ARBOR REALTY TRUST INC
Form 10-Q
August 01, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2014

Or

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

For the transition period from to

Commission file number: 001-32136

Arbor Realty Trust, Inc.

(Exact name of registrant as specified in its charter)

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

(516) 506-4200

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. Common stock, $0.01 par value per share: 50,477,308 outstanding (excluding 2,650,767 shares held in the treasury) as of August 1, 2014.

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CAUTIONARY STATEMENTS

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

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as may, will, should, potential, intend, expect, seek, estimate, believe, could, project, predict, continue or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically; adverse changes in the financing markets we access affecting our ability to finance our loan and investment portfolio; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; legislative/regulatory changes; the availability and cost of capital for future investments; competition; and other risks detailed from time to time in our reports filed with the Securities and Exchange Commission (SEC). Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect management s views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies, see Management s Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Significant Accounting Estimates and Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013
Assets:		
Cash and cash equivalents	$ 47,813,740	$ 60,389,552
Restricted cash (includes $155,539,121 and $54,051,439 from consolidated VIEs, respectively)	156,795,469	54,962,316
Loans and investments, net (includes $1,258,768,746 and $1,196,434,032 from consolidated VIEs, respectively)	1,502,586,691	1,523,699,653
Available-for-sale securities, at fair value	2,805,471	37,315,652
Investments in equity affiliates	4,588,107	4,680,306
Real estate owned, net (includes $80,787,215 and $80,787,215 from consolidated VIEs, respectively)	120,830,942	111,718,177
Real estate held-for-sale, net		11,477,676
Due from related party (includes $23,043 and $91,988 from consolidated VIEs, respectively)	358,110	98,058
Prepaid management fee related party	19,047,949	19,047,949
Other assets (includes $23,321,607 and $19,861,310 from consolidated VIEs, respectively)	48,146,390	54,083,143
Total assets	$ 1,902,972,869	$ 1,877,472,482
Liabilities and Equity:		
Credit facilities and repurchase agreements	$ 22,204,000	$ 159,125,023
Collateralized debt obligations (includes $433,297,191 and $639,622,981 from consolidated VIEs, respectively)	433,297,191	639,622,981
Collateralized loan obligations (includes $545,750,000 and $264,500,000 from consolidated VIEs, respectively)	545,750,000	264,500,000
Senior unsecured notes	58,637,625	
Junior subordinated notes to subsidiary trust issuing preferred securities	159,557,894	159,291,427
Notes payable	2,498,542	2,500,000
Mortgage note payable real estate owned	53,538,637	42,745,650
Mortgage note payable real estate held-for-sale		11,005,354
Due to related party	1,666,667	2,794,087
Due to borrowers	16,979,900	20,326,030
Deferred revenue	77,123,133	77,123,133
Other liabilities (includes $10,779,854 and $13,944,737 from consolidated VIEs, respectively)	55,127,961	60,842,515
Total liabilities	1,426,381,550	1,439,876,200
Commitments and contingencies		

Equity:				
Arbor Realty Trust, Inc. stockholders equity:				
Preferred stock, cumulative, redeemable, $0.01 par value: 100,000,000 shares authorized; 8.25% Series A, $38,787,500 aggregate liquidation preference; 1,551,500 shares issued and outstanding at June 30, 2014 and December 31, 2013; 7.75% Series B, $31,500,000 aggregate liquidation preference; 1,260,000 shares issued and outstanding at June 30, 2014 and December 31, 2013; 8.50% Series C, $22,500,000 aggregate liquidation preference; 900,000 shares issued and outstanding at June 30, 2014, no shares issued and outstanding at December 31, 2013		89,295,905		67,654,655
Common stock, $0.01 par value: 500,000,000 shares authorized; 53,128,075 shares issued, 50,477,308 shares outstanding at June 30, 2014 and 51,787,075 shares issued, 49,136,308 shares outstanding at December 31, 2013		531,280		517,870
Additional paid-in capital		631,889,669		623,993,245
Treasury stock, at cost 2,650,767 shares at June 30, 2014 and December 31, 2013		(17,100,916)		(17,100,916)
Accumulated deficit		(207,803,092)		(212,231,319)
Accumulated other comprehensive loss		(20,221,527)		(25,237,253)
Total equity		476,591,319		437,596,282
Total liabilities and equity	$	1,902,972,869	$	1,877,472,482

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Interest income	$ 25,492,429	$ 24,329,116	$ 50,404,284	$ 47,317,938
Interest expense	11,222,597	10,333,073	21,813,975	20,975,317
Net interest income	14,269,832	13,996,043	28,590,309	26,342,621
Other revenue:				
Property operating income	9,001,383	8,231,822	18,259,471	17,127,256
Other income, net	150,187	605,317	1,008,583	1,984,775
Total other revenue	9,151,570	8,837,139	19,268,054	19,112,031
Other expenses:				
Employee compensation and benefits	3,552,548	2,968,678	6,938,497	6,052,317
Selling and administrative	3,194,845	2,969,733	5,177,064	5,159,016
Property operating expenses	7,423,080	7,161,334	14,420,203	14,031,493
Depreciation and amortization	2,158,353	1,827,595	3,970,036	3,459,726
Impairment loss on real estate owned			250,000	
Provision for loan losses (net of recoveries)	(870,187)	821,722	(735,843)	3,321,877
Management fee - related party	2,500,000	2,800,000	4,950,000	5,600,000
Total other expenses	17,958,639	18,549,062	34,969,957	37,624,429
Income before gain on extinguishment of debt, gain on sale of equity interest and income (loss) from equity affiliates	5,462,763	4,284,120	12,888,406	7,830,223
Gain on extinguishment of debt				3,763,000
Gain on sale of equity interest	7,851,266		7,851,266	
Income (loss) from equity affiliates	40,493	(81,804)	80,541	(163,689)
Net income	13,354,522	4,202,316	20,820,213	11,429,534
Preferred stock dividends	1,888,465	1,152,617	3,479,395	1,685,945
Net income attributable to noncontrolling interest		53,833		107,484
Net income attributable to Arbor Realty Trust, Inc. common stockholders	$ 11,466,057	$ 2,995,866	$ 17,340,818	$ 9,636,105
Basic earnings per common share	$ 0.23	$ 0.07	$ 0.35	$ 0.25
Diluted earnings per common share	$ 0.23	$ 0.07	$ 0.35	$ 0.25
Dividends declared per common share	$ 0.13	$ 0.12	$ 0.26	$ 0.24
Weighted average number of shares of common stock outstanding:				
Basic	50,267,462	43,113,898	49,804,457	38,468,718
Diluted	50,701,742	43,555,495	50,229,899	38,921,834

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 13,354,522	$ 4,202,316	$ 20,820,213	$ 11,429,534
Unrealized gain (loss) on securities available-for-sale, net	29,394	58,789	(29,395)	58,789
Reclassification of unrealized gain on securities available-for-sale realized into earnings		(100,000)	(431,476)	(100,000)
Unrealized (loss) gain on derivative financial instruments	(636,671)	1,640,042	(1,078,444)	1,285,062
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	3,114,164	3,516,886	6,555,041	7,012,650
Comprehensive income	15,861,409	9,318,033	25,835,939	19,686,035
Less:				
Preferred stock dividends	1,888,465	1,152,617	3,479,395	1,685,945
Comprehensive income attributable to noncontrolling interest		53,833		107,484
Comprehensive income attributable to Arbor Realty Trust, Inc. common stockholders	$ 13,972,944	$ 8,111,583	$ 22,356,544	$ 17,892,606

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

Six Months Ended June 30, 2014

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance January 1, 2014	2,811,500	$ 67,654,655	51,787,075	$ 517,870	$ 623,993,245	(2,650,767)	$ (17,100,916)	$ (212,231,319)	$ (25,237,253)	$ 437,596,282
Issuance of common stock			1,000,000	10,000	6,504,000					6,514,000
Issuance of 8.50% Series C preferred stock	900,000	21,641,250								21,641,250
Stock-based compensation			341,000	3,410	1,392,424					1,395,834
Distributions common stock								(12,905,440)		(12,905,440)
Distributions preferred stock								(3,479,395)		(3,479,395)
Distributions preferred stock of private REIT								(7,151)		(7,151)
Net income								20,820,213		20,820,213
Unrealized loss on securities available-for-sale									(29,395)	(29,395)
Reclassification of unrealized gain on securities available-for- sale realized into earnings									(431,476)	(431,476)
Unrealized loss on derivative financial instruments, net									(1,078,444)	(1,078,444)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings									6,555,041	6,555,041
Balance June 30, 2014	3,711,500	$ 89,295,905	53,128,075	$ 531,280	$ 631,889,669	(2,650,767)	$ (17,100,916)	$ (207,803,092)	$ (20,221,527)	$ 476,591,319

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Operating activities:		
Net income	$ 20,820,213	$ 11,429,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,970,036	3,459,726
Stock-based compensation	1,395,834	1,249,491
Gain on sale of securities	(518,640)	(1,100,000)
Gain on extinguishment of debt		(3,763,000)
Provision for loan losses (net of recoveries)	(735,843)	3,321,877
Impairment loss on real estate owned	250,000	
Amortization and accretion of interest, fees and intangible assets, net	174,903	(855,523)
Change in fair value of non-qualifying swaps and linked transactions	(42,774)	1,040,379
Gain on sale of equity interest	(7,851,266)	
(Income) loss from equity affiliates	(80,541)	163,689
Changes in operating assets and liabilities:		
Other assets	(1,631,606)	(335,388)
Distributions of operations from equity affiliates	80,541	48,813
Other liabilities	(359,716)	(41,279)
Change in restricted cash	(599,081)	(332,851)
Due to/from related party	(1,387,472)	(1,182,935)
Net cash provided by operating activities	$ 13,484,588	$ 13,102,533
Investing activities:		
Loans and investments funded, originated and purchased, net	(456,177,017)	(285,483,359)
Payoffs and paydowns of loans and investments	474,807,344	70,432,700
Due to borrowers and reserves	(36,239)	(585,143)
Deferred fees, net	3,527,198	1,937,037
Purchase of securities, net		(29,024,327)
Principal collection on securities, net	663,684	24,611,838
Investment in real estate, net	(2,208,067)	(3,938,759)
Proceeds from sale of available-for-sale securities	33,904,172	2,100,000
Distributions from equity affiliates	7,943,465	
Net cash provided by / (used in) investing activities	$ 62,424,540	$ (219,950,013)
Financing activities:		
Proceeds from repurchase agreements, loan participations, credit facilities and notes payable	162,062,708	88,043,151
Paydowns and payoffs of repurchase agreements, loan participations and credit facilities	(298,985,189)	(117,607,334)
Paydown of mortgage notes payable	(212,367)	
Proceeds from collateralized loan obligations	281,250,000	177,000,000
Proceeds from senior unsecured notes	58,637,625	
Payoffs and paydowns of collateralized debt obligations	(205,956,327)	(64,214,811)
Change in restricted cash	(101,234,072)	8,720,762
Payments on financial instruments underlying linked transactions	(59,613,649)	(97,567,458)
Receipts on financial instruments underlying linked transactions	66,027,912	91,913,598
Payments on swaps and margin calls to counterparties	(1,022,106)	(51,364,587)

Receipts on swaps and margin calls from counterparties		5,433,010		51,972,076
Distributions paid to noncontrolling interest				(103,819)
Proceeds from issuance of common stock		6,800,000		91,696,328
Expenses paid on issuance of common stock		(221,143)		(3,194,741)
Proceeds from issuance of preferred stock		22,500,000		70,287,500
Expenses paid on issuance of preferred stock		(779,131)		(2,614,057)
Distributions paid on common stock		(12,905,440)		(9,330,990)
Distributions paid on preferred stock		(3,320,020)		(1,066,656)
Distributions paid on preferred stock of private REIT		(7,151)		(7,230)
Payment of deferred financing costs		(6,939,600)		(4,191,067)
Net cash (used in) / provided by financing activities	$	(88,484,940)	$	228,370,665
Net (decrease) increase in cash and cash equivalents	$	(12,575,812)	$	21,523,185
Cash and cash equivalents at beginning of period		60,389,552		29,188,889
Cash and cash equivalents at end of period	$	47,813,740	$	50,712,074

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Supplemental cash flow information:				
Cash used to pay interest	$	20,351,898	$	23,611,936
Cash used for taxes	$	70,256	$	208,071
Supplemental schedule of non-cash investing and financing activities:				
Distributions accrued on 8.25% Series A preferred stock	$	266,664	$	266,664
Distributions accrued on 7.75% Series B preferred stock	$	203,438	$	352,625
Distributions accrued on 8.50% Series C preferred stock	$	159,375	$	
Accrued and unpaid expenses on preferred stock offerings	$	79,619	$	18,788
Accrued and unpaid expenses on common stock offerings	$	64,857	$	
Investment transferred from real estate held-for-sale, net to real estate owned, net	$	11,444,812	$	
Mortgage note payable - real estate held-for-sale transferred to real estate owned	$	11,005,354	$	
Accrued and unpaid expenses on collateralized loan obligation offering	$		$	500,000

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2014

Note 1 Description of Business

Arbor Realty Trust, Inc. (the Company) is a Maryland corporation that was formed in June 2003 to invest in a diversified portfolio of multi-family and commercial real estate related assets, primarily consisting of bridge loans, mezzanine loans, junior participating interests in first mortgage loans, and preferred and direct equity. The Company may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. The Company conducts substantially all of its operations through its operating partnership, Arbor Realty Limited Partnership (ARLP), and ARLP s wholly-owned subsidiaries. The Company is externally managed and advised by Arbor Commercial Mortgage, LLC (ACM). The Company organizes and conducts its operations to qualify as a real estate investment trust (REIT) for federal income tax purposes.

The Company s charter provides for the issuance of up to 500 million shares of common stock, with a par value of $0.01 per share, and 100 million shares of preferred stock, with a par value of $0.01 per share.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements prepared under GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company s 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 consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was filed with the SEC.

The accompanying unaudited consolidated financial statements include the financial statements of the Company, its wholly owned subsidiaries, partnerships or other joint ventures in which the Company owns a voting interest of greater than 50 percent, and Variable Interest Entities (VIEs) of which the Company is the primary beneficiary. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is the party that (i) has the power to control the activities that most significantly impact the VIE s economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Current accounting guidance requires the Company to present a) assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE, and b) liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary. As a result of this guidance, the Company has separately disclosed parenthetically the assets and liabilities of its three collateralized debt obligation (CDO) and three collateralized loan obligation (CLO) subsidiaries on its Consolidated Balance Sheets. Entities in which the Company has significant influence are accounted for primarily under the equity method.

As a REIT, the Company is generally not subject to federal income tax on its REIT taxable income that it distributes to its stockholders, provided that it distributes at least 90% of its REIT taxable income and meets certain other requirements. Also, under current federal tax law, the income and the tax on such income attributable to certain debt extinguishment transactions realized in 2009 or 2010 have been deferred to future periods at the Company s election. As of June 30, 2014 and 2013, the Company was in compliance with all REIT requirements and, therefore, has not provided for income tax expense for the six months ended June 30, 2014 and 2013. Certain of the Company s assets that produce non-qualifying income are owned by its taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. During the six months ended June 30, 2014 and 2013, the Company did not record any provision for income taxes for these taxable REIT subsidiaries.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2014

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

Certain prior year amounts have been reclassified to conform to current period presentation. In the second quarter of 2014, the Company reclassified a property from real estate held-for-sale to real estate owned when it was determined that a sale of the property would not take place, resulting in reclassifications of the property s operating activity and related depreciation for all prior periods presented from discontinued operations to property operating income and property operating expenses.

Significant Accounting Policies

As of June 30, 2014, the Company s significant accounting policies, which are detailed in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, have not changed materially.

Recently Issued Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (FASB) issued updated guidance that changes how repurchase agreements determined to be linked transactions are recorded. Under the new guidance, the repurchase agreement is to be accounted for separately from the initial transfer of the financial asset and not as a forward contract derivative. The guidance is effective for transactions outstanding as of the first quarter of 2015, and early adoption is not permitted. The Company does not expect this guidance to have a material effect on the Company s Consolidated Financial Statements.

In May 2014, the FASB issued updated guidance on the recognition of revenue relating to the transfer of goods, services and non-financial assets. This guidance does not pertain to financial instrument contracts and thus does not have a material effect on the Company s Consolidated Financial Statements.

In April 2014, the FASB issued updated guidance that changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. As a result of this new guidance, future dispositions of real estate owned assets may no longer meet the criteria to be considered as discontinued operations. The guidance is effective prospectively as of the first quarter of 2015, with early adoption permitted for new disposals or new classifications as held-for-sale. The Company early adopted this new guidance in the first quarter of 2014 and it did not have a material effect on the Company s Consolidated Financial Statements.

In July 2013, the FASB issued updated guidance that resolves the diversity in practice for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This new accounting guidance requires the netting of unrecognized tax benefits against a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward that would apply in settlement of an uncertain tax position. The guidance was effective as of the first quarter of 2014 and its adoption did not have a material effect on the Company s Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2014

Note 3 Loans and Investments

The following table sets forth the composition of the Company s loan and investment portfolio at June 30, 2014 and December 31, 2013:

	June 30, 2014	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	First Dollar LTV Ratio (2)	Last Dollar LTV Ratio (3)
Bridge loans	$ 1,198,904,475	73%	97	5.17%	17.3	0%	74%
Mezzanine loans	80,457,777	5%	25	7.85%	46.2	62%	86%
Junior participation loans	239,117,251	15%	7	4.36%	15.3	60%	83%
Preferred equity investments	113,294,001	7%	16	6.30%	51.6	23%	37%
	1,631,773,504	100%	145	5.26%	20.8	14%	73%
Unearned revenue	(14,126,825)						
Allowance for loan losses	(115,059,988)						
Loans and investments, net	$ 1,502,586,691						

	December 31, 2013	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	First Dollar LTV Ratio (2)	Last Dollar LTV Ratio (3)
Bridge loans	$ 1,171,783,914	71%	95	5.11%	18.5	0%	76%
Mezzanine loans	118,550,172	7%	27	7.02%	58.2	56%	83%
Junior participation loans	248,337,542	15%	7	4.21%	19.6	60%	81%
Preferred equity investments	121,523,673	7%	15	7.20%	45.5	58%	79%
	1,660,195,301	100%	144	5.26%	23.5	17%	77%
Unearned revenue	(14,218,237)						
Allowance for loan losses	(122,277,411)						
Loans and investments, net	$ 1,523,699,653						

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

(2) The First Dollar LTV Ratio is calculated by comparing the total of the Company s 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 the Company will absorb a total loss of its position.

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

Concentration of Credit Risk

The Company operates in one portfolio segment, commercial mortgage loans and investments. Commercial mortgage loans and investments can potentially subject the Company to concentrations of credit risk. The Company is subject to concentration risk in that, as of June 30, 2014, the unpaid principal balance related to 25 loans with five different borrowers represented approximately 24% of total assets. At December 31, 2013, the unpaid principal balance related to 28 loans with five different borrowers represented approximately 30% of total assets. The Company measures its relative loss position for its mezzanine loans, junior participation loans, and preferred equity investments by determining the point where the Company will be exposed to losses based on its position in the capital stack as compared to the fair value of the underlying collateral. The Company determines its loss position on both a first dollar loan-to-value (LTV) and a last dollar LTV basis. First dollar LTV is calculated by comparing the total of the Company s 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 the Company will absorb a total loss of its

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position. Last dollar LTV is calculated by comparing the total of the carrying value of the Company s loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will initially absorb a loss.

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

As a result of the loan review process at June 30, 2014 and December 31, 2013, the Company identified loans and investments that it considers higher-risk loans that had a carrying value, before loan loss reserves, of approximately $186.0 million and $187.5 million, respectively, and a weighted average last dollar LTV ratio of 93%, respectively.

A summary of the loan portfolio s weighted average internal risk ratings and LTV ratios by asset class as of June 30, 2014 and December 31, 2013 is as follows:

	June 30, 2014					
Asset Class		**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**First Dollar LTV Ratio**	**Last Dollar LTV Ratio**
Multi-family	$	1,099,801,629	67.4%	3.1	8%	70%
Office		310,658,048	19.0%	3.2	35%	79%
Land		120,269,874	7.4%	4.0	4%	88%
Hotel		66,500,000	4.1%	3.8	30%	84%
Commercial		24,593,953	1.5%	3.0	4%	49%
Retail		9,950,000	0.6%	2.5	23%	70%
Total	$	1,631,773,504	100.0%	3.2	14%	73%

	December 31, 2013				
Asset Class	Unpaid Principal Balance	Percentage of Portfolio	Wtd. Avg. Internal Risk Rating	First Dollar LTV Ratio	Last Dollar LTV Ratio
Multi-family	$ 1,068,529,815	64.4%	3.3	14%	75%
Office	358,832,526	21.6%	3.2	32%	82%
Land	116,751,563	7.0%	4.0	3%	88%
Hotel	69,181,252	4.2%	3.8	26%	84%
Commercial	24,900,145	1.5%	3.0	3%	49%
Condo	15,250,000	0.9%	3.7	41%	65%
Retail	6,750,000	0.4%	2.5	0%	63%
Total	$ 1,660,195,301	100.0%	3.3	17%	77%

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Geographic Concentration Risk

As of June 30, 2014, 34% and 13% of the outstanding balance of the Company s loans and investments portfolio had underlying properties in New York and Texas, respectively. As of December 31, 2013, 36% and 10% of the outstanding balance of the Company s loans and investments portfolio had underlying properties in New York and Texas, respectively.

Impaired Loans and Allowance for Loan Losses

The Company performs an evaluation of the loan portfolio quarterly to assess the performance of its loans and whether a reserve for impairment should be recorded. The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement.

During the three months ended June 30, 2014, the Company determined that the fair value of the underlying collateral securing three impaired loans with an aggregate carrying value of $153.7 million was less than the net carrying value of the loan, resulting in a $4.0 million provision for loan losses. During the six months ended June 30, 2014, the Company determined that the fair value of the underlying collateral securing four impaired loans with an aggregate carrying value of $158.6 million was less than the net carrying value of the loans, resulting in a $5.0 million provision for loan losses. In addition, during the three and six months ended June 30, 2014, the Company recorded $4.8 million and $5.7 million, respectively, of net recoveries of previously recorded loan loss reserves resulting in a provision for loan losses, net of recoveries, of $(0.9) million and $(0.7) million, respectively. Of the $4.0 million and $5.0 million of loan loss reserves recorded during the three and six months ended June 30, 2014, $1.3 million and $2.3 million, respectively, were attributable to loans on which the Company had previously recorded reserves.

During the three months ended June 30, 2013, the Company determined that the fair value of the underlying collateral securing two impaired loans with an aggregate carrying value of $12.9 million was less than the net carrying value of the loans, resulting in a $1.5 million provision for loan losses. During the six months ended June 30, 2013, the Company determined that the fair value of the underlying collateral securing four impaired loans with an aggregate carrying value of $26.6 million was less than the net carrying value of the loans, resulting in a $4.0 million provision for loan losses. In addition, during the three and six months ended June 30, 2013, the Company recorded $0.7 million, respectively, of net recoveries of previously recorded loan loss reserves resulting in a provision for loan losses, net of recoveries, of $0.8 million and $3.3 million. The $1.5 million and $4.0 million of loan loss reserves recorded during the three and six months ended June 30, 2013 were attributable to four loans on which the Company had not previously recorded reserves.

There were no loans for which the value of the collateral securing the loan was less than the carrying value of the loan for which the Company had not recorded a provision for loan loss as of June 30, 2014 and 2013.

At June 30, 2014, the Company had a total of 14 loans with an aggregate carrying value, before loan loss reserves, of $237.6 million for which impairment reserves have been recorded. At December 31, 2013, the Company had a total of 15 loans with an aggregate carrying value, before loan loss reserves, of $207.5 million for which impairment reserves have been recorded. Additionally, the Company has seven loans with an unpaid principal balance totaling approximately $113.6 million at June 30, 2014, which mature in September 2014, that are collateralized by a land development project. The loans do not carry a pay rate of interest, but four of the loans with an unpaid principal balance totaling approximately $101.9 million entitle the Company to a weighted average accrual rate of interest of approximately 9.60%. The Company suspended the recording of the accrual rate of interest on these loans, as these loans were impaired and management deemed the collection of this interest to be doubtful. The Company has recorded cumulative allowances for loan losses of $45.0 million related to these loans as of June 30, 2014. 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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During the quarter ended June 30, 2014, the Company received principal payoffs on a bridge loan and a mezzanine loan with an aggregate carrying value of $9.6 million and recorded a charge-off to previously recorded reserves of $0.8 million as well as cash recoveries of $4.8 million. During the six months ended June 30, 2014, the Company received payoffs on a bridge and a mezzanine loan with a total carrying value of $9.6 million, wrote off a mezzanine loan with a carrying value of $6.5 million, recorded charge-offs to previously recorded reserves totaling $6.5 million and recorded cash recoveries totaling $5.6 million.

During the quarter ended June 30, 2013, the Company recorded cash recoveries of $0.7 million. During the six months ended June 30, 2013, the Company wrote off a bridge loan, two mezzanine loans and a junior participation loan with a total carrying value of $18.5 million and recorded a charge-off to previously recorded reserves of $18.5 million as well as cash recoveries totaling $0.7 million.

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

	Six Months Ended	
	June 30, 2014	June 30, 2013
Allowance at beginning of the period	$ 122,277,411	$ 161,706,313
Provision for loan losses	4,950,000	4,000,000
Charge-offs	(6,501,079)	(18,461,330)
Recoveries of reserves	(5,666,344)	(681,218)
Allowance at end of the period	$ 115,059,988	$ 146,563,765

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

	Six Months Ended	
	June 30, 2014	June 30, 2013
Charge-offs:		
Multi-family	$ (6,501,079)	$ (4,789,815)
Hotel		(3,671,515)
Condo		(10,000,000)
Total	$ (6,501,079)	$ (18,461,330)
Recoveries:		
Multi-family	$ (5,666,344)	$ (681,218)
Total	$ (5,666,344)	$ (681,218)
Net Charge-offs	$ (834,735)	$ (17,780,112)

Ratio of net charge-offs during the period to average loans and investments outstanding during the period	0.1%	1.1%

A summary of the Company s impaired loans by asset class is as follows:

	June 30, 2014			Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
Asset Class	**Unpaid Principal Balance**	**Carrying Value (1)**	**Allowance for Loan Losses**	**Average Recorded Investment (2)**	**Interest Income Recognized**	**Average Recorded Investment (2)**	**Interest Income Recognized**
Multi-family	$ 49,599,938	$ 49,016,213	$ 38,619,274	$ 54,400,857	$ 218,529	$ 57,667,857	$ 432,270
Office	45,086,582	38,955,771	25,472,444	40,586,582	511,501	40,586,582	786,296
Land	118,375,160	114,650,492	49,768,270	117,409,169	171,374	117,230,555	171,374
Hotel	35,000,000	34,939,896	1,200,000	17,500,000		17,500,000	
Total	$ 248,061,680	$ 237,562,372	$ 115,059,988	$ 229,896,608	$ 901,404	$ 232,984,994	$ 1,389,940

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	December 31, 2013			Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
Asset Class	Unpaid Principal Balance	Carrying Value (1)	Allowance for Loan Losses	Average Recorded Investment (2)	Interest Income Recognized	Average Recorded Investment (2)	Interest Income Recognized
Multi-family	$ 65,735,773	$ 65,186,623	$ 50,786,697	$ 66,389,172	$ 432,625	$ 66,142,984	$ 1,381,705
Office	36,086,582	29,474,065	23,972,444	46,762,808	480,204	42,562,808	952,515
Land	116,085,950	112,810,558	47,518,270	139,063,945		139,050,225	
Total	$ 217,908,305	$ 207,471,246	$ 122,277,411	$ 252,215,925	$ 912,829	$ 247,756,017	$ 2,334,220

(1) Represents the unpaid principal balance of impaired loans less unearned revenue and other holdbacks and adjustments by asset class.

(2) Represents an average of the beginning and ending unpaid principal balance of each asset class.

As of June 30, 2014, two loans with an aggregate net carrying value of approximately $6.3 million, net of related loan loss reserves of $34.0 million, were classified as non-performing, all of which had loan loss reserves. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced. As of December 31, 2013, five loans with an aggregate net carrying value of approximately $10.7 million, net of related loan loss reserves of $39.6 million, were classified as non-performing, of which one loan with a carrying value of $0.6 million did not have a loan loss reserve.

A summary of the Company s non-performing loans by asset class as of June 30, 2014 and December 31, 2013 is as follows:

	June 30, 2014			December 31, 2013		
Asset Class	Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due	Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due
Multi-family	$ 32,000,000	$	$ 32,000,000	$ 42,054,539	$ 32,000,000	$ 10,054,539
Office	8,277,796		8,277,796	8,277,844		8,277,844
Total	$ 40,277,796	$	$ 40,277,796	$ 50,332,383	$ 32,000,000	$ 18,332,383

During the quarter and six months ended June 30, 2014, the Company had not refinanced and/or modified or extended any loans which were considered by the Company to be troubled debt restructurings. During the quarter and six months ended June 30, 2013, the Company refinanced and/or modified one loan with a unpaid principal balance of $6.3 million which was not considered by the Company to be a troubled debt restructuring, however, two loans with a combined unpaid principal balance of $14.6 million that were extended during the period were considered to be trouble debt restructurings. The Company had no unfunded commitments on the modified and extended loans which were considered troubled debt restructurings as of June 30, 2013.

A summary of loan modifications and extensions by asset class that the Company considered to be troubled debt restructurings during the three and six months ended June 30, 2013 were as follows:

	Three Months Ended June 30, 2013					Six Months Ended June 30, 2013				
Asset Class	**Number of Loans**	**Original Unpaid Principal Balance**	**Original Rate of Interest**	**Extended Unpaid Principal Balance**	**Extended Rate of Interest**	**Number of Loans**	**Original Unpaid Principal Balance**	**Original Weighted Average Rate of Interest**	**Modified Unpaid Principal Balance**	**Modified Weighted Average Rate of Interest**
Multifamily		$		$		1	$ 6,192,666	5.96%	$ 6,192,666	5.96%
Office						1	8,400,000	8.24%	8,400,000	8.24%
Total		$		$		2	$ 14,592,666	7.27%	$ 14,592,666	7.27%

There were no loans in which the Company considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of June 30, 2014 and 2013 and no additional loans were considered to be impaired due to the Company s troubled debt restructuring analysis for the three and six months ended June 30, 2014 and 2013. These loans were modified to increase the total recovery of the combined principal and interest from the loan.

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As of June 30, 2014, the Company had total interest reserves of $14.3 million on 52 loans with an aggregate unpaid principal balance of $743.5 million.

Note 4 Securities

The following is a summary of the Company s securities classified as available-for-sale at June 30, 2014:

	Face Value	Amortized Cost	Cumulative Unrealized Gain	Carrying Value / Estimated Fair Value
Commercial mortgage-backed security (CMBS)	$ 2,100,000	$ 2,100,000	$	$ 2,100,000
Common equity securities		58,789	646,682	705,471
Total available-for-sale securities	$ 2,100,000	$ 2,158,789	$ 646,682	$ 2,805,471

The following is a summary of the Company s securities classified as available-for-sale at December 31, 2013:

	Face Value	Amortized Cost	Cumulative Unrealized Gain	Cumulative Unrealized Loss	Carrying Value / Estimated Fair Value
Residential mortgage-backed security (RMBS)	$ 39,013,690	$ 34,049,310	$ 437,774	$ (6,298)	$ 34,480,786
Commercial mortgage-backed security (CMBS)	2,100,000	2,100,000			2,100,000
Common equity securities		58,789	676,077		734,866
Total available-for-sale securities	$ 41,113,690	$ 36,208,099	$ 1,113,851	$ (6,298)	$ 37,315,652

The following is a summary of the underlying credit rating of the Company s available-for-sale debt securities at June 30, 2014 and December 31, 2013:

Rating (1)	#	June 30, 2014 Amortized Cost	Percent of Total	#	December 31, 2013 Amortized Cost	Percent of Total
AA+		$		1	$ 93,715	
CCC				1	18,417,402	51%
CCC-	1	2,100,000	100%	1	2,100,000	6%
NR				7	15,538,193	43%
	1	$ 2,100,000	100%	10	$ 36,149,310	100%

(1) Based on the rating published by Standard & Poor s for each security. NR stands for not rated.

In the first quarter of 2014, the Company sold all of its RMBS investments which had an aggregate carrying value of $33.4 million, which is net of $0.7 million of principal paydowns received during the quarter, for approximately $33.9 million and recorded a net gain of $0.5 million to other income, net on the Company s Consolidated Statement of Income, which includes the reclassification of a net unrealized gain of $0.4 million from accumulated other comprehensive loss on the Company s Consolidated Balance Sheet. These RMBS investments were financed with two repurchase agreements totaling $25.3 million which were repaid with the proceeds. See Note 7 Debt Obligations for further details.

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The Company owns a CMBS investment, purchased at a premium in 2010 for $2.1 million, which is collateralized by a portfolio of hotel properties. The CMBS investment bears interest at a spread of 89 basis points over LIBOR, has a stated maturity of six years, but has an estimated life of one year based on the extended maturity of the underlying asset and a fair value of $2.1 million at both June 30, 2014 and December 31, 2013.

The Company owns 2,939,465 shares of common stock of CV Holdings, Inc., formerly Realty Finance Corporation, a commercial real estate specialty finance company, which had a fair value of approximately $0.7 million at June 30, 2014 and December 31, 2013.

Available-for-sale securities are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive loss. The Company evaluates these securities periodically to determine whether a decline in their value is other-than-temporary, though such a determination is not intended to indicate a permanent decline in value. The Company s evaluation is based on its assessment of cash flows, which is supplemented by third-party research reports, internal review of the underlying assets securing the investments, levels of subordination and the ratings of the securities and the underlying collateral. No impairment was recorded on the Company s available-for-sale securities for the three and six months ended June 30, 2014 and 2013.

At December 31, 2013, the Company owned two RMBS investments with deteriorated credit quality that had a total aggregate carrying value of $25.8 million. These investments were sold in the first quarter of 2014 for $25.9 million.

The weighted average yield on the Company s CMBS and RMBS investments based on their face values was 1.15% and 3.87%, including the amortization of premium and the accretion of discount, for the three months ended June 30, 2014 and 2013, respectively, and 2.05% and 4.18% for the six months ended June 30, 2014 and 2013, respectively.

Note 5 Investments in Equity Affiliates

The following is a summary of the Company s investments in equity affiliates at June 30, 2014 and December 31, 2013:

	Investment in Equity Affiliates at	Unpaid Principal Balance of Loans to Equity Affiliates at

Equity Affiliates	June 30, 2014	December 31, 2013	June 30, 2014
Lightstone Value Plus REIT L.P.	$ 1,894,727	$ 1,894,727	$
West Shore Café	1,690,280	1,690,280	1,687,500
Issuers of Junior Subordinated Notes	578,000	578,000	
JT Prime	425,000	425,000	
Lexford Portfolio	100	100	91,644,510
930 Flushing & 80 Evergreen		92,199	22,893,954
450 West 33rd Street			
Ritz-Carlton Club			
Total	$ 4,588,107	$ 4,680,306	$ 116,225,964

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The Company accounts for the 450 West 33rd Street investment under the cost method of accounting and the remaining investments under the equity method.

West Shore Café The Company owns a 50% noncontrolling interest with a 20% preferred return subject to certain conditions in the West Shore Lake Café, a restaurant/inn lakefront property in Lake Tahoe, California. During the second quarter of 2014, the Company provided a $1.7 million first mortgage loan to acquire property adjacent to the original property, which matures in May 2017 and bears interest at a yield of LIBOR plus 4.00%.

930 Flushing & 80 Evergreen The Company had a 12.5% preferred interest in a joint venture that owns and operates two commercial properties. The Company also had a $22.4 million bridge loan and a $0.5 million mezzanine loan outstanding to affiliated entities of the joint venture with scheduled maturities in 2017 at June 30, 2014.

In May 2014, the Company s interest in the properties was sold, and the Company received $7.9 million in cash. As a result, the Company recorded a gain on sale of equity interest in the Consolidated Statements of Income of approximately $7.9 million and reduced its investment by its carrying value of approximately $0.1 million. In July 2014, the Company s outstanding loans totaling $22.9 million to this joint venture were repaid in full.

450 West 33rd Street The Company is a participant in an investor group that owns a non-controlling interest in an office building at 450 West 33rd Street in Manhattan, New York. The investor group as a whole has a 1.44% retained ownership interest in the property and 50% of the property s air rights. The Company has a 29% interest in the 1.44% retained ownership interest and 50% air rights. As a result of recording an other-than-temporary impairment during 2010, the balance of the Company s investment was reduced to $0.

In 2007, the Company, as part of this investor group transferred control of the property and recorded deferred revenue of approximately $77.1 million. The gain was deferred as a result of the agreement of the joint venture members to guarantee a portion of the debt outstanding on the property. The guarantee was allocated to the members in accordance with their ownership percentages. The Company s portion of the guarantee was $76.3 million. In July 2014, the existing debt on the property was refinanced and the Company s portion of the guarantee was terminated, resulting in the recognition of the $77.1 million deferred gain as well as a $19.0 million prepaid incentive fee for a net gain of $58.1 million. See Note 14 Agreements and Transactions with Related Parties for details of the prepaid incentive fee recorded in 2007 related to this investment.

Note 6 Real Estate Owned and Held-For-Sale

Real Estate Owned

	June 30, 2014			December 31, 2013		
	Multifamily Portfolio	Hotel Portfolio	Total	Multifamily Portfolio	Hotel Portfolio	Total
Land	$ 15,651,047	$ 10,893,651	$ 26,544,698	$ 11,382,579	$ 10,893,651	$ 22,276,230
Building and intangible assets	56,023,337	62,632,768	118,656,105	46,115,430	61,632,645	107,748,075
Less: accumulated depreciation and amortization	(12,562,927)	(11,806,934)	(24,369,861)	(8,598,915)	(9,707,213)	(18,306,128)
Real estate owned, net	$ 59,111,457	$ 61,719,485	$ 120,830,942	$ 48,899,094	$ 62,819,083	$ 111,718,177

The Company s real estate owned assets were comprised of seven multifamily properties (the Multifamily Portfolio) and five hotel properties (the Hotel Portfolio) at June 30, 2014.

In the second quarter of 2014, a property in the Multifamily Portfolio was reclassified from real estate held-for-sale to real estate owned, net as a proposed sale for this property failed to close and the property no longer met the requirements for classification as discontinued operations. This property had a carrying value of $11.4 million and a first lien mortgage of $11.0 million at June 30, 2014. In connection with this reclassification, the Company recorded depreciation of $0.3 million in the second quarter of 2014.

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During the first quarter of 2014, a property in the Multifamily Portfolio exhibited indicators of impairment and an impairment analysis was performed. As a result of this impairment analysis based on the indicators of value from the market participants, the Company recorded an impairment loss of $0.3 million. In July 2014, this property was sold for $3.1 million, which approximated its carrying value at the time of sale.

As of June 30, 2014 and December 31, 2013, the Multifamily Portfolio had mortgage note payable of $53.5 million and $42.7 million, respectively, and a weighted average occupancy rate of approximately 86% and 85%, respectively.

For the six months ended June 30, 2014 and 2013, the Company s Hotel Portfolio had a weighted average occupancy rate of approximately 58% and 59%, respectively, a weighted average daily rate of approximately $91 and $79, respectively, and a weighted average revenue per available room of approximately $53 and $47, respectively.

The Company s real estate assets had restricted cash balances totaling $1.5 million and $0.9 million as of June 30, 2014 and December 31, 2013, respectively, due to escrow requirements.

Real Estate Held-For-Sale

As described above, during the second quarter of 2014, the Company reclassified a property in the Multifamily Portfolio from real estate held-for-sale to real estate owned, net. This property had a carrying value of $11.4 million and a first lien mortgage of $11.0 million at June 30, 2014.

Note 7 Debt Obligations

The Company utilizes various forms of short-term and long-term financing agreements to finance certain of its loans and investments. Borrowings underlying these arrangements are primarily secured by a significant amount of the Company s loans and investments.

Credit Facilities and *Repurchase Agreements*

The following table outlines borrowings under the Company s credit facilities and repurchase agreements as of June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
	Debt Carrying Value	**Collateral Carrying Value**	**Weighted Average Note Rate**	**Debt Carrying Value**	**Collateral Carrying Value**	**Weighted Average Note Rate**
$100 million warehousing credit facility	$ 7,687,500	$ 10,250,000	2.44%	$ 33,300,540	$ 45,705,813	2.46%
$75 million warehousing credit facility	3,225,000	5,000,000	2.44%	30,838,180	46,774,000	2.70%
$60 million warehousing credit facility	11,291,500	17,022,236	2.19%	15,063,750	21,800,000	2.20%
$33 million warehousing credit facility				33,000,000	55,000,000	2.45%
$20 million revolving credit facility				20,000,000		8.50%
Repurchase agreement				12,497,000	15,536,049	1.75%
Repurchase agreement				14,425,553	18,944,735	2.00%
Total credit facilities and repurchase agreements	$ 22,204,000	$ 32,272,236	2.31%	$ 159,125,023	$ 203,760,597	3.16%

At June 30, 2014 and December 31, 2013, the weighted average note rate for the Company s credit facilities and repurchase agreements was 2.31% and 3.16%, respectively. Including certain fees and costs, the weighted average note rate was 5.30% and 3.57% at June 30, 2014 and December 31, 2013, respectively. There were no interest rate swaps on these facilities at June 30, 2014 and December 31, 2013.

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In July 2011, the Company entered into a two year, $50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. In 2013, the Company amended the facility increasing the committed amount to $75.0 million, decreased the rate of interest from 275 basis points over LIBOR to 225 basis points over LIBOR, decreased certain commitment, warehousing and non-use fees and extended the maturity to April 2015. In March 2014, the facility s committed amount was increased to $110.0 million, which included a temporary increase of $10.0 million that was repaid in April 2014 as part of the issuance of the Company s third CLO, and requires a 0.13% commitment fee. The facility has a maximum advance rate of 75% and contains several restrictions including full repayment of an advance if a loan becomes 60 days past due, is in default or is written down by the Company. The facility has various financial covenants including a minimum liquidity requirement of $20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of $150.0 million, maximum total liabilities less subordinate debt of $2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. The facility has a compensating balance requirement of $50.0 million to be maintained by the Company and its affiliates. At June 30, 2014, the outstanding balance of this facility was $7.7 million.

In February 2013, the Company entered into a one year, $50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. In April 2014, the Company amended the facility, increasing the committed amount to $75.0 million. The facility bears interest at a rate of 225 basis points over LIBOR which was originally 250 basis points over LIBOR, upon closing, requires a 35 basis point commitment fee, which was originally 12.5 basis points, upon closing, matures in March 2015, has warehousing and non-use fees and allows for an original warehousing period of up to 24 months from the initial advance on an asset. The facility has a maximum advance rate of 75% and contains certain restrictions including partial prepayment of an advance if a loan becomes 90 days past due or in the process of foreclosure, subject to certain conditions. The facility has various financial covenants including a minimum liquidity requirement of $20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of $150.0 million, maximum total liabilities less subordinate debt of $2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. At June 30, 2014, the outstanding balance of this facility was $3.2 million.

In June 2013, the Company entered into a one year, $40.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties, including a $10.0 million sublimit to finance retail and office properties. In February 2014, the Company amended the facility, increasing the committed amount to $45.0 million, and in April 2014 the committed amount was increased to $60.0 million. The facility bears interest at a rate of 200 basis points over LIBOR, matures in April 2015, has warehousing fees and allows for an original warehousing period of up to 24 months from the initial advance on an asset. The facility has a maximum advance rate of 70% or 75%, depending on the property type, and contains certain restrictions including prepayment of an advance if a loan becomes 60 days past due or in the process of foreclosure, subject to certain conditions. The facility has various financial covenants including a minimum liquidity requirement of $20.0 million, minimum tangible net worth of $150.0 million, as well as a minimum debt service coverage ratio. At June 30, 2014, the outstanding balance of this facility was $11.3 million.

In December 2013, the Company entered into a $33.0 million warehouse facility with a financial institution to finance the first mortgage loan on a multifamily property. The facility bore interest at a rate of 225 basis points over LIBOR which increased to 250 basis points over LIBOR in February 2014, required up to a 45 basis point commitment fee and was to mature in November 2015 with a one year extension option. In April 2014, the facility was repaid in full as part of the issuance of the Company s third CLO.

In May 2012, the Company entered into a $15.0 million committed revolving line of credit with a one year term, which was secured by a portion of the bonds originally issued by the Company s CDO entities that have been repurchased by the Company. This facility had a 1% commitment fee, a 1% non-use fee and paid interest at a fixed rate of 8% on any drawn portion of the line. In January 2013, the Company amended the facility, increasing the committed amount to $20.0 million and a fixed rate of interest of 8.5% on any drawn portion of the $20.0 million commitment. The amendment also required a 1% commitment fee and a 1% non-use fee. In May 2013, the Company extended the facility to a maturity in May 2014 with a one year extension option and a 1% extension fee, as well as amended the facility to have an 8.5% non-use fee on the first $5.0 million not borrowed and a 1% non-use fee on the remaining funds not borrowed. In May 2014, the facility was repaid in full from proceeds received from the issuance of senior unsecured notes.

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In July 2011, the Company entered into a repurchase agreement with a financial institution to finance the purchase of RMBS investments. During the first quarter of 2014, the Company paid off the remaining balance of $12.5 million due to the sale of its RMBS investments as well as principal paydowns received. See Note 4 Securities for further details. The facility generally financed between 60% and 90% of the value of each investment, had a rolling monthly term, and bore interest at a rate of 125 to 200 basis points over LIBOR.

In June 2012, the Company entered into a repurchase agreement with a financial institution to finance the purchase of RMBS investments. During the first quarter of 2014, the Company paid off the remaining balance of $14.4 million due to the sale of its RMBS investments as well as principal paydowns received. The facility generally financed between 75% and 80% of the value of the investment, had a rolling monthly term, and bore interest at a rate of 180 to185 basis points over LIBOR.

Collateralized Debt Obligations

The following table outlines borrowings and the corresponding collateral under the Company s collateralized debt obligations as of June 30, 2014:

	Debt		Collateral			
			Loans			
	Face Value	Carrying Value	Unpaid Principal (1)	Carrying Value (1)	Cash Restricted Cash (2)	Collateral At-Risk (3)
CDO I	$ 94,838,436	$ 100,377,879	$ 249,426,103	$ 202,221,226	$ 3,536,997	$ 191,579,210
CDO II	122,560,961	128,251,555	290,183,711	239,777,624	201,116	123,050,208
CDO III	196,198,135	204,667,757	281,279,327	250,713,125	37,555,921	166,104,903
Total CDOs	$ 413,597,532	$ 433,297,191	$ 820,889,141	$ 692,711,975	$ 41,294,034	$ 480,734,321

CDO I Issued four investment grade tranches in January 2005 with a reinvestment period through April 2009 and a stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.11%.

CDO II Issued nine investment grade tranches in January 2006 with a reinvestment period through April 2011 and a stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.98%.

CDO III Issued ten investment grade tranches in December 2006 with a reinvestment period through January 2012 and a stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 0.84%.

The following table outlines borrowings and the corresponding collateral under the Company s collateralized debt obligations as of December 31, 2013:

	Debt		Collateral			
			Loans		Cash	
	Face Value	Carrying Value	Unpaid Principal (1)	Carrying Value (1)	Restricted Cash (2)	Collateral At-Risk (3)
CDO I	$ 126,753,077	$ 132,399,560	$ 284,758,473	$ 237,194,618	$ 79,986	$ 179,466,954
CDO II	196,046,587	201,847,417	362,150,693	312,859,875	1,719,760	187,213,841
CDO III	296,754,194	305,376,004	395,783,494	365,236,505	23,607,813	240,503,823
Total CDOs	$ 619,553,858	$ 639,622,981	$ 1,042,692,660	$ 915,290,998	$ 25,407,559	$ 607,184,618

(1) Amounts include loans to real estate assets consolidated by the Company that were reclassified to real estate owned and held-for-sale, net on the Consolidated Financial Statements.

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

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

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At June 30, 2014 and December 31, 2013, the aggregate weighted average note rate for the Company s CDOs, including the cost of interest rate swaps on assets financed in these facilities, was 2.59% and 2.18%, respectively. Excluding the effect of swaps, the weighted average note rate at June 30, 2014 and December 31, 2013 was 0.93% and 0.83%, respectively. Including certain fees and costs, the weighted average note rate was 4.25% and 3.26% at June 30, 2014 and December 31, 2013, respectively.

As the CDOs are past the reinvestment period, investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDOs. Proceeds distributed are recorded as a reduction of the CDO liability.

CDO III has a $100.0 million revolving note class that provided a revolving note facility. The outstanding note balance for CDO III was $204.7 million at June 30, 2014, which included $17.5 million outstanding under the revolving note facility.

In the first quarter of 2013, the Company purchased, at a discount, a $7.1 million investment grade rated Class H note originally issued by its CDO III issuing entity for a price of $3.3 million from a third party investor and recorded a gain on extinguishment of debt of $3.8 million in its 2013 Consolidated Statement of Operations.

In 2010, the Company re-issued its own CDO bonds it had acquired throughout 2009 with an aggregate face amount of approximately $42.8 million as part of an exchange for the retirement of $114.1 million of its junior subordinated notes. This transaction resulted in the recording of $65.2 million of additional CDO debt, of which $42.3 million represents the portion of the Company s CDO bonds that were exchanged and $22.9 million represents the estimated interest due on the reissued bonds through their maturity, of which $19.7 million remains at June 30, 2014. See Junior Subordinated Notes below for further details.

The Company accounts for these transactions on its Consolidated Balance Sheet as financing facilities. The Company s CDOs are VIEs for which the Company is the primary beneficiary and are consolidated in the Company s Financial Statements. The investment grade tranches are treated as secured financings, and are non-recourse to the Company.

Collateralized Loan Obligations

The following table outlines borrowings and the corresponding collateral under the Company s collateralized loan obligations as of June 30, 2014:

	Debt		Collateral			
			Loans			
	Face Value	Carrying Value	Unpaid Principal	Carrying Value	Cash Restricted Cash (1)	Collateral At-Risk (2)
CLO I	$ 87,500,000	$ 87,500,000	$ 98,529,510	$ 98,208,684	$ 26,557,140	$
CLO II	177,000,000	177,000,000	226,441,942	225,321,876	33,196,179	
CLO III	281,250,000	281,250,000	332,434,800	330,513,427	42,065,200	
Total CLOs	$ 545,750,000	$ 545,750,000	$ 657,406,252	$ 654,043,987	$ 101,818,519	$

CLO I Issued two investment grade tranches in September 2012 with a replacement period through September 2014 and a stated maturity date of October 2022. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.60%.

CLO II Issued two investment grade tranches in January 2013 with a replacement period through January 2015 and a stated maturity date of February 2023. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.55%.

CLO III Issued three investment grade tranches in April 2014 with a replacement period through October 2016 and a stated maturity date of May 2024. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.58%.

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The following table outlines borrowings and the corresponding collateral under the Company s collateralized loan obligations as of December 31, 2013:

	Debt		Collateral			
			Loans		Cash	
	Face Value	Carrying Value	Unpaid Principal	Carrying Value	Restricted Cash (1)	Collateral At-Risk (2)
CLO I	$ 87,500,000	$ 87,500,000	$ 114,414,154	$ 113,940,857	$ 10,672,496	$
CLO II	177,000,000	177,000,000	255,016,564	253,989,391	4,621,675	
Total CLOs	$ 264,500,000	$ 264,500,000	$ 369,430,718	$ 367,930,248	$ 15,294,171	$

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

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

In September 2012, the Company completed its first collateralized loan obligation, or CLO, issuing to third party investors two tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries. Initially, the notes are secured by a portfolio of loan obligations with a face value of approximately $125.1 million, consisting primarily of bridge loans and a senior participation interest in a first mortgage loan that were contributed from the Company s existing loan portfolio. The financing has a two-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. The aggregate principal amounts of the two classes of notes are $75.0 million of Class A senior secured floating rate notes and $12.5 million of Class B secured floating rate notes. The Company retained a residual interest in the portfolio with a notional amount of $37.6 million. The notes have an initial weighted average interest rate of approximately 3.39% plus one-month LIBOR and interest payments on the notes are payable monthly. The Company incurred approximately $2.4 million of issuance costs which is being amortized on a level yield basis over the average estimated life of the CLO. Including certain fees and costs, the initial weighted average note rate was 4.35%.

In January 2013, the Company completed its second CLO, issuing to third party investors two tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries. As of the CLO closing date, the notes are secured by a portfolio of loan obligations with a face value of approximately $210.0 million, consisting primarily of bridge loans and a senior participation interest in a first mortgage loan that were contributed from the Company s existing loan portfolio. The financing has a two-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 $50.0 million for the purpose of acquiring additional loan obligations for a period of up to 90 days from the closing date of the CLO. Subsequently, the issuer owns loan obligations with a face value of approximately $260.0 million. The aggregate principal amounts of the two classes of notes are $156.0 million of Class A senior secured floating rate notes and $21.0 million of Class B secured floating rate notes. The Company retained a residual interest in the portfolio with a notional amount of approximately $83.0 million. The notes have an initial weighted average interest rate of approximately 2.36% plus one-month LIBOR and interest payments on the notes are payable monthly. The Company incurred approximately $3.2 million of issuance costs which is being amortized on a level yield basis over the average estimated life of the CLO. Including certain fees and costs, the initial weighted average note rate was 3.00%.

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In April 2014, the Company completed its third CLO, issuing to third party investors three tranches of investment grade CLOs through two newly-formed wholly-owned subsidiaries. As of the CLO closing date, the notes are secured by a portfolio of loan obligations with a face value of approximately $307.3 million, consisting primarily of bridge loans that were contributed from the Company s existing loan portfolio. The financing has an approximate 2.5 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 $67.7 million for the purpose of acquiring additional loan obligations for a period of up to 120 days from the closing date of the CLO, which was fully utilized in July 2014. Subsequently, the issuer owns loan obligations with a face value of approximately $375.0 million. The aggregate principal amounts of the three classes of notes are $221.3 million of Class A senior secured floating rate notes, $24.3 million of Class B secured floating rate notes and $35.8 million of Class C secured floating rate notes. The Company retained a residual interest in the portfolio with a notional amount of approximately $93.8 million. The notes have an initial weighted average interest rate of approximately 2.39% plus one-month LIBOR and interest payments on the notes are payable monthly. Including certain fees and costs, the initial weighted average note rate was 3.07%.

The Company accounts for these transactions on its Consolidated Balance Sheet as financing facilities. The Company s CLOs are VIEs for which the Company is the primary beneficiary and are consolidated in the Company s Financial Statements. The investment grade tranches are treated as secured financings, and are non-recourse to the Company.

At June 30, 2014 and December 31, 2013, the aggregate weighted average note rate for the Company s collateralized loan obligations was 2.73% and 2.91%, respectively. Including certain fees and costs, the weighted average note rate was 3.06% and 3.49% at June 30, 2014 and December 31, 2013, respectively.

Senior Unsecured Notes

In May 2014, the Company issued $55.0 million aggregate principal amount of 7.375% senior unsecured notes due in 2021 in an underwritten public offering, generating net proceeds of approximately $52.9 million after deducting the underwriting discount and other offering expenses. Also in May 2014, the underwriters exercised a portion of their over-allotment option for a $3.6 million aggregate principal amount providing additional net proceeds of $3.5 million. The notes are unsecured and can be redeemed by the Company after May 15, 2017. The interest is paid quarterly on February 15th, May 15th, August 15th, and November 15th starting on August 15, 2014. Including certain fees and costs, the weighted average note rate was 7.91% at June 30, 2014. The Company used the net proceeds to make investments, to repurchase or pay liabilities and for general corporate purposes.

Junior Subordinated Notes

The carrying value of borrowings under the Company s junior subordinated notes was $159.6 million and $159.3 million at June 30, 2014 and December 31, 2013, respectively, which is net of a deferred amount of $16.3 million and $16.6 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 three-month LIBOR and, absent the occurrence of special events, were not redeemable for the first two years. The current weighted average note rate was 3.00% and 3.01% at June 30, 2014 and December 31, 2013, respectively, however, based upon the accounting treatment for the restructuring mentioned below, the effective rate was 3.04% and 3.06% at June 30, 2014 and December 31, 2013, respectively. Including certain fees and costs, the weighted average note rate was 3.16% and 3.18% at June 30, 2014 and December 31, 2013, respectively. The entities that issued the junior subordinated notes have been deemed VIEs. The impact of these variable interest entities with respect to consolidation is discussed in Note 9 Variable Interest Entities.

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In 2009, the Company retired $265.8 million of its then outstanding trust preferred securities, primarily consisting of $258.4 million of junior subordinated notes issued to third party investors and $7.4 million of common equity issued to the Company in exchange for $289.4 million of newly issued unsecured junior subordinated notes, representing 112% of the original face amount. The notes bear interest equal to three month LIBOR plus a weighted average spread of 2.77%. The 12% increase to the face amount due upon maturity, which had a balance of $16.3 million at June 30, 2014, is being amortized into interest expense over the life of the notes. The Company also paid transaction fees of approximately $1.3 million to the issuers of the junior subordinated notes related to this restructuring which is being amortized into interest expense over the life of the notes.

Notes Payable

The following table outlines borrowings under the Company s notes payable as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Debt Carrying Value	**Collateral Carrying Value**	**Debt Carrying Value**	**Collateral Carrying Value**
Junior loan participation, secured by the Company s interest in a first mortgage loan with a principal balance of $1.3 million, participation interest was based on a portion of the interest received from the loan which has a fixed rate of 9.57%	$ 1,300,000	$ 1,300,000	$ 1,300,000	$ 1,300,000
Junior loan participation, maturity of October 2018, secured by the Company s interest in a mezzanine loan with a principal balance of $3.0 million, participation interest is a fixed rate of 13.00%	748,542	748,542	750,000	750,000
Junior loan participation, maturity of September 2014, secured by the Company s interest in a mezzanine loan with a principal balance of $3.0 million, participation interest is a fixed rate of 15.00%	450,000	450,000	450,000	450,000
Total notes payable	$ 2,498,542	$ 2,498,542	$ 2,500,000	$ 2,500,000

At June 30, 2014 and December 31, 2013, the aggregate weighted average note rate for the Company s notes payable was 4.26%. There were no interest rate swaps on the notes payable at June 30, 2014 and December 31, 2013.

In October 2013, the Company entered into a non-recourse junior loan participation for approximately $0.8 million on a $3.0 million mezzanine loan. In September 2013, the Company entered into a non-recourse junior loan participation for approximately $0.5 million on a $3.0 million mezzanine loan. Interest expense is based on the portion of the interest received from the loan that is paid to the junior participant. The Company s obligation to pay interest on the participation is based on the performance of the related loan. In March 2014, the Company entered into non-recourse junior loan participations with ACM totaling $15.0 million on a $70.1 million bridge loan, with a weighted average variable interest rate of 7.20%. In May 2014, the junior loan participations with ACM were paid off.

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

The Company has a $53.5 million interest-only first lien mortgage in connection with the acquisition of real property pursuant to bankruptcy proceedings for an entity in which the Company had a $29.8 million loan secured by the Multifamily Portfolio. The mortgage bears interest at a variable rate of one-month LIBOR plus 1.23% and in July 2014, the maturity date was extended to July 2015. In September 2013, a property in the Multifamily Portfolio was classified as held-for-sale and accordingly, $11.0 million of the first lien mortgage related to this property was

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classified as held-for-sale. In the second quarter of 2014, the property was reclassified from real estate held-for-sale to real estate owned when it was determined that a sale of the property would not take place and the entire first lien mortgage was classified as real estate owned with a balance of $53.5 million at June 30, 2014.

Debt Covenants

The Company s debt facilities contain various financial covenants and restrictions, including minimum net worth, minimum liquidity and maximum debt balance requirements, as well as certain other debt service coverage ratios and debt to equity ratios. The Company was in compliance with all financial covenants and restrictions at June 30, 2014.

The Company s CDO and CLO vehicles contain interest coverage and asset overcollateralization covenants that must be met as of the waterfall distribution date in order for the Company to receive such payments. If the Company fails these covenants in any of its CDOs or CLOs, all cash flows from the applicable CDO or CLO would be diverted to repay principal and interest on the outstanding CDO or CLO bonds and the Company would not receive any residual payments until that CDO or CLO regained compliance with such tests. The Company s CDOs and CLOs were in compliance with all such covenants as of June 30, 2014, as well as on the most recent determination dates in July 2014. In the event of a breach of the CDO or CLO covenants that could not be cured in the near-term, the Company would be required to fund its non-CDO or non-CLO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO or CLO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, or (v) or accessing the equity or debt capital markets, if available. The Company has the right to cure covenant breaches which would resume normal residual payments to it by purchasing non-performing loans out of the CDOs or CLOs. However, the Company may not have sufficient liquidity available to do so at such time.

The chart below is a summary of the Company s CDO and CLO compliance tests as of the most recent determination dates in July 2014:

Cash Flow Triggers	CDO I	CDO II	CDO III	CLO I	CLO II	CLO III
Overcollateralization (1)						
Current	171.01%	153.44%	109.20%	142.96%	146.89%	133.33%
Limit	145.00%	127.30%	105.60%	137.86%	144.25%	132.33%
Pass / Fail	Pass	Pass	Pass	Pass	Pass	Pass
Interest Coverage (2)						

Current	553.88%	387.06%	498.96%	206.81%	279.82%	274.30%
Limit	160.00%	147.30%	105.60%	120.00%	120.00%	120.00%
Pass / Fail	Pass	Pass	Pass	Pass	Pass	Pass

(1) The overcollateralization ratio divides the total principal balance of all collateral in the CDO and 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 CDO and CLO collateral will generally not have a direct impact on the principal balance of a CDO and CLO asset for purposes of calculating the CDO and CLO overcollateralization test unless the rating downgrade is below a significantly low threshold (e.g. CCC-) as defined in each CDO and CLO vehicle.

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

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The chart below is a summary of the Company s CDO and CLO overcollateralization ratios as of the following determination dates:

Determination Date	CDO I	CDO II	CDO III	CLO I	CLO II	CLO III
July 2014	171.01%	153.44%	109.20%	142.96%	146.89%	133.33%
April 2014	184.35%	138.15%	108.74%	142.96%	146.89%	
January 2014	167.15%	137.87%	107.80%	142.96%	146.89%	
October 2013	166.88%	133.77%	106.64%	142.96%	146.89%	
July 2013	176.69%	139.10%	106.61%	142.96%	146.89%	

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

Note 8 Derivative Financial Instruments

The following is a summary of the derivative financial instruments held by the Company as of June 30, 2014 and December 31, 2013 (dollars in thousands):

		Notional Value					Balance	Fair Value	
Designation\ Cash Flow	Derivative	Count	June 30, 2014	Count	December 31, 2013	Expiration Date	Sheet Location	June 30, 2014	December 31, 2013
Non-Qualifying	Basis Swaps	1	$ 3,000	1	$ 11,600	2015	Other Assets	$ 4	$ 5
Non-Qualifying	LIBOR Cap	1	$ 71,701		$	2015	Other Assets	$	$
Qualifying	Interest Rate Swaps	12	$ 265,425	14	$ 297,532	2015 - 2017	Other Liabilities	$ (19,551)	$ (24,794)
Non-Qualifying	Forward Contracts		$	8	$		Other Assets	$	$ 6,397

The Non-Qualifying Basis Swaps Hedges are used to manage the Company s exposure to interest rate movements and other identified risks but do not meet hedge accounting requirements. The Company is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in benchmark interest rates and uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. These interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. During the six months ended June 30, 2014, the notional value on a basis swap decreased by approximately $8.6 million pursuant to the contractual terms of the respective swap agreement. During the six months ended June 30, 2013, six basis swaps matured with a combined notional value of approximately $464.4 million and the notional value of two basis swaps decreased by approximately $80.6 million pursuant to the contractual terms of the respective swap agreement. The Company entered into a non-qualifying LIBOR Cap Hedge in the first quarter of 2014 due to a loan agreement requiring a LIBOR Cap of 6%. A Non-Qualifying LIBOR Cap Hedge with a notional value of approximately $6.0 million also matured during the six months ended June 30, 2013. For the three months ended June 30, 2014 and 2013, the change in fair value of the Non-Qualifying Basis Swaps and LIBOR Cap was less than $(0.1) million, and for the six months ended June 30, 2014 and 2013, the change in fair value of the Non-Qualifying Basis Swaps and LIBOR Cap was $(0.1) million, and was recorded in interest expense on the Consolidated Statements of Income.

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The change in the fair value of Qualifying Interest Rate Swap Cash Flow Hedges was recorded in accumulated other comprehensive loss on the Consolidated Balance Sheets. These interest rate swaps are used to hedge the variable cash flows associated with existing variable-rate debt, and amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. During the six months ended June 30, 2014, two interest swaps matured with a combined notional value of approximately $32.0 million. During the six months ended June 30, 2013, the notional value on an interest rate swap decreased by approximately $14.5 million pursuant to the contractual terms of the respective swap agreement. A Qualifying LIBOR Cap Hedge with a notional value of approximately $73.3 million also matured during the six months ended June 30, 2013. As of June 30, 2014, the Company expects to reclassify approximately $(11.3) million of other comprehensive loss from Qualifying Cash Flow Hedges to interest expense over the next twelve months assuming interest rates on that date are held constant. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. Gains and losses on terminated swaps are being deferred and recognized in earnings over the original life of the hedged item. As of June 30, 2014 and December 31, 2013, the Company has a net deferred loss of $1.3 million and $1.6 million, respectively, in accumulated other comprehensive loss, related to these terminated swap agreements. The Company recorded $0.2 million as additional interest expense related to the amortization of the loss for both the three months ended June 30, 2014 and 2013, and $0.1 million as a reduction to interest expense related to the accretion of the net gains for both the three months ended June 30, 2014 and 2013. The Company recorded $0.3 million and $0.4 million as additional interest expense related to the amortization of the loss for the six months ended June 30, 2014 and 2013, respectively, and $0.1 million as a reduction to interest expense related to the accretion of the net gains for both the six months ended June 30, 2014 and 2013. The Company expects to record approximately $0.5 million of net deferred loss to interest expense over the next twelve months.

The fair value of Non-Qualifying Forward Contracts was $6.4 million as of December 31, 2013 and was recorded in other assets on the Consolidated Balance Sheets and consisted of $66.0 million of RMBS investments, which is net of $1.5 million of net unrealized losses in fair value, and $59.6 million of repurchase financing. The RMBS investments were financed with repurchase agreements and were accounted for as linked transactions, which are considered forward contracts. The repurchase agreements generally financed 80% - 90% of the purchase and bore interest at a rate of 125 to 175 basis points over LIBOR. During the six months ended June 30, 2014, the Company sold the eight remaining RMBS investments, which were accounted for as linked transactions, with an aggregate carrying value of $65.7 million for approximately $65.8 million and recorded a net gain of $0.1 million related to the settlement of these linked transactions. During the six months ended June 30, 2014, the Company received total principal paydowns on the RMBS of $2.7 million and paid down the associated repurchase agreements by $4.2 million, which includes a decreased in the amount financed on the repurchase agreements of $1.7 million. The eight RMBS investments were financed with repurchase agreements totaling $55.4 million which were repaid with the proceeds. For the six months ended June 30, 2014, $0.3 million of net interest income and a less than $0.1 million decrease in fair value was recorded to other income in the Consolidated Statements of Income. For the six months ended June 30, 2013, $1.1 million of net interest income and a $0.9 million decrease in fair value was recorded to other income in the Consolidated Statements of Income.

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The following table presents the effect of the Company s derivative financial instruments on the Statements of Income as of June 30, 2014 and 2013 (dollars in thousands):

Designation \Cash Flow	Derivative	Amount of Loss (Gain) Recognized in Other Comprehensive Loss (Effective Portion) For the Six Months Ended June 30, 2014	June 30, 2013	Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Six Months Ended June 30, 2014	June 30, 2013	Amount of Gain (Loss) Recognized in Interest Expense (Ineffective Portion) For the Six Months Ended June 30, 2014	June 30, 2013	Amount of Loss Recognized in Other Income For the Six Months Ended June 30, 2014	June 30, 2013
Non-Qualifying	Basis Swaps	$	$	$	$	$ 1	$ (7)	$	$
Qualifying	Interest Rate Swaps	$							