ARBOR REALTY TRUST INC
Form 10-Q
May 04, 2012

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 March 31, 2012

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	(I.R.S. Employer
incorporation)	Identification No.)
333 Earle Ovington Boulevard, Suite 900	**11553**

Uniondale, NY	(Zip Code)
(Address of principal executive offices)	

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

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: 24,249,225 outstanding (excluding 2,650,767 shares held in the treasury) as of May 4, 2012.

ARBOR REALTY TRUST, INC.

FORM 10-Q

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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, endeavo anticipate, estimate, overestimate, underestimate, 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; changes in the markets; legislative/regulatory changes; completion of pending investments; the availability and cost of capital for future investments; competition within the finance and real estate industries; and other risks detailed in our Annual Report on Form 10-K for the year ended December 31, 2011. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our 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, 2011.

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

	March 31, 2012 (Unaudited)	December 31, 2011
Assets:		
Cash and cash equivalents	$ 53,455,266	$ 55,236,479
Restricted cash (includes $37,303,220 and $65,357,993 from consolidated VIEs, respectively)	38,847,281	67,326,530
Loans and investments, net (includes $1,105,017,903 and $1,093,893,014 from consolidated VIEs, respectively)	1,296,461,568	1,302,440,660
Available-for-sale securities, at fair value (includes $2,000,000 and $2,000,000 from consolidated VIEs, respectively)	4,276,368	4,276,368
Securities held-to-maturity, net (includes $738,485 and $742,602 from consolidated VIEs, respectively)	64,993,099	29,942,108
Investment in equity affiliates	60,175,064	60,450,064
Real estate owned, net (includes $83,099,540 and $83,099,540 from consolidated VIEs, respectively)	127,909,166	128,397,612
Real estate held-for-sale, net (includes $0 and $2,550,000 from consolidated VIEs, respectively)	41,440,000	62,084,412
Due from related party (includes $1,217 and $1,217 from consolidated VIEs, respectively)	139,801	656,290
Prepaid management fee related party	19,047,949	19,047,949
Other assets (includes $11,432,387 and $11,696,071 from consolidated VIEs, respectively)	46,755,203	46,855,858
Total assets	$ 1,753,500,765	$ 1,776,714,330
Liabilities and Equity:		
Repurchase agreement and credit facility	$ 106,366,000	$ 76,105,000
Collateralized debt obligations (includes $970,706,271 and $1,002,615,393 from consolidated VIEs, respectively)	970,706,271	1,002,615,393
Junior subordinated notes to subsidiary trust issuing preferred securities	158,382,950	158,261,468
Notes payable	85,457,708	85,457,708
Mortgage note payable real estate owned	53,751,004	53,751,004
Mortgage notes payable held-for-sale	41,440,000	62,190,000
Due to related party	1,281,581	2,728,819
Due to borrowers (includes $659,941 and $740,809 from consolidated VIEs, respectively)	1,926,846	2,825,636
Deferred revenue	77,123,133	77,123,133
Other liabilities (includes $26,389,742 and $27,839,757 from consolidated VIEs, respectively)	76,484,892	82,595,636
Total liabilities	1,572,920,385	1,603,653,797
Commitments and contingencies		
Equity:		

Arbor Realty Trust, Inc. stockholders equity:				
Preferred stock, $0.01 par value: 100,000,000 shares authorized; no shares issued or outstanding				
Common stock, $0.01 par value: 500,000,000 shares authorized; 26,803,737 shares issued, 24,152,970 shares outstanding at March 31, 2012 and 26,778,737 shares issued, 24,298,140 shares outstanding at December 31, 2011		268,037		267,787
Additional paid-in capital		456,112,095		455,994,695
Treasury stock, at cost 2,650,767 shares at March 31, 2012 and 2,480,597 shares at December 31, 2011		(17,100,916)		(16,416,152)
Accumulated deficit		(216,857,715)		(221,015,880)
Accumulated other comprehensive loss		(43,773,883)		(47,704,045)
Total Arbor Realty Trust, Inc. stockholders equity		178,647,618		171,126,405
Noncontrolling interest in consolidated entity		1,932,762		1,934,128
Total equity		180,580,380		173,060,533
Total liabilities and equity	$	1,753,500,765	$	1,776,714,330

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended March 31, 2012 and 2011

(Unaudited)

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
Interest income	$	19,606,407	$	18,007,567
Interest expense		11,761,400		13,040,949
Net interest income		7,845,007		4,966,618
Other revenue:				
Property operating income		9,023,161		4,673,419
Other income		32,030		21,876
Total other revenue		9,055,191		4,695,295
Other expenses:				
Employee compensation and benefits		2,484,778		2,088,054
Selling and administrative		1,660,233		1,197,825
Property operating expenses		7,325,307		2,855,971
Depreciation and amortization		1,176,755		239,449
Provision for loan losses (net of recoveries)		7,789,408		535,135
Loss on sale and restructuring of loans				1,000,000
Management fee - related party		2,500,000		1,950,000
Total other expenses		22,936,481		9,866,434
Loss from continuing operations before gain on extinguishment of debt, (loss) income from equity affiliates and benefit from income taxes		(6,036,283)		(204,521)
Gain on extinguishment of debt		5,346,121		892,500
(Loss) income from equity affiliates		(250,574)		24,365
(Loss) income before benefit from income taxes		(940,736)		712,344
Benefit from income taxes		1,401,558		
Income from continuing operations		460,822		712,344
Gain on sale of real estate held-for-sale		3,487,145		
Income (loss) from operations of real estate held-for-sale		267,624		(391,499)
Income (loss) from discontinued operations		3,754,769		(391,499)
Net income		4,215,591		320,845
Net income attributable to noncontrolling interest		53,811		53,696
Net income attributable to Arbor Realty Trust, Inc.	$	4,161,780	$	267,149
Basic earnings (loss) per common share:				
Income from continuing operations, net of noncontrolling interest	$	0.02	$	0.03
Income (loss) from discontinued operations		0.15		(0.02)
Net income attributable to Arbor Realty Trust, Inc.	$	0.17	$	0.01
Diluted earnings (loss) per common share:				
Income from continuing operations, net of noncontrolling interest	$	0.02	$	0.03
Income (loss) from discontinued operations		0.15		(0.02)

Net income attributable to Arbor Realty Trust, Inc.	$	0.17	$	0.01
Dividends declared per common share	$		$	
Weighted average number of shares of common stock outstanding:				
Basic		24,180,165		24,961,471
Diluted		24,344,154		25,785,629

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2012 and 2011

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	$ 4,215,591	$ 320,845
Unrealized gain on securities available-for-sale		1,058,789
Unrealized (loss) gain on derivative financial instruments	(1,266,467)	623,350
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	5,196,629	7,290,966
Comprehensive income	8,145,753	9,293,950
Less:		
Comprehensive income attributable to noncontrolling interest	53,811	53,696
Comprehensive income attributable to Arbor Realty Trust, Inc.	$ 8,091,942	$ 9,240,254

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Three Months Ended March 31, 2012

(Unaudited)

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Arbor Realty Trust, Inc. Stockholders Equity	Non-controlling Interest	T
Balance January 1, 2012	26,778,737	$ 267,787	$ 455,994,695	(2,480,597)	$ (16,416,152)	$ (221,015,880)	$ (47,704,045)	$ 171,126,405	$ 1,934,128	$ 173
Purchase of treasury stock				(170,170)	(684,764)			(684,764)		
Stock-based compensation	25,000	250	117,400					117,650		
Distributions preferred stock of private REIT						(3,615)		(3,615)		
Net income						4,161,780		4,161,780	53,811	4
Distribution to non-controlling interest									(55,177)	
Unrealized loss on derivative financial instruments							(1,266,467)	(1,266,467)		(1
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings							5,196,629	5,196,629		5
Balance March 31, 2012	26,803,737	$ 268,037	$ 456,112,095	(2,650,767)	$ (17,100,916)	$ (216,857,715)	$ (43,773,883)	$ 178,647,618	$ 1,932,762	$ 180

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2012 and 2011

(Unaudited)

	Three Months Ended March 31, 2012	2011
Operating activities:		
Net income	$ 4,215,591	$ 320,845
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,176,755	432,465
Stock-based compensation	53,600	
Gain on sale of real estate held-for-sale	(3,487,145)	
Gain on extinguishment of debt	(5,346,121)	(892,500)
Provision for loan losses (net of recoveries)	7,789,408	535,135
Loss on sale and restructuring of loans		1,000,000
Amortization and accretion of interest, fees and intangible assets, net	1,367,051	1,943,909
Change in fair value of non-qualifying swaps	379,045	278,533
Loss (income) from equity affiliates	250,574	(24,365)
Changes in operating assets and liabilities:		
Other assets	(2,147,243)	302,608
Distributions of operations from equity affiliates	24,426	24,365
Other liabilities	(3,912,121)	(3,235,343)
Change in restricted cash	424,476	
Due to/from related party	(1,223,796)	(14,293,220)
Net cash used in operating activities	$ (435,500)	$ (13,607,568)
Investing activities:		
Loans and investments funded, originated and purchased, net	(40,567,497)	(26,607,473)
Payoffs and paydowns of loans and investments	38,882,249	42,353,408
Due to borrowers and reserves	(328,890)	(54,911)
Change in restricted cash		(1,050,000)
Deferred fees	813,406	300,340
Purchase of securities held-to-maturity, net	(44,969,600)	
Principal collection on securities held-to-maturity, net	9,892,873	
Investment in real estate, net	(864,780)	
Proceeds from sale of real estate, net	24,131,557	1,447,675
Distributions from equity affiliates		49,434
Net cash (used in) / provided by investing activities	$ (13,010,682)	$ 16,438,473
Financing activities:		
Proceeds from repurchase agreement	37,515,970	
Paydowns of repurchase agreements	(7,254,970)	(244,000)
Payoff of mortgage note payable held-for-sale	(20,750,000)	
Payoffs and paydowns of collateralized debt obligations	(26,377,248)	(7,072,005)
Change in restricted cash	28,054,773	(31,312,651)
Payments on swaps to hedge counterparties	(1,760,000)	(5,690,000)
Receipts on swaps from hedge counterparties	2,980,000	7,630,000

Purchases of treasury stock		(684,764)		
Distributions paid to noncontrolling interest		(55,177)		(118,669)
Distributions paid on preferred stock of private REIT		(3,615)		(3,575)
Net cash provided by / (used in) financing activities	$	11,664,969	$	(36,810,900)
Net decrease in cash and cash equivalents	$	(1,781,213)	$	(33,979,995)
Cash and cash equivalents at beginning of period		55,236,479		101,124,564
Cash and cash equivalents at end of period	$	53,455,266	$	67,144,569

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (*Continued*)

For the Three Months Ended March 31, 2012 and 2011

(Unaudited)

	Three Months Ended March 31, 2012		2011	
Supplemental cash flow information:				
Cash used to pay interest	$	10,071,981	$	10,336,575
Cash used for taxes	$	120,741	$	288,062
Supplemental schedule of non-cash investing and financing activities:				
Loans transferred to real estate owned, net	$		$	83,099,540
Assumption of mortgage notes payable real estate owned	$		$	55,351,004
Issuance of common stock for management incentive fee	$		$	3,974,882

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(Unaudited)

Note 1 Description of Business / Form of Ownership

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 is organized and conducts its operations to qualify as a real estate investment trust (REIT) for federal income tax purposes. A REIT is generally not subject to federal income tax on its REIT taxable income that it distributes to its stockholders, provided that it distributes at least 90% of its REIT taxable income and meets certain other requirements. Certain assets of the Company that produce non-qualifying income are owned by its taxable REIT subsidiaries, the income of which is subject to federal and state income taxes.

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. The Company was incorporated in June 2003 and was initially capitalized through the sale of 67 shares of common stock for $1,005.

On July 1, 2003, ACM contributed $213.1 million of structured finance assets and $169.2 million of borrowings supported by $43.9 million of equity in exchange for a commensurate equity ownership in ARLP. In addition, certain employees of ACM were transferred to ARLP. At that time, these assets, liabilities and employees represented a substantial portion of ACM s structured finance business. The Company is externally managed and advised by ACM and pays ACM a management fee in accordance with a management agreement. ACM also sources originations, provides underwriting services, and services all structured finance assets on behalf of ARLP and its wholly owned subsidiaries.

On July 1, 2003, the Company completed a private equity offering of 1,610,000 units (including an overallotment option), each consisting of five shares of common stock and one warrant to purchase one share of common stock at $75.00 per unit. The Company sold 8,050,000 shares of common stock in the offering. Gross proceeds from the private equity offering totaled $120.2 million. Gross proceeds from the private equity offering combined with the concurrent equity contribution by ACM totaled approximately $164.1 million in equity capital. The Company paid and accrued offering expenses of $10.1 million resulting in Arbor Realty Trust, Inc. stockholders equity and noncontrolling interest of $154.0 million as a result of the private placement.

In April 2004, the Company sold 6,750,000 shares of its common stock in a public offering at a price of $20.00 per share, for net proceeds of approximately $124.4 million after deducting the underwriting discount and other estimated offering expenses. The Company used the proceeds to pay down its indebtedness. In May 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares. The Company received net proceeds of approximately $9.8 million after deducting the underwriting discount. In October 2004, ARLP received proceeds of approximately $9.4 million from the exercise of warrants for 629,345 operating partnership units. Additionally, in 2004 and 2005, the Company issued 973,354 and 282,776 shares of common stock, respectively, from the exercise of warrants under its Warrant Agreement dated July 1, 2003 and received net proceeds of $12.9 million and $4.2 million, respectively.

In June 2007, the Company completed a public offering in which it sold 2,700,000 shares of its common stock registered for $27.65 per share, and received net proceeds of approximately $73.6 million after deducting the underwriting discount and the other estimated offering expenses. The Company used the proceeds to pay down debt and finance its loan and investment portfolio.

In June 2008, the Company s external manager exercised its right to redeem its approximate 3.8 million operating partnership units in the Company s operating partnership for shares of the Company s common stock on a one-for-one basis. In addition, the special voting preferred shares paired with each operating partnership unit, pursuant to a pairing agreement, were redeemed simultaneously and cancelled by the Company.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(Unaudited)

In June 2010, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (the 1933 Act) with respect to an aggregate of $500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants that may be sold by the Company from time to time pursuant to Rule 415 of the 1933 Act. On June 23, 2010, the SEC declared this shelf registration statement effective.

The Company had 24,152,970 shares of common stock outstanding at March 31, 2012 and 24,298,140 shares of common stock outstanding at December 31, 2011.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification , the authoritative reference for accounting principles generally accepted in the United States (GAAP), for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements, although management believes that the disclosures presented herein are adequate to prevent the accompanying unaudited consolidated interim financial statements presented from being misleading.

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) subsidiaries on its Consolidated Balance Sheets. Entities in which the Company owns a voting interest of 20 percent to 50 percent are accounted for primarily under the equity method.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All significant inter-company transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current period presentation. During the third and fourth quarters of 2011, the Company reclassified two real estate investments from real estate owned to real estate held-for-sale, resulting in a reclassification of the operating activity from property operating income and expenses as well as impairment loss to discontinued operations for all prior periods presented. Also, comprehensive income has been presented in a separate Statement of Comprehensive Income and is no longer presented on the Statement of Changes in Stockholders Equity.

The preparation of consolidated interim financial statements in conformity with GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Further, in connection with preparation of the consolidated interim financial statements, the Company evaluated events subsequent to the balance sheet date of March 31, 2012 through the issuance of the Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(Unaudited)

The results of operations for the three months ended March 31, 2012 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2012. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the Company s audited consolidated annual financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company places its cash and cash equivalents in high quality financial institutions. The consolidated account balances at each institution periodically exceed Federal Deposit Insurance Corporation (FDIC) insurance coverage and the Company believes that this risk is not significant.

Restricted Cash

At March 31, 2012 and December 31, 2011, the Company had restricted cash of $38.8 million and $67.3 million, respectively. Restricted cash primarily represents proceeds from loan repayments on deposit with the trustees for the Company s CDOs which will be used for principal repayments, unfunded loan commitments and interest payments received from loans. As of January 2012, all three of the CDOs have reached their replenishment dates and principal repayments are remitted quarterly to the bond holders and the Company in the month following the quarter. See Note 7 Debt Obligations. The Company s real estate owned assets also have restricted cash balances totaling $1.5 million and $2.0 million as of March 31, 2012 and December 31, 2011, respectively, due to escrow requirements. See Note 6 Real Estate Owned and Held-For-Sale.

Loans, Investments and Securities

At the time of purchase, the Company designates a security as available-for-sale, held-to-maturity, or trading depending on the Company s ability and intent to hold it to maturity. The Company does not have any securities designated as trading as of March 31, 2012. Securities available-for-sale are reported at fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss, while securities held-to-maturity are reported at amortized cost. Unrealized losses that are determined to be other-than-temporary are recognized in earnings up to their credit component. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions. The process may include, but is not limited to, assessment of recent market events and prospects for near-term recovery, assessment of cash flows, internal review of the underlying assets securing the investments, credit of the issuer and the rating of the security, as well as the Company s ability and intent to hold the investment to maturity. Management closely monitors market conditions on which it bases such decisions.

The Company also assesses certain of its securities, other than those of high credit quality, to determine whether significant changes in estimated cash flows or unrealized losses on these securities, if any, reflect a decline in value which is other-than-temporary and, accordingly, should be written down to their fair value against earnings. On a quarterly basis, the Company reviews these changes in estimated cash flows, which could occur due to actual prepayment and credit loss experience, to determine if an other-than-temporary impairment is deemed to have occurred. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions and is not necessarily intended to indicate a permanent decline in value. The Company calculates a revised yield based on the current amortized cost of the investment, including any other-than-temporary impairments recognized to date, and the revised yield is then applied prospectively to recognize interest income.

Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. The Company invests in preferred equity interests that, in some

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cases, allow the Company to participate in a percentage of the underlying property s cash flows from operations and proceeds from a sale or refinancing. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, joint venture or as real estate. To date, management has determined that all such investments are properly accounted for and reported as loans.

From time to time the Company may enter into an agreement to sell a loan. These loans are considered held-for-sale and are valued at the lower of the loan s carrying amount or fair value less costs to sell. For the sale of loans, recognition occurs when ownership passes to the buyer.

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

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. The Company evaluates each loan in its portfolio on a quarterly basis. The Company s loans are individually specific and unique as it relates to product type, geographic location, and collateral type, as well as to the rights and remedies and the position in the capital structure the Company s loans and investments have in relation to the underlying collateral. The Company evaluates all of this information as well as general market trends related to specific classes of assets, collateral type and geographic locations, when determining the appropriate assumptions such as capitalization and market discount rates, as well as the borrower s operating income and cash flows, in estimating the value of the underlying collateral when determining if a loan is impaired. The Company utilizes internally developed valuation models and techniques primarily consisting of discounted cash flow and direct capitalization models in determining the fair value of the underlying collateral on an individual loan. The Company may also obtain a third party appraisal, which may value the collateral through an as-is or stabilized value methodology. Such appraisals may be used as an additional source of valuation information only and no adjustments are made to appraisals. Included in the evaluation of the capitalization and market discount rates, the Company considers not only assumptions specific to the collateral but also considers geographical and industry trends that could impact the collateral s value.

If upon completion of the valuation, the fair value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level that is believed to be adequate by management to absorb probable losses. The Company had an allowance for loan losses of $189.6 million relating to 23 loans with an aggregate carrying value, before loan loss reserves, of approximately $281.7 million at March 31, 2012 and $185.4 million in allowance for loan losses relating to 24 loans with an aggregate carrying value, before loan loss reserves, of approximately $285.0 million at December 31, 2011.

Loan terms may be modified if the Company determines that based on the individual circumstances of a loan and the underlying collateral, a modification would more likely increase the total recovery of the combined principal and interest from the loan. Any loan modification is predicated upon a goal of maximizing the collection of the loan. Typical triggers for a modification would include situations where the projected cash flow is insufficient to cover required debt service, when asset performance is lagging the initial projections, where there is a requirement for rebalancing, where there is an impending maturity of the loan, and where there is an actual loan default. Loan terms that have been modified have included, but are not limited to interest rate, maturity date and in certain cases, principal amount. Length and amounts of each modification have varied based on individual circumstances and are determined on a case by case basis. If the loan modification constitutes a concession whereas the Company does not receive ample consideration in return for the modification, and the borrower is experiencing financial difficulties and cannot repay the loan under the current terms, then the modification is considered by the Company to be a troubled debt restructuring. If the Company receives a benefit, either monetary or strategic, and the above criteria are not met, the modification is not considered to be a troubled debt restructuring.

The Company records interest on modified loans on an accrual basis to the extent that the modified loan is contractually current. To date, the Company has not recorded interest income on a modified loan where the Company has not subsequently received the cash.

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Loss on restructured loans is recorded when the Company has granted a concession to a borrower in the form of principal forgiveness related to a payoff or the substitution or addition of a new debtor for the original borrower or when the Company incurs costs on behalf of the borrower related to the modification, payoff or the substitution or addition of a new debtor for the original borrower. When a loan is restructured, the Company records its investment at net realizable value, taking into account the cost of all concessions at the date of restructuring. The reduction in the recorded investment is recorded as a charge to the Consolidated Statement of Operations in the period in which the loan is restructured. In addition, a gain or loss may be recorded upon the sale of a loan to a third party as a charge to the Consolidated Statement of Operations in the period in which the loan was sold. No loss on sale and restructuring of loans was recorded for the three months ended March 31, 2012. The Company recorded loss on sale and restructuring of loans of $1.0 million for the three months ended March 31, 2011 as a result of the execution of a forbearance agreement in the first quarter of 2011 on a loan modified in the second quarter of 2011.

Charge-offs to the allowance for loan losses occur when losses are confirmed through the receipt of cash or other consideration from the completion of a sale; when a modification or restructuring takes place in which the Company grants a concession to a borrower or agrees to a discount in full or partial satisfaction of the loan; when the Company takes ownership and control of the underlying collateral in full satisfaction of the loan; when loans are reclassified as other investments; or when significant collection efforts have ceased and it is highly likely that a loss has been realized. For the three months ended March 31, 2012 and 2011, the Company recorded charge-offs to the allowance for loan losses of $3.6 million and $42.1 million, respectively.

Real Estate Owned and Held-For-Sale

Real estate owned, shown net of accumulated depreciation and impairment charges, is comprised of real property acquired by foreclosure or through partial or full settlement of mortgage debt. The real estate acquired is recorded at the estimated fair value at the time of acquisition.

Costs incurred in connection with the foreclosure of the properties collateralizing the real estate loans are expensed as incurred and costs subsequently incurred to extend the life or improve the assets subsequent to foreclosure are capitalized.

The Company allocates the purchase price of operating properties to land, building, tenant improvements, deferred lease cost for the origination costs of the in-place leases, intangibles for the value of the above or below market leases at fair value and to any other identified intangible assets or liabilities. The Company finalizes its purchase price allocation on these assets within one year of the acquisition date. The Company amortizes the value allocated to the in-place leases over the remaining lease term. The value allocated to the above or below market leases are amortized over the remaining lease term as an adjustment to rental income.

Real estate assets, including assets acquired by foreclosure or through partial or full settlement of mortgage debt, that are operated for the production of income are depreciated using the straight-line method over their estimated useful lives. Ordinary repairs and maintenance which are not reimbursed by the tenants are expensed as incurred. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their estimated useful life.

The Company s properties are individually reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. The Company recognizes impairment if the undiscounted estimated cash flows to be generated by the assets are less than the carrying amount of those assets. Measurement of impairment is based upon the estimated fair value of the asset. Upon evaluating a property for impairment, many factors are considered, including estimated current and expected operating cash flows from the property during the projected holding period, costs necessary to extend the life or improve the asset, expected capitalization rates, projected stabilized net operating income, selling costs, and the ability to hold and dispose of such real estate owned in the ordinary course of business. Valuation adjustments may be necessary in the event that effective interest rates, rent-up periods, future economic conditions, and other relevant factors vary significantly from those assumed in valuing the property. If future evaluations result in a diminution in the value of the property, the reduction will be recognized as an impairment charge at that time.

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Real estate is classified as held-for-sale when management commits to a plan of sale, the asset is available for immediate sale, there is an active program to locate a buyer, and it is probable the sale will be completed within one year. Properties classified as held-for-sale are not depreciated and the results of their operations are shown in discontinued operations. Real estate assets that are expected to be disposed of are valued, on an individual asset basis, at the lower of their carrying amount or their fair value less costs to sell.

The Company recognizes sales of real estate properties upon closing. Payments received from purchasers prior to closing are recorded as deposits. Profit on real estate sold is recognized upon closing using the full accrual method when the collectability of the sale price is reasonably assured and the Company is not obligated to perform significant activities after the sale. Profit may be deferred in whole or in part until collectability of the sales price is reasonably assured and the earnings process is complete.

Revenue Recognition

Interest income   Interest income is recognized on the accrual basis as it is earned from loans, investments, and securities. In certain instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, a prepayment fee and/or deferred interest upon maturity. In some cases, interest income may also include the amortization or accretion of premiums and discounts arising from the purchase or origination of the loan or security. This additional income, net of any direct loan origination costs incurred, is deferred and accreted into interest income on an effective yield or interest method adjusted for actual prepayment activity over the life of the related loan or security as a yield adjustment. Income recognition is suspended for loans when, in the opinion of management, a full recovery of all contractual principal is not probable. Income recognition is resumed when the loan becomes contractually current and performance is resumed. The Company records interest income on certain impaired loans to the extent cash is received, in which a loan loss reserve has been recorded, as the borrower continues to make interest payments. The Company recorded loan loss reserves related to these loans as it was deemed that full recovery of principal and interest was not probable.

Several of the Company s loans provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management s determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower. If management cannot make this determination, interest income above the current pay rate is recognized only upon actual receipt. The Company currently has no loans in its portfolio accruing such interest. Therefore, interest income is recorded on all of the Company s loans and investments only to the extent that the current pay rate is received.

Given the transitional nature of some of the Company s real estate loans, the Company may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. The Company will analyze these interest reserves on a periodic basis and determine if any additional interest reserves are needed. Recognition of income on loans with funded interest reserves are accounted for in the same manner as loans without funded interest reserves. The Company will not recognize any interest income on loans in which the borrower has failed to make the contractual interest payment due or has not replenished the interest reserve account. As of March 31, 2012, the Company had total interest reserves of $5.0 million on 34 loans with an aggregate unpaid principal balance of $485.4 million and had three non-performing loans with an aggregate unpaid principal balance of $38.4 million with a funded interest reserve of $0.1 million. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

Additionally, interest income is recorded when earned from equity participation interests, referred to as equity kickers. These equity kickers have the potential to generate additional revenues to the Company as a result of excess cash flow distributions and/or as appreciated properties are sold or refinanced. The Company did not record interest income from such investments for the three month periods ended March 31, 2012 and 2011.

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Property operating income Property operating income represents income associated with the operations of commercial real estate properties classified as real estate owned. The Company recognizes revenue for these activities when the fees are fixed or determinable, or are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided. For the three months ended March 31, 2012, the Company recorded approximately $9.0 million of property operating income relating to its real estate owned properties, as compared to approximately $4.7 million for the three months ended March 31, 2011. As of March 31, 2012 and 2011, the Company had two real estate owned properties. This was due to a portfolio of multifamily assets that was purchased by the Company out of bankruptcy and a portfolio of hotel assets that was transferred to the Company by the owner, a creditor trust. Both of these portfolios were acquired in the first quarter of 2011. Additionally, real estate investments were reclassified from real estate owned to real estate held-for-sale in 2011, resulting in the reclassification of all of the operating activity from these properties from property operating income and expenses into discontinued operations for all prior periods. See Note 6 Real Estate Owned and Held-For-Sale for further details.

Other income Other income represents loan structuring, defeasance, and miscellaneous asset management fees associated with the Company s loans and investments portfolio. The Company recognizes these forms of income when the fees are fixed or determinable, are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided.

Investment in Equity Affiliates

The Company invests in joint ventures that are formed to acquire, develop, and/or sell real estate assets. These joint ventures are not majority owned or controlled by the Company, or are VIEs for which the Company is not the primary beneficiary, and are not consolidated in its financial statements. These investments are recorded under either the equity or cost method of accounting as deemed appropriate. The Company records its share of the net income and losses from the underlying properties of its equity method investments and any other-than-temporary impairment on these investments on a single line item in the Consolidated Statements of Operations as income or losses from equity affiliates.

Stock-Based Compensation

The Company has granted certain of its employees, directors, and employees of ACM, restricted stock awards consisting of shares of the Company s common stock that vest immediately or annually over a multi-year period, subject to the recipient s continued service to the Company. The Company records stock-based compensation expense at the grant date fair value of the related stock-based award with subsequent remeasurement for any unvested shares granted to non-employees of the Company with such amounts expensed against earnings, at the grant date (for the portion that vests immediately) or ratably over the respective vesting periods. Dividends are paid on the restricted stock as dividends are paid on shares of the Company s common stock whether or not they are vested. Stock-based compensation is disclosed in the Company s Consolidated Statements of Operations under employee compensation and benefits for employees and under selling and administrative expense for non-employees.

Income Taxes

The Company is organized and conducts its operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on taxable income which is distributed to its stockholders, provided that the Company distributes at least 90% of its taxable income and meets certain other requirements. Certain REIT income may be subject to state and local income taxes. The Company s assets or operations that would not otherwise comply with the REIT requirements, are owned or conducted by the Company s taxable REIT subsidiaries, the income of which is subject to federal and state income tax. Under current federal tax law, the income and the tax on such income attributable to certain debt extinguishment transactions realized in 2009 and 2010 have been deferred to future periods at the Company s election.

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Current accounting guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This guidance also provides clarity on derecognition, classification, interest and penalties, accounting in interim periods and disclosure.

Other Comprehensive Income / (Loss)

The Company divides comprehensive income or loss into net income (loss) and other comprehensive income (loss), which includes unrealized gains and losses on available-for-sale securities. In addition, to the extent the Company s derivative instruments qualify as hedges, net unrealized gains or losses are reported as a component of accumulated other comprehensive income (loss). See Derivatives and Hedging Activities below. At March 31, 2012, accumulated other comprehensive loss was $43.8 million and consisted of $44.9 million of net unrealized losses on derivatives designated as cash flow hedges and a $1.1 million unrealized gain related to available-for-sale securities. At December 31, 2011, accumulated other comprehensive loss was $47.7 million and consisted of $48.8 million of net unrealized losses on derivatives designated as cash flow hedges and a $1.1 million unrealized gain related to available-for-sale securities.

Derivatives and Hedging Activities

The Company recognizes all derivatives as either assets or liabilities at fair value and these amounts are recorded in other assets or other liabilities in the Consolidated Balance Sheets. Additionally, the fair value adjustments will affect either accumulated other comprehensive income (loss) until the hedged item is recognized in earnings, or net income (loss) depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The Company utilizes quotations from a third party to assist in the determination of these fair values.

The Company records all derivatives in the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In the normal course of business, the Company may use a variety of derivative financial instruments to manage, or hedge, interest rate risk. These derivative financial instruments must be effective in reducing its interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income (loss) for each period until the derivative instrument matures or is settled. In cases where a derivative financial instrument is terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income (loss). The Company uses derivatives for hedging purposes rather than speculation. See Note 8 Derivative Financial Instruments for further details.

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Variable Interest Entities

The Company has evaluated its loans and investments, mortgage related securities, investments in equity affiliates, junior subordinated notes and CDOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in the Company determining that its bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CDOs, and investments in debt securities were potential VIEs or variable interests in VIEs. A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is defined as 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. See Note 9 Variable Interest Entities for further details.

Recently Issued Accounting Pronouncements

In December 2011, the FASB issued updated guidance on disclosure about offsetting assets and liabilities which amends U.S. GAAP to conform more to the disclosure requirements of International Financial Reporting Standards (IFRS). This guidance is effective as of the first quarter of 2013 and the Company is currently evaluating the impact it may have on its financial disclosure.

In June 2011, the FASB issued updated guidance on comprehensive income which amends U.S. GAAP to conform to IFRS disclosure requirements. The amendment eliminates the option to present components of other comprehensive income as part of the Statement of Changes in Stockholders Equity and requires a separate Statement of Comprehensive Income or two consecutive statements in the Statement of Operations and in a separate Statement of Comprehensive Income. The guidance also requires the presentation of reclassification adjustments for each component of other comprehensive income on the face of the financial statements rather than in the notes to the financial statements. This guidance was effective as of the first quarter of 2012, except for the disclosure of reclassification adjustments which was postponed for re-deliberation by the FASB, and early adoption was permitted. The Company early adopted the guidance in the fourth quarter of 2011, with exception to the disclosure of reclassification adjustments postponed for re-deliberation by the FASB. As the guidance only amends existing disclosure requirements, its adoption did not have a material effect on the Company s Consolidated Financial Statements.

In May 2011, the FASB issued updated guidance on fair value measurement which amends U.S. GAAP to conform to IFRS measurement and disclosure requirements. The guidance amends certain fair value measurement principles and enhances disclosure requirements by requiring a description of the process for valuing items categorized as Level 3 in the fair value hierarchy, quantitative disclosure of unobservable inputs used to make these measurements and, in certain cases, the sensitivity of the measurements to changes in these inputs. This guidance is effective as of the first quarter of 2012, applied prospectively, and its adoption did not have a material effect on the Company s Consolidated Financial

Statements.

In April 2011, the FASB issued updated guidance on the transfer of financial assets which primarily removes certain criteria from the consideration of effective control over assets subject to repurchase agreements when determining the recognition of a sale. The removal of these criteria will generally result in the assets transferred pursuant to the repurchase agreement being accounted for as a secured borrowing, with both the transferred asset and repurchase liability recorded on the transferor s balance sheet. This guidance is effective as of the first quarter of 2012, applied prospectively to transactions which occur subsequent to the effective date, and its adoption did not have a material effect on the Company s Consolidated Financial Statements.

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Note 3 Loans and Investments

The following table sets forth the composition of the Company s loan and investment portfolio at March 31, 2012 and December 31, 2011:

	March 31, 2012	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	$ 948,592,357	63%	70	4.92%	30.7	0%	78%
Mezzanine loans	186,101,241	12%	27	4.18%	29.4	81%	95%
Junior participation loans	280,876,873	19%	9	3.96%	33.3	60%	81%
Preferred equity investments	84,681,231	6%	14	3.60%	94.1	91%	98%
	1,500,251,702	100%	120	4.58%	34.6	27%	83%
Unearned revenue	(14,170,009)						
Allowance for loan losses	(189,620,125)						
Loans and investments, net	$ 1,296,461,568						

	December 31, 2011	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	$ 933,033,598	62%	66	4.88%	29.6	0%	80%
Mezzanine loans	187,663,976	12%	27	4.25%	31.7	79%	96%
Junior participation loans	280,945,639	19%	9	3.99%	36.3	60%	81%
Preferred equity investments	100,751,231	7%	17	4.18%	89.0	89%	97%
	1,502,394,444	100%	119	4.59%	35.1	27%	84%
Unearned revenue	(14,571,929)						
Allowance for loan losses	(185,381,855)						
Loans and investments, net	$ 1,302,440,660						

(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. At March 31, 2012 and December 31, 2011 the Company had no such loans in its portfolio that were currently accruing such interest.

(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.

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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 March 31, 2012, the unpaid principal balance related to 22 loans with five unrelated borrowers represented approximately 29% of total assets. At December 31, 2011 the unpaid principal balance related to 21 loans with five different borrowers represented approximately 26% of total assets. As of March 31, 2012 and December 31, 2011, the Company had 120 and 119 loans and investments, respectively.

As a result of the loan review process, the Company identified loans and investments that it considers higher-risk loans that had a carrying value, before loan loss reserves, of approximately $277.7 million and a weighted average last dollar loan-to-value (LTV) ratio of 93%, compared to lower-risk loans with a carrying value, before loan loss reserves, of $1.2 billion and a weighted average last dollar LTV ratio of 80% at March 31, 2012.

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 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 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.

As a component of the Company s policies and procedures for loan valuation and risk assessment, each loan and investment is assigned a credit risk rating. 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 which 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.

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A summary of the loan portfolio s weighted average internal risk ratings and LTV ratios by asset class as of March 31, 2012 and December 31, 2011 is as follows:

	As of March 31, 2012				
Asset Class	**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**First Dollar LTV Ratio**	**Last Dollar LTV Ratio**
Multi-family	$ 675,856,314	45.0%	3.4	21%	81%
Office	494,182,671	32.9%	3.2	38%	83%
Land	136,377,012	9.1%	4.2	0%	88%
Hotel	135,599,505	9.0%	3.8	46%	87%
Commercial	23,666,825	1.6%	3.0	0%	93%
Retail	21,050,000	1.4%	2.9	0%	67%
Condo	13,519,374	1.0%	4.0	71%	87%
Total	$ 1,500,251,701	100.0%	3.4	27%	83%

	As of December 31, 2011				
Asset Class	**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**First Dollar LTV Ratio**	**Last Dollar LTV Ratio**
Multi-family	$ 673,570,720	44.8%	3.4	21%	82%
Office	497,422,786	33.1%	3.2	39%	83%
Land	136,110,014	9.1%	4.2	0%	96%
Hotel	135,839,357	9.0%	3.8	46%	87%
Commercial	23,751,567	1.6%	3.0	0%	95%
Retail	21,050,000	1.4%	2.9	0%	66%
Condo	14,650,000	1.0%	3.9	64%	87%
Total	$ 1,502,394,444	100.0%	3.4	27%	84%

Geographic Concentration Risk

As of March 31, 2012, 36%, 14%, and 8% of the outstanding balance of the Company s loans and investments portfolio had underlying properties in New York, California, and Florida, respectively. As of December 31, 2011, 37%, 14%, and 7% of the outstanding balance of the Company s loans and investments portfolio had underlying properties in New York, California and Florida, respectively.

Impaired Loans and Allowance for Loan Losses

The Company performs evaluations 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 March 31, 2012, the Company determined that the fair value of the underlying collateral securing two impaired loans with an aggregate carrying value of $34.8 million was less than the net carrying value of the loans, resulting in a $7.8 million provision for loan losses. In addition, during the three months ended March 31, 2012, the Company recorded less than $0.1 million of net recoveries of previously recorded loan loss reserves. These recoveries were recorded in provision for loan losses on the Consolidated Statement of Operations. The effect of the recoveries resulted in a provision for loan losses, net of recoveries, of $7.8 million for the three months ended March 31, 2012. Of the $7.8 million of loan loss reserves recorded during the three months ended March 31, 2012, $5.0 million was attributable to a loan on which the Company had previously recorded reserves, while $2.8 million of reserves related to another loan in the Company s portfolio. During the three months ended March 31, 2011, the Company determined that the fair value of the underlying collateral securing four impaired loans with an aggregate carrying value of $27.6 million was less than the net carrying value of the loans, resulting in a $1.6 million provision for loan losses. In addition, during the three months ended March 31, 2011, the Company received a cash recovery of $0.2 million related to a fully reserved loan as well as a $0.8 million recovery of reserve related to a loan that was modified in the subsequent quarter. These recoveries were recorded in provision for loan losses on the Statement of Operations. The effect of the recoveries resulted in a provision for loan losses, net of recoveries, of $0.5 million for the three months ended March 31, 2011. The $1.6

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million of loan loss reserves recorded during the three months ended March 31, 2011 was attributable to loans on which the Company had 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 March 31, 2012.

At March 31, 2012, the Company had a total of 23 loans with an aggregate carrying value, before reserves, of $281.7 million for which impairment reserves have been recorded. At December 31, 2011, the Company had a total of 24 loans with an aggregate carrying value, before reserves, of $285.0 million for which impairment reserves have been recorded.

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

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011
Allowance at beginning of the period	$ 185,381,855	$ 205,470,302
Provision for loan losses	7,818,270	1,550,000
Charge-offs	(3,570,000)	(10,391,754)
Charge-offs on loans reclassified to real estate owned, net		(31,710,929)
Recoveries of reserves	(10,000)	(1,014,865)
Allowance at end of the period	$ 189,620,125	$ 163,902,754

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

	For the Three Months Ended March 31, 2012	March 31, 2011
Charge-offs:		
Multi-family	$ (3,570,000)	$ (21,971,114)
Office		(6,781,569)
Hotel		(13,350,000)
Total	$ (3,570,000)	$ (42,102,683)
Recoveries:		
Multi-family	$ (10,000)	$

Office				(1,014,865)
Total	$	(10,000)	$	(1,014,865)
Net Charge-offs	$	(3,560,000)	$	(41,087,818)
Ratio of net charge-offs during the period to average loans and investments outstanding during the period		0.2%		2.6%

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

	As of March 31, 2012			Three Months Ended March 31, 2012	
Asset Class	**Unpaid Principal Balance**	**Carrying Value (1)**	**Allowance for Loan Losses**	**Average Recorded Investment (2)**	**Interest Income Recognized**
Multi-family	$ 63,622,676	$ 63,568,899	$ 58,799,670	$ 65,408,986	$ 123,946
Office	45,042,483	39,914,893	26,560,000	45,072,373	424,895
Land	133,870,854	132,437,114	61,518,270	133,603,115	
Hotel	33,671,507	35,771,507	33,671,515	33,671,507	246,702
Condo	10,000,000	10,000,000	9,070,670	10,000,000	86,260
Total	$ 286,207,520	$ 281,692,413	$ 189,620,125	$ 287,755,981	$ 881,803

	As of December 31, 2011			Three Months Ended March 31, 2011	
Asset Class	**Unpaid Principal Balance**	**Carrying Value (1)**	**Allowance for Loan Losses**	**Average Recorded Investment (2)**	**Interest Income Recognized**
Multi-family	$ 67,195,296	$ 67,149,845	$ 57,379,670	$ 160,411,797	$ 905,707
Office	45,102,262	39,972,420	26,560,000	87,711,998	1,093,115
Land	133,335,376	132,142,122	58,700,000	130,255,661	8,356
Hotel	33,671,507	35,771,507	33,671,515	76,171,507	243,787
Condo	10,000,000	10,000,000	9,070,670	10,000,000	60,000
Total	$ 289,304,441	$ 285,035,894	$ 185,381,855	$ 464,550,963	$ 2,310,965

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(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.

During the quarter ended March 31, 2012, the Company wrote off two preferred equity investments with a total carrying value of $3.6 million and recorded charge-offs to previously recorded reserves totaling $3.6 million. During the quarter ended March 31, 2011, the Company sold a mezzanine loan with a carrying value of $7.0 million, which had been fully reserved for in a prior period, for $0.2 million and wrote down a bridge loan with a carrying value of $44.5 million to $2.9 million, after principal paydowns of $38.0 million, and recorded charge-offs to previously recorded reserves of $10.4 million. The Company also charged-off $31.7 million of loan loss reserves related to two loans with carrying values totaling approximately $77.2 million, net of reserves and assumed debt, on properties that were transferred to the Company by the owner, a creditor trust as well as purchased by the Company out of bankruptcy and recorded to real estate owned, net on the Company s Consolidated Balance Sheet in the first quarter of 2011. See Note 6 Real Estate Owned and Held-For-Sale for further details. Loss on sale and restructuring of loans of $1.0 million was recorded during the three months ended March 31, 2011 as a result of the execution of a forbearance agreement on a loan modified in the second quarter of 2011.

As of March 31, 2012, ten loans with an aggregate net carrying value of approximately $15.3 million, net of related loan loss reserves of $39.1 million, were classified as non-performing, of which one loan with a carrying value of $1.4 million did not have a loan loss reserve. 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, 2011, 12 loans with an aggregate net carrying value of approximately $15.3 million, net of related loan loss reserves of $42.6 million, were classified as non-performing, of which one loan with a carrying value of $1.4 million did not have a loan loss reserve.

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A summary of the Company s non-performing loans by asset class as of March 31, 2012 and December 31, 2011 is as follows:

Asset Class	As of March 31, 2012 Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due	As of December 31, 2011 Carrying Value	Less Than 90 Days Past Due	Greater Than 90 Days Past Due
Multi-family	$ 10,757,795	$	$ 10,757,795	$ 14,328,862	$ 1,392,325	$ 12,936,537
Office	14,947,347		14,947,347	14,948,138	6,506,663	8,441,475
Land	24,999,972		24,999,972	24,999,972		24,999,972
Hotel	3,671,507		3,671,507	3,671,507		3,671,507
Total	$ 54,376,621	$	$ 54,376,621	$ 57,948,479	$ 7,898,988	$ 50,049,491

At March 31, 2012, the Company did not have any loans contractually past due 90 days or more that are still accruing interest. During the quarter ended March 31, 2012, the Company refinanced and/or modified one $35.7 million loan which was not considered by the Company to be a troubled debt restructuring. In addition, a $2.8 million loan that was extended during the period was considered to be a trouble debt restructuring during the three months ended March 31, 2012. During the quarter ended March 31, 2011, the Company refinanced and/or modified seven loans totaling $164.5 million, of which two loans totaling $17.2 million were considered by the Company to be troubled debt restructurings. In addition, the Company had unfunded commitments totaling $0.2 million on modified loans which were considered troubled debt restructurings as of March 31, 2011. The Company had no unfunded commitments on the modified loan which was considered a troubled debt restructuring as of March 31, 2012.

A summary of loan modifications and extensions by asset class that the Company considered to be troubled debt restructurings during the three months ended March 31, 2012 and 2011 were as follows:

Asset Class	For the Three Months Ended March 31, 2012 Number of Loans	Original Unpaid Principal Balance	Original Rate of Interest	Extended Unpaid Principal Balance	Extended Rate of Interest	For the Three Months Ended March 31, 2011 Number of Loans	Original Unpaid Principal Balance	Original Weighted Average Rate of Interest	Modified Unpaid Principal Balance	Modified Weighted Average Rate of Interest
Multi-family		$		$		2	$ 17,209,370	2.26%	$ 17,211,171	2.83%
Land	1	2,818,270		2,818,270						
Total	1	$ 2,818,270		$ 2,818,270		2	$ 17,209,370	2.26%	$ 17,211,171	2,83%

There were no loans which the Company considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of March 31, 2012 and 2011 and no additional loans were considered to be impaired due to the Company s troubled debt restructuring analysis for the three months ended March 31, 2012 and 2011. These loans were modified to increase the total recovery of the combined principal and interest from the loan. Any loan modification is predicated upon a goal of maximizing the collection of the loan. Loan terms that have been modified have included, but are not limited to interest rate, maturity date and in certain cases, principal amount.

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Note 4 Securities

The following is a summary of the Company s securities classified as available-for-sale at March 31, 2012:

	Face Value	Amortized Cost	Cumulative Unrealized Gain	Carrying Value / Estimated Fair Value
Common equity securities	$	$ 58,789	$ 117,579	$ 176,368
Collateralized debt obligation (CDO) bond	10,000,000	1,000,000	1,000,000	2,000,000
Commercial mortgage-backed security (CMBS)	2,100,000	2,100,000		2,100,000
Total available-for-sale securities	$ 12,100,000	$ 3,158,789	$ 1,117,579	$ 4,276,368

The following is a summary of the Company s securities classified as available-for-sale at December 31, 2011:

	Face Value	Amortized Cost	Cumulative Unrealized Gain	Carrying Value / Estimated Fair Value
Common equity securities	$	$ 58,789	$ 117,579	$ 176,368
Collateralized debt obligation (CDO) bond	10,000,000	1,000,000	1,000,000	2,000,000
Commercial mortgage-backed security (CMBS)	2,100,000	2,100,000		2,100,000
Total available-for-sale securities	$ 12,100,000	$ 3,158,789	$ 1,117,579	$ 4,276,368

The following is a summary of the underlying credit rating of the Company s CDO bond and CMBS investments available-for-sale at March 31, 2012 and December 31, 2011:

	At March 31, 2012			At December 31, 2011		
Rating (1)	**#**	**Amortized Cost**	**Percent of Total**	**#**	**Amortized Cost**	**Percent of Total**
CCC-	2	$ 3,100,000	100%	2	$ 3,100,000	100%

(1) Based on the rating published by Standard & Poor s for each security.

The Company owns 2,939,465 shares of common stock of Realty Finance Corporation, formerly CBRE Realty Finance, Inc., a commercial real estate specialty finance company, which it purchased in 2007 for $16.7 million, and which had a fair value of $0.2 million at March 31, 2012. As of March 31, 2012, a net unrealized gain totaling $0.1 million was recorded in accumulated other comprehensive loss related to these securities.

The Company owns a CDO bond security, purchased at a discount in 2008 for $7.5 million, which bears interest at a spread of 30 basis points over LIBOR, has a stated maturity of 40.0 years, but has an estimated remaining life of 4.1 years based on the maturities of the underlying assets. As of the second quarter of 2010, the Company is no longer accreting income on this security which had $2.0 million of original discount and a fair value of $2.0 million at March 31, 2012. As of March 31, 2012, an unrealized gain of $1.0 million was recorded in accumulated other comprehensive loss related to this security.

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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 Company currently has two mezzanine loans with a carrying value before loan loss reserves of $30.0 million related to this portfolio. The CMBS investment bears interest at a spread of 89 basis points over LIBOR, has a stated maturity of 8.2 years, but has an estimated life of 0.2 years based on the extended maturity of the underlying asset and a fair value of $2.1 million at March 31, 2012.

Available-for-sale securities are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive loss. The Company does not intend to sell its investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be at maturity. 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. The Company s estimation of cash flows expected to be generated by the securities portfolio is based upon an internal review of the underlying mortgage loans securing the investments both on an absolute basis and compared to the Company s initial underwriting for each investment and efforts are supplemented by third party research reports, third party market assessments and dialogue with market participants. Management closely monitors market conditions on which it bases such decisions. No impairment was recorded on the Company s available-for-sale securities for the three months ended March 31, 2012 and 2011.

For the three months ended March 31, 2011, the Company amortized less than $0.1 million of premium into interest income from its CMBS investment and the premium was fully amortized as of December 31, 2011. For the three months ended March 31, 2012 and 2011, no discount was accreted from the CDO bond investment.

The following is a summary of the Company s securities classified as held-to-maturity at March 31, 2012:

	Face Value	Amortized Cost	Carrying Value	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Residential mortgage-backed securities (RMBS)	$ 65,344,967	$ 64,254,614	$ 64,254,614	$ 68,954	$ (21,404)	$ 64,302,164
Commercial mortgage-backed security (CMBS)	731,327	738,485	738,485		(1,205)	737,280
Total securities held-to-maturity	$ 66,076,294	$ 64,993,099	$ 64,993,099	$ 68,954	$ (22,609)	$ 65,039,444

The following is a summary of the Company s securities classified as held-to-maturity at December 31, 2011:

	Face Value	Amortized Cost	Carrying Value	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Residential mortgage-backed securities (RMBS)	$ 29,192,262	$ 29,199,506	$ 29,199,506	$ 57,704	$ (419)	$ 29,256,791
Commercial mortgage-backed security (CMBS)	734,969	742,602	742,602		(5,179)	737,423
Total securities held-to-maturity	$ 29,927,231	$ 29,942,108	$ 29,942,108	$ 57,704	$ (5,598)	$ 29,994,214

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The following is a summary of the underlying credit ratings of the Company s RMBS and CMBS investments held-to-maturity at March 31, 2012 and December 31, 2011:

	At March 31, 2012			At December 31, 2011		
Rating (1)	**#**	**Amortized Cost**	**Percent of Total**	**#**	**Amortized Cost**	**Percent of Total**
AAA	3	$ 1,730,544	3%	2	$ 817,810	3%
AA	1	902,125	1%			
BB	2	16,922,741	26%			
BB-	2	729,903	1%	2	1,462,483	5%
CCC	1	10,727,368	17%			
NR	7	33,980,418	52%	4	27,661,815	92%
	16	$ 64,993,099	100%	8	$ 29,942,108	100%

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

During the three months ended March 31, 2012, the Company purchased an RMBS investment, at par, for $4.0 million, seven RMBS investments, at a premium of $0.2 million, for a total of $30.0 million, and an RMBS investment, at a discount of $1.2 million, for $10.9 million, and received total principal paydowns of $9.9 million on the portfolio. During the year ended December 31, 2011, the Company purchased four RMBS investments, at par, for a total of $33.0 million and three RMBS investments, at a premium of less than $0.1 million, for a total of $2.7 million, and received total principal paydowns of $6.5 million on the portfolio. The total carrying value of the RMBS investments was $64.3 million and $29.2 million at March 31, 2012 and December 31, 2011, respectively. The RMBS investments are collateralized by portfolios of residential properties, bear interest at a weighted average fixed rate of 6.22%, have a weighted average stated maturity of 33.0 years, but have weighted average estimated lives of 3.9 years based on the estimated maturity of the RMBS investments, and had a total fair value of $64.3 million at March 31, 2012. Approximately $8.6 million matures within one year, $45.0 million matures after one year through five years, and $10.7 million matures after ten years. The RMBS investments were financed with a repurchase agreement with a financial institution which finances between 80% to 90% of the value of each individual investment. During the three months ended March 31, 2012, the Company financed $37.5 million of the RMBS investments and paid down the total debt by $7.3 million due to the principal paydowns received on the RMBS investments. During the year ended December 31, 2011, the Company financed $30.0 million of the RMBS investments and paid down the total debt by $3.9 million due to the principal paydowns received on the RMBS investments. The total debt balance was $56.4 million and $26.1 million at March 31, 2012 and December 31, 2011, respectively. See Note 7 Debt Obligations for further details.

The Company purchased a CMBS investment, at par, in the fourth quarter of 2011 for $0.7 million, which is collateralized by a portfolio of commercial properties. The CMBS investment bears interest at a fixed rate of 2.95%, has a stated maturity of 15.6 years, but has an estimated life of 3.6 years based on the extended maturity of the underlying assets and a fair value of $0.7 million at March 31, 2012.

Securities held-to-maturity are carried at cost, net of unamortized premiums and discounts. The Company does not intend to sell its investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its cost basis, which may be at maturity. 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. The Company s estimation of cash flows expected to be generated by the securities portfolio is based upon an internal review of the underlying mortgage loans securing the investments both on an absolute basis and compared to the Company s initial underwriting for each investment and efforts are supplemented by third party research reports, third party

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market assessments and dialogue with market participants. Management closely monitors market conditions on which it bases such decisions. As of March 31, 2012, no impairment was recorded on the Company s securities held-to-maturity.

For the three months ended March 31, 2012, less than $0.1 million of premium was amortized and less than $0.1 million of discount was accreted from the Company s held-to-maturity investments.

The weighted average yield on the Company s CDO bond, CMBS and RMBS investments based on their face values was 4.94% and 0.34%, including the amortization of premium and the accretion of discount, for the three months ended March 31, 2012 and 2011, respectively.

Note 5 Investment in Equity Affiliates

The following is a summary of the Company s investment in equity affiliates at March 31, 2012 and December 31, 2011:

Equity Affiliates	**Investment in Equity Affiliates at March 31, 2012**	**Investment in Equity Affiliates at December 31, 2011**	**Unpaid Principal Balance to Equity Affiliates at March 31, 2012**
930 Flushing & 80 Evergreen	$ 195,726	$ 229,476	$ 23,666,825
450 West 33rd Street			50,000,000
St. John s Development			25,000,000
Lightstone Value Plus REIT L.P.	55,988,409	55,988,409	
JT Prime	851,000	851,000	
West Shore Café	1,979,759	2,053,079	5,000,000
Ritz-Carlton Club	582,070	750,000	

Lexford Portfolio		100		100		78,549,600
Issuers of Junior Subordinated Notes		578,000		578,000		
Total	$	60,175,064	$	60,450,064	$	182,216,425

The Company accounts for the 450 West 33rd Street and Lightstone Value Plus REIT L.P. investments under the cost method of accounting and the remaining investments under the equity method.

The following represents the change in the Company s investments in equity affiliates:

930 Flushing & 80 Evergreen

In June 2003, ACM invested approximately $0.8 million in exchange for a 12.5% preferred interest in a joint venture that owns and operates two commercial properties. The Company purchased this investment from ACM in August 2003. As of December 31, 2007, the Company had contributed an additional $1.2 million to this joint venture.

The Company had a $4.8 million bridge loan and a $3.5 million mezzanine loan outstanding to affiliated entities of the joint venture. The loans required monthly interest payments based on one month LIBOR and matured in November 2006 and June 2006, respectively. The bridge loan was extended for two one-year periods and during

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the second quarter of 2008, the Company was repaid in full. In addition, in August 2005, the joint venture refinanced one of these properties with a $25.0 million amortizing bridge loan provided by the Company. The loan matures in April 2016, has a fixed rate of 6.45%, and has an outstanding principal balance of $23.8 million at December 31, 2011. Proceeds from this loan were used to pay off senior debt as well as the Company s $3.5 million mezzanine loan. Excess proceeds were distributed to each of the members in accordance with the operating agreement of which the Company received $1.3 million, which was recorded as a return of capital in 2005. During 2008, the Company received a $0.2 million return of capital from contribution made in 2007. In addition, during 2010, the Company contributed an additional $0.1 million of capital, resulting in a balance of $0.6 million at December 31, 2010. In the fourth quarter of 2011, the Company recorded $0.3 million of losses from the entity against the equity investment, which was also recorded in loss from equity affiliates in the Company s 2011 Consolidated Statement of Operations, reducing the balance of the investment to $0.2 million at December 31, 2011. During the three months ended March 31, 2012, the Company recorded less than $0.1 million of losses from the entity against the equity investment, which was also recorded in loss from equity affiliates in the Company s 2012 Consolidated Statement of Operations, reducing the balance of the investment to $0.2 million at March 31, 2012.

West Shore Café

In August 2010, the Company invested approximately $2.1 million in exchange for a 50% non-controlling interest with a 20% preferred return subject to certain conditions in the West Shore Café, a restaurant / inn on an approximate 12,463 square foot lakefront property in Lake Tahoe, California. The Company also provided a $5.5 million first mortgage loan, $5.0 million of which was funded as of March 31, 2012, that matures in August 2013 and bears interest at a yield of 10.5%. During the year ended December 31, 2011, the Company received distributions of approximately $0.1 million related to the preferred return, which were recorded as a return of investment. During the three months ended March 31, 2012, the Company recorded $0.1 million of losses from the entity against the equity investment, which was also recorded in loss from equity affiliates in the Company s 2012 Consolidated Statement of Operations, reducing the balance of the investment to $2.0 million at March 31, 2012.

Ritz-Carlton Club

In October 2011, the Company invested approximately $0.8 million in exchange for a 19.93% non-controlling interest with a 10.00% return subject to certain conditions in the Ritz-Carlton Club, a condominium project in Lake Tahoe, California. During the three months ended March 31, 2012, the Company recorded $0.2 million of losses from the entity against the equity investment, which was also recorded in loss from equity affiliates in the Company s 2012 Consolidated Statement of Operations, reducing the balance of the investment to $0.6 million at March 31, 2012.

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Note 6 Real Estate Owned and Held-For-Sale

Real Estate Owned

The Company had a $29.8 million loan secured by a portfolio of multifamily assets in various locations of the United States that had a maturity date of June 2010 and a weighted average interest rate of approximately 4.26%. In prior years, the Company established an $18.4 million provision for loan loss related to this portfolio reducing its carrying value to $11.4 million as of December 31, 2010. In March 2011, the Company purchased the portfolio of multifamily assets (the Multifamily Portfolio) securing this loan out of bankruptcy and assumed a $55.4 million first mortgage loan secured by the portfolio of assets. As of the date of this transaction, as well as at December 31, 2010, the loan was past due and non-performing. The Company recorded this transaction as real estate owned in its first quarter 2011 Consolidated Financial Statements at a fair value of $65.3 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. For the first quarter of 2011, the Company did not record any property operating income or expenses from this portfolio because ownership did not pass to the Company until the end of the quarter and the Company believed that any operating activity that occurred were immaterial to the Company s interim Consolidated Financial Statements. In the second quarter of 2011, one of the properties in the Multifamily Portfolio was sold to a third party for $1.6 million and the proceeds were used to pay down the first lien mortgage. No gain or loss was recorded on the transaction as the asset was sold for its historical cost basis. For the three months ended March 31, 2012, the Company recorded property operating income of $2.5 million, property operating expense of $2.6 million and depreciation of $0.3 million. For the three months ended March 31, 2011, the Company did not record any property operating income or expenses because ownership did not pass to the Company until the end of the first quarter and the Company believes that any operating activity that occurred was immaterial to the Company s interim Consolidated Financial Statements. At March 31, 2012, this investment s balance sheet was comprised of land of $15.7 million, building, net of accumulated depreciation, totaling approximately $47.0 million, cash of $0.3 million, restricted cash of $0.8 million due to a first mortgage escrow requirement, other assets of $0.3 million, other liabilities of $0.9 million and a mortgage note payable of $53.8 million. The Company finalized the purchase price allocation in the first quarter of 2012.

As of March 31, 2012, the Company s seven multifamily properties classified as real estate owned had weighted average occupancy rates of approximately 84%.

The Company had an $85.0 million loan secured by a portfolio of six hotel assets in Florida that had a maturity date of July 2014 and a weighted average interest rate of approximately 3.75%. During 2010, the Company established a $13.4 million provision for loan loss related to this portfolio reducing its carrying value to $71.6 million as of December 31, 2010. In February 2011, the portfolio of hotel assets (the Hotel Portfolio) securing this loan were transferred to the Company by the owner, a creditor trust. As of the date of this transaction, as well as at December 31, 2010, the loan was contractually current. The Company recorded this transaction as real estate owned in its first quarter 2011 Consolidated Financial Statements at a fair value of $67.3 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. For the three months ended March 31, 2012, the Company recorded property operating income of $6.5 million, property operating expense of $4.7 million and depreciation of $0.8 million. For the three months ended March 31, 2011, the Company recorded property operating income of $4.7 million, property operating expense of $2.9 million and depreciation of $0.2 million. The operating results of the Hotel Portfolio are seasonal with the majority of revenues earned in the first two quarters of the calendar year. At March 31, 2012, this investment s balance sheet was comprised of land of $12.0 million, building, net of accumulated depreciation, totaling approximately $53.2 million, cash of $1.8 million, other assets of $2.4 million, receivable from related party of less than $0.1 million and other liabilities of $4.1 million. The Company finalized the purchase price allocation in the first quarter of 2012.

For the three months ended March 31, 2012, the Company s six hotel properties classified as real estate owned had weighted average occupancy rates of approximately 61%.

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Real Estate Held-For-Sale

The Company had a $5.6 million junior participating interest in a first mortgage loan secured by an apartment building in Tucson, Arizona that had a maturity date of July 2012 and bore interest at a fixed rate of 10%. During 2009, the Company established a $5.6 million provision for loan loss related to this property equal to the carrying value of the loan and in the second quarter of 2010, the Company purchased the property securing this loan by deed-in-lieu of foreclosure and assumed the $20.8 million interest in a first mortgage loan. The Company recorded this transaction as real estate owned in its Consolidated Financial Statements at a fair value of $20.8 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. During the fourth quarter of 2011, the Company entered into negotiations to sell the property to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a value of $19.4 million and reclassified property operating income and expenses and impairment loss for current and prior periods to discontinued operations in the Company s Consolidated Financial Statements. In addition, discontinued operations have not been segregated in the Company s Consolidated Statements of Cash Flows. The Company sold the property in March 2012 and recorded a gain on sale of real estate held-for-sale of $3.5 million in its Consolidated Statement of Operations and the $20.8 million first mortgage loan was paid off. For the three months ended March 31, 2012, income from discontinued operations consisted of property operating income of $0.6 million and property operating expense of $0.5 million. For the three months ended March 31, 2011, income from discontinued operations consisted of property operating income of $0.6 million, property operating expense of $0.6 million and depreciation of $0.2 million.

The Company had a $4.0 million bridge loan secured by a hotel located in St. Louis, Missouri that matured in 2009 and bore interest at a variable rate of LIBOR plus 5.00%. In April 2009, the borrower delivered a deed-in-lieu of foreclosure to the Company. As a result, during the second quarter of 2009 the Company recorded this investment on its Consolidated Balance Sheet as real estate owned at a fair value of $2.9 million. The carrying value represented the fair value of the underlying collateral at the time of the transfer. During the second quarter of 2011, through site visits and discussion with market participants, the Company determined that the asset exhibited indicators of impairment and performed an impairment analysis. As a result of the impairment analysis based on the indicators of value from the market participants, the Company recorded an impairment loss of $0.8 million in the Consolidated Statement of Operations. During the third quarter of 2011, the Company entered into negotiations to sell the property to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a value of $1.9 million and reclassified property operating income and expenses and impairment loss for current and prior periods to discontinued operations in the Company s Consolidated Financial Statements. In addition, discontinued operations have not been segregated in the Company s Consolidated Statements of Cash Flows. In the fourth quarter of 2011, the Company recorded an additional impairment loss of $0.7 million in the Consolidated Statement of Operations, reducing the carrying value of the investment to $1.2 million. The Company sold the property in March 2012 and recorded a gain on sale of real estate held-for-sale of less than $0.1 million in its Consolidated Statement of Operations. For the three months ended March 31, 2012, loss from discontinued operations consisted of net property operating income of $0.2 million. For the three months ended March 31, 2011, income on operations of real estate held-for-sale consisting of property operating income of $0.1 million, property operating expense of $0.3 million and depreciation of less than $0.1 million.

The Company had a $5.0 million mezzanine loan secured by an office building located in Indianapolis, Indiana that was scheduled to mature in June 2012 and bore interest at a fixed rate of 10.72%. During the first quarter of 2008, the Company established a $1.5 million provision for loan loss related to this property reducing the carrying value to $3.5 million at March 31, 2008. In April 2008, the Company was the winning bidder at a UCC foreclosure sale of the entity which owns the equity interest in the property securing this loan, subject to a $41.4 million first mortgage on the property. As a result, during the second quarter of 2008, the Company recorded this investment on its Consolidated Balance Sheet as real estate owned at fair value, which included the Company s $3.5 million carrying value of the mezzanine loan and the $41.4 million first lien mortgage note payable. During the third quarter of 2009, the Company mutually agreed with a first mortgage lender to appoint a receiver to operate the property and the Company is working to assist in the transfer of title to the first mortgage lender. As a result, the

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Company reclassified this investment from real estate owned to real estate held-for-sale at a fair value of $41.4 million, reclassified property operating income and expenses for current and prior periods to discontinued operations in the Company s Consolidated Financial Statements, and recorded an impairment loss of $4.9 million in 2009. As of March 31, 2012, this real estate held-for-sale investment consisted of land and building, net of accumulated depreciation, of approximately $41.4 million. At March 31, 2012, the Company also had a mortgage note payable held-for-sale of $41.4 million and other liabilities of $1.2 million. The Company did not record interest expense related to the note payable, as the interest expense was non-recourse and the Company was in the process of cooperating with the receiver and the first lien holder in order for the first lien holder to take title to the office building. For the three months ended March 31, 2012 and 2011, the receiver s issued financial statements reported net income for the office building investment held-for-sale. The Company believed these amounts were not realizable and, as such, did not record any income or loss on this held-for-sale investment. The Company had originally planned to transfer the property to the first mortgage lender within one year of the date of its designation as held-for-sale, however, due to circumstances beyond the Company s control, the transfer had not been completed within the one year time frame. In the second quarter of 2012, the Company surrendered the property to the first mortgage lender in full satisfaction of the mortgage note payable.

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Note 7 Debt Obligations

The Company utilizes a repurchase agreement, a warehouse credit facility, collateralized debt obligations, junior subordinated notes, a note payable, loan participations and mortgage notes payable 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.

Repurchase Agreement and Credit Facility

The following table outlines borrowings under the Company s repurchase agreement and credit facility as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Repurchase agreement, financial institution, rolling monthly term, interest is variable based on one-month LIBOR; the weighted average note rate was 1.71% and 1.69%, respectively	$ 56,366,000	$ 65,344,967	$ 26,105,000	$ 29,192,267
Warehousing credit facility, financial institution, $50.0 million committed line, expiration July 2013, interest is variable based on one-month LIBOR, the weighted average note rate was 3.03% and 3.09%, respectively	50,000,000	70,192,000	50,000,000	70,192,000
Total repurchase agreements and credit facilities	$ 106,366,000	$ 135,536,967	$ 76,105,000	$ 99,384,267

At March 31, 2012 and December 31, 2011, the weighted average note rate for the Company s repurchase agreements and credit facilities was 2.33% and 2.61%, respectively. There were no interest rate swaps on these facilities at March 31, 2012 and December 31, 2011.

During the three months ended March 31, 2012, the Company financed the purchase of nine RMBS investments with a repurchase agreement with a financial institution for a total of $37.5 million and paid down the total debt by $7.3 million due to principal paydowns received on the RMBS investments. During the year ended December 31, 2011, the Company financed the purchase of seven RMBS investments with the repurchase agreement for a total of $30.0 million and paid down the total debt by $3.9 million due to principal paydowns received on the RMBS investments. The total debt balance was $56.4 million and $26.1 million at March 31, 2012 and December 31, 2011, respectively. See Note 4 Securities for further details. The facility finances between 80% and 90% of the value of each investment, has a rolling monthly term, and bears interest at a rate of 125 to 150 basis points over LIBOR. The facility also includes a minimum net worth covenant of $100.0 million and the outstanding balance reflects the 15 investments currently financed in the facility.

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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. The facility bears interest at a rate of 275 basis points over LIBOR, required a 1.00% commitment fee upon closing, matures in July 2013 with a one year extension option that requires two 5% paydowns and has warehousing and non-use fees. The facility also 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 also includes 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 also has a compensating balance requirement of $50.0 million to be maintained by the Company and its affiliates. At March 31, 2012, the outstanding balance of this facility was $50.0 million.

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Collateralized Debt Obligations

The following table outlines borrowings and the corresponding collateral under the Company s collateralized debt obligations as of March 31, 2012:

	Debt		Collateral						
			Loans		Securities			Cash	
(Amounts in thousands)	Face Value	Carrying Value	Unpaid Principal (1)	Carrying Value (1)	Face Value	Carrying Value	Fair Value (2)	Restricted Cash (3)	Collateral At-Risk (4)
CDO I Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.02%	$ 160,403,527	$ 166,428,492	$ 327,374,642	$ 265,317,362	$ 731,327	$ 738,485	$ 737,280	$ 2,269,186	$ 221,148,991
CDO II Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.94%	267,135,571	273,326,184	429,803,736	367,192,621	10,000,000	2,000,000	2,000,000	15,008,021	147,583,516
CDO III Issued ten investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated	521,791,657	530,951,595	602,133,927	555,607,460				205,324	187,740,898

maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 0.81%									
Total CDOs	$ 949,330,755	$ 970,706,271	$ 1,359,312,305	$ 1,188,117,443	$ 10,731,327	$ 2,738,485	$ 2,737,280	$ 17,482,531	$ 556,473,40

The following table outlines borrowings and the corresponding collateral under the Company s collateralized debt obligations as of December 31, 2011:

	Debt		**Collateral**						
			Loans		**Securities**			**Cash**	
(Amounts in thousands)	**Face Value**	**Carrying Value**	**Unpaid Principal (1)**	**Carrying Value (1)**	**Face Value**	**Carrying Value**	**Fair Value (2)**	**Restricted Cash (3)**	**Collateral At-Risk (4**
CDO I Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.49%	$ 160,435,201	$ 166,513,982	$ 329,771,834	$ 267,636,713	$ 734,969	$ 742,602	$ 737,423	$ 22,136	$ 152,303,0
CDO II Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.83%	285,827,267	292,073,302	443,418,527	380,782,546	10,000,000	2,000,000	2,000,000	17,136,397	131,932,6
CDO III Issued ten investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.24%	534,791,657	544,028,109	579,343,579	531,123,295				24,795,495	171,427,1
Total CDOs	$ 981,054,125	$ 1,002,615,393	$ 1,352,533,940	$ 1,179,542,554	$ 10,734,969	$ 2,742,602	$ 2,737,423	$ 41,954,028	$ 455,662,8

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(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) The security with a fair value of $737,280 was rated AAA at March 31, 2012 and December 31, 2011 by Standard & Poor s. The security with a fair value of $2,000,000 was rated a CCC- at March 31, 2012 and December 31, 2011 by Standard & Poor s.

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

(4) 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.

At March 31, 2012 and December 31, 2011, the aggregate weighted average note rate for the Company s collateralized debt obligations, including the cost of interest rate swaps on assets financed in these facilities, was 1.95% and 2.23%, respectively. Excluding the effect of swaps, the weighted average note rate at March 31, 2012 and December 31, 2011 was 1.03% and 1.14%, respectively.

As of April 15, 2009, CDO I has reached the end of its replenishment date and will no longer make $2.0 million amortization payments to investors that were made quarterly prior to the replenishment date. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability.

As of April 15, 2011, CDO II has reached the end of its replenishment date and will no longer make $1.2 million amortization payments to investors that were made quarterly prior to the replenishment date. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability.

As of January 15, 2012, CDO III has reached the end of its replenishment date. Investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability. CDO III has a $100.0 million revolving note class that provides a revolving note facility. The outstanding note balance for CDO III was $531.0 million at March 31, 2012 which included $100.0 million outstanding under the revolving note facility.

During the three months ended March 31, 2012, the Company purchased, at a discount, $14.5 million of investment grade rated Class B and E notes originally issued by its CDO II and CDO III issuing entities for a price of $9.2 million from third party investors and recorded a net gain on extinguishment of debt of $5.3 million in its 2012 Consolidated Statement of Operations.

During the three months ended March 31, 2011, the Company had purchased, at a discount, a $1.5 million investment grade rated Class F note originally issued by its CDO III issuing entity for a price of $0.6 million from a third party investor and recorded a gain on extinguishment of debt of $0.9 million in its 2011 Consolidated Statements of Operations.

In the second quarter of 2012, the Company purchased, at a discount, $42.7 million of investment grade rated Class C, D, E, F, G and H notes originally issued by its CDO II and CDO III issuing entities for a price of $21.7 million from third party investors and will record a net gain on extinguishment of debt of $21.0 million in its Consolidated Statement of Operations for the three months ended June 30, 2012.

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The following table sets forth the face amount and gain on extinguishment of the Company s CDO bonds repurchased in the following periods by bond class:

	For the Three Months Ended March 31,			
	2012		2011	
Class:	Face Amount	Gain	Face Amount	Gain
B	$ 13,000,000	$ 4,615,000	$	$
E	1,515,276	731,121		
F			1,500,000	892,500
Total	$ 14,515,276	$ 5,346,121	$ 1,500,000	$ 892,500

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 $21.4 million remains at March 31, 2012. See Junior Subordinated Notes below for further details.

The Company intends to own these portfolios of real estate-related assets until their maturities and 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 accordingly. The investment grade tranches are treated as secured financings, and are non-recourse to the Company.

Junior Subordinated Notes

The following table outlines borrowings under the Company s junior subordinated notes as of March 31, 2012 and December 31, 2011:

	March 31, 2012 Debt Carrying Value	December 31, 2011 Debt Carrying Value

Junior subordinated notes, maturity March 2034, unsecured, face amount of $28.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	$	25,224,611	$	25,203,958
Junior subordinated notes, maturity April 2035, unsecured, face amount of $7.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%		6,281,747		6,277,218
Junior subordinated notes, maturity March 2034, unsecured, face amount of $28.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%		25,224,611		25,203,958
Junior subordinated notes, maturity March 2034, unsecured, face amount of $27.3 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%		24,593,305		24,573,169
Junior subordinated notes, maturity June 2036, unsecured, face amount of $14.6 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%		13,131,015		13,121,735
Junior subordinated notes, maturity April 2037, unsecured, face amount of $15.7 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%		14,110,571		14,100,534
Junior subordinated notes, maturity April 2037, unsecured, face amount of $31.5 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%		28,347,347		28,327,185
Junior subordinated notes, maturity April 2035, unsecured, face amount of $21.2 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%		19,101,437		19,087,154
Junior subordinated notes, maturity June 2036, unsecured, face amount of $2.6 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%		2,368,306		2,366,557
Total junior subordinated notes	$	158,382,950	$	158,261,468

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The carrying value under these facilities was $158.4 million at March 31, 2012 and $158.3 million at December 31, 2011, which is net of a deferred amount of $17.5 million and $17.6 million, respectively. The current weighted average note rate was 0.50% at March 31, 2012 and December 31, 2011, however, based upon the accounting treatment for the restructuring mentioned below, the effective rate was 3.85% at March 31, 2012 and December 31, 2011. The impact of these variable interest entities with respect to consolidation is discussed in Note 9 Variable Interest Entities.

In 2010, the Company retired $114.1 million of its junior subordinated notes, with a carrying value of $102.1 million, in exchange for the re-issuance of its own CDO bonds it had acquired throughout 2009 with an aggregate face amount of $42.8 million, CDO bonds of other issuers it had acquired in the second quarter of 2008 with an aggregate face amount of $25.0 million and a carrying value of $0.4 million, and $10.5 million in cash.

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 a fixed interest rate of 0.50% per annum until March 31, 2012 or April 30, 2012 (the Modification Period). Thereafter, interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to three month LIBOR plus a weighted average spread of 2.90%, which was reduced to 2.77% after the exchange in 2010 mentioned above. The 12% increase to the face amount due upon maturity, which had a balance of $17.5 million at March 31, 2012, is being amortized into expense over the life of the notes.

During the Modification Periods, the Company was permitted to make distributions of up to 100% of taxable income to common shareholders. The Company had agreed that such distributions would be paid in the form of the Company s stock to the maximum extent permissible under the Internal Revenue Service rules and regulations in effect at the time of such distribution, with the balance payable in cash. This requirement regarding distributions in stock could have been terminated by the Company at any time, provided that the Company paid the note holders the original rate of interest from the time of such termination.

The junior subordinated notes are unsecured, have original maturities of 25 to 28 years, pay interest quarterly at a fixed rate or floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, were not redeemable during the first two years.

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Notes Payable

The following table outlines borrowings under the Company s notes payable as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Note payable relating to investment in equity affiliates, $50.2 million, expiration July 2016, interest is fixed, the weighted average note rate was 4.06%	$ 50,157,708	$ 55,988,411	$ 50,157,708	$ 55,988,411
Junior loan participation, maturity of July 2012, secured by the Company s interest in a mezzanine loan with a principal balance of $32.0 million, participation interest was based on a portion of the interest received from the loan which has a variable rate of LIBOR plus 4.35%	32,000,000	32,000,000	32,000,000	32,000,000
Junior loan participation, maturity of August 2012, secured by the Company s interest in a mezzanine loan with a principal balance of $11.8 million. The participation has a 0% rate of interest	2,000,000	2,000,000	2,000,000	2,000,000
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
Total notes payable	$ 85,457,708	$ 91,288,411	$ 85,457,708	$ 91,288,411

At March 31, 2012 and December 31, 2011, the aggregate weighted average note rate for the Company s notes payable was 4.12% and 4.14%, respectively. There were no interest rate swaps on the notes payable at March 31, 2012 and December 31, 2011.

In 2008, the Company recorded a $49.5 million note payable after receiving cash related to a transaction with Lightstone Value Plus REIT, L.P. to exchange the Company s profits interest in Prime Outlets Member, LLC (POM) for operating partnership units in Lightstone Value Plus REIT, L.P. The note, which was paid down to $48.5 million as of December 31, 2008, was initially secured by the Company s interest in POM, matures in July 2016 and bears interest at a fixed rate of 4.06% with payment deferred until the closing of the transaction. Upon the closing of the POM transaction in March 2009, the note balance was increased to $50.2 million and is secured by the Company s investment in common and preferred operating partnership units in Lightstone Value Plus REIT, L.P. In March 2009, the Company also recorded a gain on exchange of profits interest of $56.0 million. At March 31, 2012, the outstanding balance of this note was $50.2 million.

In April 2011, the Company entered into a non-recourse junior loan participation in the amount of $32.0 million on a $50.0 million mezzanine loan. The loan was participated out to a subordinate lender at a discount and the Company received $28.8 million of proceeds. The subordinate lender will receive its proportionate share of the interest received from the loan, which has a variable rate of LIBOR plus 4.35% and a maturity of July 2012. The Company also has the right to sell its $18.0 million senior participation to the subordinate lender, at face value, in the event of default or if the loan is not repaid by July 9, 2012. The outstanding balance of this junior loan participation was $32.0 million at March 31, 2012. In June 2011, the Company entered into a non-recourse junior loan participation in the amount of $2.0 million on an $11.8 million mezzanine loan. The participation has a 0% rate of interest and a maturity of August 2012. The outstanding balance of this junior loan participation was $2.0 million at March 31, 2012. The Company also has a junior loan participation with an outstanding balance at March 31, 2012 of $1.3 million on a $1.3 million bridge loan. Participations have a maturity date equal to the corresponding mortgage loan and are secured by the participant s interest in the mortgage loan. Interest expense is based on the

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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.

Mortgage Note Payable Real Estate Owned

During 2011, the Company assumed a $55.4 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 a portfolio of multifamily assets (the Multifamily Portfolio). The real estate investment was classified as real estate owned in the Company s Consolidated Balance Sheet in March 2011. The mortgage bears interest at a variable rate of one-month LIBOR plus 1.23% and has a maturity date of March 2014 with a one year and three month extension option. In June 2011, one of the properties in the Multifamily Portfolio was sold to a third party for $1.6 million and the proceeds were used to pay down the first lien mortgage to a balance of $53.8 million at March 31, 2012.

Mortgage Notes Payable - Held-For-Sale

During 2010, the Company assumed a $20.8 million interest-only first lien mortgage related to a deed in lieu of foreclosure agreement for an entity in which the Company had a $5.6 million junior participation loan secured by an apartment building. The real estate investment was originally classified as real estate owned and was reclassified to real estate held-for-sale in December 2011. The mortgage bears interest at a fixed rate of 6.23% and has a maturity date of December 2013 with a five year extension option. In March 2012, the Company sold the property to a third party and the first lien mortgage was paid off.

During 2008, the Company assumed a $41.4 million interest-only first lien mortgage related to the foreclosure of an entity in which the Company had a $5.0 million mezzanine loan. The real estate investment was originally classified as real estate owned and was reclassified as real estate held-for-sale at September 30, 2009. The mortgage bears interest at a fixed rate of 6.13% and has a maturity date of June 2012. The outstanding balance of this mortgage was $41.4 million at March 31, 2012. In the second quarter of 2012, the Company surrendered the property to the first mortgage lender in full satisfaction of the first lien mortgage.

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 March 31, 2012.

The Company s CDO 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, all cash flows from the applicable CDO would be diverted to repay principal and interest on the outstanding CDO bonds and the Company would not receive any residual payments until that CDO regained compliance with such tests. The Company s CDOs were in compliance with all such covenants as of March 31, 2012, as well as on the most recent determination date in April 2012. In the event of a breach of the CDO covenants that could not be cured in the near-term, the Company would be required to fund its non-CDO 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 not in breach of a CDO covenant test, (iii) income from real property and loan assets, (iv) sale of assets, (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. However, the Company may not have sufficient liquidity available to do so at such time.

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The chart below is a summary of the Company s CDO compliance tests as of the most recent determination date in April 2012:

Cash Flow Triggers	CDO I	CDO II	CDO III
Overcollateralization (1)			
Current	211.21%	185.89%	107.59%
Limit	184.00%	169.50%	105.60%
Pass / Fail	Pass	Pass	Pass
Interest Coverage (2)			
Current	338.82%	422.78%	482.78%
Limit	160.00%	147.30%	105.60%
Pass / Fail	Pass	Pass	Pass

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

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

As of the determination dates in April 2012, January 2012, October 2011, July 2011 and April 2011, the Company s overcollateralization ratios were 211.21%, 211.18%, 207.53%, 196.92% and 185.59%, respectively, for CDO I; 185.89%, 179.31%, 181.78%, 181.74% and 181.74%, respectively, for CDO II; and 107.59%, 107.59%, 108.47%, 109.50% and 109.89%, respectively, for CDO III. The ratio will fluctuate based on the performance of the underlying assets, transfers of assets into the CDOs prior to the expiration of their respective replenishment dates, purchase or disposal of other investments, and loan payoffs.

Also, no payment due under the Junior Subordinated Indentures may be paid if there is a default under any senior debt and the senior lender has sent notice to the trustee. The Junior Subordinated Indentures are also cross-defaulted with each other.

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Note 8 Derivative Financial Instruments

The Company recognizes all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measures those instruments at fair value. Additionally, the fair value adjustments will affect either accumulated other comprehensive loss until the hedged item is recognized in earnings, or net income (loss) attributable to Arbor Realty Trust, Inc., depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The ineffective portion of a derivative s change in fair value is recognized immediately in earnings.

In connection with the Company s interest rate risk management, the Company periodically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts. Specifically, the Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of its expected cash receipts and its expected cash payments principally related to its investments and borrowings. The Company s objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The Company has entered into various interest rate swap agreements to hedge its exposure to interest rate risk on (i) variable rate borrowings as it relates to fixed rate loans; (ii) the difference between the CDO investor return being based on the three-month LIBOR index while the supporting assets of the CDO are based on the one-month LIBOR index; and (iii) use of a LIBOR rate caps in loan agreements.

Derivative financial instruments must be effective in reducing the Company s interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income for each period until the derivative instrument matures or is settled. In cases where a derivative financial instrument is terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income. The Company does not use derivatives for trading or speculative purposes.

The following is a summary of the derivative financial instruments held by the Company as of March 31, 2012 and December 31, 2011 (dollars in thousands):

			Notional Value					Fair Value	
Designation\ Cash Flow	**Derivative**	**Count**	**March 31, 2012**	**Count**	**December 31, 2011**	**Expiration Date**	**Balance Sheet Location**	**March 31, 2012**	**December 31, 2011**

Non-Qualifying	Basis Swaps	8	$	743,952	9	$	854,079	2013	2015	Other Assets	$	1,185	$	1,563
Non-Qualifying	LIBOR Caps	2	$	13,000	2	$	13,000	2012 - 2013		Other Assets	$		$	1
Qualifying	LIBOR Cap	1	$	73,301	1	$	73,301	2013		Other Assets	$		$	1
Qualifying	Interest Rate Swaps	21	$	449,954	24	$	515,327	2012	2017	Other Liabilities	$	(42,197)	$	(45,890)

The fair value of Non-Qualifying Basis Swap Hedges was $1.2 million and $1.6 million as of March 31, 2012 and December 31, 2011, respectively, and was recorded in other assets in the Consolidated Balance Sheets.

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These basis swaps 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. The fair value of the Non-Qualifying LIBOR Cap Hedges was less than $0.1 million at March 31, 2012 and December 31, 2011, and was recorded in other assets in the Consolidated Balance Sheets. The Company entered into these hedges in the fourth quarter of 2010 and the first quarter of 2011 due to loan agreements which required LIBOR Caps of 1% to 2%. In addition, during the three months ended March 31, 2012, a basis swap matured with a notional value of approximately $110.1 million. During the three months ended March 31, 2011, the notional value of one basis swaps decreased by approximately $58.6 million pursuant to the contractual terms of the respective swap agreement. For the three months ended March 31, 2012 and 2011, the change in fair value of the Non-Qualifying Swaps was $(0.4) million and $(0.3) million, respectively, and was recorded in interest expense on the Consolidated Statements of Operations.

The fair value of Qualifying Interest Rate Swap Cash Flow Hedges as of March 31, 2012 and December 31, 2011 was $(42.2) million and $(45.9) million, respectively, and was recorded in other liabilities in the Consolidated Balance Sheets. The change in the fair value of Qualifying Interest Rate Swap Cash Flow Hedges was recorded in accumulated other comprehensive loss in 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 first quarter of 2011, the Company entered into a LIBOR Cap with a notional value of approximately $73.3 million that qualifies as a cash flow hedge. The fair value of the Qualifying LIBOR Cap Hedge was less than $0.1 million at March 31, 2012 and is recorded in other assets in the Consolidated Balance Sheet. The Company entered into this hedge due to a loan agreement which required a LIBOR Cap of 2%. During the three months ended March 31, 2012, three interest rate swaps matured with a combined notional value of approximately $65.3 million. As of March 31, 2012, the Company expects to reclassify approximately $(15.1) 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.

Gains and losses on terminated swaps are being deferred and recognized in earnings over the original life of the hedged item. 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. As of March 31, 2012 and December 31, 2011, the Company has a net deferred loss of $2.7 million and $2.9 million, respectively, in accumulated other comprehensive loss. The Company recorded $0.3 million and $0.4 million as additional interest expense related to the amortization of the loss for the three months ended March 31, 2012 and 2011, respectively, and $0.1 million as a reduction to interest expense related to the accretion of the net gains for the three months ended March 31, 2012 and 2011, respectively. The Company expects to record approximately $0.7 million of net deferred loss to interest expense over the next twelve months.

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The following table presents the effect of the Company s derivative financial instruments on the Statements of Operations as of March 31, 2012 and 2011 (dollars in thousands):

Designation \Cash Flow	Derivative	Amount of Loss (Gain) Recognized in Other Comprehensive Loss (Effective Portion) For the Three Months Ended March 31, 2012	Amount of Loss (Gain) Recognized in Other Comprehensive Loss (Effective Portion) For the Three Months Ended March 31, 2011	Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Three Months Ended March 31, 2012	Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Three Months Ended March 31, 2011	Amount of Gain (Loss) Recognized in Interest Expense (Ineffective Portion) For the Three Months Ended March 31, 2012	Amount of Gain (Loss) Recognized in Interest Expense (Ineffective Portion) For the Three Months Ended March 31, 2011
Non-Qualifying	Basis Swaps / Caps	$	$	$	$	$ 83	$ (205)
Qualifying	Interest Rate Swaps / Cap	$ 1,266	$ (623)	$ (5,197)	$ (7,291)	$	$

The cumulative amount of other comprehensive loss related to net unrealized losses on derivatives designated as Cash Flow Hedges as of March 31, 2012 and December 31, 2011 of approximately $(44.9) million and approximately $(48.8) million, respectively, is a combination of the fair value of qualifying cash flow hedges of $(42.2) million and $(45.9) million, respectively, deferred losses on terminated interest swaps of $(3.4) million and $(3.7) million as of March 31, 2012 and December 31, 2011, respectively, and deferred net gains on termination of interest swaps of $0.7 million and $0.8 million as of March 31, 2012 and December 31, 2011, respectively.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. As of March 31, 2012 and December 31, 2011, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was $(20.2) million and $(22.0) million, respectively. As of March 31, 2012 and December 31, 2011, the Company had minimum collateral posting thresholds with certain of its derivative counterparties and had posted collateral of $20.7 million and $21.9 million, respectively, which is recorded in other assets in the Company s Consolidated Balance Sheets.

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Note 9 Variable Interest Entities

The Company has evaluated its loans and investments, mortgage related securities, investments in equity affiliates, junior subordinated notes and CDOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in the Company determining that its bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CDOs, and investments in mortgage related securities are potential VIEs. A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties.

A VIE is required to be consolidated by its primary beneficiary, which is defined as 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. The Company s involvement with VIEs primarily affects its financial performance and cash flows through amounts recorded in interest income, interest expense, provision for loan losses and through activity associated with its derivative instruments.

Consolidated VIEs

The Company consolidates its three CDO subsidiaries, which qualify as VIEs, of which the Company is the primary beneficiary. These CDOs invest in real estate and real estate-related securities and are financed by the issuance of CDO debt securities. The Company, or one of its affiliates, is named collateral manager, servicer, and special servicer for all CDO collateral assets which the Company believes gives it the power to direct the most significant economic activities of the entity. The Company also has exposure to CDO losses to the extent of its equity interests and also has rights to waterfall payments in excess of required payments to CDO bond investors. As a result of consolidation, equity interests in these CDOs have been eliminated, and the Consolidated Balance Sheet reflects both the assets held and debt issued by the CDOs to third parties. The Company s operating results and cash flows include the gross amounts related to CDO assets and liabilities as opposed to the Company s net economic interests in the CDO entities.

Assets held by the CDOs are restricted and can be used only to settle obligations of the CDOs. The liabilities of the CDOs are non-recourse to the Company and can only be satisfied from each CDO s respective asset pool. Assets and liabilities related to the CDOs are disclosed parenthetically, in the aggregate, in the Company s Consolidated Balance Sheets. See Note 7 Debt Obligations for further details.

The Company is not obligated to provide, has not provided, and does not intend to provide financial support to any of the consolidated CDOs.

Unconsolidated VIEs

The Company determined that it is not the primary beneficiary of 53 VIEs in which it has a variable interest as of March 31, 2012 because it does not have the ability to direct the activities of the VIEs that most significantly impact each entity s economic performance. VIEs, of which the Company is not the primary beneficiary, have an aggregate carrying amount of $659.0 million and exposure to real estate debt of approximately $5.9 billion at March 31, 2012.

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The following is a summary of the Company s variable interests in identified VIEs, of which the Company is not the primary beneficiary, as of March 31, 2012:

Type	Origination Date		Carrying Amount (1)	Property	Location
Loan and investment	Dec 03	$	50,000,000	Office	New York
Loan	Jan 06		1,355,330	Multifamily	New York
Loan	Mar 06		9,870,070	Office	Pennsylvania
Loan	Jun 06		104,618,872	Land	California
Loan	Aug 06		5,447,637	Multifamily	Indiana
Loan	Sep 06		2,800,000	Office	Rhode Island
Loan	Oct 06		1,360,838	Multifamily	South Carolina
Loan	Oct 06		2,046,507	Multifamily	North Carolina
Loan	May 08		5,910,802	Multifamily	Florida
Loan	Dec 06		62,673,230	Multifamily	New York
Loan	Jan 07		4,048,584	Multifamily	Texas
Loan	Mar 07		1,879,531	Office	South Carolina
Loan	Mar 07		37,022,939	Office	New York
Loan	Feb 07		47,127,065	Multifamily	Florida
Loan	Mar 07		1,994,965	Multifamily	Florida
Loan	Mar 07		3,671,507	Hotel	Arizona
Loan	Jun 07		4,144,541	Multifamily	Michigan
Loan	Feb 08		51,795,287	Multifamily	California
Loan	May 06		10,000,000	Condo	California
Loan	Aug 07		5,926,402	Multifamily	Florida
Loan	Dec 06		32,006,908	Multifamily	Various
Loan	Dec 06		24,999,972	Land	Florida
Loan	Aug 10		7,020,275	Hotel	California
Loan	Dec 10		6,864,012	Multifamily	Texas
Loan	Jan 11		1,922,162	Multifamily	Texas
Loan	Apr 11		2,061,746	Multifamily	New York
Loan	Feb 06		1,903,094	Multifamily	Indiana
Loan	Nov 08		4,667,863	Multifamily	Connecticut
Loan	Nov 11		4,024,443	Office	Texas
Loan	Nov 11		5,250,827	Multifamily	Indiana
Loan and investment	Dec 11		78,555,594	Multifamily	Various
Loan	Sep 11		2,818,270	Land	California
Loan	Feb 07		2,430,000	Office	Ohio
Investment	May 08		2,000,000	CDO bond	N/A
Investment	Dec 10		2,100,000	CMBS	N/A
Investment	Jul 11		103,692	RMBS	N/A
Investment	Jul 11		1,383,395	RMBS	N/A

Investment	Oct 11		4,673,712	RMBS	N/A
Investment	Oct 11		12,256,395	RMBS	N/A
Investment	Nov 11		3,762,369	RMBS	N/A
Investment	Dec 11		622,444	RMBS	N/A
Investment	Nov 11		731,327	CMBS	N/A
Investment	Jan 12		8,170,930	RMBS	N/A
Investment	Feb 12		138,340	RMBS	N/A
Investment	Feb 12		5,934,698	RMBS	N/A
Investment	Feb 12		3,563,875	RMBS	N/A
Investment	Mar 12		879,497	RMBS	N/A
Investment	Mar 12		235,594	RMBS	N/A
Investment	Mar 12		737,371	RMBS	N/A
Investment	Mar 12		11,973,283	RMBS	N/A
Investment	Feb 12		10,909,372	RMBS	N/A
Investment	Apr 05		187,000	Junior subordinated notes (2)	N/A
Investment	Jun 06		391,000	Junior subordinated notes (2)	N/A
Total		$	658,973,567		

(1) Represents the carrying amount of loans and investments before reserves. The Company s maximum exposure to loss would not

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exceed the carrying amount of its investment. At March 31, 2012, $209.6 million of loans to VIEs had corresponding loan loss reserves of approximately $131.7 million and $40.8 million of loans to VIEs were related to loans classified as non-performing. See Note 3 Loans and Investments for further details.

(2) These entities that issued the junior subordinated notes are VIEs. It is not appropriate to consolidate these entities as equity interests are variable interests only to the extent that the investment is considered to be at risk. Since the Company s investments were funded by the entities that issued the junior subordinated notes, it is not considered to be at risk.

Note 10 Fair Value

Fair Value of Financial Instruments

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The following table summarizes the carrying values and the estimated fair values of the Company s financial instruments as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Loans and investments, net	$ 1,296,461,568	$ 1,231,245,503	$ 1,302,440,660	$ 1,262,157,792
Available-for-sale securities	4,276,368	4,276,368	4,276,368	4,276,368
Securities held-to-maturity, net	64,993,099	65,039,444	29,942,108	29,994,214
Derivative financial instruments	1,185,161	1,185,161	1,565,063	1,565,063
Financial liabilities:				
Repurchase agreement and credit facility	$ 106,366,000	$ 106,194,391	$ 76,105,000	$ 75,976,340
Collateralized debt obligations	970,706,271	606,446,541	1,002,615,393	606,929,771
Junior subordinated notes	158,382,950	48,503,947	158,261,468	48,464,677
Notes payable	85,457,708	79,455,390	85,457,708	78,860,307
Mortgage note payable - real estate owned	53,751,004	47,946,121	53,751,004	51,251,004
Mortgage notes payable - held-for-sale	41,440,000	41,244,364	62,190,000	61,957,869
Derivative financial instruments	42,197,064	42,197,064	45,889,539	45,889,539

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument:

Loans and investments, net: Fair values of loans and investments that are not impaired are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Fair values of loans and investments that are impaired are estimated by the Company using significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management.

Available-for-sale securities: Fair values are approximated based on current market quotes received from financial sources that trade such securities and are based on prevailing market data and, in some cases, are derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions. The fair values of certain CMBS securities are estimated by the Company using significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management.

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

Derivative financial instruments: Fair values are approximated based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions. These items are included in other assets and other liabilities on the Consolidated Balance Sheets. The Company incorporates credit valuation adjustments in the fair values of its derivative financial instruments to reflect counterparty nonperformance risk.

Repurchase agreements, credit facilities, notes payable and mortgage notes payable: Fair values are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates for financing with similar characteristics and credit quality.

Collateralized debt obligations: Fair values are estimated based on broker quotations, representing the discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Junior subordinated notes: Fair values are estimated based on broker quotations, representing the discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Fair Value Measurement

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability s fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments complexity.

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

- Level 1 Inputs are unadjusted and quoted prices exist in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument s anticipated life. Level 2 inputs include quoted market prices in markets that are not active for an identical or similar asset or liability, and quoted market prices in active markets for a similar asset or liability. Fair valued assets and liabilities that are generally included in this category are non-government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset-backed securities, certain corporate debt, certain commitments and guarantees, certain private equity investments and certain derivatives.

- Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. These valuations are based on significant unobservable inputs that require a considerable amount of judgment and assumptions. Consideration is given to the

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(Unaudited)

risk inherent in the valuation technique and the risk inherent in the inputs to the model. Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed securities, certain corporate debt, certain private equity investments, certain municipal bonds, certain commitments and guarantees and certain derivatives.

Determining which category an asset or liability falls within the hierarchy requires significant judgment and the Company evaluates its hierarchy disclosures each quarter.

The Company measures certain financial assets and financial liabilities at fair value on a recurring basis, including available for sale securities and derivative financial instruments. The fair value of these financial assets and liabilities was determined using the following inputs as of March 31, 2012:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy Level 1	Level 2	Level 3
Financial assets:					
Available-for-sale securities (1)	$ 4,276,368	$ 4,276,368	$ 176,368	$	$ 4,100,000
Derivative financial instruments	1,185,161	1,185,161		1,185,161	
Financial liabilities:					
Derivative financial instruments	$ 42,197,064	$ 42,197,064			