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Collateral Management Brochure

Arbor Commercial Mortgage, LLC

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This brochure provides information about the qualifications and business practices of Arbor Commercial Mortgage, 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 (the "SEC") or by any other federal or state securities authority. Please note that the registered status of ACM with the SEC does not imply a certain level of skill or training.

Additional information about Arbor Commercial Mortgage, LLC also is available on the SEC's website.

ITEM 2 MATERIAL CHANGES

The information in this brochure has been prepared for use by the clients of Arbor Commercial Mortgage, LLC (“ACM”) and has been obtained from sources believed to be reliable. ACM is a registered investment adviser with the Securities and Exchange Commission and this brochure and the contents are a matter of public record or have been provided in sources available to the public.

This brochure is the first document of this kind prepared and distributed by ACM. In the future, this item will discuss only specific material changes made to the Brochure and provide the date of the last annual update of the Brochure.

TABLE OF CONTENTS

ITEM 1: COVER PAGE	1
ITEM 2: MATERIAL CHANGES	2
ITEM 3: TABLE OF CONTENTS	3
ITEM 4: ADVISORY BUSINESS	4
ITEM 5: FEES AND COMPENSATION	5
ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT	6
ITEM 7: TYPES OF CLIENTS	6
ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS	6
ITEM 9: DISCIPLINARY INFORMATION	7
ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS	7
ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING	7
ITEM 12: BROKERAGE PRACTICES	8
ITEM 13: REVIEW OF ACCOUNTS	8
ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION	8
ITEM 15: CUSTODY	8
ITEM 16: INVESTMENT DIRECTION	8
ITEM 17: VOTING CLIENT SECURITIES	9
ITEM 18: FINANCIAL INFORMATION	9

ITEM 4 ADVISORY BUSINESS

About Us

Arbor Commercial Mortgage, LLC (“ACM”) is a national direct lender that provides debt capital for the multifamily and commercial real estate industries. Additionally, ACM serves as the Manager for Arbor Realty Trust, Inc. (“ART”), a real estate investment trust; Arbor Realty SR, Inc. (“ARSR” or “Sub-REIT”), a wholly owned subsidiary of ART; and Arbor Realty Limited Partnership (“ARLP” or “Operating Partnership”), an operating arm and wholly owned subsidiary of ART (together with ART and ARSR, the “Company”). While ACM is authorized to provide advisory services to third parties, its current advisory role is solely as a Manager of the Company.

Arbor National Commercial Mortgage, LLC (“ANCM”) was a national commercial mortgage business established in 1995 by Ivan Kaufman. Mr. Kaufman formally organized ACM in 2003 with the intention of acquiring, operating and owning ANCM. ART also began operating in 2003, entering the marketplace as a real estate investment trust established for the purpose of investing in a diversified portfolio of multifamily and commercial real estate-related bridge and mezzanine loans, preferred equity investments and other real estate-related assets.

In July 2003, the Management and Advisory Agreement (the “Original Management Agreement”) was executed by and between the Company and ACM, naming ACM as the manager of the Company and documenting the responsibilities, rights and compensation structure of ACM as the manager. Collectively, ACM, the Company, and their subsidiaries and affiliates, respectively, have extensive experience in mortgage origination, servicing and securitization.

ACM’s role, pursuant to the Original Management Agreement, and the subsequent amendments thereto (including the Second Amended and Restated Management and Advisory Agreement (together, the “Management Agreement”)), executed between ACM and the Company, is to manage the investments of the Company (the “Investments”) and the day-to-day operations of the Company. Specifically, ACM performs such services and activities as may be appropriate to fulfill its responsibilities, including, without limitation: (i) serving as the Company’s consultant with respect to the periodic review of investment criteria and parameters for Investments, borrowings and operations, (ii) investigation, analysis and selection of investment opportunities, (iii) evaluating and recommending to the Company’s Board of Directors’ various investment and hedging strategies, and (iv) investing and re-investing any moneys and securities of the Company and advising the Company with respect to its capital structure and capital raising. ACM plays a pivotal role in the management and maintenance of the Investments, or Company securities. Its role is embedded in the evaluation of Investments, the selection period that follows, during the active life of the Investments, and through maturity.

ACM does not currently participate in any wrap fee programs. Additionally, ACM does not manage any other clients’ assets at present.

Subject to the terms and conditions of the Management Agreement and the supervision of the Company Board of Directors, ACM has the authority to make recommendations and ultimately decisions concerning the Investments. This role of 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 ACM consistently exhibits these qualities through their unwavering and skillful execution of the management of the Investments.

Services and Products

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

- ❖ Conducting negotiations with real estate brokers, sellers and purchasers, and their respective agents and representatives, investment bankers, mortgage bankers and owners of privately and publicly held real estate companies;
- ❖ Coordinating and managing operations of any joint venture or co-investment interests held by its clients;
- ❖ Counseling its clients in connection with policy decisions to be made by their the board of directors or similar governing bodies;
- ❖ Counseling REITs regarding the maintenance of their status as REITs and monitoring compliance with the various REIT qualification tests and other rules set out in the Code and the Treasury Regulations promulgated thereunder;
- ❖ Counseling clients regarding the maintenance of its exemption from the Investment Company Act and monitoring compliance with the requirements for maintaining such exemption;
- ❖ Assisting in the development of criteria for debt and equity financing that is specifically tailored to the client's investment objectives;
- ❖ Assisting in compliance with all regulatory requirements applicable to the client(s) in respect of its business activities; and,
- ❖ Performing such other services as may be required from time to time for management and other activities relating to the investments of its clients as requested or deemed appropriate.

As of September 30, 2012, ACM had \$1,666,978,182 in client assets under discretionary management on behalf of its sole existing client, the Company. If in the future ACM will have additional clients, all clients with an established management agreement with ACM would have equal access to the service provided by ACM and ACM would apply said services in a uniform manner. However, ACM would deliver such services with an understanding of the individual needs of each client and would tailor its application appropriately.

ITEM 5 FEES AND COMPENSATION

ACM's clients are generally qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940, as amended. Accordingly, a detailed client fee schedule is not included in this Brochure. However, pursuant to the Management Agreement, as compensation for the performance of its obligations as manager, ACM is entitled to receive compensation in the way of (i) cost reimbursement for the costs incurred by ACM in performing its stated duties, (ii) a Company provided waiver of exit fees on those Investments refinanced through permanent financing provided by ACM, and (ii) an annual incentive fee (the "Incentive Fee"). All compensation is allocated and paid in accordance with the provisions set forth in the Management Agreement. Costs are reimbursed and the Incentive Fee is charged annually or monthly in arrears, depending on the fee and annual Incentive Fees are periodically advanced on a quarterly basis and deducted from the Company's assets.

The treatment, calculation, and payment of ACM's compensation are described in further detail within the Management Agreement. Certain administrative, organizational, and structuring fees and expenses, including legal fees and expenses of counsel of ACM are to be paid through the cost reimbursement structure, as governed by the Management Agreement and a budgeted mutually agreed upon by ACM and the Company. Otherwise, ACM is responsible for all expenses and costs incurred by it in the course of performing its obligations under the Management Agreement, except for the credits earned through (i) the special servicing fees generated by the Company's securitization vehicles and (ii) the cost of services provided by the Company's Asset Management Group to ACM. Reasonable travel expenses undertaken in connection with the performance by ACM of its duties as manager are also to be covered by the Company.

Any other management agreement entered into by ACM and a client would have a specific fee and/or compensation structure as agreed to and approved by both parties.

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

ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

ACM currently accepts performance-based fees but does not manage any accounts that are charged another type of fee.

ITEM 7 TYPES OF CLIENTS

ACM was established for the purpose of acting as a national direct lender, providing debt capital for the multifamily and commercial real estate industries. ACM, in addition to its stated objectives, was hired to provide management services for the Company, which comprises a pooled investment vehicle and its wholly owned subsidiaries. Currently, ACM exclusively provides its management services to the Company. Given ACM'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.

ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

ACM utilizes a sizable asset portfolio, a strong platform, available technology, and a highly experienced team in order to provide the Company with superior management; delivering enhanced service and results to the investors in the Company and the Company's Board of Directors.

ACM's breadth of experience gives the Arbor brand a notable presence in the residential and commercial real estate finance market. This presence along with the relationships established by the origination, underwriting and marketing teams employed by ACM, affords ACM certain advantages in the leveraging of information.

ACM's team of employees has worked over the last several years to develop its own suite of proprietary models and analytical tools which facilitate the efficient monitoring of the Investments. The legal team behind ACM 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 ACM 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 clients of this nature. Any real estate fund, inclusive of a REIT like the Company, 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 investment, holding, management and sale process, are generally borne first directly by the company or fund and then the investors. The amount and nature of the investments of the client or company have been and are typically selected with a view to withstand expected and unexpected issues that may arise; such as market fluctuations, borrower deficiencies and natural disasters.

In addition, the market value of the Company or client as a whole will generally fluctuate with, among other things, the financial condition of the underlying obligors, borrowers and investors; the credit quality of the underlying investments or assets; general economic conditions; the condition of certain financial markets; political events; developments or trends in any particular industry and changes in prevailing interest rates. ACM 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 investments from time to time. In the event that an asset becomes credit risk or defaulted, ACM may recommend the sale or retention of the affected asset. However, there can be no assurance as to the timing of the mitigation or 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 Company or other client, a real estate fund, notably a REIT, is ultimately established for the purpose of generating income, and as such, that risk is stringently monitored and managed by ACM with consideration to ultimate reward or profitability.

ITEM 9 DISCIPLINARY INFORMATION

There are currently no legal or disciplinary events to disclose that would be considered material to any client's or prospective client's evaluation of ACM's advisory business or the integrity of its management.

ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

At this time, neither ACM nor any of its management persons are registered, or have an application pending to register, as a broker-dealer, a registered representative of a broker-dealer, a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. However, ACM does have an affiliation with Arbor Realty Collateral Management, LLC ("ARCM"), an entity currently registered as an investment adviser with the SEC. ACM does not select other investment advisers for its clients.

ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

ACM is committed to the highest standards of business conduct in its relationships with clients, employees and others. ACM's Code of Business Conduct and Ethics (the "Code") helps in this endeavor by providing a statement of the fundamental principles and key policies and procedures that govern the conduct of business.

The Code is a statement of policies for individual and business conduct and does not, in any way, constitute an employment contract or an assurance of continued employment. Employees of the Company are employed at-will except when they are covered by an express, written employment agreement. A copy of the Code is available to any client or prospective client upon request.

ACM, pursuant to the Management Agreement, is responsible for managing the Investments of the Company. When recommending to any of the securities in which a related party or an affiliate has a material financial interest, ACM is obligated to solely represent the client's interest. ACM only engages in transactions with related parties which adhere to its responsibilities pursuant to the Management Agreement and the Company's current Policy and Procedures with Respect to Related Person Transactions (the "RPT Policy"). Any sale of an asset or investment by the Company to a party related to ACM, or purchase by the Company of an asset owned by a party related to ACM, must adhere to the terms and conditions of (i) the RPT Policy and (ii) the Management Agreement. When engaging in such transactions, ACM ensures that it is adhering to the terms of the Management Agreement and RPT Policy. It should be noted that this process often includes a certification to the Company's Board of Directors that the transaction in question is in compliance with the terms of the Management Agreement and RPT Policy.

ITEM 12 BROKERAGE PRACTICES

ACM does not use broker-dealers for client transactions.

ITEM 13 REVIEW OF ACCOUNTS

ACM performs quarterly and annual reviews of clients' accounts with the Company employees and vendors assigned to those accounts, in order to determine the status of said accounts and to analyze the accounts based on the metrics and parameters set forth in the governing documentation. In addition to quarterly and annual reviews, there are individual and global reviews performed when a particular action is taken in connection with the client's account (i.e. a modification) to properly assess compliance with in-place investment criteria. The final action taken on behalf of the clients and within the clients' accounts is memorialized in appropriate documentation sent to the requisite parties (i.e. memorandum) such that they can then report such to the appropriate governing bodies (i.e. Board of Directors, trustees, etc.).

ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION

ACM does receive or provide economic benefit for client referrals.

ITEM 15 CUSTODY

ACM does not maintain custody of client funds.

ITEM 16 INVESTMENT DIRECTION

ACM does not accept discretionary authority to manage securities on behalf of clients.

ITEM 17 VOTING CLIENT SECURITIES

ACM does not accept authority to vote client securities.

ITEM 18 FINANCIAL INFORMATION

ACM does not require or solicit prepayment of more than \$1,200 in fees per client six months in or more in advance and does not have discretionary authority or custody of client funds or securities. ACM has not been the subject of a bankruptcy petition at any time during the past ten years.