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# Collateral Management Brochure

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This brochure provides information about the qualifications and business practice of Arbor Realty Collateral Management, LLC. If you have questions about the content of this brochure, please contact us at 800-878-5160. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any other federal or state securities authority.

Additional information about Arbor Realty Collateral Management, LLC also is available on the SEC's website.

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## **ABOUT US**

Arbor Realty Collateral Management, LLC (“ARCM”) is a collateral manager, established in 2005, for the purpose of providing certain advisory, administrative and monitoring services in connection with specific collateralized debt obligations of Arbor Realty SR, Inc. (“ARSR”), a subsidiary real estate investment trust wholly owned by Arbor Realty Trust, Inc. (“ART”), a real estate investment trust (the “CDOs”). While ARCM is authorized to provide advisory services to third parties, its current role is solely as a collateral manager of the CDOs.

ARCM was established and is directly and wholly owned by ARSR and an indirect, wholly owned subsidiary of ART. Collectively, ART and its subsidiaries and affiliates have extensive experience in mortgage origination, servicing and securitization.

ARCM’s role is to ensure that the CDOs perform in accordance with their organizational documents and for the benefit of their investors. Specifically, ARCM manages the portfolios in order to generate sufficient returns to meet the CDOs payment obligations and to optimize the returns to the CDOs investors. ARCM plays a pivotal role in the management and maintenance of the securities related to the CDOs. Its role is embedded in the issuance of the CDOs, the “ramp-up” period following issuance, during the active life of the CDOs and through maturity.

Subject to the terms and conditions of the agreements relating to the CDOs, ARCM has the authority to make decisions regarding the credit quality of the CDOs and its portfolios. This role of collateral manager is an important one and requires a commitment to quality and accuracy, an appreciation for a strict adherence to rules and regulations, while maintaining needed flexibility to react to changing circumstances. The experienced team employed by ARCM consistently exhibits these qualities through their unwavering and skillful execution of the management of the assets in the CDOs.

## **SERVICES AND PRODUCTS**

The services offered by ARCM include but are not limited to the following:

- ❖ Determination of collateral debt securities to be purchased or sold and the timing of such;
- ❖ Determination of eligible investments to be purchased or sold and the timing of such;
- ❖ Providing direction in connection with the purchase of collateral debt securities and eligible investments and directing the investment or reinvestment of applicable proceeds;
- ❖ Negotiating with issuers of collateral debt securities as to proposed modifications and/or waivers of the documentation governing such collateral debt securities;
- ❖ Taking action, with the trustees where required, with respect to the issuer’s exercise of any rights;
- ❖ Facilitating and fostering appropriate communication with the rating agencies, where requested and required;
- ❖ Determination of the status of assets and collateral debt securities (i.e. defaulted, credit risk, etc.);

- ❖ Periodically reporting to the investors;
- ❖ Monitoring assets on an on-going basis; and,
- ❖ Managing the investments of the issuer in accordance with the applicable documents;

*As of \_\_\_\_\_, 2012, ARCM has \_\_\_\_\_ in client assets under management on behalf of its existing clients, the CDOs. All collateralized debt obligations with an established agreement with ARCM have equal access to the service provided by ARCM and ARCM applies said services in a uniform manner. However, ARCM delivers such services with an understanding of the individual needs of each CDO and tailors its application appropriately.*

## **FEES AND COMPENSATION**

Pursuant to the existing management agreements with the CDOs, as compensation for the performance of its obligations as collateral manager, ARCM is entitled to receive fees, payable quarterly in arrears, equal to certain percentages of the CDOs assets under management. These fees are allocated and paid in accordance with the designated 'Priority of Payments' or waterfall payments.

The treatment, calculation, and payment of ARCM's fees are described in further detail within the management agreement executed by and between ARCM and the CDOs. Certain organizational and structuring fees and expenses, including legal fees and expenses of counsel of ARCM are to be paid from a portion of the gross proceeds from the issuance and sale of securities. Otherwise, ARCM is responsible for all expenses and costs incurred by it in the course of performing its obligations under its management agreements with the CDOs, except for the hiring of independent consultants, accountants or legal advisers by, or on behalf of, the CDOs in connection with certain services provided by ARCM as described in the management agreements which shall be covered by the CDOs. Reasonable travel expenses undertaken in connection with the performance by ARCM of its duties as collateral manager are also to be covered by the CDOs.

*If a client elects to terminate its management agreement with ARCM, any accrued fees owed to ARCM will be prorated, as required, and charged to the client.*

## **OUR CLIENTS**

ARCM was established for the purpose of providing collateral management services for the CDOs. Currently, ARCM exclusively provides its services to collateralized debt obligations or pooled investment vehicles. Given ARCM's select client base, it does not currently have a need for establishing particular guidelines in connection with opening or maintaining an account, with exception of a management agreement, executed by both parties, governing the terms of the relationship.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

ARCM utilizes a sizable asset portfolio, a strong platform, available technology, and a highly experienced team in order to provide the CDOs with superior collateral management; delivering enhanced service and results to the investors in the CDOs.

ART currently holds approximately \$1.8B in assets within its portfolio and the CDOs have a collective value of approximately \$1.4B, giving the Arbor brand, and ARCM specifically, a notable presence in the Structured Finance market. This presence along with the relationships established by the securitization team employed by ARCM, affords ARCM certain advantages in the leveraging of information and negotiation of the purchase and sale of securities and assets.

ARCM's securitization team has worked over the last seven years to develop its own suite of proprietary models and analytical tools which facilitate the efficient monitoring of the CDOs' investments. The legal team behind ARCM further analyzes all aspects of the portfolios and investment choices such that a balanced, well-rounded decision making process is utilized on behalf of the clients.

While ARCM has access to skilled underwriting, securitization and legal teams covering the full breadth of the investment process, there are standard risks inherent to management of vehicles of this nature. Any collateral debt securities are subject to credit, liquidity and interest rate risks, and some will be subject to timing risks. Any losses and expenses incurred as a result of the purchase, sale and holding process, are generally borne first by the subordinated collateral debt securities and then by the related more senior tranche or tranches. The amount and nature of the underlying assets have been and are typically established with a view to withstand certain assumed deficiencies in payment occasioned by defaults in respect of the collateral debt securities. Of course, the assumed thresholds can be exceeded, and to the extent that a default occurs with respect to any collateral debt security, it is not likely that the full amount of principal and interest owed will be forthcoming.

In addition, the market value of the collateral debt securities generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the collateral debt securities, the credit quality of the underlying asset or pool of assets securing any collateral debt security, the remaining term thereof to maturity, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. ARCM does not have or hold any liability or obligation to the investors as to the amount or value of, or decrease in the value of, the collateral debt securities from time to time. In the event that a collateral debt security becomes a Credit Risk or a Defaulted Security, ARCM may either sell or retain the affected asset. However, there can be no assurance as to the timing of the Collateral Manager's sale of the affected asset, or if there will be any market for such asset or as to the rates of recovery on such affected asset.

Although the inherent risk is borne by the investors, CDOs are ultimately established for the purpose transferring credit risk and as such, that risk is stringently monitored and managed by ARCM with consideration to ultimate reward or profitability.