

NEW YORK MORTGAGE TRUST INC
Form 10-Q
August 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006.

OR

**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 001-32216

NEW YORK MORTGAGE TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland
**(State or other jurisdiction of
incorporation or organization)**

47-0934168
**(I.R.S. Employer
Identification No.)**

1301 Avenue of the Americas, New York, New York 10019
(Address of principal executive office) (Zip Code)

(212) 634-9400
(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filers" and "large accelerated filers" in Rule 12b-2 of the Exchange Act. (check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the registrant's common stock, par value \$.01 per share, outstanding on August 1, 2006 was 18,024,840.

NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

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PART I: FINANCIAL INFORMATION
NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollar amounts in thousands)

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Cash and cash equivalents	\$ 6,911	\$ 9,056
Restricted cash	1,255	5,468
Investment securities - available for sale	652,674	716,482
Due from loan purchasers	76,139	121,813
Escrow deposits - pending loan closings	1,385	1,434
Accounts and accrued interest receivable	10,514	14,866
Mortgage loans held for sale	84,327	108,271
Mortgage loans held in securitization trusts	690,502	776,610
Mortgage loans held for investment	—	4,060
Prepaid and other assets	24,636	16,505
Derivative assets	10,899	9,846
Property and equipment, net	6,985	6,882
TOTAL ASSETS	\$ 1,566,227	\$ 1,791,293
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Financing arrangements, portfolio investments	\$ 1,039,799	\$ 1,166,499
Financing arrangements, loans held for sale/for investment	157,006	225,186
Collateralized debt obligations	213,486	228,226
Due to loan purchasers	869	1,652
Accounts payable and accrued expenses	19,651	22,794
Subordinated debentures	45,000	45,000
Derivative liabilities	229	394
Other liabilities	383	584
Total liabilities	1,476,423	1,690,335
COMMITMENTS AND CONTINGENCIES (Note 13)		
STOCKHOLDERS' EQUITY:		
Common stock, \$0.01 par value, 400,000,000 shares authorized, 18,327,371 shares issued and 18,024,840 outstanding at June 30, 2006 and 18,258,221 shares issued and 17,984,843 outstanding at December 31, 2005	183	183
Additional paid-in capital	102,590	107,573
Accumulated other comprehensive (loss)/income	(2,643)	1,910
Accumulated deficit	(10,326)	(8,708)
Total stockholders' equity	89,804	100,958
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,566,227	\$ 1,791,293

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share data)
(unaudited)

	For the Six Months Ended		For the Three Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
REVENUE:				
Interest income:				
Investment securities and loans held in securitization trusts	\$ 33,052	\$ 27,081	\$ 15,468	\$ 14,218
Loans held for investment	—	3,605	—	1,944
Loans held for sale	8,275	6,100	3,233	3,507
Total interest income	41,327	36,786	18,701	19,669
Interest expense:				
Investment securities and loans held in securitization trusts	26,438	19,339	12,359	10,719
Loans held for investment	—	2,545	—	1,401
Loans held for sale	5,947	3,843	2,632	1,995
Subordinated debentures	1,779	494	894	416
Total interest expense	34,164	26,221	15,885	14,531
Net interest income	7,163	10,565	2,816	5,138
OTHER INCOME (EXPENSE):				
Gain on sales of mortgage loans	10,051	12,649	5,981	8,328
Brokered loan fees	6,270	4,534	3,493	2,534
(Loss) gain on sale of current period securitized loans	(747)	—	26	—
Gain on sale of securities and related hedges	—	921	—	544
Realized loss on sale of investment securities	(969)	—	—	—
Miscellaneous income (expense)	267	104	148	(10)
Total other income	14,872	18,208	9,648	11,396
EXPENSES:				
Salaries and benefits	12,342	16,572	6,001	9,430
Brokered loan expenses	4,935	4,206	2,767	2,686
Occupancy and equipment	2,615	3,716	1,289	1,582
Marketing and promotion	1,216	2,590	429	1,190
Data processing and communications	1,414	1,190	753	672
Office supplies and expenses	1,038	1,258	433	685
Professional fees	2,531	1,846	1,250	1,102
Travel and entertainment	283	446	101	230
Depreciation and amortization	1,086	767	521	424
Other	772	553	405	177
Total expenses	28,232	33,144	13,949	18,178
(LOSS) BEFORE INCOME TAX				
BENEFIT	(6,197)	(4,371)	(1,485)	(1,644)
Income tax benefit	4,579	4,880	1,663	2,190

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NET (LOSS) INCOME	\$	(1,618)	\$	509	\$	178	\$	546
Basic (loss) income per share	\$	(0.09)	\$	0.03	\$	0.01	\$	0.03
Diluted (loss) income per share	\$	(0.09)	\$	0.03	\$	0.01	\$	0.03
Weighted average shares outstanding-basic		17,950		17,802		17,933		17,807
Weighted average shares outstanding-diluted		17,950		18,123		18,296		18,121

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2006
(dollar amounts in thousands)
(unaudited)

	Common Stock	Additional Paid-In Capital	Stockholders' Deficit	Accumulated Other Comprehensive (Loss)/ Income	Comprehensive (Loss)/ Income	Total
BALANCE, JANUARY 1, 2006 -- Stockholders' Equity	\$ 183	\$ 107,573	\$ (8,708)	\$ 1,910	\$ —	100,958
Net loss	—	—	(1,618)	—	(1,618)	(1,618)
Dividends declared	—	(5,113)	—	—	—	(5,113)
Repurchase of common stock	(1)	(299)	—	—	—	(300)
Vested restricted stock	1	554	—	—	—	555
Vested performance shares	—	136	—	—	—	136
Forfeited performance shares	—	(258)	—	—	—	(258)
Vested stock options	—	18	—	—	—	18
Forfeited stock options	—	(21)	—	—	—	(21)
Decrease in net unrealized gain on available for sale securities	—	—	—	(5,458)	(5,458)	(5,458)
Increase in net unrealized gain on derivative instruments	—	—	—	905	905	905
Comprehensive loss	—	—	—	—	(6,171)	—
BALANCE, JUNE 30, 2006 -- Stockholders' Equity	\$ 183	\$ 102,590	\$ (10,326)	\$ (2,643)	\$ —	89,804

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollar amounts in thousands)
(unaudited)

	For the Six Months Ended	
	June 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (1,618)	\$ 509
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,086	767
Amortization of premium on investment securities and mortgage loans	1,187	2,762
Loss on sale of current period securitized loans	747	—
Realized loss on sale of investment securities	969	—
Loss on sale of securities and related hedges	—	(921)
Purchase of mortgage loans held for sale	(213,367)	—
Origination of mortgage loans held for sale	(940,456)	(470,114)
Proceeds from sales of mortgage loans	1,176,475	464,429
Restricted stock compensation expense	433	2,074
Stock option grants - compensation expense	(3)	18
Deferred tax benefit	(4,579)	(4,880)
Change in value of derivatives	(313)	(944)
Minority interest expense	(10)	—
(Increase) decrease in operating assets:		
Due from loan purchasers	45,674	(80,898)
Escrow deposits - pending loan closings	49	(29,825)
Accounts and accrued interest receivable	4,352	2,456
Prepaid and other assets	(3,886)	(2,424)
Increase (decrease) in operating liabilities:		
Due to loan purchasers	(783)	492
Accounts payable and accrued expenses	(1,889)	7,916
Other liabilities	(201)	162
Net cash provided by (used in) operating activities	63,867	(108,421)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	4,213	1,366
Purchase of investment securities	(388,398)	(95,860)
Purchase of mortgage loans held in securitization trusts	—	(167,874)
Principal repayments received on mortgage loans held in securitization trusts	90,074	40,081
Proceeds from sale of investment securities	356,896	93,505
Origination of mortgage loans held for investment	—	(303,289)
Principal paydown on investment securities	88,529	197,170
Payments received on loans held for investment	—	6,246
Purchases of property and equipment	(1,049)	(1,603)
Net cash provided by (used in) investing activities	150,265	(230,258)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(300)	—

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Change in financing arrangements, net	(209,620)		318,873
Dividends paid	(6,372)		(8,876)
Issuance of subordinated debentures	—		25,000
Capital contributions from minority interest member	15		—
Net cash (used in) provided by financing activities	(216,277)		334,997
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,145)		(3,682)
CASH AND CASH EQUIVALENTS - Beginning of period	9,056		7,613
CASH AND CASH EQUIVALENTS - End of period	\$ 6,911	\$	3,931
SUPPLEMENTAL DISCLOSURE			
Cash paid for interest	\$ 22,102	\$	25,025
NON CASH FINANCING ACTIVITIES			
Dividends declared to be paid in subsequent period	\$ 2,566	\$	4,554

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 (unaudited)

1. Summary of Significant Accounting Policies

Organization - New York Mortgage Trust, Inc. (“NYMT” or the “Company”) is a fully-integrated, self-advised, residential mortgage finance company formed as a Maryland corporation in September 2003. The Company earns net interest income from residential mortgage-backed securities and fixed-rate and adjustable-rate mortgage loans and securities originated through its wholly-owned subsidiary, The New York Mortgage Company, LLC (“NYMC”), or acquired from third parties. The Company also earns net interest income from its investment in and the securitization of certain adjustable rate mortgage loans that meet the Company’s investment criteria. Licensed, or exempt from licensing, in 45 states and the District of Columbia and through a network of 28 full-service loan origination locations and 23 satellite loan origination locations, NYMC originates a wide range of mortgage loans, with a primary focus on prime, residential mortgage loans.

The Company is organized and conducts its operations so as to qualify as a real estate investment trust (“REIT”) for federal income tax purposes. As such, the Company will generally not be subject to federal income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by the due date of its federal income tax return and complies with various other requirements.

On January 9, 2004, the Company capitalized New York Mortgage Funding, LLC (“NYMF”) as a wholly-owned subsidiary of the Company. NYMF is a qualified REIT subsidiary, or QRS, in which the Company accumulates mortgage loans that the Company intends to securitize.

In June 2006, operations began in the joint venture, Settlement Services of America, LLC (“SSA”), a Delaware limited liability company. SSA’s primary purpose is to operate and manage a title agency that performs core title agent services such as evaluating searches to determine issuability of title, clearing underwriting objections, issuance of title policies on behalf of title insurance companies and where customary, issue title commitments and conduct title searches. SSA is owned 80% by NYMC and 20% by Title Abstract Company of PA, a wholly owned subsidiary of Title Alliance, Ltd.

As used herein, references to the “Company,” “NYMT,” “we,” “our” and “us” refer to New York Mortgage Trust, Inc., collectively with its subsidiaries.

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q. As permitted by the rules and regulations of the Securities and Exchange Commission (the “SEC”), the financial statements contain certain condensed financial information and exclude certain footnote disclosures normally included in audited consolidated financial statements prepared in accordance with United States generally accepted accounting principles (“GAAP”). In the opinion of management, the accompanying financial statements contain all adjustments, including normal recurring accruals, necessary to fairly present the accompanying financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006. Certain prior period amounts have been reclassified to conform to current period classifications, including the reclassification of \$3.6 million and \$1.9 million of Interest income - Loans held for investment, for the six and three months ended June 30, 2005 respectively, to Interest income - Investment securities and loans held in securitization trusts. In addition, there was a reclassification of \$2.5 million and \$1.4 million of Interest expense - Loans held for investment, for the six and three months ended June 30, 2005 respectively, to Interest expense - Investment securities and loans held in securitization trusts. All intercompany

transactions and balances have been eliminated.

Concurrent with the closing of the Company's initial public offering ("IPO"), 100,000 of the 2,750,000 shares exchanged for the equity interests of NYMC, were placed in escrow through December 31, 2004 and were available to satisfy any indemnification claims the Company may have had against the contributors of NYMC for losses incurred as a result of defaults on any residential mortgage loans originated by NYMC and closed prior to the completion of the IPO. As of December 31, 2004, the amount of escrowed shares was reduced by 47,680 shares, representing \$493,000 for estimated losses on loans closed prior to the Company's IPO. Furthermore, the contributors of NYMC amended the escrow agreement to extend the escrow period to December 31, 2005 for the remaining 52,320 shares. On or about December 31, 2005, the escrow period was extended for an additional year to December 31, 2006. There have been no additional losses with respect to the escrow agreement recorded during the six month period ended June 30, 2006.

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Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's estimates and assumptions primarily arise from risks and uncertainties associated with interest rate volatility, prepayment volatility and credit exposure. Although management is not currently aware of any factors that would significantly change its estimates and assumptions in the near term, future changes in market conditions may occur which could cause actual results to differ materially.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, amounts due from banks and overnight deposits. The Company maintains its cash and cash equivalents in highly rated financial institutions, and at times these balances exceed insurable amounts.

Restricted Cash - Restricted cash is held by counterparties as collateral for hedging instruments, a warehouse facility and two letters of credit related to the Company's lease of its corporate headquarters.

Investment Securities Available for Sale - The Company's investment securities are residential mortgage-backed securities comprised of Ginnie Mae ("GNMA") and "AAA"- rated adjustable-rate securities, including adjustable-rate loans that have an initial fixed-rate period. Investment securities are classified as available for sale securities and are reported at fair value with unrealized gains and losses reported in other comprehensive income ("OCI"). Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in gain on sale of securities and related hedges. Purchase premiums or discounts on investment securities are accreted or amortized to interest income over the estimated life of the investment securities using the interest method. Investment securities may be subject to interest rate, credit and/or prepayment risk.

When the fair value of an available for sale security is less than amortized cost, management considers whether there is an other-than-temporary impairment in the value of the security (e.g., whether the security will be sold prior to the recovery of fair value). Management considers at a minimum the following factors that, both individually or in combination, could indicate the decline to be "other-than-temporary:" 1) the length of time and extent to which the market value has been less than book value; 2) the financial condition and near-term prospects of the issuer; or 3) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value. If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and the unrealized loss is transferred from accumulated other comprehensive income as an immediate reduction of current earnings (i.e., as if the loss had been realized in the period of impairment). Even though no credit concerns exist with respect to an available for sale security, an other-than-temporary impairment may be evident if management determines that the Company does not have the intent and ability to hold an investment until a forecasted recovery of the value of the investment.

As of December 31, 2005, management concluded that the decline in value of certain of the available for sale securities was other-than-temporary based on the intent of the Company to potentially sell such securities rather than retain them for a time sufficient to allow for anticipated recovery in market value. Accordingly, the cost basis of those securities of \$395.7 million was written down to fair value and an unrealized loss of \$7.4 million was transferred from accumulated other comprehensive income as an impairment loss on investment securities during the year ended December 31, 2005. During the quarter ended March 31, 2006 these securities were sold which resulted in an additional loss of approximately \$1.0 million, due to a decline in the value of such securities subsequent to the year end.

The Company recognizes interest income from its investments in subordinated interests (other than beneficial interests of high quality, sufficiently collateralized to ensure that the possibility of credit loss is remote, or that cannot contractually be prepaid or otherwise settled in such a way that the Company would not recover substantially all of its recorded investment) in accordance with Emerging Issues Task Force Consensus 99-20, "Recognition of Interest

Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." Accordingly, on a quarterly basis, when there are significant changes in estimated cash flows from the cash flows previously estimated (typically due to actual prepayment and credit loss experience), the Company calculates a revised yield based on the current cost of the investment and the revised cash flows. The revised yield is then applied prospectively to recognize interest income. If newly estimated cash flows are lower than the cash flows previously estimated on a present value basis (adjusted for cash receipts during the intervening period), the security is written down to fair value with the resulting charge being realized in income and a new cost basis is established.

Due from Loan Purchasers and Escrow Deposits - Pending Loan Closings - Amounts due from loan purchasers are a receivable for the principal and premium due to us for loans sold and shipped but for which payment has not yet been received at period end. Escrow deposits pending loan closing are advance cash fundings by us to escrow agents to be used to close loans within the next one to three business days.

Mortgage Loans Held for Sale - Mortgage loans held for sale represent originated mortgage loans held for sale to third party investors. The loans are initially recorded at cost based on the principal amount outstanding net of deferred direct origination costs and fees. The loans are subsequently carried at the lower of cost or market value. Market value is determined by examining outstanding commitments from investors or current investor yield requirements, calculated on an aggregate loan basis, less an estimate of the costs to close the loan, and the deferral of fees and points received, plus the deferral of direct origination costs. Gains or losses on sales are recognized at the time title transfers to the investor which is typically concurrent with the transfer of the loan files and related documentation and are based upon the difference between the sales proceeds from the final investor and the adjusted book value of the loan sold.

Mortgage Loans Held in Securitization Trusts - Mortgage loans held in securitization trusts are certain ARM mortgage loans transferred to the NYMT 2005-1, the NYMT 2005-2 and the NYMT 2005-3 that have been securitized into sequentially rated classes of beneficial interests. Mortgage loans held in securitization trusts are recorded at amortized cost, using the same accounting principles as that used for mortgage loans held for investment.

Currently the Company has retained 100% of the securities issued by NYMT 2005-1 and the NYMT 2005-2 and the securities have been financed as a secured borrowing under repurchase agreements. For our third securitization, NYMT 2005-03, we sold investment grade securities to third parties, which are recorded as collateralized debt obligations on the accompanying consolidated balance sheet. For our fourth securitization, the Company sold residential mortgage loans of \$277.4 million to New York Mortgage Trust 2006-1 in a securitization transaction structured as a sale under SFAS 140 on March 30, 2006.

Mortgage Loans Held for Investment - The Company may retain the adjustable-rate mortgage loans originated that meet specific investment criteria and portfolio requirements. Loans originated and retained in the Company's portfolio are serviced through a servicer. Servicing is the function primarily consisting of collecting monthly payments from mortgage borrowers, and disbursing those funds to the appropriate loan investors.

Mortgage loans held for investment are recorded net of deferred loan origination fees and associated direct costs and are stated at amortized cost. Net loan origination fees and associated direct mortgage loan origination costs are deferred and amortized over the life of the loan as an adjustment to yield. This amortization includes the effect of projected prepayments.

Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in no case when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Mortgage Servicing Rights - When the Company sells loans in securitizations of residential mortgage loans, it may, depending on the structure of the securitization, capitalize mortgage servicing rights ("MSRs") that are initially measured at fair value based on defined interest rate risk strata. When the Company sells certain loans and retains the servicing rights, it allocates the cost basis of the loans between the assets sold and the MSRs based on their relative fair values on the date of sale. Generally, MSRs result from certain loan securitizations structured as real estate mortgage investment conduits ("REMIC").

The Company estimates the fair value of its MSRs based on the present value of future expected cash flows estimated using management's best estimates of key assumptions, including prepayment speeds, forward yield curves, and discount rates commensurate with the risk involved. Periodic changes in fair value are recorded to income or expense for the period.

Mortgage servicing rights were created as a result of the securitization of \$277.4 million of mortgage loans through New York Mortgage Trust 2006-1. The value of these servicing rights is \$0.4 million at June 30, 2006 and is included as a component of "Other assets" on the Company's consolidated balance sheet.

Credit Risk and Allowance for Loan Losses - The Company limits its exposure to credit losses on its portfolio of residential adjustable-rate mortgage-backed securities by purchasing securities that are guaranteed by a government-sponsored or federally-chartered corporations (FNMA, FHLMC or GNMA) (collectively "Agency Securities") or that have a "AAA" investment grade rating by at least one of two nationally recognized rating agencies, Standard & Poor's, Inc. or Moody's Investors Service, Inc. at the time of purchase.

The Company seeks to limit its exposure to credit losses on its portfolio of residential adjustable-rate mortgage loans held for investment (including mortgage loans held in the securitization trusts) by originating and investing in loans

primarily to borrowers with strong credit profiles, which are evaluated by analyzing the borrower's credit score ("FICO" is a credit score, ranging from 300 to 850, with 850 being the best score, based upon the credit evaluation methodology developed by Fair, Isaac and Company, a consulting firm specializing in creating credit evaluation models), employment, income and assets and related documentation, the amount of equity in and the value of the property securing the borrower's loan, debt to income ratio, credit history, funds available for closing and post-closing liquidity.

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The Company estimates an allowance for loan losses based on management's assessment of probable credit losses in the Company's investment portfolio of residential mortgage loans. Mortgage loans are collectively evaluated for impairment as the loans are homogeneous in nature. The allowance is based upon management's assessment of various credit-related factors, including current economic conditions, the credit diversification of the portfolio, loan-to-value ratios, delinquency status, historical credit losses, purchased mortgage insurance and other factors deemed to warrant consideration. If the credit performance of mortgage loans held for investment deviates from expectations, the allowance for loan losses is adjusted to a level deemed appropriate by management to provide for estimated probable losses in the portfolio.

The allowance will be maintained through ongoing provisions charged to operating income and will be reduced by loans that are charged off. As of June 30, 2006 the allowance for loan losses is insignificant. Determining the allowance for loan losses is subjective in nature due to the estimation required.

Property and Equipment, Net - Property and equipment have lives ranging from three to ten years, and are stated at cost less accumulated depreciation and amortization. Depreciation is determined in amounts sufficient to charge the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or service lives of the improvements using the straight-line method.

Financing Arrangements, Portfolio Investments— Portfolio investments are typically financed with repurchase agreements, a form of collateralized borrowing which is secured by the Company's portfolio securities on the balance sheet. Such financings are recorded at their outstanding principal balance with any accrued interest due recorded as an accrued expense.

Financing Arrangements, Loans Held for Sale/for Investment— Loans held for sale or for investment are typically financed with warehouse lines that are collateralized by loans we originate or purchase from third parties. Such financings are recorded at their outstanding principal balance with any accrued interest due recorded as an accrued expense.

Collateralized Debt Obligations - Our CDOs are debt securities that are issued by the Company through an "on balance sheet" securitization and typically secured by ARM loans. For financial reporting purposes, the ARM loans and restricted cash held as collateral are recorded as assets of the Company and the CDOs are recorded as the Company's debt. The transaction includes interest rate caps held by the securitization trust and recorded as an asset or liability of the Company.

Subordinated Debentures - Subordinated debentures are trust preferred securities that are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities are classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

Derivative Financial Instruments - The Company has developed risk management programs and processes, which include investments in derivative financial instruments designed to manage market risk associated with its mortgage banking and its mortgage-backed securities investment activities.

All derivative financial instruments are reported as either assets or liabilities in the consolidated balance sheet at fair value. The gains and losses associated with changes in the fair value of derivatives not designated as hedges are reported in current earnings. If the derivative is designated as a fair value hedge and is highly effective in achieving offsetting changes in the fair value of the asset or liability hedged, the recorded value of the hedged item is adjusted by its change in fair value attributable to the hedged risk. If the derivative is designated as a cash flow hedge, the effective portion of change in the fair value of the derivative is recorded in OCI and is recognized in the statement of operations when the hedged item affects earnings. The Company calculates the effectiveness of these hedges on an

ongoing basis, and, to date, has calculated effectiveness of approximately 100%. Ineffective portions, if any, of changes in the fair value or cash flow hedges are recognized in earnings.

Risk Management - Derivative transactions are entered into by the Company solely for risk management purposes. The decision of whether or not an economic risk within a given transaction (or portion thereof) should be hedged for risk management purposes is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including the financial impact on income, asset valuation and restrictions imposed by the Internal Revenue Code among others. In determining whether to hedge a risk, the Company may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken to hedge certain market risks are entered into with a view towards minimizing the potential for economic losses that could be incurred by the Company. Under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), the Company is required to formally document its hedging strategy before it may elect to implement hedge accounting for qualifying derivatives. Accordingly, all qualifying derivatives are intended to qualify as fair value, or cash flow hedges, or free standing derivatives. To this end, terms of the hedges are matched closely to the terms of hedged items with the intention of minimizing ineffectiveness.

In the normal course of its mortgage loan origination business, the Company enters into contractual interest rate lock commitments to extend credit to finance residential mortgages. These commitments, which contain fixed expiration dates, become effective when eligible borrowers lock-in a specified interest rate within time frames established by the Company's origination, credit and underwriting practices. Interest rate risk arises if interest rates change between the time of the lock-in of the rate by the borrower and the sale of the loan. Under SFAS No. 133, the interest rate lock commitments ("IRLCs") are considered undesignated or free-standing derivatives. Accordingly, such IRLCs are recorded at fair value with changes in fair value recorded to current earnings. Mark to market adjustments on IRLCs are recorded from the inception of the interest rate lock through the date the underlying loan is funded. The fair value of the IRLCs is determined by the interest rate differential between the contracted loan rate and the currently available market rates as of the reporting date.

To mitigate the effect of the interest rate risk inherent in providing IRLCs from the lock-in date to the funding date of a loan, the Company generally enters into forward sale loan contracts ("FSLC"). The FSLCs in place prior to the funding of a loan are undesignated derivatives under SFAS No. 133 and are marked to market through current earnings.

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks, investment banks and certain private investors who meet established credit and capital guidelines. Management does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any loss due to counterparty default. These commitments and option contracts are considered in conjunction with the Company's lower of cost or market valuation of its mortgage loans held for sale.

The Company uses other derivative instruments, including treasury, agency or mortgage-backed securities forward sale contracts which are also classified as free-standing, undesignated derivatives and thus are recorded at fair value with the changes in fair value recognized in current earnings.

Once a loan has been funded, the Company's primary risk objective for its mortgage loans held for sale is to protect earnings from an unexpected charge due to a decline in value. The Company's strategy is to engage in a risk management program involving the designation of FSLCs (the same FSLCs entered into at the time of rate lock) to hedge most of its mortgage loans held for sale. The FSLCs have been designated as qualifying hedges at the time that the loans are funded and the notional amount of the forward delivery contracts, along with the underlying rate and critical terms of the contracts, are equivalent to the unpaid principal amount of the mortgage loan being hedged. The FSLCs effectively fix the forward sales price and thereby offset interest rate and price risk to the Company. Accordingly, the Company evaluates this relationship quarterly and, at the time the loan is funded, classifies and accounts for the FSLCs as cash flow hedges.

Interest Rate Risk - The Company hedges the aggregate risk of interest rate fluctuations with respect to its borrowings, regardless of the form of such borrowings, which require payments based on a variable interest rate index. The Company generally intends to hedge only the risk related to changes in the benchmark interest rate (London Interbank Offered Rate ("LIBOR") or a Treasury rate).

In order to reduce such risks, the Company enters into swap agreements whereby the Company receives floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to a fixed rate. The Company also enters into cap agreements whereby, in exchange for a fee, the Company is reimbursed for interest paid in excess of a certain capped rate.

To qualify for cash flow hedge accounting, interest rate swaps and caps must meet certain criteria, including:

- the items to be hedged expose the Company to interest rate risk; and

- the interest rate swaps or caps are expected to be and continue to be highly effective in reducing the Company's exposure to interest rate risk.

The fair values of the Company's interest rate swap agreements and interest rate cap agreements are based on market values provided by dealers who are familiar with the terms of these instruments. Correlation and effectiveness are periodically assessed at least quarterly based upon a comparison of the relative changes in the fair values or cash flows of the interest rate swaps and caps and the items being hedged.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instruments are reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instruments in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change.

With respect to interest rate swaps and caps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps and caps, will be recognized in current earnings.

Termination of Hedging Relationships - The Company employs a number of risk management monitoring procedures to ensure that the designated hedging relationships are demonstrating, and are expected to continue to demonstrate, a high level of effectiveness. Hedge accounting is discontinued on a prospective basis if it is determined that the hedging relationship is no longer highly effective or expected to be highly effective in offsetting changes in fair value of the hedged item.

Additionally, the Company may elect to undesignate a hedge relationship during an interim period and re-designate upon the rebalancing of a hedge profile and the corresponding hedge relationship. When hedge accounting is discontinued, the Company continues to carry the derivative instruments at fair value with changes recorded in current earnings.

Other Comprehensive Income - Other comprehensive income is comprised primarily of net income (loss) from changes in value of the Company's available for sale securities, and the impact of deferred gains or losses on changes in the fair value of derivative contracts hedging future cash flows.

Gain on Sale of Mortgage Loans - The Company recognizes gain on sale of loans sold to third parties as the difference between the sales price and the adjusted cost basis of the loans when title transfers. The adjusted cost basis of the loans includes the original principal amount adjusted for deferrals of origination and commitment fees received, net of direct loan origination costs paid.

Loan Origination Fees and Direct Origination Cost - The Company records loan fees, discount points and certain incremental direct origination costs as an adjustment of the cost of the loan and such amounts are included in gain on sales of loans when the loan is sold or as direct costs of loans that are brokered. Accordingly, salaries, compensation, benefits and commission costs have been reduced for the six and three months ended June 30, 2006, by \$13.9 million and \$7.5 million respectively, as compared to \$21.4 million and \$9.6 million for the respective periods of 2005, because such amounts are considered incremental direct loan origination costs.

Brokered Loan Fees and Expenses - The Company records commissions associated with brokered loans when such loans are closed with the borrower. Costs associated with brokered loans are expensed when incurred.

Loan Commitment Fees - Mortgage loans held for sale: fees received for the funding of mortgage loans to borrowers at pre-set conditions are deferred and recognized as of the date at which the loan is sold. Mortgage loans held for investment: such fees are deferred and recognized as interest income over the life of the loan based on the effective yield method.

Employee Benefit Plans - The Company sponsors a defined contribution plan (the "Plan") for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Plan, participating employees may defer up to 15% of their pre-tax earnings, subject to the annual Internal Revenue Code contribution limit. The Company matches contributions up to a maximum of 25% of the first 5% of eligible compensation. Employees vest immediately in their contribution and vest in the Company's contribution at a rate of 25% after two full years and then an incremental 25% per full year of service until fully vested at 100% after

five full years of service. The Company's total contributions to the Plan for the six and three months ended June 30, 2006, were \$0.2 million and \$0.1 million respectively, as compared to \$0.2 million and \$0.1 million for the respective periods of 2005.

Stock Based Compensation - Until January 1, 2006, the Company followed the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure" ("SFAS No. 148"). The provisions of SFAS No. 123 allow companies either to expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. The Company, since its inception, has elected not to apply APB No. 25 in accounting for its stock option incentive plans and has expensed stock based compensation in accordance with SFAS No. 123.

In December, 2004 the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment," ("SFAS No. 123R") which requires all companies to measure compensation costs for all share-based payments, including employee stock options, at fair value. The Company adopted SFAS No. 123(R) January 1, 2006. The adoption of SFAS No. 123(R) did not have a material impact on the Company's financial statements.

Marketing and Promotion - The Company charges the costs of marketing, promotion and advertising to expense in the period incurred.

Income Taxes - The Company operates so as to qualify as a REIT under the requirements of the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of the Company's stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. The remaining balance may extend until timely filing of the Company's tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

The Company's QRS is subject to federal and state income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings Per Share - Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

New Accounting Pronouncements - In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainty in income taxes. FIN 48 prescribes a consistent recognition threshold and measurement attribute, as well as clear criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes. The interpretation also requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management believes FIN 48 will have no impact on the Company's financial statements.

In March 2006, the FASB issued SFAS 156, "Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140." Effective at the beginning of the first quarter of 2006, the Company early adopted the newly issued statement and elected the fair value option to subsequently measure its mortgage servicing rights ("MSRs"). Under the fair value option, all changes in the fair value of MSRs are reported in the statement of operations. The initial implementation of SFAS 156 did not have a material impact on the Company's financial statements.

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments". Key provisions of SFAS 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips and principal-only strips from derivative accounting under paragraph 14 of FAS 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a QSPE holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. In general, these changes will reduce the operational complexity associated with bifurcating embedded derivatives, and increase the number of beneficial interests in securitization transactions, including interest-only strips and principal-only strips, required to be

accounted for in accordance with FAS 133. Management does not believe that SFAS 155 will have a material effect on the Company's financial statements.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previous guidance required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The adoption of SFAS 154 on January 1, 2006 did not have a material impact on the Company's financial statements.

2. Investment Securities Available For Sale

Investment securities available for sale consist of the following as of June 30, 2006 and December 31, 2005 (dollar amounts in thousands):

	June 30, 2006	December 31, 2005
Amortized cost	\$ 662,233	\$ 720,583
Gross unrealized gains	50	1
Gross unrealized losses	(9,609)	(4,102)
Fair value	\$ 652,674	\$ 716,482

The amortized cost balance at December 31, 2005 included approximately \$388.3 million of certain lower-yielding mortgage agency securities (with rate resets of less than two years) that the Company had concluded it no longer had the intent to hold until their values recovered. Upon such determination, the Company recorded an unrealized impairment loss of \$7.4 million for the three months ended December 31, 2005. During the first quarter of 2006, all of such designated securities were sold at an additional loss of \$1.0 million.

None of the remaining securities with unrealized losses have been deemed to be other-than-temporarily impaired. The Company has the intent and believes it has the ability to hold such investment securities until recovery of their amortized cost. Substantially all of the Company's investment securities available for sale are pledged as collateral for borrowings under financing arrangements (Note 9).

The following table sets forth the stated reset periods and weighted average yields of our investment securities at June 30, 2006 (dollar amounts in thousands):

	Less than 6 Months		More than 6 Months To 24 Months		More than 24 Months To 60 Months		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Agency REMIC								
CMO Floating Rate	\$ 191,199	6.70%	\$ —	—	\$ —	—	\$ 191,199	6.70%
Private Label Floaters	29,222	6.21%	—	—	—	—	29,222	6.21%
Agency ARMs	—	—	—	—	100,649	6.16%	100,649	6.16%
Private Label ARMs	—	—	52,839	5.80%	278,765	5.70%	331,604	5.72%
Total	\$ 220,421	6.64%	\$ 52,839	5.80%	\$ 379,414	5.82%	\$ 652,674	6.09%

The following table sets forth the stated reset periods and weighted average yields of our investment securities at December 31, 2005 (dollar amounts in thousands):

	Less than 6 Months		More than 6 Months To 24 Months		More than 24 Months To 60 Months		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	\$ 13,535	5.45%	\$ —	—	\$ —	—	\$ 13,535	5.45%

Agency REMIC								
CMO Floating Rate								
FHLMC Agency								
ARMs	—	—	91,217	3.82%	—	—	91,217	3.82%
FNMA Agency								
ARMs	—	—	297,048	3.91%	—	—	297,048	3.91%
Private Label ARMs	—	—	57,605	4.22%	257,077	4.57%	314,682	4.51%
Total	\$ 13,535	5.45%	\$ 445,870	3.93%	\$ 257,077	4.57%	\$ 716,482	4.19%

The following table presents the Company's investment securities available for sale in an unrealized loss position, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2006 and December 31, 2005 (dollar amounts in thousands):

	Less than 12 Months		June 30, 2006 12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
Agency REMIC CMO Floating Rate	\$ 191,199	\$ 760	\$ —	\$ —	\$ 191,199	\$ 760
Private Label Floaters	29,222	54	—	—	29,222	54
Agency ARMs	—	—	100,649	125	100,649	125
Private Label ARMs	24,144	510	307,460	8,110	331,604	8,620
Total	\$ 244,565	\$ 1,324	\$ 408,109	\$ 8,235	\$ 652,674	\$ 9,559

	Less than 12 Months		December 31, 2005 12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
Agency REMIC CMO Floating Rate	\$ 11,761	\$ 19	\$ —	\$ —	\$ 11,761	\$ 19
Private Label ARMs	48,642	203	270,124	3,880	318,766	4,083
Total	\$ 60,403	\$ 222	\$ 270,124	\$ 3,880	\$ 330,527	\$ 4,102

3. Mortgage Loans Held For Sale

Mortgage loans held for sale consist of the following as of June 30, 2006 and December 31, 2005 (dollar amounts in thousands):

	June 30, 2006	December 31, 2005
Mortgage loans principal amount	\$ 84,171	\$ 108,244
Deferred origination costs - net	156	27
Mortgage loans held for sale	\$ 84,327	\$ 108,271

Substantially all of the Company's mortgage loans held for sale are pledged as collateral for borrowings under financing arrangements (Note 10).

4. Mortgage Loans Held in Securitization Trusts

Mortgage loans held in securitization trusts consist of the following as of June 30, 2006 and December 31, 2005 (dollar amounts in thousands):

	June 30, 2006	December 31, 2005
Mortgage loans principal amount	\$ 685,956	\$ 771,451
Deferred origination costs - net	4,546	5,159
Total mortgage loans held in securitization trusts	\$ 690,502	\$ 776,610

Substantially all of the Company's mortgage loans held in securitization trusts are pledged as collateral for borrowings under financing arrangements (Note 9) or for the collateralized debt obligation (Note 11).

As of June 30, 2006, the Company had nine delinquent loans totaling \$6.0 million categorized as mortgage loans held in securitization trusts. The table below shows delinquencies in our loan portfolio as of June 30, 2006 (dollar amounts in thousands):

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	4	\$ 2,114	0.31%
61-90	1	933	0.14%
90+	4	\$ 2,920	0.43%

As of December 31, 2005, the Company had four delinquent loans totaling \$2.0 million categorized as Mortgage loans held in securitization trusts. The table below shows delinquencies in our loan portfolio as of December 31, 2005 (dollar amounts in thousands):

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	1	\$ 193	0.02%
61-90	—	—	—
90+	3	\$ 1,771	0.23%

5. Mortgage Loans Held For Investment

The Company had no mortgage loans held for investment at June 30, 2006 and at December 31, 2005 mortgage loans held for investment consist of the following (dollar amounts in thousands):

	December 31, 2005
Mortgage loans principal amount	\$ 4,054
Deferred origination costs - net	6
Total mortgage loans held for investment	\$ 4,060

All of the Company's mortgage loans held for investment at December 31, 2005 were sold during the first quarter of 2006, with a loss of \$0.7 million recognized at the time of sale.

Substantially all of the Company's mortgage loans held for investment were pledged as collateral for borrowings under financing arrangements at December 31, 2005 (Note 9).

6. Sale of Mortgage Loans Through Securitization

On March 30, 2006, the Company sold residential mortgage loans to New York Mortgage Trust 2006-1 in a securitization transaction structured as a sale under SFAS 140. In this securitization, the Company retained servicing responsibilities on approximately \$66.2 million of mortgage loans and subordinated interests. The Company receives annual servicing fees of approximately 0.21% of the outstanding balance of mortgage loans and rights to future cash flows arising after the senior investors in the securitization trust have received their stated return. The investors and the securitization trust have no recourse to the Company's other assets. The Company continues to hold the subordinate interests of the 2006-1 securitization. Their value is subject to credit, prepayment and interest rate risks on the transferred financial assets. The Company recognized a pre-tax loss of \$0.7 million on this securitization of residential mortgage loans.

7. Property and Equipment - Net

Property and equipment consist of the following as of June 30, 2006 and December 31, 2005 (dollar amounts in thousands):

	June 30, 2006	December 31, 2005
Office and computer equipment	\$ 7,419	\$ 6,292
Furniture and fixtures	2,183	2,306
Leasehold improvements	1,481	1,429
Total premises and equipment	11,083	10,027
Less: accumulated depreciation and amortization	(4,098)	(3,145)
Property and equipment - net	\$ 6,985	\$ 6,882

8. Derivative Instruments and Hedging Activities

The Company enters into derivatives to manage its interest rate and market risk exposure associated with its mortgage banking and its mortgage-backed securities investment activities. In the normal course of its mortgage loan origination business, the Company enters into contractual IRLCs to extend credit to finance residential mortgages. To mitigate the effect of the interest rate risk inherent in providing IRLCs from the lock-in date to the funding date of a loan, the Company generally enters into FSLCs. With regard to the Company's mortgage-backed securities investment activities, the Company uses interest rate swaps and caps to mitigate the effects of major interest rate changes on net investment spread.

The following table summarizes the estimated fair value of derivative assets and liabilities as of June 30, 2006 and December 31, 2005 (dollar amounts in thousands):

	June 30, 2006	December 31, 2005
Derivative Assets:		
Interest rate caps	\$ 5,251	\$ 3,340
Interest rate swaps	5,276	6,383
Eurodollar transaction	22	—
Interest rate lock commitments - loan commitments	—	123
Forward loan sale contracts - loan commitments	47	—
Forward loan sale contracts - mortgage loans held for sale	60	—
Forward loan sale contracts - TBA securities	243	—
Total derivative assets	\$ 10,899	\$ 9,846
Derivative Liabilities:		
Forward loan sale contracts - loan commitments	—	(38)
Forward loan sale contracts - mortgage loans held for sale	—	(18)
Forward loan sale contracts - TBA securities	—	(324)
Interest rate lock commitments - loan commitments	(169)	—
Interest rate lock commitments - mortgage loans held for sale	(60)	(14)
Total derivative liabilities	\$ (229)	\$ (394)

The notional amounts of the Company's interest rate swaps, interest rate caps and forward loan sales contracts as of June 30, 2006 were \$672.0 million, \$1.7 billion and \$177.7 million, respectively.

The notional amounts of the Company's interest rate swaps, interest rate caps and forward loan sales contracts as of December 31, 2005 were \$645.0 million, \$1.9 billion and \$201.8 million, respectively

The Company estimates that over the next twelve months, approximately \$3.7 million of the net unrealized gains on the interest rate swaps will be reclassified from accumulated OCI into earnings.

9. Financing Arrangements, Portfolio Investments

The Company has entered into repurchase agreements with third party financial institutions to finance its residential mortgage-backed securities and mortgage loans held in the securitization trusts. The repurchase agreements are short-term borrowings that bear interest rates based on a spread to LIBOR, and are secured by the residential mortgage-backed securities and mortgage loans held in the securitization trusts which they finance. At June 30, 2006, the Company had repurchase agreements with an outstanding balance of \$1.0 billion and a weighted average interest rate of 5.30%. As of December 31, 2005, the Company had repurchase agreements with an outstanding balance of \$1.2 billion and a weighted average interest rate of 4.37%. At June 30, 2006 and December 31, 2005 securities and mortgage loans pledged as collateral for repurchase agreements had estimated fair values of \$1.0 billion and \$1.2 billion, respectively. As of June 30, 2006 all of the repurchase agreements will mature within 20 days, with weighted average days to maturity equal to 20 days. The Company has available to it \$5.3 billion in commitments to provide financings through such arrangements with 23 different counterparties.

The following table summarizes outstanding repurchase agreement borrowings secured by portfolio investments as of June 30, 2006 and December 31, 2005 (dollars amounts in thousands):

Repurchase Agreements by Counterparty

Counterparty Name	June 30, 2006	December 31, 2005
Bank of America	\$ 96,884	\$ —
Barclays Bank	72,516	—
Citigroup Global Markets Inc.	—	200,000
Countrywide Securities Corporation	—	109,632
Credit Suisse First Boston LLC	—	148,131
Deutsche Bank Securities Inc.	193,985	205,233
HSBC	276,008	163,781
J.P. Morgan Securities Inc.	77,690	37,481
Merrill Lynch Government Securities Inc.	133,806	—
WaMu Capital Corp	—	158,457
West LB	188,910	143,784
Total Financing Arrangements, Portfolio Investments	\$ 1,039,799	\$ 1,166,499

10. Financing Arrangements, Mortgage Loans Held for Sale or Investment

Financing arrangements secured by mortgage loans held for sale or for investment consist of the following as of June 30, 2006, and December 31, 2005 (dollar amounts in thousands):

	June 30, 2006	December 31, 2005
\$250 million master repurchase agreement with Greenwich Capital Financial Products, Inc, expiring on December 4, 2006 bearing interest at one-month LIBOR plus spreads from 0.75% to 1.25% depending on	\$ —	\$ 81,577

collateral (5.14% at December 31, 2005). Principal repayments are required 120 days from the funding date(a)

\$200 million master repurchase agreement with CSFB expiring on March 30, 2007 bearing interest at daily LIBOR plus spreads from 0.75% to 2.0% depending on collateral (6.2% at June 30, 2006 and 4.34% at December 31, 2005). Principal repayments are required 90 days from the funding date.

102,442 143,609

\$300 million master repurchase agreement with Deutsche Bank Structured Products, Inc. expiring on December 13, 2006 bearing interest at 1 month LIBOR plus spreads from .625% to 1.25% depending on collateral (6.0% at June 30, 2006). Principal payments are due 120 days from the repurchase date.

54,564

\$ 157,006 \$ 225,186

- (a) This credit facility, with Greenwich Capital Financial Products, Inc., requires the Company to transfer specific collateral to the lender under repurchase agreements; however, due to the rate of turnover of the collateral by the Company, the counterparty has not taken title to or recorded their interest in any of the collateral transferred. Interest is paid to the counterparty based on the amount of outstanding borrowings and on the terms provided. This facility was renewed on January 6, 2006 and expires December 4, 2007.

The 30 day LIBOR rate was 5.33% at June 30, 2006.

The lines of credit are secured by all of the mortgage loans held by the Company, except for the loans held in securitization trusts. The lines contain various covenants pertaining to, among other things, maintenance of certain amounts of net worth, periodic income thresholds and working capital. As of June 30, 2006, the Company was in compliance with all covenants with the exception of the net income covenants on the CSFB and Deutsche Bank facilities and waivers have been obtained from these institutions. As these annual agreements are negotiated for renewal, these covenants may be further modified. The agreements are each renewable annually, but are not committed, meaning that the counterparties to the agreements may withdraw access to the credit facilities at any time.

11. Collateralized Debt Obligations

The Company's CDOs are secured by ARM loans pledged as collateral. The ARM loans are recorded as an asset of the Company and the CDOs are recorded as the Company's debt. The CDO transaction includes an amortizing interest rate cap contract with a notional amount of \$222.1 million as of December 31, 2005 and a notional amount of \$209.9 million as of June 30, 2006, which is recorded as an asset of the Company. The interest rate cap limits the interest rate exposure on these transactions. As of June 30, 2006 and December 31, 2005, the Company had CDOs outstanding of \$213.5 million and \$228.2 million, respectively. As of June 30, 2006 and December 31, 2005 the current weighted average interest rate on these CDOs was 5.69% and 4.74%, respectively. The CDOs are collateralized by ARM loans with a principal balance of \$220.7 million.

12. Subordinated Debentures

On September 1, 2005, the Company closed a private placement of \$20.0 million of trust preferred securities to Taberna Preferred Funding II, Ltd., a pooled investment vehicle. The securities were issued by NYM Preferred Trust II and are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities have a fixed interest rate equal to 8.35% up to and including July 30, 2010, at which point the interest rate is converted to a floating rate equal to one-month LIBOR plus 3.95% until maturity. The securities mature on October 30, 2035 and may be called at par by the Company any time after October 30, 2010. In accordance with the guidelines of SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", the issued preferred stock of NYM Preferred Trust II has been classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

On March 15, 2005, the Company closed a private placement of \$25.0 million of trust preferred securities to Taberna Preferred Funding I, Ltd., a pooled investment vehicle. The securities were issued by NYM Preferred Trust I and are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities have a floating interest rate equal to three-month LIBOR plus 3.75%, resetting quarterly (9.25% at June 30, 2006). The securities mature on March 15, 2035 and may be called at par by the Company any time after March 15, 2010. NYMC entered into an interest rate cap agreement to limit the maximum interest rate cost of the trust preferred securities to 7.5%. The term of the interest rate cap agreement is five years and resets quarterly in conjunction with the reset periods of the trust preferred securities. The interest rate cap agreement is accounted for as a cash flow hedge transaction in accordance with SFAS No.133. In accordance with the guidelines of SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", the issued preferred

stock of NYM Preferred Trust I has been classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

13. Commitments and Contingencies

Loans Sold to Investors - Generally, the Company is not exposed to significant credit risk on its loans sold to investors. In the normal course of business, the Company is obligated to repurchase loans which do not meet certain terms set by investors. Such loans are then generally repackaged and sold to other investors.

Loans Funding and Delivery Commitments - At June 30, 2006 and December 31, 2005 the Company had commitments to fund loans with agreed-upon rates totaling \$244.1 million and \$238.4 million, respectively. The Company hedges the interest rate risk of such commitments and the recorded mortgage loans held for sale balances primarily with FSLCs, which totaled \$177.7 million and \$201.8 million at June 30, 2006 and December 31, 2005, respectively. The remaining commitments to fund loans with agreed-upon rates are anticipated to be sold through optional delivery contract investor programs. The Company does not anticipate any material losses from such sales.

Net Worth Requirements - NYMC is required to maintain certain specified levels of minimum net worth to maintain its approved status with FannieMae ("FNMA"), Freddie Mac (FHLMC), Housing and Urban Development ("HUD") and other investors. As of June 30, 2006 NYMC is in compliance with all minimum net worth requirements.

Outstanding Litigation - The Company is involved in litigation arising in the normal course of business. Although the amount of any ultimate liability arising from these matters cannot presently be determined, the Company does not anticipate that any such liability will have a material effect on its consolidated financial statements.

Leases - The Company leases its corporate offices and certain retail facilities and equipment under short-term lease agreements expiring at various dates through 2011. All such leases are accounted for as operating leases. Total rental expense for property and equipment amounted to \$2.6 million and \$1.3 million for the six and three months ended June 30, 2006, respectively, and \$3.7 million and \$1.6 million for the comparable periods of 2005. In March 2005, the Company entered into a sub-lease for its former headquarters space at 304 Park Avenue in New York. The sub-lease tenant has contractual terms for less than the Company's remaining contractual obligation. This transaction was completed in late March 2005. Accordingly, during the first quarter of 2005, the Company recognized a charge of \$0.8 million to earnings.

Letters of Credit - NYMC maintains a letter of credit in the amount of \$100,000 in lieu of a cash security deposit for an office lease dated June 1998 for the Company's former headquarters located at 304 Park Avenue South in New York City. The sole beneficiary of this letter of credit is the owner of the building, 304 Park Avenue South LLC. This letter of credit is secured by cash deposited in a bank account maintained at JP Morgan Chase.

Subsequent to the move to a new headquarters location in New York City in July 2003, in lieu of a cash security deposit for the office lease, we entered into an irrevocable transferable letter of credit in the amount of \$313,000 with PricewaterhouseCoopers, LLP (sublandlord), as beneficiary. This letter of credit is secured by cash deposited in a bank account maintained at HSBC bank.

On February 15, 2005, the Company entered into an irrevocable standby letter of credit in an initial amount of \$500,000 with the beneficiary being CCC Atlantic, L.L.C., the landlord of the Company's leased facility at 500 Burton Avenue, Northfield, New Jersey. The letter of credit serves as security for leased office property, initially occupied by employees of our branches doing business as Ivy League Mortgage, L.L.C. The letter of credit is secured by cash held by the Company equal to the initial amount of the letter of credit which will be reduced at each of the first four annual anniversary dates by \$50,000, thereafter to remain at a value of \$250,000 until termination on April 1, 2015. The letter of credit and cash has been reduced to \$450,000 as of June 30, 2006.

14. Related Party Transactions

Steven B. Schnall owns a 48% membership interest and Joseph V. Fierro owns a 12% membership interest in Centurion Abstract, LLC (“Centurion”), which provides title insurance brokerage services for certain title insurance providers. From time to time, NYMC refers its mortgage loan borrowers to Centurion for assistance in obtaining title insurance in connection with their mortgage loans, although the borrowers have no obligation to utilize Centurion’s services. When NYMC’s borrowers elect to utilize Centurion’s services to obtain title insurance, Centurion collects various fees and a portion of the title insurance premium paid by the borrower for its title insurance. Centurion received \$650 in fees and other amounts from NYMC borrowers for the six months ended June 30, 2006. NYMC does not economically benefit from such referrals.

15. Concentrations of Credit Risk

The Company has originated loans predominantly in the eastern United States. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers with similar characteristics, which would cause their ability to meet contractual obligations to be similarly impacted by economic or other conditions. At June 30, 2006 and December 31, 2005, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within mortgage loans held for sale as follows:

	June 30, 2006	December 31, 2005
Massachusetts	25.8%	17.8%
New York	20.6%	43.0%
Connecticut	9.9%	5.7%
New Jersey	9.3%	5.1%
Florida	6.1%	9.7%

At June 30, 2006 and December 31, 2005, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within mortgage loans held in securitization trusts and mortgage loans held for investment as follows:

	June 30, 2006	December 31, 2005
New York	24.3%	32.7%
Massachusetts	14.1%	19.4%
California	8.9%	14.1%
New Jersey	4.1%	5.8%
Florida	3.9%	5.4%

16. Fair Value of Financial Instruments

Fair value estimates are made as of a specific point in time based on estimates using market quotes, present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience, and other factors.

Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot be necessarily substantiated by comparison to independent markets and, in many cases, could not be necessarily realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, the Company's fair values should not be compared to those of other companies.

Fair value estimates are based on existing financial instruments and do not attempt to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amounts presented below do not represent the underlying value of the Company.

The fair value of certain assets and liabilities approximate cost due to their short-term nature, terms of repayment or interest rates associated with the asset or liability. Such assets or liabilities include cash and cash equivalents, escrow deposits, unsettled mortgage loan sales, and financing arrangements. All forward delivery commitments and option contracts to buy securities are to be contractually settled within six months of the balance sheet date.

The following describes the methods and assumptions used by the Company in estimating fair values of other financial instruments:

a. *Investment Securities Available for Sale* - Fair value is generally estimated based on market prices provided by five to seven dealers who make markets in these financial instruments. If the fair value of a security is not reasonably available from a dealer, management estimates the fair value based on characteristics of the security that the Company receives from the issuer and based on available market information.

b. *Mortgage Loans Held for Sale* - Fair value is estimated using the quoted market prices for securities backed by similar types of loans and current investor or dealer commitments to purchase loans.

c. *Mortgage Loans Held for Investment* - Mortgage loans held for investment are recorded at amortized cost. Fair value is estimated using pricing models and taking into consideration the aggregated characteristics of groups of loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed-rate period, life cap, periodic cap, underwriting standards, age and credit estimated using the quoted market prices for securities backed by similar types of loans.

d. *Mortgage Loans Held in Securitization Trusts* - Mortgage loans held in securitization trusts are recorded at amortized cost. Fair value is estimated using pricing models and taking into consideration the aggregated characteristics of groups of loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed-rate period, life cap, periodic cap, underwriting standards, age and credit estimated using the quoted market prices for securities backed by similar types of loans.

e. *Interest Rate Lock Commitments* - The fair value of IRLCs is estimated using the fees and rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of IRLCs is determined in accordance with SAB 105.

f. *Forward Sale Loan Contracts* - The fair value of these instruments is estimated using current market prices for dealer or investor commitments relative to the Company's existing positions.

The following tables set forth information about financial instruments, except for those noted above for which the carrying amount approximates fair value (dollar amounts in thousands):

	June 30, 2006		
	Notional Amount	Carrying Amount	Estimated Fair Value
Investment securities available for sale	\$ 659,881	\$ 652,674	\$ 652,674
Mortgage loans held in the securitization trusts	685,956	690,502	683,110
Mortgage loans held for sale	84,171	84,327	84,457
Commitments and contingencies:			
Interest rate lock commitments	244,100	(229)	(229)
Forward loan sales contracts	177,744	350	350
Interest rate swaps	672,000	5,276	5,276
Interest rate caps	1,694,758	5,251	5,251
Eurodollar transaction	53,000	22	22

	December 31, 2005		
	Notional Amount	Carrying Amount	Estimated Fair Value
Investment securities available for sale	\$ 719,701	\$ 716,482	\$ 716,482
Mortgage loans held for investment	4,054	4,060	4,079
Mortgage loans held in the securitization trusts	771,451	776,610	775,311
Mortgage loans held for sale	108,244	108,271	109,252
Commitments and contingencies:			
Interest rate lock commitments - loan commitments	130,320	123	123
Interest rate lock commitments - mortgage loans held for sale	108,109	(14)	(14)
Forward loan sales contracts	201,771	(380)	(380)
Interest rate swaps	645,000	6,383	6,383
Interest rate caps	1,858,860	3,340	3,340

17. Income Taxes

A reconciliation of the statutory income tax provision (benefit) to the effective income tax provision for the six month periods ended June 30, 2006 and June 30, 2005, is as follows (dollar amounts in thousands).

	June 30, 2006	June 30, 2005
Tax at statutory rate (35%)	\$ (2,169)	\$ (1,530)
Non-taxable REIT income	(1,454)	(2,699)
Transfer pricing of loans sold to nontaxable parent	11	395
State and local taxes	(956)	(1,006)
Miscellaneous	(11)	(40)
Total provision (benefit)	\$ (4,579)	\$ (4,880)

The income tax benefit for the period ended June 30, 2006 is comprised of the following components (dollar amounts in thousands):

	Deferred	Total
Regular tax benefit		
Federal	\$ (3,623)	\$ (3,623)
State	(956)	(956)
Total tax benefit	\$ (4,579)	\$ (4,579)

The income tax benefit for the period ended June 30, 2005 is comprised of the following components (dollar amounts in thousands):

	Deferred	Total
Regular tax benefit		
Federal	\$ (3,874)	\$ (3,874)
State	(1,006)	(1,006)
Total tax benefit	\$ (4,880)	\$ (4,880)

The major sources of temporary differences and their deferred tax effect at June 30, 2006 are as follows (dollar amounts in thousands):

Deferred tax asset:	
Net operating loss carry forward	\$ 14,313
Restricted stock, performance shares and stock option expense	176
Rent expense	16
Management compensation	6
Loss on sublease	144
Total deferred tax asset	14,655
Deferred tax liabilities:	
Mark to market adjustments	20
Depreciation	197
Total deferred tax liability	217
Net deferred tax asset	\$ 14,438

The major sources of temporary differences and their deferred tax effect at December 31, 2005 are as follows (dollar amounts in thousands):

Deferred tax asset:	
Net operating loss carry forward	\$ 9,560
Restricted stock, performance shares and stock option expense	125
Rent expense	120
Management compensation	98
Loss on sublease	181
Mark to market adjustments	94
Total deferred tax asset	10,178
Deferred tax liabilities:	
Depreciation	319
Total deferred tax liability	319
Net deferred tax asset	\$ 9,859

The net deferred tax asset is included in prepaid and other assets on the accompanying consolidated balance sheet. Although realization is not assured, management believes it is more likely than not that all the deferred tax assets will be realized. The net operating loss carry forward expires at various intervals between 2012 and 2026.

18. Segment Reporting

The Company operates in two reportable segments:

- *Mortgage Portfolio Management*— long-term investment in high-quality, adjustable-rate mortgage loans and residential mortgage-backed securities; and
- *Mortgage Lending*— mortgage loan originations as conducted by NYMC.

Our mortgage portfolio management segment primarily invests in adjustable-rate FNMA, FHLMC and “AAA”— rated residential mortgage-backed securities and high-quality mortgages that are originated by our mortgage operations or that may be acquired from third parties. The Company’s equity capital and borrowed funds are used to invest in residential mortgage-backed securities, thereby producing net interest income.

The mortgage lending segment originates residential mortgage loans through the Company’s taxable REIT subsidiary, NYMC. Loans are originated through NYMC’s retail and internet branches and generate gain on sale revenue when the loans are sold to third parties or revenue from brokered loans when the loans are brokered to third parties.

Six Months Ended June 30, 2006
(dollar amounts in thousands)

	Mortgage Portfolio Management Segment	Mortgage Lending Segment	Total
REVENUE:			
Interest income:			
Investment securities and loans held in securitization trusts	\$ 33,052	\$ —	\$ 33,052
Loans held for sale	—	8,275	8,275
Total interest income	33,052	8,275	41,327
Interest expense:			
Investment securities and loans held in securitization trusts	26,438	—	26,438
Loans held for sale	—	5,947	5,947
Subordinated debentures	—	1,779	1,779
Total interest expense	26,438	7,726	34,164
Net interest income	6,614	549	7,163
OTHER INCOME (EXPENSE):			
Gain on sales of mortgage loans	—	10,051	10,051
Brokered loan fees	—	6,270	6,270
Loss on sale of current period securitized loans	—	(747)	(747)
Realized loss on investment securities	(969)	—	(969)
Miscellaneous income	—	267	267
Total other income (expense)	(969)	15,841	14,872
EXPENSES:			
Salaries and benefits	451	11,891	12,342
Brokered loan expenses	—	4,935	4,935
Occupancy and equipment	1	2,614	2,615
Marketing and promotion	33	1,183	1,216
Data processing and communication	119	1,295	1,414
Office supplies and expenses	23	1,015	1,038
Professional fees	365	2,166	2,531
Travel and entertainment	27	256	283
Depreciation and amortization	—	1,086	1,086
Other	175	597	772
Total expenses	1,194	27,038	28,232
INCOME (LOSS) BEFORE INCOME TAX			
BENEFIT	4,451	(10,648)	(6,197)
Income tax benefit	—	4,579	4,579
NET INCOME (LOSS)	\$ 4,451	\$ (6,069)	\$ (1,618)
Segment assets	\$ 1,366,551	\$ 199,676	\$ 1,566,227
Segment equity	\$ 84,379	\$ 5,425	\$ 89,804

Six Months Ended June 30, 2005
(dollar amounts in thousands)

	Mortgage Portfolio Management Segment	Mortgage Lending Segment	Total
REVENUE:			
Interest income:			
Investment securities and loans held in securitization trusts	\$ 27,081	\$ —	\$ 27,081
Loans held for investment	3,605	—	3,605
Loans held for sale	—	6,100	6,100
Total interest income	30,686	6,100	36,786
Interest expense:			
Investment securities and loans held in securitization trusts	19,339	—	19,339
Loans held for investment	2,545	—	2,545
Loans held for sale	—	3,843	3,843
Subordinated debentures	—	494	494
Total interest expense	21,884	4,337	26,221
Net interest income	8,802	1,763	10,565
OTHER INCOME (EXPENSE):			
Gain on sales of mortgage loans	—	12,649	12,649
Brokered loan fees	—	4,534	4,534
Gain on sale of securities and related hedges	921	—	921
Miscellaneous income	1	103	104
Total other income (expense)	922	17,286	18,208
EXPENSES:			
Salaries and benefits	1,479	15,093	16,572
Brokered loan expenses	—	4,206	4,206
Occupancy and equipment	9	3,707	3,716
Marketing and promotion	85	2,505	2,590
Data processing and communication	64	1,126	1,190
Office supplies and expenses	3	1,255	1,258
Professional fees	145	1,701	1,846
Travel and entertainment	4	442	446
Depreciation and amortization	3	764	767
Other	136	417	553
Total expenses	1,928	31,216	33,144
INCOME (LOSS) BEFORE INCOME TAX			
BENEFIT	7,796	(12,167)	(4,371)
Income tax benefit	—	4,880	4,880
NET INCOME (LOSS)	\$ 7,796	\$ (7,287)	\$ 509
Segment assets	\$ 1,642,138	\$ 317,757	\$ 1,959,895
Segment equity	\$ 106,279	\$ 5,218	\$ 111,497

Three Months Ended June 30, 2006
(dollar amounts in thousands)

	Mortgage Portfolio Management Segment	Mortgage Lending Segment	Total
REVENUE:			
Interest income:			
Investment securities and loans held in securitization trusts	\$ 15,468	\$ —	\$ 15,468
Loans held for sale	—	3,233	3,233
Total interest income	15,468	3,233	18,701
Interest expense:			
Investment securities and loans held in securitization trusts	12,359	—	12,359
Loans held for sale	—	2,632	2,632
Subordinated debentures	—	894	894
Total interest expense	12,359	3,526	15,885
Net interest income (expense)	3,109	(293)	2,816
OTHER INCOME (EXPENSE):			
Gain on sales of mortgage loans	—	5,981	5,981
Brokered loan fees	—	3,493	3,493
Loss on sale of current period securitized loans	—	26	26
Miscellaneous income	—	148	148
Total other income (expense)	—	9,648	9,948
EXPENSES:			
Salaries and benefits	201	5,800	6,001
Brokered loan expenses	—	2,767	2,767
Occupancy and equipment	—	1,289	1,289
Marketing and promotion	25	404	429
Data processing and communication	63	690	753
Office supplies and expenses	9	424	433
Professional fees	271	979	1,250
Travel and entertainment	19	82	101
Depreciation and amortization	—	521	521
Other	111	294	405
Total expenses	699	13,250	13,949
INCOME (LOSS) BEFORE INCOME TAX			
BENEFIT	2,410	(3,895)	(1,485)
Income tax benefit	—	1,663	1,663
NET INCOME (LOSS)	\$ 2,410	\$ (2,232)	\$ 178
Segment assets	\$ 1,366,551	\$ 199,676	\$ 1,566,227
Segment equity	\$ 84,379	\$ 5,425	\$ 89,804

Three Months Ended June 30, 2005
(dollar amounts in thousands)

	Mortgage Portfolio Management Segment	Mortgage Lending Segment	Total
REVENUE:			
Interest income:			
Investment securities and loans held in securitization trusts	\$ 14,218	\$ —	\$ 14,218
Loans held for investment	1,944	—	1,944
Loans held for sale	—	3,507	3,507
Total interest income	16,162	3,507	19,669
Interest expense:			
Investment securities and loans held in securitization trusts	10,719	—	10,719
Loans held for investment	1,401	—	1,401
Loans held for sale	—	1,995	1,995
Subordinated debentures	—	416	416
Total interest expense	12,120	2,411	14,531
Net interest income	4,042	1,096	5,138
OTHER INCOME (EXPENSE):			
Gain on sales of mortgage loans	—	8,328	8,328
Brokered loan fees	—	2,534	2,534
Gain on sale of securities and related hedges	544	—	544
Miscellaneous income	1	(11)	(10)
Total other income (expense)	545	10,851	11,396
EXPENSES:			
Salaries and benefits	971	8,459	9,430
Brokered loan expenses	—	2,686	2,686
Occupancy and equipment	6	1,576	1,582
Marketing and promotion	32	1,158	1,190
Data processing and communication	56	616	672
Office supplies and expenses	2	683	685
Professional fees	59	1,043	1,102
Travel and entertainment	2	228	230
Depreciation and amortization	1	423	424
Other	(35)	212	177
Total expenses	1,094	17,084	18,178
INCOME (LOSS) BEFORE INCOME TAX			
BENEFIT	3,493	(5,137)	(1,644)
Income tax benefit	—	2,190	2,190
NET INCOME (LOSS)	\$ 3,493	\$ (2,947)	\$ 546
Segment assets	\$ 1,642,138	\$ 317,757	\$ 1,959,895
Segment equity	\$ 106,279	\$ 5,218	\$ 111,497

19. Stock Incentive Plan

Pursuant to the 2004 Stock Incentive Plan (the "2004 Plan"), eligible employees, officers and directors were offered the opportunity to acquire shares of the Company's common stock through the grant of options and the award of restricted stock under the 2004 Plan. In connection with the Plan, the Company also awarded shares of stock to certain of its employees conditioned upon satisfaction of certain performance criteria related to the November 2004 acquisition of Guaranty Residential Lending. The maximum number of options that could be issued under the 2004 Plan was 706,000 shares and the maximum number of restricted stock awards that could be granted under the 2004 Plan was 794,250.

2005 Stock Incentive Plan

At the Annual Meeting of Stockholders held on May 31, 2005, the Company's stockholders approved the adoption of the Company's 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan replaces the 2004 Plan, which was terminated on the same date. The 2005 Plan provides that up to 936,111 shares of the Company's common stock may be issued thereunder. That number of shares represents 711,895 shares of common stock, or (4% of the 17,797,375 shares of common stock outstanding at March 10, 2005), plus 224,216 shares of common stock remaining from the 2004 Plan. The number of shares available for issuance under the 2005 Plan will be increased by the number of shares covered by 2004 Plan awards that are forfeited or terminated after March 10, 2005.

Options

The Company has issued stock options to employees under shares-based compensation plans. The 2004 Plan provides for the exercise price of options to be determined by the Compensation Committee of the Board of Directors ("Compensation Committee") but not to be less than the fair market value on the date the option is granted. Options expire ten years after the grant date. As of June 30, 2006, 591,500 options have been granted pursuant to the 2004 Plan with a vesting period of two years with a contractual term of 10 years.

The Company accounts for the fair value of its grants in accordance with SFAS No. 123(R). The compensation cost charged against income exclusive of option forfeitures during the six months ended June 30, 2006 and 2005 was \$17,813 and \$18,376, respectively. As of June 30, 2006, there was \$15,000 of total unrecognized compensation cost related to non-vested share-based compensation awards granted under the stock option plans. No cash was received for the exercise of stock options during the six month periods ended June 30, 2006 and June 30, 2005.

A summary of the status of the Company's options as of June 30, 2006 and changes during the six month period then ended is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year, January 1, 2006	541,500	\$ 9.56
Granted	—	—
Forfeited	45,000	9.83
Exercised	—	—
Outstanding as of June 30, 2006	496,500	\$ 9.53
Options exercisable as of June 30, 2006	389,833	\$ 9.45

A summary of the status of the Company's options as of June 30, 2005 and changes during the six month period then ended is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year, January 1, 2005	591,500	\$ 9.58
Granted	—	\$ —
Forfeited	—	—
Exercised	—	—
Outstanding as of June 30, 2005	591,500	\$ 9.58
Options exercisable as of June 30, 2005	314,833	\$ 9.36

The following table summarizes information about stock options at June 30, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable		Fair Value of Options Granted
	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Exercise Price	Number Exercisable	Exercise Price	
\$9.00	176,500	8.0	\$ 9.00	176,500	\$ 9.00	\$ 0.39
\$9.83	320,000	8.4	9.83	213,333	9.83	0.29
Total	496,500	8.3	\$ 9.53	389,833	\$ 9.45	\$ 0.34

The following table summarizes information about stock options at June 30, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable		Fair Value of Options Granted
	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Exercise Price	Number Exercisable	Exercise Price	
\$9.00	176,500	9.0	\$ 9.00	176,500	\$ 9.00	\$ 0.39
\$9.83	415,000	9.4	9.83	138,333	9.83	0.29
Total	591,500	9.3	\$ 9.58	314,833	\$ 9.36	\$ 0.35

The fair value of each option grant is estimated on the date of grant using the Binomial option-pricing model with the following weighted-average assumptions:

Risk-free interest rate	4.5%
Expected volatility	10%
Expected life	10 years
Expected dividend yield	10.48%

The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant and the expected volatility was based on estimated volatility of the Company's shares for a period equal to the stock option's expected life. The expected life of options was estimated to be the contractual term of the options.

Restricted Stock

As of June 30, 2006, the Company has awarded 684,333 shares of restricted stock under the 2005 Plan, of which 434,122 shares have fully vested. As of June 30, 2006 the remaining shares of restricted stock awarded under the 2004 Plan are subject to vesting periods between 6 and 60 months. During the six months ended June 30, 2006, the Company recognized non-cash compensation expense of \$0.6 million relating to the vested portion of restricted stock grants. Dividends are paid on all restricted stock issued, whether those shares are vested or not. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

A summary of the status of the Company's non-vested restricted stock as of June 30, 2006 and changes during the six month period then ended is presented below:

	Number of Non-vested Restricted Shares	Weighted Average Grant Date Fair Value
Non-vested shares at beginning of year, January 1, 2006	221,058	\$ 9.33
Granted	129,155	4.36
Forfeited	—	—
Vested	(100,002)	8.15
Non-vested shares as of June 30, 2006	250,211	\$ 6.85
Weighted-average fair value of restricted stock granted during the period	\$ 562,549	\$ 4.36

A summary of the status of the Company's non-vested restricted stock as of June 30, 2005 and changes during the six month period then ended is presented below:

	Number of Non-vested Restricted Shares	Weighted Average Grant Date Fair Value
Non-vested shares at beginning of year, January 1, 2005	367,803	\$ 9.23
Granted	—	—
Forfeited	(19,231)	9.47
Vested	(122,350)	9.00
Non-vested shares as of June 30, 2005	226,222	\$ 9.34

Performance Based Stock Awards

In November 2004, the Company acquired 15 full-service and 26 satellite retail mortgage banking offices located in the Northeast and Mid-Atlantic states from General Residential Lending, Inc. ("GRL"). Pursuant to that transaction, the Company committed to award 236,256 shares of the Company's stock to certain employees of those branches. Of these committed shares, 206,256 were performance based stock awards granted upon attainment of predetermined production levels and 30,653 were restricted stock awards. As of June 30, 2006, the awards range in vesting periods from 6 to 12 months with a share price set at the December 2, 2004 grant date market value of \$9.83 per share. During the six months ended June 30, 2006, the Company recognized non-cash compensation expense, exclusive of forfeitures of \$0.1 million relating to performance based stock awards. Unvested performance share awards have no voting rights and do not earn dividends.

A summary of the status of the Company's non-vested performance based stock awards as of June 30, 2006 and changes during the six month period then ended is presented below:

	Number of Non-vested Performance Shares	Weighted Average Grant Date Fair Value
Non-vested shares at beginning of year, January 1, 2006	61,078	\$ 9.83
Granted	—	—
Forfeited	(26,271)	9.83
Vested	(6,995)	9.83
Non-vested shares as of June 30, 2006	27,812	\$ 9.83

A summary of the status of the Company's non-vested performance based stock awards as of June 30, 2005 and changes during the six month period then ended is presented below:

	Number of Non-vested Performance Shares	Weighted Average Grant Date Fair Value
Non-vested shares at beginning of year, January 1, 2005	206,256	\$ 9.83
Granted	—	—
Forfeited	(74,104)	9.83
Vested	(22,139)	9.83
Non-vested shares as of June 30, 2005	110,013	\$ 9.83

20. Subsequent Events

On August 1, 2006, by payment of \$450,000, the Company was relieved of all obligations relating to the irrevocable standby letter of credit in the same amount for the benefit of CCC Atlantic, L.L.C.; the landlord of the Company's leased facility at 500 Burton Avenue, Northfield, New Jersey. The letter of credit served as security for leased office property, initially occupied by employees of our branches doing business as Ivy League Mortgage, L.L.C. Pursuant to its terms, the letter of credit was initially secured by cash held by the Company in the amount of \$500,000 and was reduced to \$450,000 on April 1, 2006, (See Note 13 above).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain forward-looking statements. Forward looking statements are those which are not historical in nature. They can often be identified by their inclusion of words such as “will,” “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend” and similar expressions. Any projection of revenues, earnings, losses, capital expenditures, distributions, capital structure or other financial terms is a forward-looking statement. Certain statements regarding the following particularly are forward-looking in nature:

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- our business strategy;
- future performance, developments, market forecasts or projected dividends;
- projected acquisitions or joint ventures; and
- projected capital expenditures.

It is important to note that the description of our business in general and our investment in mortgage loans and mortgage-backed securities holdings in particular, is a statement about our operations as of a specific point in time. It is not meant to be construed as an investment policy, the types of assets we hold, the amount of leverage we use or the liabilities we incur and other characteristics of our assets and liabilities are subject to reevaluation and change without notice.

Our forward-looking statements are based upon our management's beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to us. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us and that might cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

- our limited operating history with respect to our portfolio strategy;
- our proposed portfolio strategy may be changed or modified by our management without advance notice to stockholders, and that we may suffer losses as a result of such modifications or changes;
- impacts of a change in demand for mortgage loans on our net income and cash available for distribution;
- our ability to originate prime and high-quality adjustable-rate and hybrid mortgage loans for our portfolio;
- risks associated with the use of leverage;
- interest rate mismatches between our mortgage-backed securities and our borrowings used to fund such purchases;
- changes in interest rates and mortgage prepayment rates;
- effects of interest rate caps on our adjustable-rate mortgage-backed securities;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- potential impacts of our leveraging policies on our net income and cash available for distribution;
-

our board's ability to change our operating policies and strategies without notice to you or stockholder approval;

- the other important factors identified, or incorporated by reference into this report, including, but not limited to those under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk", and those described under the caption "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2006.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events described by our forward-looking events might not occur. We qualify any and all of our forward-looking statements by these cautionary factors. In addition, you should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission.

This Quarterly Report on Form 10-Q contains market data, industry statistics and other data that have been obtained from, or compiled from, information made available by third parties. We have not independently verified their data.

General

New York Mortgage Trust, Inc. (“NYMT,” the “Company,” “we,” “our” and “us”), a real estate investment trust (“REIT”) for federal income tax purposes, is engaged in the origination of and investment in residential mortgage loans throughout the United States. The Company, through its wholly owned taxable REIT subsidiary, The New York Mortgage Company, LLC (“NYMC”), originates a broad spectrum of residential loan products with a focus on high credit quality, or prime loans. In addition to prime loans, NYMC also originates jumbo loans, alternative-A loans, sub-prime loans and home equity or second mortgage loans through its retail and wholesale origination branch network. The Company’s mortgage investment portfolio is comprised of securities, supported by pooled high credit quality, adjustable and adjustable rate mortgage (“ARM”) loans. NYMC, which originates residential mortgage loans through a network of 28 full-service loan origination locations and 23 satellite loan origination locations, is presently licensed or authorized to do business in 45 states and the District of Columbia.

Strategic Overview

We are considered an “active” mortgage REIT in that NYMC, our taxable REIT subsidiary, originates loans that may either be held in portfolio, aggregated and subsequently securitized for long-term investment or sold to third parties for gain on sale revenue. When we aggregate and securitize residential mortgage loans for investment, the leveraged portfolio is comprised largely of prime adjustable-rate mortgage loans that we originate or obtain from third parties and that meet our investment objectives and portfolio requirements, including adjustable-rate loans that have an initial fixed-rate period, which we refer to as hybrid mortgage loans. We believe that our ability to originate mortgage loans as the basis for our portfolio will enable us to build a portfolio that generates a higher return than the returns realized by “passive” mortgage investors that do not have their own origination capabilities, because the cost to originate and retain such mortgage loans for securitization is generally less than the premiums paid to purchase similar assets from third parties. Our portfolio loans are held by the Company or by New York Mortgage Funding, LLC (“NYMF”), our qualified REIT subsidiary (“QRS”).

NYMC also originates and sells loans to third parties for gain on sale revenue rather than aggregating lower cost assets, depending on market conditions. We also, depending on market conditions, retain in our portfolio selected adjustable-rate and hybrid mortgage loans that we originate. Generally, we sell to third parties the fixed-rate loans and any adjustable-rate and hybrid mortgage loans that we originate that do not meet our investment criteria or portfolio requirements. We rely on our own underwriting criteria with respect to the mortgage loans we retain and rely on the underwriting criteria of the institutions to which we sell our loans with respect to the loans we sell. We believe our ability to originate and sell loans for gain on sale revenue is another advantage of being an active mortgage REIT.

We earn net interest income from purchased residential mortgage-backed securities and adjustable-rate mortgage loans and securities originated through NYMC. We have acquired and will seek to acquire additional assets that will produce competitive returns, taking into consideration the amount and nature of the anticipated returns from the investment, our ability to pledge the investment for secured, collateralized borrowings and the costs associated with originating, financing, managing, securitizing and reserving for these investments.

Funding Diversification. We strive to maintain and achieve a balanced and diverse funding mix to finance our investment assets and portfolio. As of June 30, 2006, we have \$0.75 billion of commitments under our secured warehouse lines of credit and up to \$5.3 billion to provide repurchase agreement financing through 23 different counterparties. During 2005, we further diversified our sources of financing with the issuance of \$45 million of trust preferred securities classified as subordinated debentures.

We also securitize mortgage loans through the creation of either collateralized debt obligations (“CDO”) or a real estate mortgage investment conduit (“REMIC”). For the securitizations we create, we may hold either 100% of the resultant securities or only certain subordinated tranches of the securities created (selling higher-rated tranches to third parties). When we hold 100% of the resultant securities, we create an asset with better liquidity and longer-term financing at better rates as opposed to financing whole loans through warehouse lines. When we sell to third parties the higher rated tranches of securities, the securitization eliminates short-term financing risk on those tranches sold to third parties (reducing the asset to liability duration gap, which is the difference between the estimated maturities or lives of our earning assets and related financing facilities) and the mark-to-market pricing risk inherent in financing through repurchase agreements or warehouse lines of credit, thereby the underlying assets are not subject to margin calls.

Risk Management. As a mortgage lender and a manager of mortgage loan investments, we must mitigate key risks inherent in these businesses, principally credit risk and interest rate risk.

High Credit Quality Investment Portfolio. We retain in our portfolio Agency securities, AAA-rated private label securities and selected, high-quality loans that we originate or may opportunistically acquire and subsequently securitize. As a result, our investment portfolio consists of high-quality loans that we have either securitized for our own portfolio or that collateralize our CDO financings. High credit quality creates significant portfolio liquidity and provides for financing opportunities that are generally available on favorable terms. Agency, AAA-rated private label and other investment grade securities are less likely to incur credit losses than non-rated or below investment grade securities. Since commencing our portfolio investment operations, we have not experienced any credit losses in our portfolio.

We believe that our credit performance is reflective of the high credit quality of the loans we originate or acquire for securitization, our prudent in-house underwriting, property valuation methods and review, our overall investment policies and prudent management of our delinquent loan portfolio. We believe that our delinquencies of 0.88% of the total par balance of our investment portfolio of residential loans at June 30, 2006 reflect strong credit characteristics and the credit culture of our underwriting and investment philosophy. The weighted average seasoning of loans in our investment portfolio of mortgage loans was approximately 15 months at June 30, 2006.

Interest Rate Risk Management. Another primary risk to our investment portfolio of mortgage loans and mortgage-backed securities is interest rate risk. We have a match funding philosophy in which we use hedging instruments to fix or cap the interest rates on our short-term, CDO and other financing arrangements that finance our investment portfolio of mortgage loans and securities. We hedge our financing costs in an attempt to maintain a net duration gap of less than one year; as of June 30, 2006, our net duration gap was approximately 9 months.

Other Risk Considerations: Our business is affected by a variety of economic and industry factors. Management periodically reviews and assesses these factors and their potential impact on our business. The most significant risk factors management considers while managing the business and which could have a material adverse effect on our financial condition and results of operations are:

- a decline in the market value of our assets due to rising interest rates;
- an adverse impact on our earnings from a decrease in the demand for mortgage loans due to, among other things, a period of rising interest rates;
- our ability to originate prime adjustable-rate and hybrid mortgage loans for our portfolio;
- increasing or decreasing levels of prepayments on the mortgages underlying our mortgage-backed securities;
- our ability to obtain financing to fund and hold mortgage loans prior to their sale or securitization;
- the overall leverage of our portfolio and the ability to obtain financing to leverage our equity;
- the potential for increased borrowing costs and its impact on net income;
- the concentration of our mortgage loans in specific geographic regions;
- our ability to use hedging instruments to mitigate our interest rate and prepayment risks;
- a prolonged economic slow down, a lengthy or severe recession or declining real estate values could harm our operations;
- if our assets are insufficient to meet the collateral requirements of our lenders, we might be compelled to liquidate particular assets at inopportune times and at disadvantageous prices;
- if we are disqualified as a REIT, we will be subject to tax as a regular corporation and face substantial tax liability; and
- compliance with REIT requirements might cause us to forgo otherwise attractive opportunities.

Description of Businesses

Mortgage Lending

Our mortgage lending operations are important to our financial results as they either produce the loans that will ultimately collateralize the mortgage securities that we will hold in our portfolio or provide us the flexibility to sell the loans for gain on sale revenue. We primarily originate prime, first-lien, residential mortgage loans and, to a lesser extent, second lien mortgage loans, home equity lines of credit, and bridge loans.

For the six months ended June 30, 2006 our total originations were \$1.4 billion in mortgage loans and we retained in our investment portfolio \$3.1 million. For the six months ended June 30, 2005 our total originations were \$1.6 billion in mortgage loans and we retained in our investment portfolio \$303.3 million. For the three months ended June 30, 2006 our total originations were \$741.3 million in mortgage loans and we retained in our investment portfolio \$0.0 million. For the three months ended June 30, 2005 our total originations were \$939.7 million in mortgage loans and we retained in our investment portfolio \$166.9 million. The decrease in the amount of mortgage loans we retained for the six and three months ended June 30, 2006 as compared to the same periods in 2005 represents a change in our approach to realize the short-term economic benefits of gain on sale revenues available in the secondary mortgage market as compared to currently less beneficial long-term economic benefit of retaining loans in portfolio. When we retain loans that we originate (directly or those subsequently securitized through a structure that is deemed a financing for GAAP purposes), we are not able to recognize gain on sale revenues (and thus higher GAAP net income) as we would have if such loans were sold to third parties. Instead, the value of the gain on sale revenue benefits of our investment portfolio in the form of a lower cost asset and thus incrementally higher yield during the lives of retained loans. For the six and three months ended June 30, 2006, we estimate that the foregone premium we would have otherwise received had retained loans been sold to third parties is approximately \$44,500 and \$0.0 million, respectively and \$5.0 million and \$2.5 million for the comparable periods of 2005.

For the six and three months ended June 30, 2006, we sold to third parties \$894.6 million and \$536.7 million, respectively, in mortgage loans and \$1.03 billion and \$616.9 million for the comparable periods of 2005. We recognized gains on sales of mortgage loans totaling \$10.1 million and \$6.0 million for the six and three months ended June 30, 2006, respectively and \$12.6 million and \$8.3 million for the comparable periods of 2005.

We may also originate high quality, adjustable-rate mortgage loans for securitizations that are structured and deemed as a sale for GAAP purposes. For the six and three months ended June 30, 2006, we originated \$66.7 million and \$0.0 million respectively, of loans that were subsequently securitized in New York Mortgage Trust 2006-1. Such loans are deemed sold for GAAP purposes and net gain on sale revenues are recognized as if the loans were sold to a third party. No such loans were originated for the six months ended June 30, 2005.

We also sold broker loans to third party mortgage lenders for which we receive a broker fee. For the six and three months ended June 30, 2006, we originated \$414.7 million and \$234.6 million in brokered loans, respectively, and \$275.7 million and \$166.3 million for the comparable periods of 2005. This increase in the amount of brokered loans in each of the six and three month periods ended June 30, 2006 as compared to the same periods of 2005, is due to the brokering of high risk loans (for example, sub-prime loans and option-ARM loans) or loans that fall outside of our guidelines (for example, loans with pre-payment penalties). This enables our loan officers to offer a wide variety of loan products to our borrowers. For the six and three months ended June 30, 2006, we recognized net brokering income (loss) totaling \$1.3 million and \$0.7 million, respectively and \$0.3 million and \$(0.2) million for the comparable periods of 2005.

NYMC originates all of the mortgage loans we sell or broker and some of the loans that we retain for investment. For mortgage loans to be sold, we underwrite, process, and fund the mortgages loans originated by NYMC.

Mortgage Portfolio Management

Our mortgage portfolio, consisting primarily of residential mortgage-backed securities and mortgage loans held for investment, currently generates a substantial portion of our earnings. In managing our investment in a mortgage portfolio, we:

- invest in assets generated from our self-origination of high-credit quality, single-family, residential mortgage loans;
- invest in mortgage-backed securities originated by others, including ARM securities and collateralized mortgage obligation floaters (“CMO Floaters”);
- generally operate as a long-term portfolio investor;
- finance our portfolio by entering into repurchase agreements and as we aggregate mortgage loans for investment, issuing mortgage-backed bonds from time to time; and
- generate earnings from the return on our mortgage securities and spread income from our mortgage loan portfolio.

A significant risk to our operations, relating to our portfolio management, is the risk that interest rates on our assets will not adjust at the same times or amounts that rates on our liabilities adjust. Even though we retain and invest in ARMs, many of the hybrid ARM loans in our portfolio have fixed rates of interest for a period of time ranging from two to seven years. Our funding costs are generally not constant or fixed. As a result, we use derivative instruments (interest rate swaps and interest rate caps) to mitigate, but not eliminate, the risk that our cost of funding will increase or decrease at a faster rate than the interest on our investment assets.

Known Material Trends and Commentary

According to the July 12, 2006 Mortgage Finance Forecast of the Mortgage Bankers Association (“MBA”), the MBA estimated that lenders originated \$2.9 trillion in mortgage loans in 2005. In the July 12, 2006 forecast, the MBA projects that mortgage loan volumes will decrease to \$2.4 trillion in 2006 due, in part, to continued increases in interest rates and significantly lower mortgage loan refinancings.

Total U.S. 1-to-4-Family Mortgage Originations	2005	2006 Forecast		Forecasted Percentage Change
		(dollar amounts in billions)		
Purchase mortgages	\$ 1,513	\$ 1,482		(2.0)%
Refinancings	1,399	897		(35.9)%
Total	\$ 2,912	\$ 2,379		(18.3)%

Source: July 12, 2006 Mortgage Finance Forecast of the MBA

The following table summarizes the Company’s loan origination volume and characteristics for the two quarterly periods of 2006 relative to our prior year historical origination production. For the three months ended June 30, 2006, our total loan originations decreased 21.1% over the comparable period for 2005. This decrease is greater than the decrease forecasted in the July 12, 2006 Mortgage Finance Forecast of the MBA, which estimates an industry decrease for the period of just 13.6% for total originations:

Our Total Mortgage Originations

	NYMC Total Mortgage Originations		Percentage Change From Prior Year
	2005	2006	
	(dollar amounts in millions)		
1st Quarter	\$ 672.5	\$ 613.8	(8.7)%
2nd Quarter	939.7	741.3	(21.1)%
3rd Quarter	1,002.2		
4th Quarter	822.9		
Full Year	\$ 3,437.3		

The following table summarizes the Company’s purchase mortgage origination volume and characteristics for the two quarterly periods of 2006 relative to our prior year historical origination production. With regard to purchase mortgage originations, statistics from the MBA since 1990 indicate that the volume of purchase mortgages year-after-year steadily increases throughout various economic and interest rate cycles. However, given the current rate environment, the MBA expects a modest decline of 2.9% in purchases originations for the second quarter of 2006. While

management is unable to predict borrowing habits, we believe that historical trends indicate that the purchase mortgage market is relatively stable. For the three months ended June 30, 2006, our purchase mortgage originations have decreased by \$147.7 million or 24.5% over the comparable period for the prior year. This decrease compares unfavorably to the 2.8% decrease forecasted by the July 12, 2006 Mortgage Finance Forecast of the MBA for total U.S. 1-to-4-family purchase mortgage originations for the period but is consistent with our overall decline of total originations.

Our Total Purchase Mortgage Originations

	NYMC Total Purchase Mortgage Originations		Percentage Change From Prior Year
	2005	2006	
	(dollar amounts in millions)		
1st Quarter	\$ 381.0	\$ 348.2	(8.6)%
2nd Quarter	601.7	453.9	(24.6)%
3rd Quarter	569.8		
4th Quarter	432.9		
Full Year	\$ 1,985.4		

The following table summarizes the Company's refinance mortgage originations volume and characteristics for the two quarterly periods of 2006 relative to our prior year historical origination production. For the three months ended June 30, 2006, our originations of mortgage refinancings have decreased by \$50.6 million or 15.0% versus the comparable period for the prior year. This 15.0% decrease in our origination of mortgage refinancings compares favorably to the 26.9% decrease for total U.S. 1-to-4-family refinance mortgage originations for the period estimated in the July 12, 2006 Mortgage Finance Forecast of the MBA.

Our Total Refinance Mortgage Originations

	NYMC Total Refinance Mortgage Originations		Percentage Change From Prior Year
	2005	2006	
	(dollar amounts in millions)		
1st Quarter	\$ 291.5	\$ 265.6	(8.9)%
2nd Quarter	338.0	287.4	(15.0)%
3rd Quarter	432.4		
4th Quarter	390.0		
Full Year	\$ 1,451.9		

During the six and three months ended June 30, 2006, the yield curve has remained relatively flat and may, during the course of the year, remain flat or further flatten. The flattening of the yield curve is driven by increasing short-term interest rates without a corresponding increase in long-term interest rates. If the yield curve continues to flatten, this will likely cause higher warehouse borrowing costs for our mortgage banking operations as well as additional compression in our net interest margin at the REIT level.

Liquidity. We depend on the capital markets to finance the mortgage loans we originate. In the short-term, we finance our mortgage loans using "warehouse" lines of credit and "aggregation" lines provided by commercial and investment banks. As we execute our business plan of securitizing self-originated or purchased mortgage loans, we have issued

bonds from our loan securitizations and will own such bonds although we may sell the bonds to large, institutional investors at some point in the future. These bonds and some of our mortgage loans may be financed with repurchase agreements with well capitalized commercial and investment banks. Commercial and investment banks have provided significant liquidity to finance our operations through these various financing facilities. While management cannot predict the future liquidity environment, we are currently unaware of any material reason to prevent continued liquidity support in the capital markets for our business. See “Liquidity and Capital Resources” below for further discussion of liquidity risks and resources available to us.

Significance of Estimates and Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, many of which require the use of estimates, judgments and assumptions that affect reported amounts. These estimates are based, in part, on our judgment and assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. The results of these estimates affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented.

Changes in the estimates and assumptions could have a material effect on these financial statements. Accounting policies and estimates related to specific components of our consolidated financial statements are disclosed in the notes to our financial statements. In accordance with SEC guidance, those material accounting policies and estimates that we believe are most critical to an investor's understanding of our financial results and condition and which require complex management judgment are discussed below.

Revenue Recognition. Interest income on our residential mortgage loans and mortgage-backed securities is a combination of the interest earned based on the outstanding principal balance of the underlying loan/security, the contractual terms of the assets and the amortization of yield adjustments, principally premiums and discounts, using generally accepted interest methods. The net GAAP cost over the par balance of self-originated loans held for investment and premium and discount associated with the purchase of mortgage-backed securities and loans are amortized into interest income over the lives of the underlying assets using the effective yield method as adjusted for the effects of estimated prepayments. Estimating prepayments and the remaining term of our interest yield investments require management judgment, which involves, among other things, consideration of possible future interest rate environments and an estimate of how borrowers will react to those environments, historical trends and performance. The actual prepayment speed and actual lives could be more or less than the amount estimated by management at the time of origination or purchase of the assets or at each financial reporting period.

Fair Value. Generally, the financial instruments we utilize are widely traded and there is a ready and liquid market in which these financial instruments are traded. The fair values for such financial instruments are generally based on market prices provided by five to seven dealers who make markets in these financial instruments. If the fair value of a financial instrument is not reasonably available from a dealer, management estimates the fair value based on characteristics of the security that the Company receives from the issuer and on available market information.

In the normal course of our mortgage loan origination business, we enter into contractual interest rate lock commitments, or ("IRLCs"), to extend credit to finance residential mortgages. Mark-to-market adjustments on IRLCs are recorded from the inception of the interest rate lock through the date the underlying loan is funded. The fair value of the IRLCs is determined by an estimate of the ultimate gain on sale of the loans net of estimated net costs to originate the loan. To mitigate the effect of the interest rate risk inherent in issuing an IRLC from the lock-in date to the funding date of a loan, we generally enter into forward sale loan contracts, or ("FSLCs"). Since the FSLCs are committed prior to mortgage loan funding and thus there is no owned asset to hedge, the FSLCs in place prior to the funding of a loan are undesignated derivatives under SFAS No. 133 and are marked to market with changes in fair value recorded to current earnings.

Impairment of and Basis Adjustments on Securitized Financial Assets. As previously described herein, we regularly securitize our mortgage loans and retain the beneficial interests created. In addition, we may purchase such beneficial interests from third parties. Such assets are evaluated for impairment on a quarterly basis or, if events or changes in circumstances indicate that these assets or the underlying collateral may be impaired, on a more frequent basis. We evaluate whether these assets are considered impaired, whether the impairment is other-than-temporary and, if the impairment is other-than-temporary, recognize an impairment loss equal to the difference between the asset's amortized cost basis and its fair value. These evaluations require management to make estimates and judgments based on changes in market interest rates, credit ratings, credit and delinquency data and other information to determine whether unrealized losses are reflective of credit deterioration and our ability and intent to hold the investment to maturity or recovery. This other-than-temporary impairment analysis requires significant management judgment and we deem this to be a critical accounting estimate. We recorded an impairment loss of \$7.4 million during 2005 because we concluded that we no longer had the intent to hold certain lower-yielding mortgage-backed securities until their values recovered. During the quarter ended March 31, 2006, these securities were sold which resulted in an additional loss of approximately \$1.0 million, due to a decline in the value of such securities subsequent to the year end.

Loan Loss Reserves on Mortgage Loans. We evaluate a reserve for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of residential mortgage loans held for sale and mortgage loans held in securitization trusts. The estimation involves the consideration of various credit-related factors including, but not limited to, current economic conditions, the credit diversification of the portfolio, loan-to-value ratios, delinquency status, historical credit losses, purchased mortgage insurance and other factors deemed to warrant consideration. If the credit performance of our mortgage loans held for investment or held in the securitization trusts deviates from expectations, the allowance for loan losses is adjusted to a level deemed appropriate by management to provide for estimated probable losses in the portfolio. Two critical assumptions used in estimating the loan loss reserve are frequency and severity. Frequency is the assumed rate of default or the expected rate at which loans may go into foreclosure over the life of the loans. Severity represents the expected rate of realized loss upon disposition/resolution of the collateral that has gone into foreclosure. Based on the performance and credit characteristics of the loan portfolio as of June 30, 2006, management maintained a total loan loss reserve of \$12,000.

Securitizations. We create securitization entities as a means of either:

- creating securities backed by mortgage loans which we will continue to hold and finance that will be more liquid than holding whole loan assets; or
- securing long-term collateralized financing for our residential mortgage loan portfolio and matching the income earned on residential mortgage loans with the cost of related liabilities, otherwise referred to as match funding our balance sheet.

Residential mortgage loans are transferred to a separate bankruptcy-remote legal entity from which private-label multi-class mortgage-backed notes are issued. On a consolidated basis, for securitizations accounted for as secured financings as defined by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, no gain or loss is recorded in connection with the securitizations. Generally, for securitizations accounted for as a sale, a gain or loss is recorded in connection with the securitization based on the difference between the cost of the securitized assets and related structuring costs to the proceeds realized from the resultant sales of securities.

Each securitization entity is evaluated in accordance with Financial Accounting Standards Board Interpretation, or FIN, 46(R), *Consolidation of Variable Interest Entities*. When we have determined that we are the primary beneficiary of the securitization entities, the securitization entities are consolidated into our consolidated balance sheet subsequent to securitization. Residential mortgage loans transferred to securitization entities collateralize the mortgage-backed notes issued, and, as a result, those investments are not available to us, our creditors or stockholders. All discussions relating to securitizations are on a consolidated basis and do not necessarily reflect the separate legal ownership of the loans by the related bankruptcy-remote legal entity.

Derivative Financial Instruments - The Company has developed risk management programs and processes, which include investments in derivative financial instruments designed to manage market risk associated with its mortgage banking and its mortgage-backed securities investment activities.

All derivative financial instruments are reported as either assets or liabilities in the consolidated balance sheet at fair value. The gains and losses associated with changes in the fair value of derivatives not designated as hedges are reported in current earnings. If the derivative is designated as a fair value hedge and is highly effective in achieving offsetting changes in the fair value of the asset or liability hedged, the recorded value of the hedged item is adjusted by its change in fair value attributable to the hedged risk. If the derivative is designated as a cash flow hedge, the effective portion of change in the fair value of the derivative is recorded in OCI and is recognized in the income statement when the hedged item affects earnings. The Company calculates the effectiveness of these hedges on an ongoing basis, and, to date, has calculated effectiveness of approximately 100% of the hedges. Ineffective portions, if any, of changes in the fair value or cash flow hedges are recognized in earnings.

New Accounting Pronouncements - In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainty in income taxes. FIN 48 prescribes a consistent recognition threshold and measurement attribute, as well as clear criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes. The interpretation also requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management believes FIN 48 will have no impact on the Company's financial statements.

In March 2006, the FASB issued SFAS 156, "Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140." Effective at the beginning of the first quarter of 2006, the Company early adopted the newly issued statement and elected the fair value option to subsequently measure its mortgage servicing rights ("MSRs"). Under the fair value option, all changes in the fair value of MSRs are reported in the statement of operations. The

initial implementation of SFAS 156 did not have a material impact on the Company's financial statements.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previous guidance required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The adoption of SFAS 154 on January 1, 2006 did not have a material impact on the Company's financial statements.

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments". Key provisions of SFAS 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips and principal-only strips from derivative accounting under paragraph 14 of FAS 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a QSPE holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. In general, these changes will reduce the operational complexity associated with bifurcating embedded derivatives, and increase the number of beneficial interests in securitization transactions, including interest-only strips and principal-only strips, required to be accounted for in accordance with FAS 133. Management does not believe that SFAS 155 will have a material effect on the Company's financial statements.

Overview of Performance

For the six and three months ended June 30, 2006, we reported a net loss of \$1.6 million and net income of \$0.2 million respectively, as compared to a net income of \$0.5 million and \$0.5 million for the comparable periods of 2005. Our revenues were driven largely from interest income on investments in mortgage loans and mortgage securities (our "mortgage portfolio management" segment) and gain on sale income from loan originations sold to third parties (our "mortgage lending" segment) during the period. The change in net income is attributed to a decrease in gain on sale revenues and a decrease in net interest income from our investment portfolio. Net income for the six months ended June 30, 2006 was further impacted by a \$0.7 million loss on sale of securitized loans and a \$1.0 million realized loss on the sale of impaired investment securities during the first quarter of 2006.

Summary of Operations and Key Performance Measurements

For the six months ended June 30, 2006, our net income was dependent upon our mortgage portfolio management operations and the net interest income (interest income on portfolio assets net of the interest expense and hedging costs associated with the financing of such assets) generated from our portfolio of mortgage loans held for investment, mortgage loans held in securitization trusts and residential mortgage-backed securities in our portfolio management segment.

The following table presents the components of our net interest income from our investment portfolio of mortgage securities and loans for the six months ended June 30, 2006:

Interest Income Components:	Amount	Average	Effective
Interest Income	(\$ in thousands)	Outstanding	Rate
Investment securities and loans held in securitization trusts	(\$ in thousands)	Balance	(\$ in millions)
Investment securities and loans held in securitization trusts	\$ 34,050	\$ 1,349.3	5.03%
Amortization of premium	(998)	—	(0.15)%
Total interest income	\$ 33,052	\$ 1,349.3	4.88%
Interest Expense			
Repurchase agreements	\$ 30,645	\$ 1,272.9	4.79%
Interest rate swaps and caps	(4,207)	—	(0.66)%
Total interest expense	\$ 26,438	\$ 1,272.9	4.13%
Net Interest Income	\$ 6,614		0.75%

The following table presents the components of our net interest income from our investment portfolio of mortgage securities and loans for the three months ended June 30, 2006:

Interest Income Components:	Amount	Average	Effective
	(\$ in thousands)	Outstanding	Rate
		Balance	
		(\$ in millions)	
Interest Income			
Investment securities and loans held in securitization trusts	\$ 16,109	\$ 1,219.7	5.29%
Amortization of premium	(641)	—	(0.21)%
Total interest income	\$ 15,468	\$ 1,219.7	5.08%
Interest Expense			
Repurchase agreements	\$ 14,667	\$ 1,138.0	5.10%
Interest rate swaps and caps	(2,308)	—	(0.80)%
Total interest expense	\$ 12,359	\$ 1,138.0	4.30%
Net Interest Income	\$ 3,109		0.78%

The key performance measures for our portfolio management activities are:

- net interest spread on the portfolio;
- characteristics of the investments and the underlying pool of mortgage loans including but not limited to credit quality, coupon and prepayment rates; and
- return on our mortgage asset investments and the related management of interest rate risk.

For the six and three months ended June 30, 2006, our net income was also dependent upon our mortgage lending operations and originations from our mortgage lending segment, which includes the mortgage loan sales (“mortgage banking”) and mortgage brokering activities on residential mortgages sold or brokered to third parties. Our mortgage banking activities generate revenues in the form of gains on sales of mortgage loans to third parties and ancillary fee income and interest income from borrowers. Our mortgage brokering operations generate brokering fee revenues from third party buyers. When we retain a portion of our loan originations for our investment portfolio, we do not realize the gain on sale premiums we would have otherwise recognized had these loans been sold to third parties and such loans retained on our balance sheet at cost. As a result, revenues in our mortgage banking segment are lower than if we sold the loans to third parties and the book value of these assets on our balance sheet, which are accounted for on a cost basis, may differ from their fair market value. We retained just \$3.1 million and \$0.0 million of the loans we originated during the six and three months ended June 30, 2006.

A breakdown of our loan originations for the six months ended June 30, 2006 is as follows:

Description	Number	Aggregate	Percentage	Weighted	Average
	of Loans	Principal	of Total	Average	Loan Size
		Balance	Principal	Interest	
		(\$ in		Rate	
		millions)			
Purchase mortgages	3,400	\$ 802.1	59.2%	7.00%	\$ 235,922
Refinancings	1,995	553.0	40.8%	6.82%	277,197
Total	5,395	\$ 1,355.1	100.0%	6.93%	251,185
Adjustable rate or hybrid	1,954	\$ 645.1	47.6%	6.77%	330,176
Fixed rate	3,441	710.0	52.4%	7.07%	206,329

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Total	5,395	\$ 1,355.1	100.0%	6.93%	251,185
Bankered	4,062	\$ 940.4	69.4%	7.06%	231,525
Brokered	1,333	414.7	30.6%	6.62%	311,093
Total	5,395	\$ 1,355.1	100.0%	6.93%	\$ 251,185

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A breakdown of our loan originations for the three months ended June 30, 2006 is as follows:

Description	Number of Loans	Aggregate Principal Balance (\$ in millions)	Percentage of Total Principal	Weighted Average Interest Rate	Average Loan Size
Purchase mortgages	1,900	\$ 453.9	61.2%	7.07%	\$ 238,929
Refinancings	985	287.4	38.8%	6.86%	291,754
Total	2,885	\$ 741.3	100.0%	6.99%	256,964
Adjustable rate or hybrid	1,028	\$ 354.0	47.8%	6.82%	344,415
Fixed rate	1,857	387.3	52.2%	7.14%	208,553
Total	2,885	\$ 741.3	100.0%	6.99%	256,964
Bankered	2,154	\$ 506.8	68.4%	7.11%	235,276
Brokered	731	234.5	31.6%	6.71%	320,872
Total	2,885	\$ 741.3	100.0%	6.99%	\$ 256,964

The key performance measures for our origination activities are:

- dollar volume of mortgage loans originated;
- relative cost of the loans originated;
- characteristics of the loans, including but not limited to the coupon and credit quality of the loan, which will indicate their expected yield; and
- return on our mortgage asset investments and the related management of interest rate risk.

Management's discussion and analysis of financial condition and results of operations, along with other portions of this report, are designed to provide information regarding our performance and these key performance measures.

Three Months Ended June 30, 2006 Financial Highlights:

- Net income for the Company's Mortgage Portfolio Management segment totaled \$2.4 million.
- Consolidated net income totaled \$0.2 million.
- Declared a second quarter 2006 cash dividend of \$0.14 per common share payable on July 26, 2006 to stockholders of record as of July 6, 2006.

Financial Condition

Balance Sheet Analysis - Asset Quality

Investment Portfolio Related Assets

Mortgage Loans Held in Securitization Trusts and Mortgage Loans Held for Investment. Our portfolio consists of adjustable-rate mortgage loans that we originated or purchased opportunistically and that met our investment criteria and portfolio requirements. These loans are classified as "mortgage loans held for investment" during a period of aggregation and until the portfolio reaches a size sufficient for us to securitize such loans. Once securitized into sequentially rated classes, the loans are accounted for as secured financings as defined by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and are classified as "mortgage loans held in securitization trusts."

At June 30, 2006, we did not have any mortgage loans held for investment due to the New York Mortgage Trust 2006-1 ("NYMT 2006-1") securitization transaction of \$277.4 million of loans which occurred March 30, 2006 and

there was no subsequent retention of originated loans for our investment portfolio. As this securitization was accounted for as a sale, any retained securities we own as a result of the securitization are held as an available for sale investment security.

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During 2005, we securitized loan investments in three different securitizations:

- New York Mortgage Trust 2005-1 (“NYMT 2005-1”), February 25, 2005; \$419.0 million of loans
- New York Mortgage Trust 2005-2 (“NYMT 2005-2”), July 28, 2005; \$242.9 million of loans
- New York Mortgage Trust 2005-3 (“NYMT 2005-3”), December 20, 2005; \$235.0 million of loans

The following table details Mortgage Loans Held in Securitization Trusts at June 30, 2006 (dollar amounts in thousands):

Category	Par Value	Coupon	Carrying Value	Yield
Mortgage Loans Held in Securitization Trusts	\$ 685,956	5.19%	\$ 690,502	6.15%

At June 30, 2006, mortgage loans held in securitization trusts totaled \$690.5 million, or 44.1% of total assets as compared to \$776.6 million at December 31, 2005. Of this mortgage loan investment portfolio, 100% are traditional or hybrid ARMs and 74.7% are ARM loans that are interest only. On our hybrid ARMs, interest rate reset periods are predominately five years or less and the interest-only/amortization period is typically 10 years, which mitigates the “payment shock” at the time of interest rate reset. No loans in our investment portfolio of mortgage loans are option-ARMs or ARMs with negative amortization.

For loans held in securitizations accounted for as a financing, we are exposed to credit risk on the underlying mortgage loans. The same is true for loans in a securitization accounted for as a sale and for which we own the most subordinate class of securities. The following table sets forth the composition of our loans held in securitization trusts as of June 30, 2006.

Characteristics of Our Mortgage Loans Held in Securitization Trusts (dollar amounts in thousands):

	# of Loans	Par Value	Carrying Value
Mortgage loans held in securitization trusts	1,451	\$ 685,956	\$ 690,502
Mortgage loans sold in REMIC trusts	488	268,413	—
Total loans with credit risk exposure	1,939	\$ 954,369	\$ 690,502

	Average	High	Low
General Loan Characteristics:			
Original Loan Balance	\$ 503	\$ 3,500	\$ 25
Coupon Rate	5.47%	7.75%	3.00%
Gross Margin	2.37%	7.01%	1.13%
Lifetime Cap	11.10%	13.75%	9.00%
Original Term (Months)	360	360	360
Remaining Term (Months)	346	357	313

	Percentage
Arm Loan Type	
Traditional ARMs	3.4%
2/1 Hybrid ARMs	3.8%
3/1 Hybrid ARMs	21.5%
5/1 Hybrid ARMs	69.6%
7/1 Hybrid ARMs	1.7%
Total	100.0%

Percent of ARM loans that are interest only	74.7%
Weighted average length of interest only period	7.8 years

	Percentage
<i>Traditional ARMs - Periodic Caps</i>	
None	55.5%
1%	14.5%
Over 1%	30.0%
Total	100.0%

	Percentage
<i>Hybrid ARMs - Initial Cap</i>	
3.00% or less	19.7%
3.01%-4.00%	7.4%
4.01%-5.00%	71.8%
5.01%-6.00%	1.1%
Total	100.0%

	Percentage
<i>FICO Scores</i>	
650 or less	3.9%
651 to 700	18.1%
701 to 750	34.3%
751 to 800	40.1%
801 and over	3.6%
Total	100.0%
Average FICO Score	736

	Percentage
<i>Loan to Value (LTV)</i>	
50% or less	9.7%
50.01%-60.00%	8.9%
60.01%-70.00%	28.4%
70.01%-80.00%	50.8%
80.01% and over	2.2%
Total	100.0%
Average LTV	69.4%

	Percentage
<i>Property Type</i>	
Single Family	54.2%
Condominium	21.2%
Cooperative	8.1%
Planned Unit Development	13.5%
Two to Four Family	3.0%
Total	100.0%

	Percentage
<i>Occupancy Status</i>	
Primary	86.0%
Secondary	9.8%
Investor	4.2%
Total	100.0%

	Percentage
<i>Documentation Type</i>	
Full Documentation	68.2%
Stated Income	21.6%
Stated Income/ Stated Assets	8.8%
No Documentation	0.9%
No Ratio	0.5%
Total	100.0%

	Percentage
<i>Loan Purpose</i>	
Purchase	57.4%
Cash out refinance	25.3%
Rate & term refinance	17.3%
Total	100.0%

	Percentage
<i>Geographic Distribution: 5% or more in any one state</i>	
NY	24.3%
MA	14.1%
CA	8.9%
Other (less than 5% individually)	52.7%
Total	100.0%

Delinquency Status

As of June 30, 2006, we had nine delinquent loans totaling \$6.0 million categorized as mortgage loans held in securitization trusts as compared to four delinquent loans totaling \$2.0 million at December 31, 2005. The table below shows delinquencies in our loan portfolio as of June 30, 2006 (dollar amounts in thousands):

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	4	\$ 2,114	0.31%
61-90	1	933	0.14%
90+	4	\$ 2,920	0.43%

Interest is recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in no case beyond when payment on a loan becomes 90

days delinquent. Interest collected on loans for which accrual has been discontinued is recognized as income upon receipt.

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We establish an allowance for loan losses based on our estimate of credit losses inherent in the Company's investment portfolio of residential loans held for investment. Our portfolio of mortgage loans held for investment is collectively evaluated for impairment as the loans are homogeneous in nature. The allowance is based upon management's assessment of various factors affecting our mortgage loan portfolio, including current economic conditions, the makeup of the portfolio based on credit grade, loan-to-value ratios, delinquency status, historical credit losses, purchased mortgage insurance and other factors that management believes warrant consideration. The allowance is maintained through ongoing provisions charged to operating income and is reduced by loans that are charged off. Determining the allowance for loan losses is subjective in nature due to the estimation required and the potential for imprecision. As of June 30, 2006 and December 31, 2005 our allowance for loan losses totaled \$12,000.

Investment Securities - Available for Sale. Our securities portfolio consists of agency securities or AAA-rated residential mortgage-backed securities. At June 30, 2006, we had no investment securities in a single issuer or entity (other than a government sponsored agency of the U.S. Government) that had an aggregate book value in excess of 10% of our total assets. The following table sets forth the credit characteristics of our securities portfolio as of June 30, 2006.

Characteristics of Our Investment Securities (dollar amounts in thousands):

	Sponsor or Rating	Par Value	Carrying Value	% of Portfolio	Coupon	Yield
Credit						
Agency REMIC						
Floating	FNMA/FHLMC/GNMA	\$ 191,668	\$ 191,199	29%	6.52%	6.70%
Private Label Floaters	AAA	29,310	29,222	4%	6.06%	6.21%
Agency ARMs	AAA	100,235	100,649	15%	6.09%	6.16%
Private Label ARMs	AAA	312,618	306,714	47%	4.82%	5.55%
NYMT Retained						
Securities	AAA-BBB	23,278	22,919	4%	5.66%	6.60%
NYMT Retained						
Securities	Below Investment Grade	2,772	1,971	1%	5.68%	17.21%
Total/Weighted Average		\$ 659,881	\$ 652,674	100%	5.60%	6.09%

The following table sets forth the interest rate repricing characteristics of our securities portfolio as of June 30, 2006 (dollar amounts in thousands):

Interest Rate Repricing	Carrying Value	% of Portfolio	Weighted Average Coupon
< 6 Months	\$ 220,421	34%	6.46%
< 24 Months	52,839	8%	4.92%
< 60 Months	379,414	58%	5.20%
Total	\$ 652,674	100%	5.60%

The following table sets forth the stated reset periods and weighted average yields of our investment securities at June 30, 2006 (dollar amounts in thousands):

Less than 6 Months	More than 6 Months To 24 Months	More than 24 Months To 60 Months	Total

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	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Agency REMIC								
Floaters	\$ 191,199	6.70%	\$ —	—	\$ —	—	\$ 191,199	6.70%
Private Label								
Floaters	29,222	6.21%	—	—	—	—	29,222	6.21%
Agency ARMs	—	—	—	—	100,649	6.16%	100,649	6.16%
Private Label								
ARMs	—	—	52,839	5.80%	230,764	5.48%	283,603	5.54%
NYMT Retained								
Securities	—	—	—	—	48,001	6.80%	48,001	6.80%
Total	\$ 220,421	6.64%	\$ 52,839	5.80%	\$ 379,414	5.82%	\$ 652,674	6.09%

Mortgage Lending Related Assets

Mortgage Loans Held for Sale. Mortgage loans that we have originated, but do not intend to hold for investment are held pending sale to investors are classified as “mortgage loans held for sale.” We had mortgage loans held for sale of \$84.3 million at June 30, 2006 as compared to \$108.3 million at December 31, 2005. We use warehouse lines of credit and loan aggregation facilities to finance our mortgage loans held for sale. The change in mortgage loans held for sale resulted from such factors as loan production, seasonality and our investor’s ability to purchase loans on a timely basis.

Due from Purchasers. We had amounts due from loan purchasers totaling \$76.1 million at June 30, 2006 as compared to \$121.8 million at December 31, 2005. Amounts due from loan purchasers are a receivable for the principal and premium due to us for loans that have been shipped but for which payment has not yet been received at period end. The change is primarily due to such factors as loan production, seasonality and our investor’s ability to purchase loans on a timely basis.

Escrow Deposits - Pending Loan Closings. We had escrow deposits pending loan closing of \$1.4 million at June 30, 2006 as compared to \$1.4 million at December 31, 2005. Escrow deposits pending loan closings are advance cash fundings by us to escrow agents to be used to close loans within the next one to three business days.

Non-Loan or Investment Assets

Cash and Cash Equivalents. We had unrestricted cash and cash equivalents of \$6.9 million at June 30, 2006 versus \$9.1 million at December 31, 2005.

Prepaid and Other Assets. Prepaid and other assets totaled \$24.6 million as of June 30, 2006 versus \$16.5 million at December 31, 2005. Prepaid and other assets as of June 30, 2006 consisted primarily of a deferred tax benefit of \$14.7 million and loans held by us which are pending remedial action (such as updating loan documentation) or which do not currently meet third-party investor criteria.

Property and Equipment, Net - Property and equipment totaled \$7.0 million as of June 30, 2006 and have estimated lives ranging from three to ten years, and are stated at cost less accumulated depreciation and amortization. Depreciation is determined in amounts sufficient to charge the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or service lives of the improvements using the straight-line method.

Balance Sheet Analysis - Financing Arrangements

Financing Arrangements, Mortgage Loans Held for Sale/for Investment. We had debt outstanding on our financing facilities that finance our mortgage loans held for sale and mortgage loans held for investment of \$157.0 million at June 30, 2006 as compared to \$225.2 million at December 31, 2005. As of June 30, 2006, the current weighted average borrowing rate on these financing facilities is 6.13%. The fluctuations in mortgage loans - held-for-sale and short-term borrowings was affected by lower loan origination volume and an increase in loans we have sold outright.

Financing Arrangements, Portfolio Investments. We have arrangements to enter into repurchase agreements, a form of collateralized borrowings, with 23 different financial institutions providing a total line capacity of \$5.3 billion. As of June 30, 2006 and December 31, 2005, there were \$1.0 billion and \$1.2 billion, respectively, of outstanding borrowings under our repurchase agreements. Our repurchase agreements typically have terms of less than one year. As of June 30, 2006, the current weighted average interest rate on our borrowings under these financing facilities is 5.30%.

Collateralized Debt Obligations. The Company has issued collateralized debt obligations (or CDOs) through an “on balance sheet” securitization secured by ARM loans pledged as collateral. For financial recording purposes, the ARM

loans and restricted cash held as collateral are recorded as assets of the Company and the CDOs are recorded as the Company's debt. The transaction includes an amortizing interest rate cap contract with a notional amount of \$209.9 at June 30, 2006 and a notional amount of \$222.1 million at December 31, 2005 which is recorded as an asset of the Company. The interest rate cap limits the interest rate exposure on these transactions. As of June 30, 2006 and December 31, 2005, we have CDOs outstanding of \$213.5 million and \$228.2 million, respectively. As of June 30, 2006 the current weighted average interest rate on these CDOs was 5.69%. The CDOs are collateralized by ARM loans with a principal balance of \$220.7 million.

Subordinated Debentures. As of June 30, 2006, we have trust preferred securities outstanding of \$45.0 million. The securities are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities are classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

\$25.0 million of our subordinated debentures have a floating interest rate equal to three-month LIBOR plus 3.75%, resetting quarterly (9.25% at June 30, 2006). These securities mature on March 15, 2035 and may be called at par by the Company any time after March 15, 2010. NYMC entered into an interest rate cap agreement to limit the maximum interest rate cost of the trust preferred securities to 7.5%. The term of the interest rate cap agreement is five years and resets quarterly in conjunction with the reset periods of the trust preferred securities.

\$20 million of our subordinated debentures have a fixed interest rate equal to 8.35% up to and including July 30, 2010, at which point the interest rate is converted to a floating rate equal to one-month LIBOR plus 3.95% until maturity. The securities mature on October 30, 2035 and may be called at par by the Company any time after October 30, 2010.

Derivative Assets and Liabilities. We generally hedge only the risk related to changes in the benchmark interest rate used in the variable rate index, usually a London Interbank Offered Rate, known as LIBOR, or a U.S. Treasury rate.

In order to reduce these risks, we enter into interest rate swap agreements whereby we receive floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to a fixed rate. We also enter into interest rate cap agreements whereby, in exchange for a fee, we are reimbursed for interest paid in excess of a contractually specified capped rate.

Derivative financial instruments contain credit risk to the extent that the institutional counterparties may be unable to meet the terms of the agreements. We minimize this risk by using multiple counterparties and limiting our counterparties to major financial institutions with good credit ratings. In addition, we regularly monitor the potential risk of loss with any one party resulting from this type of credit risk. Accordingly, we do not expect any material losses as a result of default by other parties.

We enter into derivative transactions solely for risk management purposes. The decision of whether or not a given transaction (or portion thereof) is hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including the financial impact on income and asset valuation and the restrictions imposed on REIT hedging activities by the Internal Revenue Code, among others. In determining whether to hedge a risk, we may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as a hedge are entered into with a view towards minimizing the potential for economic losses that could be incurred by us. Generally, all derivatives entered into are intended to qualify as hedges in accordance with GAAP, unless specifically precluded under SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*. To this end, terms of the hedges are matched closely to the terms of hedged items.

We have also developed risk management programs and processes designed to manage market risk associated with normal mortgage banking and mortgage-backed securities investment activities.

In the normal course of our mortgage loan origination business, we enter into contractual interest rate lock commitments, or IRLCs, to extend credit to finance residential mortgages. These commitments, which contain fixed expiration dates, become effective when eligible borrowers lock-in a specified interest rate within time frames established by our origination, credit and underwriting practices. Interest rate risk arises if interest rates change between the time of the lock-in of the rate by the borrower and the sale of the loan.

To mitigate the effect of the interest rate risk inherent in issuing an IRLC from the lock-in date to the funding date of a loan, we generally enter into forward sale loan contracts, or FSLCs. Once a loan has been funded, our risk management objective for our mortgage loans held for sale is to protect earnings from an unexpected charge due to a decline in value of such mortgage loans. Our strategy is to engage in a risk management program involving the designation of FSLCs (the same FSLCs entered into at the time of the IRLC) to hedge most of our mortgage loans held for sale.

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The following table summarizes the estimated fair value of derivative assets and liabilities as of June 30, 2006 and December 31, 2005 (dollar amounts in thousands):

	June 30, 2006	December 31, 2005
Derivative Assets:		
Interest rate caps	\$ 5,251	\$ 3,340
Interest rate swaps	5,276	6,383
Eurodollar transaction	22	—
Interest rate lock commitments - loan commitments	—	123
Forward loan sale contracts - loan commitments	47	—
Forward loan sale contracts - mortgage loans held for sale	60	—
Forward loan sale contracts - TBA securities	243	—
Total derivative assets	\$ 10,899	\$ 9,846
Derivative Liabilities:		
Forward loan sale contracts - loan commitments	—	(38)
Forward loan sale contracts - mortgage loans held for sale	—	(18)
Forward loan sale contracts - TBA securities	—	(324)
Interest rate lock commitments - loan commitments	(169)	—
Interest rate lock commitments - mortgage loans held for sale	(60)	(14)
Total derivative liabilities	\$ (229)	\$ (394)

Balance Sheet Analysis - Stockholders' Equity

Stockholders' equity at June 30, 2006 was \$89.8 million and included \$1.0 million of net unrealized losses on available for sale securities and cash flow hedges presented as accumulated other comprehensive income as compared to Stockholders' equity at December 31, 2005 of \$101.0 million.

Securitizations

For the three months ended June 30, 2006 we did not complete any securitizations. As previously reported on March 30, 2006, we completed the securitization of approximately \$277.4 million of high-credit quality, first-lien, adjustable rate mortgage and hybrid adjustable rate mortgages. We accounted for this securitization as a non-recourse sale in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

For the year ended December 31, 2005, we completed three securitization transactions in which we securitized \$896.9 million of our residential mortgage loans into a series of multi-class adjustable rate securities. In the first two securitizations, we elected to retain 100% of the resultant securities and finance them through repurchase agreements. The creation of mortgage-backed securities of our mortgage loans in this manner provides an asset with better liquidity and longer-term financing at better rates as opposed to financing whole loans through warehouse lines. Beginning with our third securitization of self-originated mortgage loans in December 2005, \$235 million of ARM loans were permanently financed through the issuance of securities to third parties. Because we did not retain all of the resultant securities as in prior securitizations, this securitization eliminated the risk of short-term financing (eliminating the asset to liability duration gap) and the mark-to-market pricing risk inherent in financing through repurchase agreements or warehouse lines of credit; as a result of this permanent financing, we are not subject to margin calls. We did not account for these securitizations as sales because the transactions are secured borrowings under SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

Prepayment Experience

For the six and three months ended June 30, 2006, our mortgage assets paid down at an approximate average annualized Constant Paydown Rate ("CPR") of 19% and 20% respectively, as compared to 30% and 31% for the comparable periods of 2005 and 27% for the year ended December 31, 2005. When prepayment experience increases, we have to amortize our premiums over a shorter time period, resulting in a reduced yield to maturity on our ARM assets. Conversely, if actual prepayment experience decreases, we would amortize the premium over a longer time period, resulting in a higher yield to maturity. We monitor our prepayment experience on a monthly basis and adjust the amortization of the net premium, as appropriate.

Results of Operations

Our results of operations for our mortgage portfolio management segment during a given period typically reflect the net interest spread earned on our investment portfolio of residential mortgage loans and mortgage-backed securities. The net interest spread is impacted by factors such as our cost of financing, the interest rate our investments are earning and our interest hedging strategies. Furthermore, the cost of originating loans held in our portfolio, the amount of premium or discount paid on purchased portfolio investments and the prepayment rates on portfolio investments will impact the net interest spread as such factors will be amortized over the expected term of such investments.

Our results of operations for our mortgage lending segment during a given period typically reflect the total volume of loans originated and closed by us during that period. The volume of closed loan originations generated by us in any period is impacted by a variety of factors. These factors include:

- *The demand for new mortgage loans.* Reduced demand for mortgage loans causes closed loan origination volume to decline. Demand for new mortgage loans is directly impacted by current interest rate trends and other economic conditions. Rising interest rates tend to reduce demand for new mortgage loans, particularly loan refinancings, and falling interest rates tend to increase demand for new mortgage loans, particularly loan refinancings.
- *Loan refinancing and home purchase trends.* As discussed above, the volume of loan refinancings tends to increase following declines in interest rates and to decrease when interest rates rise. The volume of home purchases is also affected by interest rates, although to a lesser extent than refinancing volume. Home purchase trends are also affected by other economic changes such as inflation, improvements in the stock market, unemployment rates and other similar factors.
- *Seasonality.* Historically, according to the MBA, loan originations during November, December, January and February of each year are typically lower than during other months in the year due, in part, to inclement weather, fewer business days (due to holidays and the short month of February), and the fact that home buyers tend to purchase homes during the warmer months of the year. As a result, loan volumes tend to be lower in the first and fourth quarters of a year than in the second and third quarters.
- *Occasional spikes in volume resulting from isolated events.* Mortgage lenders may experience spikes in loan origination volume from time to time due to non-recurring events or transactions, such as a large mass closing of a condominium project for which a bulk end-loan commitment was negotiated.

In its July 12, 2006 Mortgage Finance Forecast, the MBA estimated that closed loan originations in the industry remained static from 2004 to 2005. A decline in the overall volume of closed loan originations, which has been forecasted by the MBA for 2006, may have a negative effect on our loan origination volume and net income.

The volume and cost of our loan production is critical to our financial results. The loans we produce generate gains as they are sold to third parties. Loans we retain for securitization serve as collateral for our mortgage securities. We do not recognize gain on sale income on loans originated by us and retained in our investment portfolio as they are recorded at cost and will generate revenues through their maturity and ultimate repayment. As the cost basis of a retained loan is typically lower than loans purchased from third parties or already placed in a securitization, we would expect an incremental yield increase on these loans relative to their purchased counterparts.

The cost of our production is also critical to our financial results as it is a significant factor in the gains we recognize. In addition, the type of loan production is an important factor in recognizing gain on sale premiums. Beginning near the end of the first quarter of 2004, our volume of FHA loans increased. Generally, FHA loans have lower average balances and FICO scores which are reflected in the statistics above. All FHA loans are currently and will be in the future sold or brokered to third parties. The following table summarizes our loan production for the quarters ended June 30, 2006, March 31, 2006 and each quarter of 2005.

Number of	Aggregate Principal Balance
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