares	Common Stock Value	Additional Paid in Capital	Accumulated Deficit	Accumulated Comprehensive Income	Total Arbor Other Realty Trust, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity
Balance										
December 31, 2017	24,942,269	\$ 89,508	61,723,387	\$ 617	\$ 707,450	\$ (101,926)	\$ 176	\$ 695,825	\$ 168,731	\$ 864,556
Issuance of common stock from debt exchange			6,820,196	68	74,322			74,390		74,390
Extinguishment of convertible senior unsecured notes					(66,518)			(66,518)		(66,518)
Issuance of convertible senior unsecured notes, net					9,436			9,436		9,436
Issuance of common stock, net			6,452,700	65	55,843			55,908		55,908
Stock-based compensation			691,015	7	4,831			4,838		4,838
Forfeiture of unvested restricted stock			(2,334)							
Distributions - common stock						(47,648)		(47,648)		(47,648)
Distributions - preferred stock						(5,665)		(5,665)		(5,665)
Distributions - preferred stock of private REIT						(11)		(11)		(11)
Distributions - noncontrolling interest									(15,074)	(15,074)
Redemption of operating partnership units									(6,845)	(6,845)
Net income						76,758		76,758	22,347	99,105
Reclassification of net unrealized gains on available-for-sale securities into accumulated deficit						176	(176)			
Balance										
September 30, 2018	24,942,269	\$ 89,508	75,684,964	\$ 757	\$ 785,364	\$ (78,316)	\$	\$ 797,313	\$ 169,159	\$ 966,472

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net income	\$ 99,105	\$ 66,226
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,539	5,542
Stock-based compensation	4,838	3,833
Amortization and accretion of interest and fees, net	8,758	3,296
Amortization of capitalized mortgage servicing rights	35,639	35,427
Originations of loans held-for-sale	(3,455,237)	(3,287,578)
Proceeds from sales of loans held-for-sale, net of gain on sale	3,254,490	3,621,276
Payoffs and paydowns of loans held-for-sale	30	116
Mortgage servicing rights	(62,787)	(56,182)
Write-off of capitalized mortgage servicing rights from payoffs	17,228	10,713
Impairment loss on real estate owned	2,000	2,700
Provision for loan losses (net of recoveries)	(967)	(457)
Provision for loss sharing (net of recoveries)	2,840	(405)
Recoveries (charge-offs) for loss sharing obligations, net	54	(1,844)
Deferred tax (benefit) provision	(14,454)	15
Income from equity affiliates	(1,104)	(1,756)
Loss (gain) on extinguishment of debt	4,960	(7,116)
Changes in operating assets and liabilities	(96,468)	(6,368)
Net cash (used in) provided by operating activities	(195,536)	387,438
Investing Activities:		
Loans and investments funded and originated, net	(1,163,908)	(1,051,446)
Payoffs and paydowns of loans and investments	688,032	758,139
Internalization of management team		(25,000)
Deferred fees	8,556	7,214
Investments in real estate, net	(309)	(562)
Contributions to equity affiliates	(2,480)	(693)
Distributions from equity affiliates	3,110	2,341
Purchase of securities held-to-maturity, net	(21,637)	(18,339)
Payoffs and paydowns of securities held-to-maturity	1,223	76
Proceeds from insurance settlements, net	493	493
Due to borrowers and reserves	(63,296)	(22,571)
Net cash used in investing activities	(550,216)	(350,348)
Financing activities:		
Proceeds from repurchase agreements and credit facilities	6,376,333	6,073,385
Payoffs and paydowns of repurchase agreements and credit facilities	(5,734,858)	(6,417,834)
Payoffs and paydowns of collateralized loan obligations	(267,750)	(219,000)
Exchange of convertible senior unsecured notes	(219,922)	
Payoffs of senior unsecured notes	(97,860)	
Payoff of related party financing	(50,000)	
Payoffs of junior subordinated notes to subsidiary trust issuing preferred securities		(12,691)
Proceeds from issuance of collateralized loan obligations	441,000	561,874
Proceeds from issuance of senior unsecured notes	125,000	

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Proceeds from issuance of convertible senior unsecured notes	264,500	13,750
Proceeds from issuance of common stock, net	55,908	76,225
Receipts on swaps and returns of margin calls from counterparties		430
Redemption of operating partnership units	(6,845)	
Distributions paid on common stock	(47,648)	(30,889)
Distributions paid on noncontrolling interest	(15,074)	(11,252)
Distributions paid on preferred stock	(5,665)	(5,665)
Distributions paid on preferred stock of private REIT	(11)	(11)
Payment of deferred financing costs	(19,794)	(11,482)
Net cash provided by financing activities	797,314	16,840
Net increase in cash, cash equivalents and restricted cash	51,562	53,930
Cash, cash equivalents and restricted cash at beginning of period	243,772	167,960
Cash, cash equivalents and restricted cash at end of period	\$ 295,334	\$ 221,890

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Supplemental cash flow information:		
Cash used to pay interest	\$ 82,140	\$ 53,150
Cash used to pay taxes	\$ 16,551	\$ 14,653
Supplemental schedule of non-cash investing and financing activities:		
Distributions accrued on 8.25% Series A preferred stock	\$ 267	\$ 267
Distributions accrued on 7.75% Series B preferred stock	\$ 203	\$ 203
Distributions accrued on 8.50% Series C preferred stock	\$ 159	\$ 159
Fair value of conversion feature of convertible senior unsecured notes	\$ 9,750	\$
Issuance of common stock from debt exchange	\$ 74,322	\$
Extinguishment of convertible senior unsecured notes	\$ (66,518)	\$

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2018

Note 1 Description of Business

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

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

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

Note 2 Basis of Presentation and Significant Accounting Policies

Basis of Presentation

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

Reclassification

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2018

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that could materially affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Significant Accounting Policies

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

Recently Adopted Accounting Pronouncements

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

exchange for such goods and services. It also requires expanded quantitative and qualitative disclosures that will enable financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Most revenue associated with financial instruments, including interest and loan origination fees, along with gains and losses on investment securities, derivatives and sales of financial instruments are excluded from the scope of the guidance.

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows: Restricted Cash. This ASU requires changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents to be shown in the statement of cash flows. Previous guidance required the change in cash and cash equivalents be shown on the statement of cash flows, with cash used to fund restricted cash and restricted cash equivalents shown as a component of operating, investing, or financing activities. Entities are now also required to reconcile the total of cash, cash equivalents, restricted cash, and restricted cash equivalents as presented in the statement of cash flows to the related captions in the balance sheet when these balances are presented separately in the balance sheet.

First quarter of 2018

This guidance required retrospective adoption, therefore, we adjusted the cash flow statement for the comparable prior period. The following table shows the impact of the adoption of this guidance, as well as the adoption of ASU 2016-15 described below.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2018

Description	Adoption Date	Effect on Financial Statements
In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows, which provides eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows.	First quarter of 2018	This guidance required retrospective adoption, therefore, we reclassified \$0.5 million of net proceeds from insurance settlements from net cash provided by operating activities to net cash used in investing activities for the nine months ended September 30, 2017. We also chose the cumulative earnings approach for distributions received from equity method investees, which did not result in any changes in how we account for such distributions. The following table shows the impact of the adoption of ASU 2016-15 and ASU 2016-18.

(in thousands)	Nine Months Ended September 30, 2017
<i>As previously reported under GAAP applicable at the time</i>	
Cash and cash equivalents at beginning of period	\$ 138,645
Net decrease in cash and cash equivalents	(53,894)
Cash and cash equivalents at end of period	84,751
Net cash provided by operating activities: changes in operating assets and liabilities	(6,252)
Net cash used in investing activities	(350,841)
Net cash used in financing activities	(90,954)
<i>As currently reported under ASU 2016-18 and ASU 2016-15</i>	
Cash, cash equivalents and restricted cash at beginning of period	\$ 167,960
Net increase in cash, cash equivalents and restricted cash	53,930
Cash, cash equivalents and restricted cash at end of period	221,890
Net cash (used in) provided by operating activities: changes in operating assets and liabilities	(6,368)
Net cash used in investing activities	(350,348)
Net cash provided by financing activities	16,840

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

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

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Description	Effective Date	Effect on Financial Statements
In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement, which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with changes between hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. Early adoption is permitted upon issuance of the update.	First quarter of 2020	We do not expect the adoption of this guidance to have a significant impact to our consolidated financial statements.
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires lessees to record most leases on their balance sheet through operating and finance lease liabilities and corresponding right-of-use assets, as well as adding additional footnote disclosures of key information about those arrangements. In July 2018, the FASB also issued ASU 2018-11, Leases (Topic 842) - Targeted Improvements, which provides transition relief on comparative period reporting through a cumulative-effect adjustment at the beginning of the period of adoption.	First quarter of 2019	We are currently evaluating this ASU and expect the adoption to increase both our total assets and total liabilities by less than 1%. We do not currently expect the adoption to have an impact on our consolidated results of operations.

Note 3 Loans and Investments

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

	September 30, 2018	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	Wtd. Avg. First Dollar LTV Ratio (2)	Wtd. Avg. Last Dollar LTV Ratio (3)
Bridge loans	\$ 2,919,582	92%	170	6.70%	19.6	0%	74%
Preferred equity investments	154,202	5%	10	8.18%	70.5	62%	87%
Mezzanine loans	96,333	3%	11	10.49%	19.5	25%	71%
	3,170,117	100%	191	6.88%	22.0	4%	74%
Allowance for loan losses	(60,951)						
Unearned revenue	(11,477)						
Loans and investments, net	\$ 3,097,689						

December 31, 2017

Bridge loans	\$ 2,422,105	91%	150	6.10%	20.9	0%	72%
Preferred equity investments	142,892	6%	12	6.47%	68.7	64%	90%

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Mezzanine loans	87,541	3%	8	10.78%	24.8	20%	63%
	2,652,538	100%	170	6.28%	23.6	4%	73%
Allowance for loan losses	(62,783)						
Unearned revenue	(10,628)						
Loans and investments, net	\$ 2,579,127						

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

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

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

Concentration of Credit Risk

We are subject to concentration risk in that, at September 30, 2018, the UPB related to 48 loans with five different borrowers represented 23% of total assets. At December 31, 2017, the UPB related to 42 loans with five different borrowers represented 24% of total assets. During both the nine months ended September 30, 2018 and the year ended December 31, 2017, no single loan or investment represented more than 10% of our total assets and no single investor group generated over 10% of our revenue.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****September 30, 2018**

We assign a credit risk rating of pass, pass/watch, special mention, substandard or doubtful to each loan and investment, with a pass rating being the lowest risk and a doubtful rating being the highest risk. Each credit risk rating has benchmark guidelines that pertain to debt-service coverage ratios, LTV ratios, borrower strength, asset quality, and funded cash reserves. Other factors such as guarantees, market strength, and remaining loan term and borrower equity are also reviewed and factored into determining the credit risk rating assigned to each loan. This metric provides a helpful snapshot of portfolio quality and credit risk. All portfolio assets are subject to, at a minimum, a thorough quarterly financial evaluation in which historical operating performance and forward-looking projections are reviewed, however, we maintain a higher level of scrutiny and focus on loans that we consider high risk and that possess deteriorating credit quality.

Generally speaking, given our typical loan profile, risk ratings of pass, pass/watch and special mention suggest that we expect the loan to make both principal and interest payments according to the contractual terms of the loan agreement, and is not considered impaired. A risk rating of substandard indicates we anticipate the loan may require a modification of some kind. A risk rating of doubtful indicates we expect the loan to underperform over its term, and there could be loss of interest and/or principal. Further, while the above are the primary guidelines used in determining a certain risk rating, subjective items such as borrower strength, market strength or asset quality may result in a rating that is higher or lower than might be indicated by any risk rating matrix.

As a result of the loan review process, at September 30, 2018 and December 31, 2017, we identified eight loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of \$128.7 million and \$126.5 million, respectively, and a weighted average last dollar LTV ratio of 92% and 93%, respectively.

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

Asset Class	UPB	Percentage of Portfolio	September 30, 2018		
			Wtd. Avg. Internal Risk Rating	Wtd. Avg. First Dollar LTV Ratio	Wtd. Avg. Last Dollar LTV Ratio
Multifamily	\$ 2,378,771	75%	pass/watch	4%	74%
Self Storage	301,830	10%	pass/watch	0%	72%
Land	151,628	5%	substandard	0%	84%
Office	127,055	4%	special mention	0%	66%
Healthcare	107,775	3%	pass/watch	0%	81%
Hotel	55,975	2%	pass/watch	23%	74%
Retail	45,383	1%	pass/watch	7%	66%
Commercial	1,700	<1%	doubtful	63%	63%
Total	\$ 3,170,117	100%	pass/watch	4%	74%

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

Geographic Concentration Risk

As of September 30, 2018, 22% and 19% of the outstanding balance of our loan and investment portfolio had underlying properties in New York and Texas, respectively. As of December 31, 2017, 23%, 21% and 11% of the

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outstanding balance of our loan and investment portfolio had underlying properties in Texas, New York and California, respectively. No other states represented 10% or more of the total loan and investment portfolio.

Impaired Loans and Allowance for Loan Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Allowance at beginning of period	\$ 58,733	\$ 81,256	\$ 62,783	\$ 83,712
Provision for loan losses	2,218	2,000	3,868	2,000
Recoveries of reserves			(2,527)	(2,456)
Charge-offs			(3,173)	
Allowance at end of period	\$ 60,951	\$ 83,256	\$ 60,951	\$ 83,256

During the three and nine months ended September 30, 2018, we determined that the fair value of the underlying collateral (land development project) securing six loans with a carrying value of \$121.4 million was less than the net carrying value of the loans, which resulted in a provision for loan losses of \$0.5 million and \$2.2 million, respectively. In addition, we fully reserved a bridge loan and recorded a provision for loan loss of \$1.7 million during the three and nine months ended September 30, 2018.

During the nine months ended September 30, 2018, we received \$31.6 million to settle a non-performing preferred equity investment in a hotel property with a UPB of \$34.8 million and a net carrying value of \$29.1 million, resulting in a reserve recovery of \$2.5 million and a charge-off of \$3.2 million. In addition, during the three and nine months ended September 30, 2018, we received payments and recorded reserve recoveries of \$1.4 million and \$2.3 million, respectively, related to previously written-off loans and investments.

During the three and nine months ended September 30, 2017, we determined that the fair value of the underlying collateral securing a preferred equity investment with an aggregate carrying value of \$34.8 million was less than the net carrying value of the investment, resulting in a \$2.0 million provision for loan losses. In addition, during the nine months ended September 30, 2017, a fully reserved mezzanine loan with a UPB of \$1.8 million paid off in full, which resulted in a \$1.8 million reserve recovery, and we recorded a reserve recovery of \$0.7 million on a multifamily bridge loan.

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The ratio of net recoveries to the average loans and investments outstanding was de minimus for the three months ended September 30, 2018 and 0.1% for all other periods presented.

There were no loans for which the fair value of the collateral securing the loan was less than the carrying value of the loan for which we had not recorded a provision for loan loss as of September 30, 2018 and 2017.

We have six loans with a carrying value totaling \$121.4 million at September 30, 2018 that are collateralized by a land development project. These loans were scheduled to mature in September 2018 and were extended to September 2019. The loans do not carry a current pay rate of interest, but five of the loans with a carrying value totaling \$112.0 million entitle us to a weighted average accrual rate of interest of 8.97%. In 2008, we suspended the recording of the accrual rate of interest on these loans, as they were impaired and we deemed the collection of this interest to be doubtful. At September 30, 2018 and December 31, 2017, we had cumulative allowances for loan losses of \$51.2 million and \$49.1 million, respectively, related to these loans. The loans are subject to certain risks associated with a development project including, but not limited to, availability of construction financing, increases in projected construction costs, demand for the development's outputs upon completion of the project, and litigation risk. Additionally, these loans were not classified as non-performing as the borrower is in compliance with all of the terms and conditions of the loans.

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

Asset Class	UPB	September 30, 2018		Three Months Ended September 30, 2018		September 30, 2018		September 30, 2018	
		Carrying Value (1)	Allowance for Loan Losses	Average Recorded Investment (2)	Interest Income Recognized	Average Recorded Investment (2)	Interest Income Recognized		
Land	\$ 134,215	\$ 127,886	\$ 57,751	\$ 133,387	\$ 26	\$ 132,651	\$ 75		
Hotel						17,375			
Office	2,274	2,274	1,500	2,277	33	2,281	93		
Commercial	1,700	1,700	1,700	1,700		1,700			
Total	\$ 138,189	\$ 131,860	\$ 60,951	\$ 137,364	\$ 59	\$ 154,007	\$ 168		

Asset Class	UPB	December 31, 2017		Three Months Ended September 30, 2017		September 30, 2017		September 30, 2017	
		Carrying Value (1)	Allowance for Loan Losses	Average Recorded Investment (2)	Interest Income Recognized	Average Recorded Investment (2)	Interest Income Recognized		
Land	\$ 131,086	\$ 124,812	\$ 53,883	\$ 131,086	\$	\$ 131,086	\$		
Hotel	34,750	34,750	5,700	34,750		34,750	371		
Office	2,288	2,288	1,500	27,551	28	27,556	79		
Commercial	1,700	1,700	1,700	1,700		1,700			
Multifamily						1,271	22		
Total	\$ 169,824	\$ 163,550	\$ 62,783	\$ 195,087	\$ 28	\$ 196,363	\$ 472		

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

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

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

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

September 30, 2018**December 31, 2017**

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Asset Class	Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due	Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due
Commercial	\$ 1,700	\$	\$ 1,700	\$ 1,700	\$	\$ 1,700
Hotel				34,750		34,750
Office	831		831			
Total	\$ 2,531	\$	\$ 2,531	\$ 36,450	\$	\$ 36,450

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

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

Given the transitional nature of some of our real estate loans, we may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. At September 30, 2018, we had total interest reserves of \$41.3 million on 98 loans with an aggregate UPB of \$2.01 billion. At December 31, 2017, we had total interest reserves of \$52.5 million on 81 loans with an aggregate UPB of \$1.57 billion.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****September 30, 2018****Note 4 Loans Held-for-Sale, Net**

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

	September 30, 2018	December 31, 2017
Fannie Mae	\$ 332,719	\$ 243,717
Freddie Mac	133,441	47,545
FHA	26,806	987
	492,966	292,249
Fair value of future MSR	8,459	5,806
Unearned discount	(1,144)	(612)
Loans held-for-sale, net	\$ 500,281	\$ 297,443

Our loans held-for-sale, net are typically sold within 60 days of loan origination and the gain on sales are included in gain on sales, including fee-based services, net in the consolidated statements of income. During the three and nine months ended September 30, 2018, we sold \$1.19 billion and \$3.27 billion, respectively, of loans held-for-sale and recorded gain on sales of \$15.9 million and \$48.1 million, respectively. During the three and nine months ended September 30, 2017, we sold \$1.05 billion and \$3.62 billion, respectively, of loans held-for-sale and recorded gains on sales of \$16.3 million and \$52.1 million, respectively. At September 30, 2018 and December 31, 2017, there were no loans held-for-sale that were 90 days or more past due, and there were no loans held-for-sale that were placed on a non-accrual status.

Note 5 Capitalized Mortgage Servicing Rights

Our capitalized mortgage servicing rights (MSRs) reflect commercial real estate MSRs derived from loans sold in our Agency Business. The discount rates used to determine the present value of our MSRs throughout the periods presented for all MSRs were between 8% - 15% (representing a weighted average discount rate of 12%) based on our best estimate of market discount rates. The weighted average estimated life remaining of our MSRs was 7.4 years and 7.2 years at September 30, 2018 and December 31, 2017, respectively.

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

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	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Acquired	Originated	Total	Acquired	Originated	Total
Balance at beginning of period	\$ 120,017	\$ 137,004	\$ 257,021	\$ 143,270	\$ 109,338	\$ 252,608
Additions		21,368	21,368		59,660	59,660
Amortization	(7,052)	(4,786)	(11,838)	(22,564)	(13,075)	(35,639)
Write-downs and payoffs	(4,419)	(2,731)	(7,150)	(12,160)	(5,068)	(17,228)
Balance at end of period	\$ 108,546	\$ 150,855	\$ 259,401	\$ 108,546	\$ 150,855	\$ 259,401

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Acquired	Originated	Total	Acquired	Originated	Total
Balance at beginning of period	\$ 168,189	\$ 74,894	\$ 243,083	\$ 194,801	\$ 32,942	\$ 227,743
Additions		20,720	20,720		66,273	66,273
Amortization	(8,952)	(2,759)	(11,711)	(29,074)	(6,353)	(35,427)
Write-downs and payoffs	(4,194)	(22)	(4,216)	(10,684)	(29)	(10,713)
Balance at end of period	\$ 155,043	\$ 92,833	\$ 247,876	\$ 155,043	\$ 92,833	\$ 247,876

We collected prepayment fees of \$7.5 million and \$16.2 million during the three and nine months ended September 30, 2018, respectively, which are included as a component of servicing revenue, net on the consolidated statements of income. During the three and nine months ended September 30, 2017, we collected prepayment fees totaling \$3.8 million and \$7.9 million, respectively. As of September 30, 2018 and December 31, 2017, we had no valuation allowance recorded on any of our MSRs.

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

Year	Amortization
2018 (three months ending 12/31/2018)	\$ 12,000
2019	45,946
2020	41,383
2021	34,919
2022	28,357
2023	23,850
Thereafter	72,946
Total	\$ 259,401

Note 6 Mortgage Servicing

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

September 30, 2018			Geographic Concentrations	
Product Concentrations		Percent of Total	State	UPB Percentage of Total
Fannie Mae	\$ 13,195,643	74%	Texas	21%
Freddie Mac	3,977,619	22%	North Carolina	10%
FHA	621,419	4%	California	8%
Total	\$ 17,794,681	100%	New York	8%
			Georgia	6%
			Florida	6%
			Other (1)	41%
			Total	100%

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

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FHA		537,482	3%	California	8%
Total	\$	16,206,315	100%	New York	8%
				Georgia	6%
				Florida	6%
				Other (1)	40%
				Total	100%

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

At September 30, 2018 and December 31, 2017, our weighted average servicing fee was 46.2 basis points and 47.7 basis points, respectively. At September 30, 2018 and December 31, 2017, we held total escrow balances of \$806.6 million and \$750.8 million, respectively, which is not reflected in our consolidated balance sheets. Of the total escrow balances, we held \$567.3 million and \$477.9 million at September 30, 2018 and December 31, 2017, respectively, related to loans we are servicing within our Agency Business. These escrows are maintained in

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separate accounts at several federally insured depository institutions, which may exceed FDIC insured limits. We earn interest income on the total escrow deposits, generally based on a market rate of interest negotiated with the financial institutions that hold the escrow deposits. Interest earned on total escrows, net of interest paid to the borrower, was \$3.7 million and \$8.6 million during the three and nine months ended September 30, 2018, respectively, and \$1.5 million and \$3.3 million during the three and nine months ended September 30, 2017, respectively, and is a component of servicing revenue, net in the consolidated statements of income.

Note 7 Securities Held-to-Maturity

Freddie Mac may choose to hold, sell or securitize loans we sell to them under the Freddie Mac SBL program. As part of the securitizations under the SBL program, we have the option to purchase the bottom tranche bond, generally referred to as the B Piece, that represents the bottom 10%, or highest risk, of the securitization. During the nine months ended September 30, 2018, we purchased two B Piece bonds with an initial face value of \$31.2 million, at a discount, for \$21.6 million. As of September 30, 2018, we retained 49%, or \$72.2 million initial face value, of five B Piece bonds, which were purchased at a discount for \$48.8 million, and sold the remaining 51% to a third party at par. These held-to-maturity securities are carried at cost, net of unamortized discounts, and are collateralized by a pool of multifamily mortgage loans, bear interest at an initial weighted average variable rate of 3.63% and have an estimated weighted average maturity of 5.7 years. The weighted average effective interest rate was 11.32% and 12.97% at September 30, 2018 and December 31, 2017, respectively, including the accretion of discount. Approximately \$10.7 million is estimated to mature within one year, \$30.6 million is estimated to mature after one year through five years, \$20.0 million is estimated to mature after five years through ten years and \$9.2 million is estimated to mature after ten years.

The following is a summary of our B Piece bonds classified as securities held-to-maturity (in thousands):

Period	Face Value	Carrying Value	Unrealized Gain	Estimated Fair Value
September 30, 2018	\$ 70,518	\$ 50,520	\$ 1,792	\$ 52,312
December 31, 2017	\$ 40,566	\$ 27,837	\$ 602	\$ 28,439

As of September 30, 2018, no impairment was recorded on these held-to-maturity securities. During the three and nine months ended September 30, 2018, we recorded interest income of \$0.6 million and \$1.7 million, respectively, and, during the three and nine months ended September 30, 2017, we recorded interest income of \$0.5 million and \$0.9 million, respectively, related to these investments.

Note 8 Investments in Equity Affiliates

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

Equity Affiliates	Investments in Equity Affiliates at		UPB of Loans to
	September 30, 2018	December 31, 2017	Equity Affiliates at
			September 30, 2018
Arbor Residential Investor LLC	\$ 19,781	\$ 19,193	
Lightstone Value Plus REIT L.P.	1,895	1,895	
JT Prime	425	425	
West Shore Café		2,140	1,688
East River Portfolio			
Lexford Portfolio			280,500
Total	\$ 22,101	\$ 23,653	\$ 282,188

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Arbor Residential Investor LLC (ARI). During the three and nine months ended September 30, 2018, we recorded income of \$0.4 million and \$1.2 million, respectively, and, during the three and nine months ended September 30, 2017, we recorded a loss of \$1.3 million and \$1.9 million, respectively, to (loss) income from equity affiliates in our consolidated statements of income related to our investment in this residential mortgage banking business. In addition, during the first quarter of 2018, we made a \$2.4 million payment for our proportionate share of a litigation settlement related to this investment, which was distributed back to us by our equity affiliate.

During the nine months ended September 30, 2018 and 2017, we received cash distributions totaling \$0.7 million and \$0.9 million, respectively, (which were classified as returns of capital) in connection with a joint venture that invests in non-qualified residential mortgages purchased from ARI s origination platform. The income associated with this investment for all periods presented were de minimus.

West Shore Café. We own a 50% noncontrolling interest in the West Shore Lake Café, a restaurant/inn lakefront property in Lake Tahoe, California. We provided a \$1.7 million first mortgage loan to an affiliated entity to acquire property adjacent to the original property, which is scheduled to mature in May 2019 and bears interest at LIBOR plus 4.0%. Current accounting guidance requires investments in equity affiliates to be evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. During the three months ended September 30, 2018, we determined that this investment exhibited indicators of impairment and, as a result of an impairment analysis performed; we recorded an other-than-temporary impairment of \$2.2 million for the full carrying amount of this investment, which was recorded in (loss) income from equity affiliates in the consolidated statement of income. In addition, during the three months ended September 30, 2018, we recorded a provision for loan loss of \$1.7 million, fully reserving the first mortgage loan.

Lexford Portfolio. During the three and nine months ended September 30, 2018, we received distributions of \$0.7 million and \$1.9 million, respectively, and, during the three and nine months ended September 30, 2017, we received distributions of \$0.7 million and \$2.0 million, respectively, from this equity investment, which was recognized as income. See Note 18 Agreements and Transactions with Related Parties for details.

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

Note 9 Real Estate Owned

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

Real Estate Owned

(in thousands)	September 30, 2018			December 31, 2017		
	Hotel Property	Office Building	Total	Hotel Property	Office Building	Total
Land	\$ 3,294	\$ 4,509	\$ 7,803	\$ 3,294	\$ 4,509	\$ 7,803
Building and intangible assets	31,008	2,010	33,018	30,699	2,010	32,709
<u>Less: Impairment loss</u>	(13,307)	(2,500)	(15,807)	(13,307)	(500)	(13,807)
<u>Less: Accumulated depreciation and amortization</u>	(9,642)	(809)	(10,451)	(9,228)	(690)	(9,918)
Real estate owned, net	\$ 11,353	\$ 3,210	\$ 14,563	\$ 11,458	\$ 5,329	\$ 16,787

For the nine months ended September 30, 2018 and 2017, our hotel property had a weighted average occupancy rate of 54% and 55%, respectively, a weighted average daily rate of \$113 for both periods and weighted average revenue per available room of \$61 and \$62, respectively. The operation of a hotel property is seasonal with the majority of revenues earned in the first two quarters of the calendar year. Of the total impairment losses recorded on our hotel property of \$13.3 million, \$2.7 million was recorded during the nine months ended September 30, 2017.

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

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

Note 10 Debt Obligations*Credit Facilities and Repurchase Agreements*

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

				September 30, 2018			December 31, 2017		
	Current Maturity	Extended Maturity	Note Rate	Debt Carrying Value (1)	Collateral Carrying Value	Wtd. Avg. Note Rate	Debt Carrying Value (1)	Collateral Carrying Value	Wtd. Avg. Note Rate
Structured Business									
\$375 million repurchase facility	Mar. 2020	Mar. 2021	L + 1.75% to 3.50%	\$ 334,582	\$ 470,650	4.53%	\$ 102,350	\$ 145,850	3.90%
\$100 million repurchase facility	June 2019	June 2020	L + 1.75% to 2.00%	94,024	132,107	4.09%	2,445	6,600	3.61%
\$75 million credit facility	Dec. 2018	N/A	L + 1.75% to 2.50%	20,355	30,469	4.07%			
\$75 million credit facility	June 2019	N/A	L + 2.00%	14,482	21,000	4.32%	8,999	16,000	3.61%
\$50 million credit facility	Feb. 2019	N/A	L + 2.00%	28,557	35,700	4.32%	32,538	40,700	3.61%
\$50 million credit facility	Sept. 2019	Sept. 2021	L + 2.50% to 3.25%				3,581	4,625	4.88%
\$25.5 million credit facility	Oct. 2019	N/A	L + 2.50%	15,773	34,000	4.83%	13,920	18,753	4.12%

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\$25 million working capital facility	June 2019	N/A	L + 2.25%				10,000		4.12%
\$23.2 million credit facility	Feb. 2020	Feb. 2021	L + 2.30%	23,068	30,900	4.62%			
\$20 million credit facility	Mar. 2020	Mar. 2021	L + 2.50%	19,904	41,650	4.83%			
\$17.4 million credit facility	June 2020	June 2021	L + 2.40%	12,405	15,844	4.73%			
\$8 million credit facility	Aug. 2021	N/A	L + 2.50%	7,941	10,000	4.83%			
\$7.5 million credit facility (2)	Sept. 2018	N/A	L + 2.75%				7,432	9,340	4.37%
Repurchase facility - securities (3)	N/A	N/A	L + 2.35% to 3.25%	102,701		4.97%	53,938		4.45%
\$3 million master security agreement	Oct. 2020	N/A	2.96% to 3.42%	1,337		3.20%	1,834		3.21%
\$2.2 million master security agreement	Mar. 2021	N/A	4.60%	1,854		4.66%			
Structured Business total				\$ 676,983	\$ 822,320	4.53%	\$ 237,037	\$ 241,868	4.02%

Agency Business

\$500 million ASAP agreement (4)	N/A	N/A	L + 1.05%	\$ 96,617	\$ 96,617	3.31%	\$ 121,880	\$ 121,880	2.61%
\$250 million credit facility (5)	June 2019	N/A	L + 1.25%	102,180	102,182	3.51%	23,785	23,785	2.86%
\$200 million repurchase facility	Aug. 2019	N/A	L + 1.275%	73,573	73,573	3.54%	24,827	24,873	2.91%
\$150 million credit facility	Jan. 2019	N/A	L + 1.30%	136,567	136,644	3.56%	21,802	21,821	2.96%
\$150 million credit facility	July 2019	N/A	L + 1.30%	83,666	83,783	3.56%	99,242	99,357	2.91%
Agency Business total				\$ 492,603	\$ 492,799	3.50%	\$ 291,536	\$ 291,716	2.78%
Consolidated total				\$ 1,169,586	\$ 1,315,119	4.10%	\$ 528,573	\$ 533,584	3.34%

(1) The debt carrying value for the Structured Business at September 30, 2018 and December 31, 2017 was net of unamortized deferred finance costs of \$2.6 million and \$2.2 million, respectively. The debt carrying value for the Agency Business at both September 30, 2018 and December 31, 2017 was net of unamortized deferred finance costs of \$0.2 million.

(2) In September 2018, the loan collateralizing this facility paid off and we simultaneously repaid this facility.

(3) As of September 30, 2018 and December 31, 2017, this facility was collateralized by CLO bonds retained by us with a principal balance of \$114.2 million and \$61.0 million, respectively, and B Piece bonds with a carrying value of \$50.5 million and \$27.8 million, respectively.

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

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- (5) The committed amount under the facility was temporarily increased \$150.0 million to \$250.0 million, which expires in January 2019.

Structured Business

At September 30, 2018 and December 31, 2017, the weighted average interest rate for the credit facilities and repurchase agreements of our Structured Business, including certain fees and costs, such as structuring, commitment, non-use and warehousing fees, was 4.86% and 4.51%, respectively. The leverage on our loans and investment portfolio financed through our credit facilities and repurchase agreements, excluding the securities repurchase facility, working capital line of credit and the security agreements used to finance leasehold and capital expenditure improvements at our corporate office, was 70% and 72% at September 30, 2018 and December 31, 2017, respectively.

In September 2018, we entered into an \$8.0 million credit facility to finance a healthcare facility bridge loan. The facility bears interest at a rate of 250 basis points over LIBOR and matures in August 2021.

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

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

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

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

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

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

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

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

Agency Business

In August 2018, we amended our \$100.0 million repurchase facility to increase the committed amount by \$100.0 million to \$200.0 million, reduced the interest rate from 135 basis points over LIBOR to 127.5 basis points over LIBOR and extended the maturity to August 2019.

In August 2018, we increased our letter of credit outstanding with Fannie Mae by \$2.0 million to \$44.0 million. Our letters of credit outstanding at September 30, 2018 also includes a \$5.0 million letter of credit for the Freddie Mac SBL program.

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In April 2018, we amended our \$150.0 million credit facility reducing the interest rate 5 basis points to 130 basis points over LIBOR, and, in August 2018, we amended this facility extending the maturity to July 2019.

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

Collateralized Loan Obligations (CLOs)

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

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

September 30, 2018	Face Value	Debt		Wtd. Avg. Rate (2)	UPB	Collateral (3)		Cash Restricted Cash (4)
		Carrying Value (1)				Loans	Carrying Value	
CLO X	\$ 441,000	\$ 436,132		3.76%	\$ 510,303	\$ 508,357	\$ 42,032	
CLO IX	356,400	351,934		3.67%	417,089	415,776	3,911	
CLO VIII	282,874	279,538		3.62%	304,078	303,302	39,409	
CLO VII	279,000	276,221		4.31%	285,134	284,322	43,885	
CLO VI	250,250	248,264		4.81%	276,083	275,086	40,342	
Total CLOs	\$ 1,609,524	\$ 1,592,089		3.98%	\$ 1,792,687	\$ 1,786,843	\$ 169,579	

December 31, 2017

CLO IX	\$ 356,400	\$ 351,042		2.97%	\$ 372,350	\$ 371,236	\$ 88,650
CLO VIII	282,874	278,606		2.92%	364,838	363,339	162
CLO VII	279,000	275,331		3.61%	346,524	345,220	13,476
CLO VI	250,250	247,470		4.10%	314,382	313,582	10,618
CLO V	267,750	265,973		4.06%	347,797	346,803	2,203
Total CLOs	\$ 1,436,274	\$ 1,418,422		3.48%	\$ 1,745,891	\$ 1,740,180	\$ 115,109

- (1) Debt carrying value is net of \$17.4 million and \$17.9 million of deferred financing fees at September 30, 2018 and December 31, 2017, respectively.
- (2) At September 30, 2018 and December 31, 2017, the aggregate weighted average note rate for our CLOs, including certain fees and costs, was 4.49% and 4.08%, respectively.
- (3) As of September 30, 2018 and December 31, 2017, there was no collateral at risk of default or deemed to be a credit risk as defined by the CLO indenture.
- (4) Represents restricted cash held for principal repayments as well as for reinvestment in the CLOs. Does not include restricted cash related to interest payments, delayed fundings and expenses.

CLO X In June 2018, we completed a collateralized securitization vehicle (CLO X), issuing seven tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling \$494.2 million. Of the total CLO notes issued, \$441.0 million were investment grade notes issued to third party investors and \$53.2 million were below investment grade notes retained by us. As of the CLO closing date, the notes were secured by a portfolio of loan obligations with a face value of \$501.9 million, consisting primarily of bridge loans that were contributed from our existing loan portfolio. The financing has a four-year replacement period that allows the principal proceeds and sale proceeds (if any) of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Initially, the proceeds of the issuance of the securities also included \$58.1 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the CLO closing date, which we subsequently utilized, resulting in the issuer owning loan obligations with a face value of \$560.0 million, representing leverage of 79%. We retained a residual interest in the portfolio with a notional amount of \$119.0 million, including the \$53.2 million below investment grade notes. The notes had an initial weighted average interest rate of 1.45% plus one-month LIBOR and interest payments on the notes are payable monthly.

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

Luxembourg Debt Fund

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

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

Period	Face Value	Debt		UPB	Collateral (3) Loans		Cash Restricted Cash (4)
		Carrying Value (1)	Wtd. Avg. Rate (2)		Carrying Value		
September 30, 2018	\$ 70,000	\$ 68,099	6.50%	\$ 98,696	\$ 98,261	\$	
December 31, 2017	\$ 70,000	\$ 68,084	5.79%	\$ 96,995	\$ 96,564	\$ 3,005	

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

(2) At September 30, 2018 and December 31, 2017, the aggregate weighted average note rate, including certain fees and costs, was 7.08% and 6.05%, respectively.

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

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

Senior Unsecured Notes

In March 2018, we issued \$100.0 million aggregate principal amount of 5.625% senior unsecured notes due in May 2023 (the Initial Notes) in a private placement, and, in May 2018, we issued an additional \$25.0 million (the Reopened Notes and, together with the Initial Notes, the 5.625% Notes,) which brought the aggregate outstanding principal amount to \$125.0 million. The Reopened Notes are fully fungible with, and rank equally in right of payment with the Initial Notes. We received total proceeds of \$122.3 million from the issuances, after deducting the underwriting discount and other offering expenses. We used the net proceeds from the Initial Notes to fully redeem our 7.375% senior unsecured notes due in 2021 (the 7.375% Notes) totaling \$97.9 million and the net proceeds from the Reopened Notes to make investments and for general corporate purposes. The 5.625% Notes are unsecured and can be redeemed by us at any time prior to April 1, 2023, at a redemption price equal to 100% of the aggregate principal amount, plus a make-whole premium and accrued and unpaid interest. We have the right to redeem the 5.625% Notes on or after April 1, 2023, at a redemption price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest. The interest is paid semiannually in May and November starting in November 2018. At September 30, 2018, the debt carrying value of the 5.625% Notes was \$122.4 million, net of \$2.6 million of deferred financing fees, and the weighted average note rate was 6.08%, including certain fees and costs.

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

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Convertible Senior Unsecured Notes

We issued \$264.5 million in aggregate principal amount of 5.25% convertible senior notes (the 5.25% Convertible Notes) through two separate private placement offerings during the three months ended September 30, 2018, which includes the exercised purchaser's total over-allotment option of \$34.5 million. The 5.25% Convertible Notes pay interest semiannually in arrears and are scheduled to mature in July 2021, unless earlier converted or repurchased by the holders pursuant to their terms. The initial conversion rates of the two offerings (\$115.0 million issued on July 3, 2018 and \$149.5 million issued on July 20, 2018) were 86.9943 shares and 77.8331 shares of common stock per \$1,000 of principal, respectively, representing a conversion price of \$11.50 per share and \$12.85 per share of common stock, respectively. The initial conversion rates and conversion prices remain unchanged at September 30, 2018.

We received proceeds totaling \$256.1 million from the offerings of our 5.25% Convertible Notes, net of the underwriter's discount and fees, which is being amortized through interest expense over the life of such notes. We used the net proceeds from the issuance primarily for the initial exchange of \$127.6 million of our 5.375% convertible senior unsecured notes (the 5.375% Convertible Notes) and \$99.8 million of our 6.50% convertible senior unsecured notes (the 6.50% Convertible Notes) for a combination of \$219.8 million in cash (which includes accrued interest) and 6.8 million shares of our common stock. The remaining net proceeds were used for general corporate purposes. In the three months ended September 30, 2018, we recorded a loss on extinguishment of debt of \$5.0 million in connection with these exchanges, which included an inducement charge of \$1.1 million.

At September 30, 2018, there were \$16.2 million and \$0.2 million aggregate principal amount remaining of our 5.375% Convertible Notes and 6.50% Convertible Notes, respectively. The initial conversion rates of the 5.375% Convertible Notes and 6.50% Convertible Notes were 107.7122 shares and 119.3033 shares, respectively, of common stock per \$1,000 of principal, which represented a conversion price of \$9.28 per share and \$8.38 per share of common stock, respectively. At September 30, 2018, the 5.375% Convertible Notes and 6.50% Convertible Notes had conversion rates of 109.2211 shares and 123.2929 shares, respectively, of common stock per \$1,000 of principal, which represented a conversion price of \$9.16 per share and \$8.11 per share of common stock, respectively. The 5.375% Convertible Notes and 6.50% Convertible Notes pay interest semiannually in arrears and have scheduled maturity dates in November 2020 and October 2019, respectively, unless earlier converted or repurchased by the holders pursuant to their terms.

Our convertible senior unsecured notes are not redeemable by us prior to their maturities and are convertible into, at our election, cash, shares of our common stock or a combination of both, subject to the satisfaction of certain conditions and during specified periods. The conversion rates are subject to adjustment upon the occurrence of certain specified events and the holders may require us to repurchase all, or any portion, of their notes for cash equal to 100% of the principal amount, plus accrued and unpaid interest, if we undergo a fundamental change specified in the agreements. We intend to settle the principal balance of our convertible debt in cash and have not assumed share settlement of the principal balance for purposes of computing EPS. At the time of issuance, there is no precedent or policy that would indicate that we would settle the principal in shares or the conversion spread in cash.

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Accounting guidance requires that convertible debt instruments with cash settlement features, including partial cash settlement, account for the liability component and equity component (conversion feature) of the instrument separately. The initial value of the liability component reflects the present value of the discounted cash flows using the nonconvertible debt borrowing rate at the time of the issuance. The debt discount represents the difference between the proceeds received from the issuance and the initial carrying value of the liability component, which is accreted back to the notes principal amount through interest expense over the term of the notes, which was 2.72 years and 2.41 years at September 30, 2018 and December 31, 2017, respectively, on a weighted average basis.

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

Period	UPB	Liability Component		Net Carrying Value	Equity Component Net Carrying Value
		Unamortized Debt Discount	Unamortized Deferred Financing Fees		
September 30, 2018	\$ 280,816	\$ 9,285	\$ 7,878	\$ 263,653	\$ 9,436
December 31, 2017	\$ 243,750	\$ 5,742	\$ 6,721	\$ 231,287	\$ 6,733

During the three months ended September 30, 2018, we incurred total aggregate interest expense on the notes of \$5.0 million, of which \$3.1 million, \$1.0 million and \$0.9 million related to the cash coupon, amortization of the deferred financing fees and of the debt discount, respectively. During the nine months ended September 30, 2018, we incurred total interest expense on the notes of \$16.0 million, of which \$9.9 million, \$4.1 million and \$2.0 million related to the cash coupon, amortization of the deferred financing fees and of the debt discount, respectively. During the three months ended September 30, 2017, we incurred total interest expense on the notes of \$2.2 million, of which \$1.6 million, \$0.4 million and \$0.2 million related to the cash coupon, amortization of the deferred financing fees and of the debt discount, respectively. During the nine months ended September 30, 2017, we incurred total interest expense on the notes of \$6.6 million, of which \$4.8 million, \$1.1 million and \$0.7 million related to the cash coupon, amortization of the deferred financing fees and of the debt discount, respectively. Including the amortization of the deferred financing fees and debt discount, our weighted average total cost of the notes is 7.45% per annum.

Junior Subordinated Notes

In the first quarter of 2017, we purchased, at a discount, \$20.9 million of our junior subordinated notes with a carrying value of \$19.8 million and recorded a gain on extinguishment of debt of \$7.1 million. As a result, we settled our related equity investment and extinguished \$21.5 million of notes. The carrying value of borrowings under our junior subordinated notes were \$140.1 million and \$139.6 million at September 30, 2018 and December 31, 2017, respectively, which is net of a deferred amount of \$12.1 million and \$12.5 million, respectively, (which is amortized into interest expense over the life of the notes) and deferred financing fees of \$2.1 million and \$2.2 million, respectively. These notes have maturities ranging from March 2034 through April 2037 and pay interest quarterly at a fixed or floating rate of interest based on LIBOR. The current weighted average note rate was 5.25% and 4.53% at September 30, 2018 and December 31, 2017, respectively. Including certain fees and costs, the weighted average note rate was 5.34% and 4.63% at September 30, 2018 and December 31, 2017, respectively.

Related Party Financing

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In connection with the Acquisition, we entered into a five year \$50.0 million preferred equity interest financing agreement with ACM to finance a portion of the aggregate purchase price. At December 31, 2017, the outstanding principal balance was \$50.0 million. In January 2018, we paid \$50.0 million in full satisfaction of this debt. During the nine months ended September 30, 2018, we recorded interest expense of \$0.3 million and, during the three and nine months ended September 30, 2017, we recorded interest expense of \$1.0 million and \$2.9 million, respectively.

Debt Covenants

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

CLOs. Our CLO vehicles contain interest coverage and asset overcollateralization covenants that must be met as of the waterfall distribution date for us to receive such payments. If we fail these covenants in any of our CLOs, all

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cash flows from the applicable CLO would be diverted to repay principal and interest on the outstanding CLO bonds and we would not receive any residual payments until that CLO regained compliance with such tests. Our CLOs were in compliance with all such covenants as of September 30, 2018, as well as on the most recent determination dates in October 2018. In the event of a breach of the CLO covenants that could not be cured in the near-term, we would be required to fund our non-CLO expenses, including employee costs, distributions required to maintain our REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CLO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, or (v) accessing the equity or debt capital markets, if available. We have the right to cure covenant breaches which would resume normal residual payments to us by purchasing non-performing loans out of the CLOs. However, we may not have sufficient liquidity available to do so at such time.

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

Cash Flow Triggers	CLO VI	CLO VII	CLO VIII	CLO IX	CLO X
<u>Overcollateralization (1)</u>					
Current	129.87%	129.03%	129.03%	134.68%	126.98%
Limit	128.87%	128.03%	128.03%	133.68%	125.98%
Pass / Fail	Pass	Pass	Pass	Pass	Pass
<u>Interest Coverage (2)</u>					
Current	208.68%	212.40%	268.75%	276.05%	236.32%
Limit	120.00%	120.00%	120.00%	120.00%	120.00%
Pass / Fail	Pass	Pass	Pass	Pass	Pass

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

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

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	\$ 31,402	\$ 32,797	\$ 30,511	\$ 32,407
Provisions for loss sharing	2,924	1,265	5,263	5,410
Provisions reversal for loan repayments	(905)	(3,882)	(2,423)	(5,815)
(Charge-offs) recoveries, net	(16)	(22)	54	(1,844)
Ending balance	\$ 33,405	\$ 30,158	\$ 33,405	\$ 30,158

When we settle a loss under the DUS loss-sharing model, the net loss is charged-off against the previously recorded loss-sharing obligation. The settled loss is often net of any previously advanced principal and interest payments in accordance with the DUS program, which are reflected as reductions to the proceeds needed to settle losses. At both September 30, 2018 and December 31, 2017, we had outstanding advances of \$0.1 million, which were netted against the allowance for loss-sharing obligations.

At September 30, 2018 and December 31, 2017, the maximum quantifiable liability associated with our guarantees under the Fannie Mae DUS agreement was \$2.38 billion and \$2.24 billion, respectively. The maximum quantifiable liability is not representative of the actual loss we would incur. We would be liable for this amount only if all of the loans we service for Fannie Mae, for which we retain some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement.

Note 12 Derivative Financial Instruments

The following is a summary of our non-qualifying derivative financial instruments held by our Agency Business (\$ in thousands):

Derivative	Count	Notional Value	September 30, 2018	
			Balance Sheet Location	Fair Value
			Derivative Assets	Derivative Liabilities
Rate Lock Commitments	6	\$ 37,965	Other Assets/ Other Liabilities	\$ 749 \$ (28)

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Forward Sale Commitments	57		530,931	Other Assets/ Other Liabilities	177		(3,378)
		\$	568,896		\$	926	\$ (3,406)

				December 31, 2017			
Rate Lock Commitments	3	\$	38,578	Other Assets/ Other Liabilities	\$	276	\$ (278)
Forward Sale Commitments	75		330,827	Other Assets/ Other Liabilities		408	(1,028)
		\$	369,405		\$	684	\$ (1,306)

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

These commitments meet the definition of a derivative and are recorded at fair value, including the effects of interest rate movements which are reflected as a component of other income, net in the consolidated statements of income. The estimated fair value of rate lock commitments also includes the fair value of the expected net cash flows associated with the servicing of the loan which is recorded as income from MSR in the consolidated statements of income. During the three and nine months ended September 30, 2018, we recorded a net loss of \$4.4 million and \$2.3 million, respectively, from changes in the fair value of these derivatives in other income, net and \$25.2 million and \$62.8 million, respectively, of income from MSR. During the three and nine months ended September 30, 2017, we recorded net gains of \$0.2 million and net losses of \$2.3 million, respectively, from changes in the fair value of these derivatives in other income, net and \$18.9 million and \$56.2 million, respectively, of income from MSR. See Note 13 Fair Value for details.

Note 13 Fair Value

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

	September 30, 2018			December 31, 2017		
	Principal / Notional Amount	Carrying Value	Estimated Fair Value	Principal / Notional Amount	Carrying Value	Estimated Fair Value
Financial assets:						
Loans and investments, net	\$ 3,170,117	\$ 3,097,689	\$ 3,154,139	\$ 2,652,538	\$ 2,579,127	\$ 2,652,520
Loans held-for-sale, net	492,966	500,281	507,698	292,249	297,443	302,883
Capitalized mortgage servicing rights, net	n/a	259,401	312,316	n/a	252,608	286,073
Securities held-to-maturity, net	70,518	50,520	52,312	40,566	27,837	28,439
Derivative financial instruments	155,202	926	926	77,984	684	684

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Financial liabilities:

Credit and repurchase facilities	\$	1,172,413	\$	1,169,586	\$	1,170,235	\$	530,938	\$	528,573	\$	529,992
Collateralized loan obligations		1,609,524		1,592,089		1,616,293		1,436,274		1,418,422		1,436,871
Debt fund		70,000		68,099		70,135		70,000		68,084		70,000
Senior unsecured notes		125,000		122,358		124,375		97,860		95,280		99,582
Convertible senior unsecured notes, net		280,816		263,653		289,560		243,750		231,287		254,335
Junior subordinated notes		154,336		140,084		95,458		154,336		139,590		94,215
Related party financing								50,000		50,000		49,682
Derivative financial instruments		413,694		3,406		3,406		291,421		1,306		1,306

Assets and liabilities disclosed at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

Level 1 Inputs are unadjusted and quoted prices exist in active markets for identical assets or liabilities, such as government, agency and equity securities.

Level 2 Inputs (other than quoted prices included in Level 1) are observable for the asset or liability through correlation with market data. Level 2 inputs may include quoted market prices for a similar asset or liability, interest

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rates and credit risk. Examples include non-government securities, certain mortgage and asset-backed securities, certain corporate debt and certain derivative instruments.

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

Determining which category an asset or liability falls within the hierarchy requires significant judgment and we evaluate our hierarchy disclosures each quarter.

The following is a description of the valuation techniques used to measure fair value and the general classification of these instruments pursuant to the fair value hierarchy.

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

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

Capitalized mortgage servicing rights, net. Fair values are estimated using Level 3 inputs based on discounted future net cash flow methodology. The fair value of MSR carried at amortized cost are estimated using a process that involves the use of independent third-party valuation experts, supported by commercially available discounted cash flow models and analysis of current market data. The key inputs used in estimating fair value include the contractually

specified servicing fees, prepayment speed of the underlying loans, discount rate, annual per loan cost to service loans, delinquency rates, late charges and other economic factors.

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

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

Credit facilities and repurchase agreements. Fair values for credit facilities and repurchase agreements of the Structured Business are estimated at Level 3 using discounted cash flow methodology, using discount rates, which, in our opinion, best reflect current market interest rates for financing with similar characteristics and credit quality. The majority of our credit facilities and repurchase agreement for the Agency Business bear interest at rates that are

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similar to those available in the market currently and the fair values are estimated using Level 2 inputs. For these facilities, the fair values approximate their carrying values.

Collateralized loan obligations, Debt Fund, junior subordinated notes and related party financing. Fair values are estimated at Level 3 based on broker quotations, representing the discounted expected future cash flows at a yield that reflects current market interest rates and credit spreads.

Senior unsecured notes. Fair values are estimated at Level 1 when current market quotes received from active markets are available. If quotes from active markets are unavailable, then the fair values are estimated at Level 2 utilizing current market quotes received from inactive markets.

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

We measure certain financial assets and financial liabilities at fair value on a recurring basis. The fair values of these financial assets and liabilities were determined using the following input levels as of September 30, 2018 (in thousands):

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Derivative financial instruments	\$ 926	\$ 926	\$	\$ 177	\$ 749
Financial liabilities:					
Derivative financial instruments	\$ 3,406	\$ 3,406	\$	\$ 3,406	\$

We measure certain financial and non-financial assets at fair value on a nonrecurring basis. The fair values of these financial and non-financial assets were determined using the following input levels as of September 30, 2018 (in thousands):

	Net Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Impaired loans, net (1)	\$ 70,909	\$ 70,909	\$	\$	\$ 70,909
Non-financial assets:					
Long-lived assets (2)	\$ 14,563	\$ 14,563	\$	\$	\$ 14,563

(1) We had an allowance for loan losses of \$61.0 million relating to five loans with an aggregate carrying value, before loan loss reserves, of \$131.9 million at September 30, 2018.

(2) We recorded a \$2.0 million impairment loss during the nine months ended September 30, 2018 on the office building we own. See Note 9 Real Estate Owned for details.

Loan impairment assessments. Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses, when such loan or investment is deemed to be impaired. We consider a loan impaired when, based upon current information, it is probable that we will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. We evaluate our loans to determine if the value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, which may result in an allowance and corresponding charge to the provision for loan losses. These valuations require significant judgments, which include assumptions regarding capitalization and discount rates, revenue growth rates,

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

Long-lived assets. We review our real estate owned assets when events or circumstances change, indicating that the carrying amount of an asset may not be partially or fully recoverable. In the evaluation of a real estate owned asset for impairment, many factors are considered, including broker quotes, estimated current and expected operating cash flows from the asset during the projected holding period, costs necessary to extend the life or improve the asset, expected capitalization rates, projected stabilized net operating income, selling costs, and the ability to hold and dispose of the asset in the ordinary course of business. We first compare the undiscounted cash flows to be generated by the asset and broker quotes, if any, to the carrying value of such asset. If the undiscounted cash flows and/or broker quotes are less than the carrying value, we recognize an impairment loss by comparing the carrying value of the asset to its fair value.

Quantitative information about Level 3 fair value measurements at September 30, 2018 were as follows (\$ in thousands):

	Fair Value	Valuation Techniques	Significant Unobservable Inputs	
Financial assets:				
<u>Impaired loans:</u>				
Land	\$ 70,135	Discounted cash flows	Discount rate	15.00%
			Capitalization rate	7.25%
			Revenue growth rate	3.00%
Office	774	Discounted cash flows	Discount rate	10.53%
			Capitalization rate	8.53%
			Revenue growth rate	2.63%
<u>Derivative financial instruments:</u>				
Rate lock commitments	749	Discounted cash flows	W/A discount rate	10.15%
Non-financial assets:				
<u>Long-lived assets:</u>				
Office Building	\$ 3,210	Broker quotes	N/A	N/A

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

	Fair Value Measurements Using Significant Unobservable Inputs			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Derivative assets and liabilities, net				
Balance at beginning of period	\$ 606	\$ 1,420	\$ 276	\$ 2,816
Settlements	(17,793)	(18,897)	(62,313)	(57,578)
Realized gains recorded in earnings	17,187	17,477	62,037	54,762
Unrealized gains recorded in earnings	749	420	749	420
Balance at end of period	\$ 749	\$ 420	\$ 749	\$ 420

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

	Notional/ Principal Amount	Fair Value of Servicing Rights	Interest Rate Movement Effect	Total Fair Value Adjustment
September 30, 2018				
Rate lock commitments	\$ 37,965	\$ 749	\$ (28)	\$ 721
Forward sale commitments	530,931		28	28
Loans held-for-sale, net (1)	492,966	8,459		8,459
Total		\$ 9,208	\$	\$ 9,208

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

We measure certain assets and liabilities for which fair value is only disclosed. The fair value of these assets and liabilities was determined using the following input levels as of September 30, 2018 (in thousands):

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Loans and investments, net	\$ 3,097,689	\$ 3,154,139	\$	\$	\$ 3,154,139
Loans held-for-sale, net	500,281	507,698		499,239	8,459
Capitalized mortgage servicing rights, net	259,401	312,316			312,316
Securities held-to-maturity, net	50,520	52,312			52,312
Financial liabilities:					
Credit and repurchase facilities	\$ 1,169,586	\$ 1,170,235	\$	\$ 492,603	\$ 677,632
Collateralized loan obligations	1,592,089	1,616,293			1,616,293
Debt fund	68,099	70,135			70,135
Senior unsecured notes	122,358	124,375	124,375		
Convertible senior unsecured notes, net	263,653	289,560		289,560	
Junior subordinated notes	140,084	95,458			95,458

Note 14 Commitments and Contingencies

Debt Obligations. Our debt obligations have maturities of \$565.9 million for the remainder of 2018, \$356.2 million in 2019, \$972.0 billion in 2020, \$872.3 million in 2021, \$244.2 million in 2022 and \$401.4 million thereafter.

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

As of September 30, 2018, we were required to maintain at least \$12.9 million of liquid assets in one of our subsidiaries to meet our operational liquidity requirements for Fannie Mae and we had operational liquidity in excess of this requirement.

We are generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program and are required to secure this obligation by assigning restricted cash balances and/or a letter of credit to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level by a Fannie Mae assigned tier which considers the loan balance, risk level of the loan, age of the loan and level of risk-sharing. Fannie Mae requires restricted liquidity for Tier 2 loans of 75 basis points, 15 basis points for Tier 3 loans and 5 basis points for Tier 4 loans, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. A significant portion of our Fannie Mae DUS serviced loans for which we have risk sharing are Tier 2 loans. As of September 30, 2018, we met the restricted liquidity requirement with a \$44.0 million letter of credit.

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As of September 30, 2018, reserve requirements for the Fannie Mae DUS loan portfolio will require us to fund \$29.7 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within our at-risk portfolio. Fannie Mae periodically reassesses these collateral requirements and may make changes to these requirements in the future. We generate sufficient cash flow from our operations to meet these capital standards and do not expect any changes to have a material impact on our future operations; however, future changes to collateral requirements may adversely impact our available cash.

We are subject to various capital requirements in connection with seller/servicer agreements that we have entered into with secondary market investors. Failure to maintain minimum capital requirements could result in our inability to originate and service loans for the respective investor and, therefore, could have a direct material effect on our consolidated financial statements. As of September 30, 2018, we met all of Fannie Mae's quarterly capital requirements and our Fannie Mae adjusted net worth was in excess of the required net worth. We are not subject to capital requirements on a quarterly basis for Ginnie Mae or FHA, as such requirements for these investors are only required on an annual basis.

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

We enter into contractual commitments with borrowers providing rate lock commitments while simultaneously entering into forward sale commitments with investors. These commitments are outstanding for short periods of time (generally less than 60 days) and are described in Note 12 Derivative Financial Instruments and Note 13 Fair Value.

Unfunded Commitments. In accordance with certain structured loans and investments, we have outstanding unfunded commitments of \$68.6 million as of September 30, 2018 that we are obligated to fund as borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations, building construction and conversions based on criteria met by the borrower in accordance with the loan agreements.

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

In June 2011, three related lawsuits were filed by the Extended Stay Litigation Trust (the Trust), a post-bankruptcy litigation trust alleged to have standing to pursue claims that previously had been held by Extended Stay, Inc. and the Homestead Village L.L.C. family of companies (together ESI) (formerly Chapter 11 debtors, together the Debtors) that have emerged from bankruptcy. Two of the lawsuits were filed in the U.S. Bankruptcy Court for the Southern District of New York, and the third in the Supreme Court of the State of New York, New York County. There were 73 defendants in the three lawsuits, including 55 corporate and partnership entities and 18 individuals. A subsidiary of ours and

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certain other entities that are affiliates of ours are included as defendants. The New York State Court action has been removed to the Bankruptcy Court. Our affiliates filed a motion to dismiss the three lawsuits.

The lawsuits all allege, as a factual basis and background certain facts surrounding the June 2007 leveraged buyout of ESI from affiliates of Blackstone Capital. Our subsidiary, Arbor ESH II, LLC, had a \$115.0 million investment in the Series A1 Preferred Units of a holding company of Extended Stay, Inc. The New York State Court action and one of the two federal court actions name as defendants, Arbor ESH II, LLC, ACM and ABT-ESI LLC, an entity in which we have a membership interest, among the broad group of defendants. These two actions were commenced by substantially identical complaints. The defendants are alleged in these complaints, among other things, to have breached fiduciary and contractual duties by causing or allowing the Debtors to pay illegal dividends or other improper distributions of value at a time when the Debtors were insolvent. These two complaints also allege that the defendants aided and abetted, induced, or participated in breaches of fiduciary duty, waste, and unjust enrichment (Fiduciary Duty Claims) and name a director of ours, and a former general counsel of ACM, each of whom had served on the Board of Directors of ESI for a period of time. We are defending these two defendants and paying the

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costs of such defense. On the basis of the foregoing allegations, the Trust has asserted claims under a number of common law theories, seeking the return of assets transferred by the Debtors prior to the Debtors' bankruptcy filing.

In the third action, filed in Bankruptcy Court, the same plaintiff, the Trust, has named ACM and ABT-ESI LLC, together with a number of other defendants and asserts claims, including constructive and fraudulent conveyance claims under state and federal statutes, as well as a claim under the Federal Debt Collection Procedure Act.

In June 2013, the Trust filed a motion to amend the lawsuits, to, among other things, (i) consolidate the lawsuits into one lawsuit, (ii) remove 47 defendants, none of whom are related to us, from the lawsuits so that there are 26 remaining defendants, including 16 corporate and partnership entities and 10 individuals, and (iii) reduce the counts within the lawsuits from over 100 down to 17. The remaining counts in the amended complaint against our affiliates are principally state law claims for breach of fiduciary duties, waste, unlawful dividends and unjust enrichment, and claims under the Bankruptcy Code for avoidance and recovery actions, among others. The bankruptcy court granted the motion and the amended complaint has been filed. The amended complaint seeks approximately \$139.0 million in the aggregate, plus interest from the date of the alleged unlawful transfers, from director designees, portions of which are also sought from our affiliates as well as from unaffiliated defendants. We have moved to dismiss the referenced actions and intend to vigorously defend against the claims asserted therein. During a status conference held in March 2014, the Court heard oral argument on the motion to dismiss and adjourned the case pending a ruling. Subsequent to that hearing, a new judge was assigned to the case and, in November 2016, the new judge entered an order directing the parties to file supplemental briefs addressing new cases decided since the last round of briefing. Oral arguments regarding the motion to dismiss were heard at a hearing held in January 2017. The Court reserved decision at that hearing.

We have not made a loss accrual for this litigation because we believe that it is not probable that a loss has been incurred and an amount cannot be reasonably estimated.

Litigation Settlement. In July 2018, we received net proceeds of \$10.2 million from the settlement of a litigation related to a prior investment, which was recognized as a gain in the three months ended September 30, 2018.

Due to Borrowers. Due to borrowers represents borrowers' funds held by us to fund certain expenditures or to be released at our discretion upon the occurrence of certain pre-specified events, and to serve as additional collateral for borrowers' loans. While retained, these balances earn interest in accordance with the specific loan terms they are associated with.

Note 15 Variable Interest Entities

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

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

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

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

	September 30, 2018	December 31, 2017
Assets:		
Restricted cash	\$ 201,986	\$ 138,736
Loans and investments, net	1,885,104	1,836,744
Due from related party	95,045	
Other assets	15,408	14,011
Total assets	\$ 2,197,543	\$ 1,989,491
Liabilities:		
Collateralized loan obligations	\$ 1,592,089	\$ 1,418,422
Debt fund	68,099	68,084
Other liabilities	3,013	2,046
Total liabilities	\$ 1,663,201	\$ 1,488,552

Assets held by the CLOs and Debt Fund are restricted and can only be used to settle obligations of the CLOs and Debt Fund, respectively. The liabilities of the CLOs and Debt Fund are non-recourse to us and can only be satisfied from each respective asset pool. See Note 10 Debt Obligations for details. We are not obligated to provide, have not provided, and do not intend to provide financial support to any of the consolidated CLOs or Debt Fund.

Unconsolidated VIEs. We determined that we are not the primary beneficiary of 23 VIEs in which we have a variable interest as of September 30, 2018 because we do not have the ability to direct the activities of the VIEs that most significantly impact each entity's economic performance.

The following is a summary of our variable interests in identified VIEs, of which we are not the primary beneficiary, as of September 30, 2018 (in thousands):

Type	Carrying Amount (1)
Loans	\$ 287,166
B Piece bonds	50,520
Agency interest only strips	3,512
Total	\$ 341,198

(1) Represents the carrying amount of loans and investments before reserves. At September 30, 2018, \$130.2 million of loans to VIEs had corresponding loan loss reserves of \$59.3 million. See Note 3 Loans and Investments for details. In

addition, the maximum loss exposure as of September 30, 2018 would not exceed the carrying amount of our investment.

These unconsolidated VIEs have exposure to real estate debt of approximately \$3.01 billion at September 30, 2018.

Note 16 Equity

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

Common Stock. In July 2018, we issued 6,820,196 shares in connection with the exchange of our 5.375% Convertible Notes and 6.50% Convertible Notes. See Note 10 Debt Obligations for details.

In May 2018, we completed a public offering in which we sold 5,500,000 shares of our common stock for \$8.72 per share, and received net proceeds of \$47.8 million after deducting the underwriter's discount and other offering expenses. The proceeds were used to make investments and for general corporate purposes.

We have an At-The-Market equity offering sales agreement with JMP Securities LLC (JMP,) which entitles us to issue and sell up to 7,500,000 shares of our common stock through JMP. Sales of the shares are made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, or at negotiated prices.

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During the nine months ended September 30, 2018, we sold 952,700 shares for net proceeds of \$8.1 million. As of September 30, 2018, we had approximately 6,500,000 shares available under this agreement.

In June 2018, we filed, and the SEC declared effective, a new shelf registration statement for \$500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants.

Noncontrolling Interest. Noncontrolling interest relates to the operating partnership units (OP Units) issued to satisfy a portion of the Acquisition purchase price. Upon the closing of the Acquisition in 2016, we issued 21,230,769 OP Units. The value of these OP Units at the Acquisition date was \$154.8 million. Each of these OP Units are paired with one share of our special voting preferred shares having a par value of \$0.01 per share and is entitled to one vote each on any matter submitted for stockholder approval. In August 2018, ACM distributed 577,185 OP Units and special voting preferred shares to two of its partners in consideration for their respective membership interests, which were redeemed by us for cash totaling \$6.8 million. At September 30, 2018, there were 20,653,584 OP Units outstanding, which represents approximately 21.4% of the voting power of our outstanding stock. The OP Units are entitled to receive distributions if and when our Board of Directors authorizes and declares common stock distributions. The OP Units are also redeemable for cash, or at our option, for shares of our common stock on a one-for-one basis.

Distributions. Dividends declared (on a per share basis) during the nine months ended September 30, 2018 were as follows:

Common Stock			Preferred Stock			
Declaration Date	Dividend	Declaration Date	Series A	Dividend (1)		Series C
				Series B		
February 21, 2018	\$ 0.21	February 2, 2018	\$ 0.515625	\$ 0.484375		\$ 0.53125
May 2, 2018	\$ 0.25	May 2, 2018	\$ 0.515625	\$ 0.484375		\$ 0.53125
August 1, 2018	\$ 0.25	August 1, 2018	\$ 0.515625	\$ 0.484375		\$ 0.53125

(1) The dividend declared on August 1, 2018 was for June 1, 2018 through August 31, 2018, the dividend declared on May 2, 2018 was for March 1, 2018 through May 31, 2018 and the dividend declared on February 2, 2018 was for December 1, 2017 through February 28, 2018.

Common Stock On October 31, 2018, the Board of Directors declared a cash dividend of \$0.27 per share of common stock. The dividend is payable on November 30, 2018 to common stockholders of record as of the close of business on November 15, 2018.

Preferred Stock On October 31, 2018, 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 September 1, 2018 through November 30, 2018 and are payable on November 30, 2018 to preferred stockholders of record on November 15, 2018.

Deferred Compensation. In August 2018, we issued our chief executive officer 294,985 shares of performance-based restricted stock under his 2017 annual incentive agreement as a result of the Company meeting its goals related to the integration of the Acquisition. The award had a grant date fair value of \$3.4 million and we recorded \$0.2 million to employee compensation and benefits in our consolidated statements of income.

In March 2018, we issued 265,444 shares of restricted common stock under the 2017 Amended Omnibus Stock Incentive Plan (the 2017 Plan) to certain employees of ours with a total grant date fair value of \$2.3 million and recorded \$0.8 million to employee compensation and benefits in our consolidated statements of income. One third of the shares vested as of the grant date, one third will vest in March 2019, and the remaining third will vest in March 2020. In March 2018, we also issued 58,620 shares of fully vested common stock to the independent members of the Board of Directors under the 2017 Plan and recorded \$0.5 million to selling and administrative expense in our consolidated statements of income.

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During the first quarter of 2018, we issued 63,584 shares of restricted common stock to our chief executive officer under his 2017 annual incentive agreement with a grant date fair value of \$0.6 million and recorded \$0.1 million to employee compensation and benefits in our consolidated statements of income. One quarter of the shares vested as of the grant date and one quarter will vest on each of the first, second and third anniversaries of the grant date. Our chief executive officer was also granted up to 381,503 performance-based restricted stock units that vest at the end of a four-year performance period based on our achievement of certain total stockholder return objectives. The restricted stock units had a grant date fair value of \$0.8 million and we recorded less than \$0.1 million to employee compensation and benefits in our consolidated statements of income.

Earnings Per Share (EPS). Basic EPS is calculated by dividing net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during each period inclusive of unvested restricted stock with full dividend participation rights. Diluted EPS is calculated by dividing net income by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period using the treasury stock method. Our common stock equivalents include the weighted average dilutive effect of performance-based restricted stock units granted to our chief executive officer, OP Units and convertible senior unsecured notes.

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

	2018		Three Months Ended September 30,	
	Basic	Diluted	Basic	Diluted
Net income attributable to common stockholders (1)	\$ 27,737	\$ 27,737	\$ 16,421	\$ 16,421
Net income attributable to noncontrolling interest (2)		7,799		5,662
Net income attributable to common stockholders and noncontrolling interest	\$ 27,737	\$ 35,536	\$ 16,421	\$ 22,083
Weighted average shares outstanding	74,802,582	74,802,582	61,582,796	61,582,796
Dilutive effect of OP Units (2)		21,023,735		21,230,769
Dilutive effect of restricted stock units (3)		1,559,217		1,104,552
Dilutive effect of convertible notes (4)		1,050,430		
Weighted average shares outstanding	74,802,582	98,435,964	61,582,796	83,918,117
Net income per common share (1)	\$ 0.37	\$ 0.36	\$ 0.27	\$ 0.26

Nine Months Ended September 30,

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	2018		2017	
Net income attributable to common stockholders (1)	\$ 71,093	\$ 71,093	\$ 43,964	\$ 43,964
Net income attributable to noncontrolling interest (2)		22,347		16,597
Net income attributable to common stockholders and noncontrolling interest	\$ 71,093	\$ 93,440	\$ 43,964	\$ 60,561
Weighted average shares outstanding	67,490,132	67,490,132	56,602,504	56,602,504
Dilutive effect of OP Units (2)		21,160,999		21,230,769
Dilutive effect of restricted stock units (3)		1,441,264		1,077,178
Dilutive effect of convertible notes (4)		1,041,212		32,468
Weighted average shares outstanding	67,490,132	91,133,607	56,602,504	78,942,919
Net income per common share (1)	\$ 1.05	\$ 1.03	\$ 0.78	\$ 0.77

(1) Net of preferred stock dividends.

(2) We consider OP Units to be common stock equivalents as the holders have voting rights, the right to distributions and the right to redeem the OP Units for the cash value of a corresponding number of shares of common stock or a corresponding number of shares of common stock, at our election.

(3) Mr. Kaufman is granted restricted stock units annually, which vest at the end of a four-year performance period based upon our achievement of total stockholder return objectives.

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

Note 17 Income Taxes

As a REIT, we are generally not subject to U.S. federal income tax to the extent of our distributions to stockholders and as long as certain asset, income, distribution, ownership and administrative tests are met. To maintain our qualification as a REIT, we must annually distribute at least 90% of our REIT taxable income to our stockholders and meet certain other requirements. We may also be subject to certain state, local and franchise taxes. Under certain circumstances, federal income and excise taxes may be due on our undistributed taxable income. If we were to fail to meet these requirements, we would be subject to U.S. federal income tax, which could have a material adverse impact on our results of operations and amounts available for distributions to our stockholders. We believe that all of the criteria to maintain our REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods.

The Agency Business is operated through our TRS Consolidated Group and is subject to U.S. federal, state and local income taxes. In general, our TRS entities may hold assets that the REIT cannot hold directly and may engage in real estate or non-real estate-related business.

The Tax Cuts and Jobs Act (Tax Reform) was signed into law on December 22, 2017. Among numerous provisions included in the new tax law was the reduction of the corporate federal income tax rate from 35% to 21%. Our provision for income taxes in the nine months ended September 30, 2018 reflects the newly enacted corporate federal income tax rate of 21%. The final impact of the Tax Reform may differ due to, and among other things, changes in interpretations, assumptions made by us, the issuance of additional guidance and actions we may take as a result of the Tax Reform.

In the three and nine months ended September 30, 2018, we recorded a tax provision of \$5.4 million and \$1.1 million, respectively. In the three and nine months ended September 30, 2017, we recorded a tax provision of \$6.7 million and \$16.2 million, respectively. The provision for income taxes recorded in the three months ended September 30, 2018 consisted of a current tax provision of \$6.7 million and a deferred tax benefit of \$1.3 million. The tax provision recorded in the nine months ended September 30, 2018 consisted of a current tax provision of \$15.6 million and a deferred tax benefit of \$14.5 million. The deferred tax benefit recorded in the nine months ended September 30, 2018 was due primarily to our payoff in January 2018 of the \$50.0 million preferred equity interest entered into with ACM to finance a portion of the Acquisition purchase price. When we entered into the Acquisition, we established a deferred tax liability in connection with the \$50.0 million preferred equity interest. Upon payoff in January 2018, the deferred tax liability was written off. See Note 10 Debt Obligations for details. The provision for income taxes recorded in the three months ended September 30, 2017 consisted of a current tax provision of \$7.6 million and a deferred tax benefit of \$0.9 million. The provision for income taxes recorded in the nine months ended September 30, 2017 consisted of a current tax provision of \$16.2 million.

Current and deferred taxes are primarily recorded on the portion of earnings (losses) recognized by us with respect to our interest in the TRS s. Deferred income tax assets and liabilities are calculated based on temporary differences between our U.S. GAAP consolidated financial statements and the federal, state, local tax basis of assets and liabilities as of the consolidated balance sheets.

Note 18 Agreements and Transactions with Related Parties

Management Agreement. Prior to May 31, 2017, we had a management agreement with ACM, pursuant to which ACM provided us with a variety of professional and advisory services vital to our operations, including underwriting, accounting and treasury, compliance, marketing, information technology and human resources. Pursuant to the terms of the management agreement, we reimbursed ACM for its actual costs incurred in connection with managing our business through a base management fee, and, under certain circumstances, an annual incentive fee. In May 2017, we terminated the existing management agreement. We incurred base management fees of \$6.7 million in the nine months ended September 30, 2017.

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We have a shared services agreement with ACM where we provide limited support services to ACM and they reimburse us for the costs of performing such services. During the three and nine months ended September 30, 2018, we incurred \$0.3 million and \$0.9 million, respectively, and, during the three and nine months ended September 30, 2017, we incurred \$0.3 million and \$0.4 million, respectively, of costs for services provided to ACM, which are included in due from related party on the consolidated balance sheets.

Other Related Party Transactions. Due from related party was \$97.5 million and \$0.7 million at September 30, 2018 and December 31, 2017, respectively. The increase was primarily due to payoffs to be remitted by our affiliated servicing operations related to real estate transactions.

Due to related party was \$0.5 million at September 30, 2018 and consisted of loan payoffs, holdbacks and escrows to be remitted to our affiliated servicing operations related to real estate transactions.

In August 2018, we originated a \$17.7 million bridge loan to an entity owned, in part, by an immediate family member of our chief executive officer, who owns a 10.8% interest in the borrowing entity. The loan was used to purchase several undeveloped parcels of land. The loan has a fixed interest rate of 10% and matures in May 2019. Interest income recorded from this loan totaled \$0.3 million for both the three and nine months ended September 30, 2018.

In June 2018, we originated a \$21.7 million bridge loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 75% in the borrowing entity. The loan has an interest rate of LIBOR plus 4.75%, with a LIBOR floor of 1.25%, and matures in June 2021. Interest income recorded from this loan totaled \$0.3 million and \$0.4 million for the three and nine months ended September 30, 2018, respectively.

In April 2018, we acquired a \$9.4 million bridge loan which was originated by ACM. The loan was used to purchase several multifamily properties by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 75% of the borrowing entity. The loan has an interest rate of LIBOR plus 5.0% with a LIBOR floor of 1.25% and matures in January 2021. Interest income recorded from this loan totaled \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2018, respectively.

In January 2018, we paid \$50.0 million in full satisfaction of the related party financing we entered into with ACM to finance a portion of the Acquisition purchase price. We incurred interest expense related to this financing of \$0.3 million for the nine months ended September 30, 2018 and \$1.0 million and \$2.9 million for the three and nine months ended September 30, 2017, respectively.

In December 2017, we acquired a \$32.8 million bridge loan which was originated by ACM. The loan was used to purchase several multifamily properties by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 90% of the borrowing entity. The loan has an interest rate of LIBOR plus 5.0%, with a LIBOR floor of 1.13%, and matures in June 2020. Interest income recorded from this loan totaled \$0.6 million and \$1.7 million for the three and nine months ended September 30, 2018, respectively.

In the fourth quarter of 2017, we originated two bridge loans totaling \$28.0 million on two multifamily properties owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns 45% of the borrowing entity. The loans have an interest rate of LIBOR plus 5.25% with LIBOR floors ranging from 1.24% to 1.54% and mature in the fourth quarter of 2020. Interest income recorded from these loans totaled \$0.5 million and \$1.6 million for the three and nine months ended September 30, 2018, respectively.

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

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August 2018. Interest income recorded from this loan totaled \$0.7 million and \$1.9 million for the three and nine months ended September 30, 2018, respectively, and \$0.4 million for both the three and nine months ended September 30, 2017.

In May 2017, we originated a \$46.9 million Fannie Mae loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers) which owns a 21.4% interest in the borrowing entity. We carry a maximum loss-sharing obligation with Fannie Mae on this loan of up to 5% of the original UPB. Servicing revenue recorded from this loan was less than \$0.1 million and \$0.1 million for the three and nine months ended September 30, 2018, respectively, and less than \$0.1 million for both the three and nine months ended September 30, 2017.

In March 2017, a consortium of investors (which includes, among other unaffiliated investors, our chief executive officer and ACM) invested \$2.0 million for a 26.1% ownership interest in two portfolios of multifamily properties which has two bridge loans totaling \$14.8 million originated by us in 2016. The loans had an interest rate of LIBOR plus 5.25% with a LIBOR floor of 0.5% and were scheduled to mature in November 2018. One of the loans was repaid in full in the fourth quarter of 2017 and the remaining loan paid off in June 2018. Interest income recorded from these loans totaled \$0.3 million for the nine months ended September 30, 2018 and \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2017, respectively.

In January 2017, we modified a \$5.0 million preferred equity investment, subsequently increasing our balance to \$15.0 million, with a commitment to fund an additional \$5.0 million. This investment had a fixed interest rate of 11% that was scheduled to mature in January 2020, however, the principal was repaid in full in the fourth quarter of 2017. We also entered into an agreement with a consortium of investors (which include, among other unaffiliated investors, certain of our officers and our chief executive officer) which admitted them as a member to fund the remaining \$5.0 million preferred equity investment, which was generally subordinate to our investment. Interest income recorded from our investment totaled \$0.2 million and \$0.5 million in the three and nine months ended September 30, 2017, respectively.

In January 2017, Ginkgo Investment Company LLC (Ginkgo), of which one of our directors is a 33% managing member, purchased a multifamily apartment complex which assumed an existing \$8.3 million Fannie Mae loan that we service. Ginkgo subsequently sold the majority of its interest in this property and owned a 3.6% interest at September 30, 2018. We carry a maximum loss-sharing obligation with Fannie Mae on this loan of up to 20% of the original UPB. Upon the sale, we received a 1% loan assumption fee which was governed by existing loan agreements that were in place when the loan was originated in 2015, prior to such purchase. Servicing revenue recorded from this loan was less than \$0.1 million for all periods presented.

In 2016, we originated \$48.0 million of bridge loans on six multifamily properties owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns interests ranging from 10.5% to 12.0% in the borrowing entities. The loans have an interest rate of LIBOR plus 4.5% with a LIBOR floor of 0.25% and mature in September 2019. In August 2017, a \$6.8 million loan on one property paid off in full and in May 2018 three additional loans totaling \$23.2 million paid off in full. Interest income recorded from these loans totaled \$0.3 million and \$1.6 million for the three and nine months ended September 30, 2018, respectively, and \$0.7 million and \$2.1 million for the three and nine months ended September 30, 2017, respectively.

In 2016, we originated a \$12.7 million bridge loan and a \$5.2 million preferred equity investment on two multifamily properties owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns a 50% interest in the borrowing entity. The loan has an interest rate of LIBOR plus 4.5% with a LIBOR floor of 0.25% and matures in January 2019. The preferred equity investment has a fixed interest rate of 10% and a maturity extended to November 2018. Interest income recorded from these loans totaled \$0.4 million and \$1.0 million for the three and nine months ended September 30, 2018, respectively, and \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2017, respectively.

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In 2016, we originated a \$19.0 million bridge loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns a 7.5% interest in the borrowing entity. The loan had an interest rate of LIBOR plus 4.5% with a LIBOR floor of 0.25% and was scheduled to mature in January 2019. In January 2018, this loan paid off in full. Interest income recorded from this loan totaled \$0.3 million for the nine months ended September 30, 2018 and \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2017, respectively.

In 2015, we originated a \$7.1 million bridge loan on a multifamily property owned in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers and our chief executive officer) which owns a 7.5% interest in the borrowing entity. In August 2017, this loan paid off in full. The loan had an interest rate of LIBOR plus 4.5%, with a LIBOR floor of 0.25%. Interest income recorded from this loan totaled \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2017, respectively.

In 2015, we originated two bridge loans totaling \$16.7 million secured by multifamily properties acquired by a third party investor. The properties were owned and were sold in part by a consortium of investors (which includes, among other unaffiliated investors, certain of our officers, our chief executive officer and certain other related parties). The loans have an interest rate of LIBOR plus 5% with a LIBOR floor of 0.25% and were scheduled to mature in October 2018. One of the loans paid off in full in September 2018 and the remaining loan was extended to November 2018. Interest income recorded from these loans totaled \$0.3 million and \$1.0 million for the three and nine months ended September 30, 2018, respectively, and \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2017, respectively.

In 2015, we originated a \$3.0 million mezzanine loan on a multifamily property that had a \$47.0 million first mortgage initially originated by ACM. The loan bore interest at a fixed rate of 12.5% and was scheduled to mature in April 2025. In January 2018, this loan paid off in full. Interest income recorded from this loan totaled \$0.1 million for the nine months ended September 30, 2018 and \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2017, respectively.

In 2015, we invested \$9.6 million for 50% of ACM's indirect interest in a joint venture with a third party that was formed to invest in a residential mortgage banking business. As a result of this transaction, we had an initial indirect interest of 22.5% in this entity. Since the initial investment, we invested an additional \$16.1 million through this joint venture in non-qualified residential mortgages purchased from the mortgage banking business's origination platform and we received cash distributions totaling \$16.9 million (that were classified as returns of capital) as a result of the joint venture selling most of its mortgage assets (which \$0.7 million was received in the nine months ended September 30, 2018). We recorded income from these investments of \$0.4 million and \$1.2 million in the three and nine months ended September 30, 2018, respectively, and a loss of \$1.2 million and \$1.8 million in the three and nine months ended September 30, 2017, respectively. In connection with a litigation settlement related to this investment, we provided a guaranty of up to 50% of any amounts payable in connection with the settlement. ACM has also provided us with a guaranty to pay up to 50% of any amounts we may pay under this guaranty. As of September 30, 2018, our maximum exposure under this guaranty totals \$2.3 million. We have not accrued this amount as we do not believe that we will be required to make any nonrefundable payments under this guaranty. See Note 8 Investments in Equity Affiliates for details.

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In 2014, we invested \$0.1 million for a 5% interest in a joint venture that owns two multifamily properties. The joint venture is comprised of a consortium of investors (which includes, among other unaffiliated investors, certain of our officers, our chief executive officer and certain other related parties) which owns a 95% interest. We had a \$1.7 million bridge loan to the joint venture with an interest rate of 5.5% over LIBOR. The loan was repaid in full in the fourth quarter of 2017. Interest income recorded from this loan was less than \$0.1 million and \$0.1 million for the three and nine months ended September 30, 2017, respectively.

In 2014, we originated a \$30.4 million bridge loan for an office property owned in part by a consortium of investors (which includes, among other unaffiliated investors, our chief executive officer and his affiliates) which owns a 24% interest in the borrowing entity. The loan matured in August 2017 and was refinanced with a \$43.2 million bridge loan that has an interest rate of 4% over LIBOR with a LIBOR floor of 1.23% and matures in August 2020. We also

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originated a \$4.6 million mezzanine loan in 2016 to this entity that had a fixed interest rate of 12%, which was repaid in full at maturity in August 2017. In the fourth quarter of 2017, the consortium of investors sold their ownership interest in the borrowing entity. Interest income recorded from these loans totaled \$0.8 million and \$2.4 million for the three and nine months ended September 30, 2017, respectively.

In 2014, ACM purchased a property subject to two loans originated by us, a first mortgage of \$14.6 million and a second mortgage of \$5.1 million, both with maturity dates of April 2016 and an interest rate of 4.8% over LIBOR. In 2016, the \$5.1 million second mortgage was repaid in full and the \$14.6 million first mortgage was extended to April 2018 and paid off at maturity. Interest income recorded from these loans totaled \$0.2 million for the nine months ended September 30, 2018 and \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2017, respectively.

We, along with an executive officer of ours and a consortium of independent outside investors, hold equity investments in a portfolio of multifamily properties referred to as the Lexford Portfolio (Lexford), which is managed by an entity owned primarily by a consortium of affiliated investors, including our chief executive officer and an executive officer of ours. Based on the terms of the management contract, the management company is entitled to 4.75% of gross revenues of the underlying properties, along with the potential to share in the proceeds of a sale or restructuring of the debt. In June 2018, the owners of Lexford restructured part of its debt and we originated twelve bridge loans totaling \$280.5 million, which were used to repay in full certain existing mortgage debt and to renovate 72 multifamily properties included in the portfolio. The loans which we originated in June 2018 have interest rates of 400 basis points over LIBOR and mature in June 2021 (with 2 one-year extension options). Interest income recorded from these loans totaled \$4.4 million and \$5.5 million in the three and nine months ended September 30, 2018, respectively. Further, as part of this June 2018 restructuring, \$50.0 million in unsecured financing was provided by an unsecured lender to certain parent entities of the property owners. ACM owns slightly less than half of the unsecured lender entity and, therefore, provided slightly less than half of the unsecured lender financing. In addition, in connection with our equity investment, we received distributions totaling \$0.7 million during both the three months ended September 30, 2018 and 2017 and \$1.9 million and \$2.0 million during the nine months ended September 30, 2018 and 2017, respectively, which were recorded as (loss) income from equity affiliates. Separate from loans which we originated in June 2018, we provide limited (bad boy) guarantees for certain other debt controlled by Lexford. The bad boy guarantees may become a liability for us upon standard bad acts such as fraud or a material misrepresentation by Lexford or us. At September 30, 2018, this debt had an aggregate outstanding balance of \$307.9 million and is scheduled to mature between 2019 and 2025.

Several of our executives, including our chief financial officer, general counsel and our chairman, chief executive officer and president, hold similar positions for ACM. Our chief executive officer and his affiliated entities (the Kaufman Entities) together beneficially own approximately 75% of the outstanding membership interests of ACM and certain of our employees and directors also hold an ownership interest in ACM. Furthermore, one of our directors serves as the trustee and co-trustee of two of the Kaufman Entities that hold membership interests in ACM. Upon the closing of the Acquisition in 2016, we issued 21,230,769 OP Units, each paired with one share of our Special Voting Preferred Shares. In December 2017 and August 2018, ACM distributed 5,780,348 and 577,185 OP Units, respectively, to its members, which include the Kaufman Entities and certain of our officers and employees. At September 30, 2018, ACM holds 5,349,053 shares of our common stock and 14,873,236 OP Units, which represents 21.0% of the voting power of our outstanding stock. Our Board of Directors approved a resolution under our charter allowing our chief executive officer and ACM, (which our chief executive officer has a controlling equity interest in), to own more than the 5% ownership interest limit of our common stock as stated in our amended charter.

Note 19 Segment Information

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

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

	Three Months Ended September 30, 2018			
	Structured Business	Agency Business	Other / Eliminations (1)	Consolidated
Interest income	\$ 61,232	\$ 6,268	\$	\$ 67,500
Interest expense	35,508	4,040		39,548
Net interest income	25,724	2,228		27,952
Other revenue:				
Gain on sales, including fee-based services, net		17,451		17,451
Mortgage servicing rights		25,216		25,216
Servicing revenue		26,082		26,082
Amortization of MSR's		(11,838)		(11,838)
Property operating income	2,651			2,651
Other income, net	406	(4,388)		(3,982)
Total other revenue	3,057	52,523		55,580
Other expenses:				
Employee compensation and benefits	6,683	21,092		27,775
Selling and administrative	4,465	5,529		9,994
Property operating expenses	2,437			2,437
Depreciation and amortization	447	1,401		1,848
Provision for loss sharing (net of recoveries)		2,019		2,019
Provision for loan losses (net of recoveries)	836			836
Litigation settlement gain	(10,170)			(10,170)
Total other expenses	4,698	30,041		34,739
Income before extinguishment of debt, loss from equity affiliates and income taxes	24,083	24,710		48,793
Loss on extinguishment of debt	(4,960)			(4,960)
Loss from equity affiliates	(1,028)			(1,028)
Provision for income taxes		(5,381)		(5,381)
Net income	18,095	19,329		37,424
Preferred stock dividends	1,888			1,888
Net income attributable to noncontrolling interest			7,799	7,799
Net income attributable to common stockholders	\$ 16,207	\$ 19,329	\$ (7,799)	\$ 27,737

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	Three Months Ended September 30, 2017			
	Structured Business	Agency Business	Other / Eliminations (1)	Consolidated
Interest income	\$ 37,259	\$ 4,881	\$	\$ 42,140
Interest expense	19,913	2,975	962	23,850
Net interest income	17,346	1,906	(962)	18,290
Other revenue:				
Gain on sales, including fee-based services, net		17,126		17,126
Mortgage servicing rights		18,897		18,897
Servicing revenue		20,231		20,231
Amortization of MSR's		(11,711)		(11,711)
Property operating income	2,668			2,668
Other income, net	540	238		778
Total other revenue	3,208	44,781		47,989
Other expenses:				
Employee compensation and benefits	5,670	19,524		25,194
Selling and administrative	3,014	4,593		7,607
Property operating expenses	2,583			2,583
Depreciation and amortization	429	1,400		1,829
Provision for loss sharing (net of recoveries)		(2,617)		(2,617)
Provision for loan losses (net of recoveries)	2,000			2,000
Total other expenses	13,696	22,900		36,596
Income before income from equity affiliates and income taxes	6,858	23,787	(962)	29,683
Income from equity affiliates	996			996
Provision for income taxes		(6,708)		(6,708)
Net income	7,854	17,079	(962)	23,971
Preferred stock dividends	1,888			1,888
Net income attributable to noncontrolling interest			5,662	5,662
Net income attributable to common stockholders	\$ 5,966	\$ 17,079	\$ (6,624)	\$ 16,421

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	Nine Months Ended September 30, 2018			
	Structured Business	Agency Business	Other / Eliminations (1)	Consolidated
Interest income	\$ 162,645	\$ 15,763	\$	\$ 178,408
Interest expense	100,324	10,166	329	110,819
Net interest income	62,321	5,597	(329)	67,589
Other revenue:				
Gain on sales, including fee-based services, net		51,266		51,266
Mortgage servicing rights		62,787		62,787
Servicing revenue		70,301		70,301
Amortization of MSRs		(35,639)		(35,639)
Property operating income	8,525			8,525
Other income, net	757	(2,331)		(1,574)
Total other revenue	9,282	146,384		155,666
Other expenses:				
Employee compensation and benefits	21,019	63,065		84,084
Selling and administrative	11,500	16,283		27,783
Property operating expenses	8,089			8,089
Depreciation and amortization	1,338	4,201		5,539
Impairment loss on real estate owned	2,000			2,000
Provision for loss sharing (net of recoveries)		2,840		2,840
Provision for loan losses (net of recoveries)	(967)			(967)
Litigation settlement gain	(10,170)			(10,170)
Total other expenses	32,809	86,389		119,198
Income before extinguishment of debt, income from equity affiliates and income taxes	38,794	65,592	(329)	104,057
Loss on extinguishment of debt	(4,960)			(4,960)
Income from equity affiliates	1,104			1,104
Benefit from (provision for) income taxes	500	(1,596)		(1,096)
Net income	35,438	63,996	(329)	99,105
Preferred stock dividends	5,665			5,665
Net income attributable to noncontrolling interest			22,347	22,347
Net income attributable to common stockholders	\$ 29,773	\$ 63,996	\$ (22,676)	\$ 71,093

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	Nine Months Ended September 30, 2017			Consolidated
	Structured Business	Agency Business	Other / Eliminations (1)	
Interest income	\$ 95,685	\$ 14,448	\$	\$ 110,133
Interest expense	51,866	8,946	2,886	63,698
Net interest income	43,819	5,502	(2,886)	46,435
Other revenue:				
Gain on sales, including fee-based services, net		55,127		55,127
Mortgage servicing rights		56,182		56,182
Servicing revenue		55,350		55,350
Amortization of MSRs		(35,427)		(35,427)
Property operating income	8,755			8,755
Other income, net	1,381	(2,312)		(931)
Total other revenue	10,136	128,920		139,056
Other expenses:				
Employee compensation and benefits	13,570	53,291		66,861
Selling and administrative	8,993	14,143		23,136
Property operating expenses	7,843			7,843
Depreciation and amortization	1,341	4,201		5,542
Impairment loss on real estate owned	2,700			2,700
Provision for loss sharing (net of recoveries)		(405)		(405)
Provision for loan losses (net of recoveries)	(457)			(457)
Management fee - related party	3,259	3,414		6,673
Total other expenses	37,249	74,644		111,893
Income before extinguishment of debt, income from equity affiliates and income taxes	16,706	59,778	(2,886)	73,598
Gain on extinguishment of debt	7,116			7,116
Income from equity affiliates	1,756			1,756
Provision for income taxes		(16,244)		(16,244)
Net income	25,578	43,534	(2,886)	66,226
Preferred stock dividends	5,665			5,665
Net income attributable to noncontrolling interest			16,597	16,597
Net income attributable to common stockholders	\$ 19,913	\$ 43,534	\$ (19,483)	\$ 43,964

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

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2018

	September 30, 2018			Consolidated
	Structured Business	Agency Business	Other / Eliminations	
Assets:				
Cash and cash equivalents	\$ 45,001	\$ 47,597	\$	\$ 92,598
Restricted cash	202,736			202,736
Loans and investments, net	3,097,689			3,097,689
Loans held-for-sale, net		500,281		500,281
Capitalized mortgage servicing rights, net		259,401		259,401
Securities held to maturity		50,520		50,520
Investments in equity affiliates	22,101			22,101
Goodwill and other intangible assets	12,500	105,065		117,565
Other assets	172,078	19,291		191,369
Total assets	\$ 3,552,105	\$ 982,155	\$	\$ 4,534,260

Liabilities:				
Debt obligations	\$ 2,863,266	\$ 492,603	\$	\$ 3,355,869
Allowance for loss-sharing obligations		33,405		33,405
Other liabilities	140,662	37,852		178,514
Total liabilities	\$ 3,003,928	\$ 563,860	\$	\$ 3,567,788

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Origination Data:				
<i>Structured Business</i>				
New loan originations	\$ 287,480	\$ 473,171	\$ 1,208,550	\$ 1,057,004
Loan payoffs / paydowns	255,575	270,010	684,216	723,977

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Agency Business

Origination Volumes by Investor:

Fannie Mae	\$	995,662	\$	650,374	\$	2,264,870	\$	2,216,820
Freddie Mac		317,516		328,075		1,060,456		880,597
FHA		77,236		18,273		137,973		189,087
CMBS/Conduit		20,650				36,883		21,370
Total	\$	1,411,064	\$	996,722	\$	3,500,182	\$	3,307,874
Total loan commitment volume	\$	1,376,376	\$	928,181	\$	3,499,569	\$	3,181,367

Loan Sales Data:

Agency Business

Fannie Mae	\$	867,601	\$	665,960	\$	2,175,846	\$	2,569,821
Freddie Mac		286,423		342,630		974,551		862,376
FHA		15,330		43,483		83,443		167,709
CMBS/Conduit		20,650				36,883		21,370
Total	\$	1,190,004	\$	1,052,073	\$	3,270,723	\$	3,621,276
Sales margin (fee-based services as a % of loan sales)		1.47%		1.63%		1.57%		1.52%
MSR rate (MSR income as a % of loan commitments)		1.83%		2.04%		1.79%		1.77%

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2018

Key Servicing Metrics for Agency Business:	UPB of Servicing Portfolio	September 30, 2018 Wtd. Avg. Servicing Fee Rate (basis points)	Wtd. Avg. Life of Servicing Portfolio (in years)
Fannie Mae	\$ 13,195,643	52.3	7.7
Freddie Mac	3,977,619	30.8	11.0
FHA	621,419	15.7	20.1
Total	\$ 17,794,681	46.2	8.8

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

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the unaudited consolidated interim financial statements, and related notes and the section entitled "Forward-Looking Statements" included herein.

Overview

Through our Structured Business, we invest in a diversified portfolio of structured finance assets in the multifamily and commercial real estate markets, primarily consisting of bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity. We may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. Through our Agency Business, we originate, sell and service a range of multifamily finance products through GSE, HUD and CMBS programs. We retain the servicing rights and asset management responsibilities on substantially all loans we originate and sell under the GSE and HUD programs.

Through May 2017, we were externally managed and advised by ACM. Effective May 31, 2017, we terminated the existing management agreement with ACM and fully internalized our management team.

We conduct our operations to qualify as a REIT. A REIT is generally not subject to federal income tax on its REIT taxable income that is distributed to its stockholders, provided that at least 90% of its REIT taxable income is distributed and provided that certain other requirements are met.

Our operating performance is primarily driven by the following factors:

Net interest income earned on our investments. Net interest income represents the amount by which the interest income earned on our assets exceeds the interest expense incurred on our borrowings. If the yield on our assets increases or the cost 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. We recognize the bulk of our net interest income from our Structured Business. Additionally, we recognize net interest income from loans originated through our Agency Business, which are generally sold within 60 days of origination.

Fees and other revenues recognized from originating, selling and servicing mortgage loans through the GSE and HUD programs.

Revenue recognized from the origination and sale of mortgage loans consists of gains on sale of loans (net of any direct loan origination costs incurred), commitment fees, broker fees, loan assumption fees and loan origination fees. These gains and fees are collectively referred to as gain on sales, including fee-based services, net. We record income from MSRs at the time of commitment to the borrower, which represents the fair value of the expected net future cash

flows associated with the rights to service mortgage loans that we originate, with the recognition of a corresponding asset upon sale. We also record servicing revenue which consists of fees received for servicing mortgage loans and earnings on escrows, net of amortization on the MSR assets recorded. These originations, selling and servicing fees and other revenues are included in our Agency Business results. Although we have long-established relationships with the GSE and HUD agencies, our operating performance would be negatively impacted if our business relationships with these agencies deteriorate.

Income earned from our structured transactions. Our structured transactions are primarily comprised of investments in equity affiliates, which represent unconsolidated joint venture investments formed to acquire, develop and/or sell real estate-related assets. Operating results from our unconsolidated equity investments can be difficult to predict and can vary significantly period-to-period. In addition, we periodically receive distributions from our equity investments. It is difficult to forecast the timing of such payments, which can be substantial in any given quarter. We account for structured transactions within our Structured Business.

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

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Significant Developments During the Third Quarter of 2018

Capital Markets Activity. We issued \$264.5 million of our 5.25% Convertible Notes, receiving proceeds of \$256.1 million, net of the underwriter's discount and fees. We used the net proceeds primarily for the initial exchange of \$127.6 million of our 5.375% Convertible Notes and \$99.8 million of our 6.50% Convertible Notes for a combination of \$219.8 million in cash and 6.8 million shares of our common stock. We recorded a loss on extinguishment of debt totaling \$5.0 million related to the redemption of our 5.375% Convertible Notes and 6.50% Convertible Notes. (see Note 10 Debt Obligations for details)

Financing Activity. We increased the capacity in our Agency Business credit facilities by \$250.0 million, of which \$150.0 million is a temporary increase through January 2019. (see Note 10 Debt Obligations for details)

Dividend. We raised our quarterly common dividend to \$0.27 per share, a 42% increase over the quarterly common dividend paid in the prior year comparable quarter of \$0.19 per share and an 8% increase from the prior quarter common dividend paid of \$0.25 per share.

Agency Business Activity.

- Loan originations and sales totaled \$1.41 billion and \$1.19 billion, respectively; and
- Our fee-based servicing portfolio grew 4% to \$17.79 billion from \$17.11 billion at June 30, 2018.

Structured Business Activity.

- Our Structured loan and investment portfolio grew to \$3.17 billion on loan originations totaling \$287.5 million, partially offset by loan runoff totaling \$255.6 million; and
- In July 2018, we received net proceeds of \$10.2 million from the settlement of a litigation related to a prior investment, which was recognized as a gain.

Current Market Conditions, Risks and Recent Trends

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

We rely on the capital markets to generate capital for financing the growth of our business. While we have been successful in generating capital through the debt and equity markets over the past several quarters, there can be no assurance that we will continue to have access to such markets. If we were to experience a prolonged downturn in the stock or credit markets, it could cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly.

The Federal Reserve increased its targeted Federal Rate 75 basis points during 2017 and by another 75 basis points during the first nine months of 2018. To date, we have not been significantly impacted by these increases and do not anticipate a significant decline in origination volume or profitability as interest rates remain at historically low levels. However, we cannot be certain that such a trend will continue as the number, timing, and magnitude of additional increases by the Federal Reserve, combined with other macroeconomic factors, may have a different effect on the commercial real estate market.

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

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We are a national originator with Fannie Mae and Freddie Mac, and the GSEs remain the most significant providers of capital to the multifamily market. The Federal Housing Finance Agency (FHFA) released the GSE 2018 Scorecard (2018 Scorecard,) which established Fannie Mae s and Freddie Mac s loan origination caps at \$35.00 billion (2018 Caps) each for the multifamily finance market, a \$1.50 billion decrease from the 2017 loan origination caps. Affordable housing loans, loans to small multifamily properties, and manufactured housing rental community loans continue to be excluded from the 2018 Caps. In addition, the definition of the affordable loan exclusions has added an extremely-high cost market category, continues to encompass affordable housing in high- and very-high cost markets and allows for an exclusion from the 2018 Caps for the pro-rata portion of any loan on a multifamily property that includes affordable units. The 2018 Scorecard continues to provide FHFA the flexibility to review the estimated size of the multifamily loan origination market quarterly and proactively adjust the 2018 Caps accordingly. The 2018 Scorecard also continues to provide exclusions for loans to properties in underserved markets and for loans to finance certain energy or water efficiency improvements, however, to qualify for this exclusion, the projected annual energy or water savings must be at least 25%. Our originations with the GSEs are highly profitable executions as they provide significant gains from the sale of our loans, non-cash gains related to MSR and servicing revenues, therefore, a decline in our GSE originations would negatively impact our financial results. We are unsure whether the FHFA will impose stricter limitations on GSE multifamily production volume in the future.

The commercial real estate markets 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 and commercial real estate markets. In addition, the growth in multifamily rental rates seen over the past few years are showing signs of stabilizing. If real estate values decline and/or rent growth subsides, it may limit our new mortgage loan originations since borrowers often use increases in the value of, and revenues produced from, their existing properties to support the purchase or investment in additional properties. Declining real estate values may also significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans as well as our ability to originate, sell and securitize loans, which would significantly impact our results of operations, financial condition, business prospects and our ability to make distributions to our stockholders.

The economic environment over the past few years has seen continued improvement in commercial real estate values, which has generally increased payoffs and reduced the credit exposure in our loan and investment portfolio. We have made, and continue to make, modifications and extensions to loans when it is economically feasible to do so. In some cases, a modification is a more viable alternative to foreclosure proceedings when a borrower cannot comply with loan terms. In doing so, lower borrower interest rates, combined with non-performing loans, would lower our net interest margins when comparing interest income to our costs of financing. However, since 2013, the levels of modifications and delinquencies have generally declined as property values have increased and borrowers access to financing has improved. If the markets were to deteriorate and the U.S. experienced a prolonged economic downturn, we believe there could be additional loan modifications and delinquencies, which may result in reduced net interest margins and additional losses throughout our sector.

Changes in Financial Condition

Assets Comparison of balances at September 30, 2018 to December 31, 2017:

Restricted cash increased \$63.3 million, primarily due to payoffs on our CLO loans in excess of loans transferred into our CLO vehicles. Restricted cash is kept on deposit with the trustees for our CLOs and primarily represents proceeds received from loan payoffs and paydowns that have not yet been disbursed to bondholders or redeployed into new assets, as well as unfunded loan commitments and interest payments received from loans.

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Our Structured loan and investment portfolio balance was \$3.17 billion and \$2.65 billion at September 30, 2018 and December 31, 2017, respectively. This increase was primarily due to loan originations exceeding payoffs and other reductions by \$524.3 million. See below for details.

Our portfolio had a weighted average current interest pay rate of 6.88% and 6.28% at September 30, 2018 and December 31, 2017, respectively. Including certain fees earned and costs associated with the structured portfolio,

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the weighted average current interest rate was 7.52% and 6.99% at September 30, 2018 and December 31, 2017, respectively. Advances on our financing facilities totaled \$2.92 billion and \$2.24 billion at September 30, 2018 and December 31, 2017, respectively, with a weighted average funding cost of 4.44% and 4.12%, respectively, which excludes financing costs. Including financing costs, the weighted average funding rate was 5.03% and 4.83% at September 30, 2018 and December 31, 2017, respectively.

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
Loans originated	\$	287,480	\$	1,208,550
Number of loans		18		69
Weighted average interest rate		7.47%		7.16%
Loan payoffs / paydowns	\$	255,575	\$	684,216
Number of loans		14		56
Weighted average interest rate		7.90%		7.27%
Loans extended	\$	216,010	\$	405,387
Number of loans		10		23

Loans held-for-sale from the Agency Business increased \$202.8 million, primarily related to loan originations exceeding loan sales during the nine months ended September 30, 2018 as noted in the following table (in thousands). These loans are generally sold within 60 days from the loan origination date.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Loan Originations	Loan Sales	Loan Originations	Loan Sales
Fannie Mae	\$ 995,662	\$ 867,601	\$ 2,264,870	\$ 2,175,846
Freddie Mac	317,516	286,423	1,060,456	974,551
FHA	77,236	15,330	137,973	83,443
CMBS/Conduit	20,650	20,650	36,883	36,883
Total	\$ 1,411,064	\$ 1,190,004	\$ 3,500,182	\$ 3,270,723

Securities held-to-maturity increased \$22.7 million as a result of two additional purchases of B Piece bonds from Freddie Mac SBL program securitizations. See Note 7 Securities Held-to-Maturity for details.

Due from related party increased \$96.8 million, primarily due to funds from payoffs to be remitted by our affiliated servicing operations related to real estate transactions. These amounts were remitted to us in early October 2018.

Other assets increased \$17.0 million, primarily due to an increase in interest and other receivables from new loan originations, as well as an increase in deferred tax assets.

Liabilities Comparison of balances at September 30, 2018 to December 31, 2017:

Credit facilities and repurchase agreements increased \$641.0 million, primarily due to funding of new structured loan activity and an increase in financings on our loans held-for-sale, as a result of loan originations exceeding loan sales during 2018.

Collateralized loan obligations increased \$173.7 million, primarily due to the issuance of a new CLO, where we issued \$441.0 million of notes to third party investors, partially offset by the unwind of a CLO totaling \$267.8 million.

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Senior unsecured notes increased \$27.1 million, due to the issuance of \$125.0 million aggregate principal amount of our 5.625% Notes, partially offset by the full redemption of our 7.375% Notes totaling \$97.9 million.

Convertible senior unsecured notes, net increased \$32.4 million, due to the issuance of \$264.5 million of 5.25% Convertible Notes, partially offset by the initial exchange of \$127.6 million of our 5.375% Convertible Notes and \$99.8 million of our 6.50% Convertible Notes.

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

Due to borrowers decreased \$22.8 million, primarily due to a decrease in funds held on loan originations.

Equity

Distributions Dividends declared (on a per share basis) for the nine months ended September 30, 2018 were as follows:

Common Stock			Preferred Stock			
Declaration Date	Dividend	Declaration Date	Dividend (1)			
			Series A	Series B	Series C	
February 21, 2018	\$ 0.21	February 2, 2018	\$ 0.515625	\$ 0.484375	\$ 0.53125	
May 2, 2018	\$ 0.25	May 2, 2018	\$ 0.515625	\$ 0.484375	\$ 0.53125	
August 1, 2018	\$ 0.25	August 1, 2018	\$ 0.515625	\$ 0.484375	\$ 0.53125	

(1) The dividend declared on August 1, 2018 was for June 1, 2018 through August 31, 2018, the dividend declared on May 2, 2018 was for March 1, 2018 through May 31, 2018 and the dividend declared on February 2, 2018 was for December 1, 2017 through February 28, 2018.

Common Stock On October 31, 2018, the Board of Directors declared a cash dividend of \$0.27 per share of common stock. The dividend is payable on November 30, 2018 to common stockholders of record as of the close of business on November 15, 2018.

Preferred Stock On October 31, 2018, 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 September 1, 2018 through November 30, 2018 and are payable on November 30, 2018 to preferred stockholders of

record on November 15, 2018.

Deferred Compensation

In August 2018, we issued 294,985 shares of performance-based restricted stock to our chief executive officer. In the first quarter of 2018, we issued 329,028 shares of restricted stock to our employees, including our chief executive officer, 58,620 shares to the independent members of the Board of Directors and up to 381,503 performance-based restricted common stock units to our chief executive officer. See Note 16 Equity for details.

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

	Three Months Ended September 30,		Increase / (Decrease)	
	2018	2017	Amount	Percent
Interest income	\$ 67,500	\$ 42,140	\$ 25,360	60%
Interest expense	39,548	23,850	15,698	66%
Net interest income	27,952	18,290	9,662	53%
Other revenue:				
Gain on sales, including fee-based services, net	17,451	17,126	325	2%
Mortgage servicing rights	25,216	18,897	6,319	33%
Servicing revenue, net	14,244	8,520	5,724	67%
Property operating income	2,651	2,668	(17)	(1)%
Other income, net	(3,982)	778	(4,760)	nm
Total other revenue	55,580	47,989	7,591	16%
Other expenses:				
Employee compensation and benefits	27,775	25,194	2,581	10%
Selling and administrative	9,994	7,607	2,387	31%
Property operating expenses	2,437	2,583	(146)	(6)%
Depreciation and amortization	1,848	1,829	19	1%
Provision for loss sharing (net of recoveries)	2,019	(2,617)	4,636	nm
Provision for loan losses (net of recoveries)	836	2,000	(1,164)	(58)%
Litigation settlement gain	(10,170)		(10,170)	nm
Total other expenses	34,739	36,596	(1,857)	(5)%
Income before extinguishment of debt, (loss)				
income from equity affiliates and income taxes	48,793	29,683	19,110	64%
Loss on extinguishment of debt	(4,960)		(4,960)	nm
(Loss) income from equity affiliates	(1,028)	996	(2,024)	nm
Provision for income taxes	(5,381)	(6,708)	1,327	(20)%
Net income	37,424	23,971	13,453	56%
Preferred stock dividends	1,888	1,888		
Net income attributable to noncontrolling interest	7,799	5,662	2,137	38%
Net income attributable to common stockholders	\$ 27,737	\$ 16,421	\$ 11,316	69%

nm not meaningful

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

	Three Months Ended September 30,					
	Average Carrying Value (1)	2018 Interest Income / Expense	W/A Yield / Financing Cost (2)	Average Carrying Value (1)	2017 Interest Income / Expense	W/A Yield / Financing Cost (2)
<i>Structured Business interest-earning assets:</i>						
Bridge loans	\$ 3,015,203	\$ 54,786	7.21%	\$ 1,769,722	\$ 31,232	7.00%
Preferred equity investments	154,459	3,248	8.34%	130,409	3,489	10.62%
Mezzanine / junior participation loans	88,954	2,481	11.07%	96,471	2,232	9.18%
Core interest-earning assets	3,258,616	60,515	7.37%	1,996,602	36,953	7.34%
Cash equivalents	218,857	717	1.30%	235,669	306	0.51%
Total interest-earning assets	\$ 3,477,473	\$ 61,232	6.99%	\$ 2,232,271	\$ 37,259	6.62%
<i>Structured Business interest-bearing liabilities:</i>						
CLO	\$ 1,596,920	\$ 17,982	4.47%	\$ 1,090,568	\$ 12,104	4.40%
Warehouse lines	650,964	7,161	4.36%	173,285	1,975	4.52%
Unsecured debt	386,726	7,056	7.24%	198,462	4,198	8.39%
Trust preferred	154,379	2,059	5.29%	154,336	1,636	4.21%
Debt fund	68,293	1,250	7.26%			
Total interest-bearing liabilities	\$ 2,857,282	\$ 35,508	4.93%	\$ 1,616,651	\$ 19,913	4.89%
Net interest income		\$ 25,724			\$ 17,346	

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

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

Net Interest Income

The increase in interest income was primarily due to an increase of \$24.0 million, or 64%, from our Structured Business, which was primarily the result of a 63% increase in our average core interest-earning assets, due to loan originations exceeding loan runoff. The impact of the period-over-period increase in the average LIBOR rate of 72% was substantially offset by a decrease in fee income received from accelerated runoff.

The increase in interest expense was primarily due to an increase of \$15.6 million, or 78%, from our Structured Business, partially offset by a decrease of \$1.0 million from the pay off in January 2018 of the seller financing entered into in connection with the Acquisition. The increase from our Structured Business was primarily due to a 77% increase in the average balance of our interest-bearing liabilities due to growth in our loan portfolio and the issuance of additional unsecured debt. The period-over-period increase in the average LIBOR rate was substantially offset

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by accelerated deferred financing costs recorded in the third quarter of 2017 related to the unwind of a CLO.

Agency Business Revenue

The increase in income from MSRs was primarily due to a \$448.2 million, or 48%, increase in loan commitment volume, as a result of an increase in Fannie Mae loan originations. This increase was partially offset by a 21 basis point decrease in the MSR rate (income from MSRs as a percentage of loan commitment volume) from 2.04% to 1.83%, which was primarily due to a decrease in the servicing rate on Fannie Mae loans.

The increase in servicing revenue, net was primarily due to an increase in our servicing portfolio and an increase in earnings on escrows. Our servicing portfolio increased 14% from \$15.60 billion at September 30, 2017 to \$17.79 billion at September 30, 2018. Our servicing revenue, net in the third quarter of 2018 and 2017 included \$11.8 million and \$11.7 million, respectively, of amortization expense.

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Other Income, Net

The decrease in other income, net was comprised primarily of a \$4.6 million decrease due to changes in the fair value of rate lock commitments in our Agency Business. See Note 13 Fair Value for details.

Other Expenses

The increase in employee compensation and benefits expense is comprised of \$1.6 million from our Agency Business and \$1.0 million from our Structured Business. The increase in both businesses is primarily due to increases in accrued compensation and headcount associated with each business's portfolio growth.

The increase in selling and administrative expenses is comprised of \$1.5 million from our Structured Business and \$0.9 million from our Agency Business. The increase from our Structured Business is primarily due to an increase in professional fees and the increase from our Agency Business is primarily due to higher professional fees and rent expense, as well as general administrative expenses.

The increase in our provision for loss sharing was primarily related to a \$3.3 million reversal of a specific reserve in the third quarter of 2017 related to a Fannie Mae DUS loan that settled with no loss share in our Agency Business, combined with a \$1.7 million specific provision in the three months ended September 30, 2018.

The provision for loan losses in the third quarter of 2018 was primarily due to additional reserves of \$2.2 million, partially offset by \$1.4 million of net payments received related to previously written-off investments. The provision for loan losses in the third quarter of 2017 was due to a \$2.0 million provision recorded related to a preferred equity investment. See Note 3 Loans and Investments for details.

In July 2018, we received net proceeds of \$10.2 million from the settlement of a litigation related to a prior investment, which was recognized as a gain in the three months ended September 30, 2018.

Loss on Extinguishment of Debt

The loss on extinguishment of debt in the third quarter of 2018 was due to the exchange of our 5.375% Convertible Notes and 6.50% Convertible Notes (utilizing the proceeds from our 5.25% Convertible Notes) for a combination of \$219.8 million in cash and 6.8 million shares of our common stock. See Note 10 Debt Obligations for details.

(Loss) Income from Equity Affiliates

The decrease in income from equity affiliates was primarily related to a \$2.2 million other-than-temporary impairment recorded on one of our investments in the three months ended September 30, 2018.

Provision for Income Taxes

In the three months ended September 30, 2018 and 2017, we recorded a tax provision of \$5.4 million and \$6.7 million, respectively. The provision for income taxes in the three months ended September 30, 2018 consisted of a current tax provision of \$6.7 million and a deferred tax benefit of \$1.3 million and the provision for income taxes in the three months ended September 30, 2017 consisted of a current tax provision of \$7.6 million and a deferred tax benefit of \$0.9 million.

Net Income Attributable to Noncontrolling Interest

The noncontrolling interest relates to the outstanding OP Units issued as part of the Acquisition. There were 20,653,584 OP Units and 21,230,769 OP Units outstanding as of September 30, 2018 and 2017, respectively, which represented 21.4% and 25.6% of our outstanding stock at September 30, 2018 and 2017, respectively.

Table of Contents**Comparison of Results of Operations for the Nine Months Ended September 30, 2018 and 2017**

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

	Nine Months Ended September 30,		Increase / (Decrease)	
	2018	2017	Amount	Percent
Interest income	\$ 178,408	\$ 110,133	\$ 68,275	62%
Interest expense	110,819	63,698	47,121	74%
Net interest income	67,589	46,435	21,154	46%
Other revenue:				
Gain on sales, including fee-based services, net	51,266	55,127	(3,861)	(7)%
Mortgage servicing rights	62,787	56,182	6,605	12%
Servicing revenue, net	34,662	19,923	14,739	74%
Property operating income	8,525	8,755	(230)	(3)%
Other income, net	(1,574)	(931)	(643)	69%
Total other revenue	155,666	139,056	16,610	12%
Other expenses:				
Employee compensation and benefits	84,084	66,861	17,223	26%
Selling and administrative	27,783	23,136	4,647	20%
Property operating expenses	8,089	7,843	246	3%
Depreciation and amortization	5,539	5,542	(3)	
Impairment loss on real estate owned	2,000	2,700	(700)	(26)%
Provision for loss sharing (net of recoveries)	2,840	(405)	3,245	nm
Provision for loan losses (net of recoveries)	(967)	(457)	(510)	112%
Litigation settlement gain	(10,170)		(10,170)	nm
Management fee - related party		6,673	(6,673)	nm
Total other expenses	119,198	111,893	7,305	7%
Income before extinguishment of debt, income from equity affiliates and income taxes	104,057	73,598	30,459	41%
(Loss) gain on extinguishment of debt	(4,960)	7,116	(12,076)	nm
Income from equity affiliates	1,104	1,756	(652)	(37)%
Provision for income taxes	(1,096)	(16,244)	15,148	(93)%
Net income	99,105	66,226	32,879	50%
Preferred stock dividends	5,665	5,665		
Net income attributable to noncontrolling interest	22,347	16,597	5,750	35%
Net income attributable to common stockholders	\$ 71,093	\$ 43,964	\$ 27,129	62%

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

	Nine Months Ended September 30,					
	2018			2017		
	Average Carrying Value (1)	Interest Income / Expense	W/A Yield / Financing Cost (2)	Average Carrying Value (1)	Interest Income / Expense	W/A Yield / Financing Cost (2)
<i>Structured Business</i>						
<i>interest-earning assets:</i>						
Bridge loans	\$ 2,703,294	\$ 142,524	7.05%	\$ 1,680,662	\$ 84,039	6.69%
Preferred equity investments	164,818	10,874	8.82%	89,078	5,640	8.47%
Mezzanine / junior participation loans	84,637	7,637	12.06%	96,534	5,238	7.25%
Core interest-earning assets	2,952,749	161,035	7.29%	1,866,274	94,917	6.80%
Cash equivalents	213,233	1,610	1.01%	198,745	768	0.52%
Total interest-earning assets	\$ 3,165,982	\$ 162,645	6.87%	\$ 2,065,019	\$ 95,685	6.20%
<i>Structured Business</i>						
<i>interest-bearing liabilities:</i>						
CLO	\$ 1,493,756	\$ 49,499	4.43%	\$ 938,075	\$ 28,489	4.06%
Warehouse lines	477,617	16,300	4.56%	191,259	5,931	4.15%
Unsecured debt	373,995	25,191	9.01%	196,819	12,499	8.49%
Trust preferred	154,379	5,787	5.01%	156,149	4,752	4.07%
Debt fund	68,206	3,547	6.95%			
Interest rate swaps					195	
Total interest-bearing liabilities	\$ 2,567,953	100,324	5.22%	\$ 1,482,302	51,866	4.68%
Net interest income		\$ 62,321			\$ 43,819	

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

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

Net Interest Income

The increase in interest income is primarily due to an increase of \$67.0 million, or 70%, from our Structured Business, which was primarily the result of a 58% increase in our average core interest-earning assets, due to loan originations exceeding loan runoff, and a 7% increase in the average yield on core interest-earning assets, largely due to increases in the average LIBOR rate, partially offset by lower fee income received from accelerated runoff.

The increase in interest expense is primarily due to an increase of \$48.5 million, or 93%, from our Structured Business, partially offset by a decrease of \$2.6 million from the pay off in January 2018 of the seller financing entered into in connection with the Acquisition. The increase from our Structured Business was primarily due to a 73% increase in the average balance of our interest-bearing liabilities and a 12% increase in

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

Agency Business Revenue

The decrease in gain on sales, including fee-based services, net was primarily due to a \$350.6 million decrease in loan sales, partially offset by a 5 basis point increase in the sales margin from 1.52% to 1.57% in 2018. The increase in the sales margin was primarily due to an increase in Freddie Mac margins.

The increase in income from MSRs was primarily due to a \$318.2 million, or 10%, increase in loan commitment volume, predominantly from an increase in Freddie Mac loan originations.

The increase in servicing revenue, net was primarily due to an increase in our servicing portfolio and an increase in earnings on escrows due to increases in the average LIBOR rate. Our servicing portfolio increased 14% from \$15.60

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billion at September 30, 2017 to \$17.79 billion at September 30, 2018. Our servicing revenue, net in the nine months ended September 30, 2018 and 2017 included \$35.6 million and \$35.4 million, respectively, of amortization expense.

Other Expenses

The increase in employee compensation and benefits expense is comprised of \$9.8 million from our Agency Business and \$7.4 million from our Structured Business. The increase in both businesses is primarily due to compensation expense recorded directly by each business associated with the employees that transferred to us as a result of the internalization of our management team in 2017. Such costs were previously charged through the management fee prior to the termination of our management agreement with ACM in May 2017. In addition, increases in accrued compensation and headcount associated with each business's portfolio growth also contributed to the increase.

The increase in selling and administrative expenses is comprised of \$2.5 million from our Structured Business and \$2.1 million from our Agency Business. The increase in both businesses is primarily due to certain costs (rent, marketing, etc.) being recorded directly by or allocated to each business in 2018 that were included in the management fee prior to the termination of the management agreement in May 2017. In addition, professional fees in both businesses increased in 2018 compared to 2017.

Impairment losses on real estate owned were \$2.0 million and \$2.7 million for the nine months ended September 30, 2018 and 2017, respectively. During these periods, we received market analysis which resulted in impairment losses on our real estate properties owned. See Note 9 Real Estate Owned for details.

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

The recovery for loan losses for the nine months ended September 30, 2018 was due to a \$31.6 million settlement of a preferred equity investment with a carrying value of \$29.1 million resulting in a \$2.5 million recovery and \$2.3 million of payments received on previously written-off loans and investments. These recoveries were partially offset by additional reserves of \$3.9 million. The recovery of loan losses for the nine months ended September 30, 2017 was due to the pay-off of a fully reserved mezzanine loan with a UPB of \$1.8 million and a \$0.7 million reserve recovery on a multifamily bridge loan, partially offset by a \$2.0 million provision on a preferred equity investment.

In July 2018, we received net proceeds of \$10.2 million from the settlement of a litigation related to a prior investment, which was recognized as a gain in the nine months ended September 30, 2018.

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

(Loss) Gain on Extinguishment of Debt

The loss on extinguishment of debt in the nine months ended September 30, 2018 was due to the exchange of our 5.375% Convertible Notes and 6.50% Convertible Notes, utilizing the proceeds from our 5.25% Convertible Notes. The gain on extinguishment of debt in the nine months ended September 30, 2017 was due to our discounted purchase of \$20.9 million of our junior subordinated notes with a carrying value of \$19.8 million. See Note 10 Debt Obligations for details.

Income from Equity Affiliates

The decrease in income from equity affiliates was primarily related to a \$2.2 million other-than-temporary impairment recorded on one of our investments during 2018 compared with income of \$1.5 million in 2017 from the redemption of an equity participation interest we held. This was partially offset by \$1.2 million of income from our investment in a residential mortgage banking business during 2018, compared to a loss of \$1.9 million during 2017.

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Provision for Income Taxes

In the nine months ended September 30, 2018 and 2017, we recorded a tax provision of \$1.1 million and \$16.2 million, respectively. The provision for income taxes in the nine months ended September 30, 2018 consisted of a current tax provision of \$15.6 million and a deferred tax benefit of \$14.5 million and the provision for income taxes in the nine months ended September 30, 2017 consisted of a current tax provision of \$16.2 million.

The provision for income taxes in the nine months ended September 30, 2018 includes the effect of the newly enacted corporate federal income tax rate of 21% on our Agency Business as a result of the Tax Reform. The provision for income taxes primarily represents federal and state taxes related to the Agency Business, which was acquired by the TRS Consolidated Group in July 2016.

Net Income Attributable to Noncontrolling Interest

The noncontrolling interest relates to the outstanding OP Units issued as part of the Acquisition. There were 20,653,584 OP Units and 21,230,769 OP Units outstanding as of September 30, 2018 and 2017, respectively, which represented 21.4% and 25.6% of our outstanding stock at September 30, 2018 and 2017, respectively.

Liquidity and Capital Resources

Sources of Liquidity. Liquidity is a measure of our ability to meet our potential cash requirements, including ongoing commitments to repay borrowings, satisfaction of collateral requirements under the Fannie Mae DUS risk-sharing agreement and, as an approved designated seller/servicer of Freddie Mac's SBL program, operational liquidity requirements of the GSE agencies, fund new loans and investments, fund operating costs and distributions to our stockholders, as well as other general business needs. Our primary sources of funds for liquidity consist of proceeds from equity and debt offerings, debt facilities and cash flows from our operations. We closely monitor our liquidity position and believe our existing sources of funds and access to additional liquidity will be adequate to meet our liquidity needs.

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

To maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our REIT taxable income. These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. However, we believe that our capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet

current and anticipated capital requirements.

Cash Flows. Cash flows used in operating activities totaled \$195.5 million during the nine months ended September 30, 2018 and consisted primarily of net cash outflows of \$200.7 million as a result of loan originations exceeding loan sales in our Agency Business.

Cash flows used in investing activities totaled \$550.2 million during the nine months ended September 30, 2018. Loan and investment activity (originations and payoffs/paydowns) comprise the bulk of our investing activities. Loan originations from our Structured Business totaling \$1.16 billion, net of payoffs and paydowns of \$688.0 million, resulted in net cash outflows of \$475.9 million. Cash used in investing activities also included \$63.3 million of cash used to fund holdbacks and reserves on our loans and investments and \$21.6 million in cash payments to purchase B Piece bonds from SBL program securitizations.

Cash flows provided by financing activities totaled \$797.3 million during the nine months ended September 30, 2018, and consisted primarily of \$830.5 million of net proceeds from the issuances of a CLO and additional unsecured notes, net cash inflows of \$641.5 million from debt facility activities (funded loan originations were greater than facility paydowns) and \$55.9 million of net proceeds from public offerings of our common stock. These cash inflows were partially offset by outflows of \$585.5 million for the redemption of a CLO and additional

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unsecured notes, \$75.2 million distributed to our stockholders and OP Unit holders and \$50.0 million for full satisfaction of the seller financing related to the Acquisition of the Agency Business.

Agency Business Requirements. The Agency Business is subject to supervision by certain regulatory agencies. Among other things, these agencies require us to meet certain minimum net worth, operational liquidity and restricted liquidity collateral requirements, purchase and loss obligations and compliance with reporting requirements. Our adjusted net worth and operational liquidity exceeded the agencies' requirements as of September 30, 2018. Our restricted liquidity and purchase and loss obligations were satisfied with letters of credit totaling \$49.0 million. See Note 14 – Commitments and Contingencies for details about our performance regarding these requirements.

We also enter into contractual commitments with borrowers providing rate lock commitments while simultaneously entering into forward sale commitments with investors. These commitments are outstanding for short periods of time (generally less than 60 days) and are described in Note 12 – Derivative Financial Instruments and Note 13 – Fair Value.

Debt Instruments. We maintain various forms of short-term and long-term financing arrangements. Borrowings underlying these arrangements are primarily secured by a significant amount of our loans and investments and substantially all of our loans held-for-sale. The following is a summary of our debt facilities (\$ in thousands):

Debt Instruments	September 30, 2018			Maturity Dates
	Commitment (1)	UPB (2)	Available	
<u>Structured Business</u>				
Credit facilities and repurchase agreements	\$ 949,927	\$ 679,614	\$ 270,313	2018 - 2021
Collateralized loan obligations (3)	1,609,524	1,609,524		2018 - 2023
Debt Fund (3)	70,000	70,000		2019 - 2022
Senior unsecured notes	125,000	125,000		2023
Convertible unsecured senior notes	280,816	280,816		2019 - 2021
Junior subordinated notes	154,336	154,336		2034 - 2037
Structured Business total	3,189,603	2,919,290	270,313	
<u>Agency Business</u>				
Credit facilities (4)	1,250,000	492,799	757,201	2018
Consolidated total	\$ 4,439,603	\$ 3,412,089	\$ 1,027,514	

(1) Includes temporary increases to committed amounts which have not expired as of September 30, 2018.

(2) Excludes the impact of deferred financing costs.

(3) Maturity dates represent the weighted average remaining maturity based on the underlying collateral as of September 30, 2018.

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

The debt facilities, including their restrictive covenants, are described in Note 10 Debt Obligations.

Contractual Obligations. During the nine months ended September 30, 2018, the following significant changes were made to our contractual obligations disclosed in our 2017 Annual Report:

- Closed CLO X issuing \$441.0 million of investment grade notes to third party investors;
- Unwound CLO V redeeming \$267.8 million of outstanding notes;
- Issued \$264.5 million of 5.25% Convertible Notes, which were used to repurchase substantially all of our 6.50% Convertible Notes and 5.375% Convertible Notes totaling \$227.4 million;
- Issued \$125.0 million of our 5.625% Notes, which were substantially used to redeem all of our 7.375% Notes totaling \$97.9 million;
- Repaid the \$50.0 million related party financing; and
- Closed new and modified existing credit facilities.

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See Note 10 Debt Obligations for details and refer to Note 14 Commitments and Contingencies for a description of our debt maturities by year and unfunded commitments as of September 30, 2018.

Off-Balance Sheet Arrangements. At September 30, 2018, we had no off-balance sheet arrangements.

Derivative Financial Instruments

We enter into derivative financial instruments in the normal course of business through the origination and sale of mortgage loans and the management of potential loss exposure caused by fluctuations of interest rates. See Note 12 Derivative Financial Instruments for details about our derivative financial instruments.

Critical Accounting Policies

Please refer to Note 2 Basis of Presentation and Significant Accounting Policies of the Notes to Consolidated Financial Statements in our 2017 Annual Report for a discussion of our critical accounting policies. During the nine months ended September 30, 2018, there were no material changes to these policies.

Non-GAAP Financial Measures

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

We define AFFO as funds from operations adjusted for accounting items such as non-cash stock-based compensation expense, income from MSRs, changes in fair value of certain derivatives that temporarily flow through earnings, amortization and write-offs of MSRs, deferred tax benefit and amortization of convertible senior notes conversion options. We also add back one-time charges such as acquisition costs and impairment losses on real estate and gains on sales of real estate. We are generally not in the business of operating real estate property and had obtained real estate by foreclosure or through partial or full settlement of mortgage debt related to our loans to maximize the value of the collateral and minimize our exposure. Therefore, we deem such impairment and gains on real estate as an extension of the asset management of our loans, thus a recovery of principal or additional loss on our initial investment.

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

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FFO and AFFO are as follows (\$ in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income attributable to common stockholders	\$ 27,737	\$ 16,421	\$ 71,093	\$ 43,964
Adjustments:				
Net income attributable to noncontrolling interest	7,799	5,661	22,347	16,596
Impairment loss on real estate owned			2,000	2,700
Depreciation - real estate owned	177	173	533	592
Depreciation - investments in equity affiliates	125	101	374	305
Funds from operations (1)	\$ 35,838	\$ 22,356	\$ 96,347	\$ 64,157
Adjustments:				
Income from mortgage servicing rights	(25,216)	(18,897)	(62,787)	(56,182)
Impairment loss on real estate owned			(2,000)	(2,700)
Deferred tax (benefit) provision	(1,319)	(922)	(14,454)	15
Amortization and write-offs of MSRs	18,989	15,927	52,868	46,140
Depreciation and amortization	2,525	1,883	7,035	5,623
Net loss (gain) on changes in fair value of derivatives	4,388	(237)	2,331	2,313
Stock-based compensation	1,192	847	4,838	3,833
Adjusted funds from operations (1)	\$ 36,397	\$ 20,957	\$ 84,178	\$ 63,199
Diluted FFO per share (1)	\$ 0.36	\$ 0.27	\$ 1.06	\$ 0.81
Diluted AFFO per share (1)	\$ 0.37	\$ 0.25	\$ 0.92	\$ 0.80
Diluted weighted average shares outstanding (1)	98,435,964	83,918,117	91,133,607	78,942,919

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We disclosed a quantitative and qualitative analysis regarding market risk in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2017 Annual Report. That information is supplemented by the information included above in Item 2 of this report. Other than the developments described thereunder, there have been no material changes in our quantitative and qualitative exposure to market risk since December 31, 2017.

The following table projects the potential impact on interest income and interest expense for a 12-month period, assuming an instantaneous increase or decrease of both 25 and 50 basis points in LIBOR (in thousands).

Assets (Liabilities) Subject to Interest	25 Basis Point	25 Basis Point	50 Basis Point	50 Basis Point
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	Rate Sensitivity (1)	Increase	Decrease (2)	Increase	Decrease (2)
Interest income from loans and investments	\$ 3,170,117	\$ 7,006	\$ (6,607)	\$ 14,036	\$ (12,259)
Interest expense from debt obligations	(2,919,290)	6,276	(6,275)	12,551	(12,551)
Total net interest income		\$ 730	\$ (332)	\$ 1,485	\$ 292

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

(2) The quoted one-month LIBOR rate was 2.26% as of September 30, 2018.

Our Agency Business originates, sells and services a range of multifamily finance products with Fannie Mae, Freddie Mac and HUD. Our loans held-for-sale to Fannie Mae, Freddie Mac and HUD are not currently exposed to interest rate risk during the loan commitment, closing and delivery process. The sale or placement of each loan to an investor is negotiated prior to closing on the loan with the borrower, and the sale or placement is generally effectuated within 60 days of closing. The coupon rate for the loan is set after we established the interest rate with the investor.

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In addition, the fair value of our MSRs is subject to market risk since a significant driver of the fair value of these assets is the discount rates. A 100 basis point increase in the weighted average discount rate would decrease the fair value of our MSRs by approximately \$10.2 million as of September 30, 2018, while a 100 basis point decrease would increase the fair value by approximately \$10.7 million.

Item 4. Controls and Procedures

Management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures at September 30, 2018. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2018.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. 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 14 Commitments and Contingencies. We have not made a loss accrual for any litigation because we believe that it is not probable that a loss has been incurred and an amount cannot be reasonably estimated.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Item 1A of our 2017 Annual Report.

Item 6. Exhibits

Exhibit #	Description
3.1	<u>Articles of Incorporation of Arbor Realty Trust, Inc.</u> *
3.2	<u>Amended and Restated Bylaws of Arbor Realty Trust, Inc.</u> **

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- 4.1 Indenture, dated as of July 3, 2018, between Arbor Realty Trust, Inc. and U.S. Bank National Association, as trustee ***
- 4.2 Indenture, dated as of July 20, 2018, between Arbor Realty Trust, Inc. and U.S. Bank National Association, as trustee ****
- 4.3 Form of 5.25% Convertible Senior Notes due 2021 (attached as Exhibit A to Exhibit 4.1 hereto) ***
- 4.4 Form of 5.25% Convertible Senior Notes due 2021 (attached as Exhibit A to Exhibit 4.2 hereto) ****

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Exhibit #	Description
31.1	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14.</u>
32	<u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.1	Financial statements from the Quarterly Report on Form 10-Q of Arbor Realty Trust, Inc. for the quarter ended September 30, 2018, filed on November 2, 2018, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statement of Changes in Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

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

** Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (No. 001-32136) filed August 4, 2017.

*** Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K (No. 001-32136) filed July 3, 2018.

**** Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K (No. 001-32136) filed July 20, 2018.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARBOR REALTY TRUST, INC.

Date: November 2, 2018

By: /s/ Ivan Kaufman
Ivan Kaufman
Chief Executive Officer

Date: November 2, 2018

By: /s/ Paul Elenio
Paul Elenio
Chief Financial Officer