NEW YORK MORTGAGE TRUST INC
Form 10-Q
August 09, 2012
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _______ to ____________

Commission file number 001-32216

NEW YORK MORTGAGE TRUST, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	47-0934168
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

52 Vanderbilt Avenue, Suite 403, New York, New York 10017
(Address of Principal Executive Office) (Zip Code)

(212) 792-0107
(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 x No o

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

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

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company x

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

The number of shares of the registrant's common stock, par value $.01 per share, outstanding on August 6, 2012 was 22,544,374.

NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands)

	June 30, 2012	December 31, 2011
ASSETS	(unaudited)	
Investment securities available for sale, at fair value (including pledged securities of $131,449 and $129,942, respectively)	$157,886	$200,342
Investment securities available for sale, at fair value held in securitization trust	21,466	-
Residential mortgage loans held in securitization trusts (net)	196,378	206,920
Multi-family loans held in securitization trusts, at fair value	3,854,884	-
Derivative assets	274,716	208,218
Investment in limited partnership	1,530	8,703
Cash and cash equivalents	8,621	16,586
Receivable for securities sold	-	1,133
Receivables and other assets	62,425	40,803
Total Assets	$4,577,906	$682,705
LIABILITIES AND EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$138,871	$112,674
Residential collateralized debt obligations	190,637	199,762
Multi-family collateralized debt obligations, at fair value	3,768,116	-
Securitized debt	26,044	-
Derivative liabilities	3,213	2,619
Payable for securities purchased	273,981	228,300
Accrued expenses and other liabilities	19,053	8,043
Subordinated debentures	45,000	45,000
Total liabilities	4,464,915	596,398
Commitments and Contingencies		
Equity:		
Stockholders' equity		
Common stock, $0.01 par value, 400,000,000 authorized, 17,369,374 and 13,938,273 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	174	139
Additional paid-in capital	165,785	153,710
Accumulated other comprehensive income	15,919	11,292
Accumulated deficit	(68,887)	(79,863)
Total stockholders' equity	112,991	85,278
Noncontrolling interest	-	1,029
Total equity	112,991	86,307
Total Liabilities and Equity	$4,577,906	$682,705

See notes to condensed consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
INTEREST INCOME:				
Investment securities and other	$4,759	$5,052	$10,306	$7,316
Multi-family loans held in securitization trusts	18,804	-	31,004	-
Residential mortgage loans held in securitization trusts	1,428	1,430	2,772	2,860
Total interest income	24,991	6,482	44,082	10,176
INTEREST EXPENSE:				
Investment securities and other	500	355	952	694
Multi-family collaterized debt obligations	17,541	-	29,115	-
Residential collaterized debt obligations	332	356	691	735
Securitized debt	277	-	277	-
Subordinated debentures	500	470	999	936
Total interest expense	19,150	1,181	32,034	2,365
NET INTEREST INCOME	5,841	5,301	12,048	7,811
OTHER INCOME (EXPENSE):				
Provision for loan losses	(59)	(391)	(289)	(1,024)
Income from investment in limited partnership and limited liability company	358	499	728	1,283
Realized (loss) gain on investment securities and related hedges, net	(443)	3,283	626	5,474
Unrealized gain (loss) on investment securities and related hedges, net	171	(695)	(701)	(735)
Unrealized gain on multi-family loans and debt held in securitization trusts	2,205	-	4,228	-
Total other income	2,232	2,696	4,592	4,998
General, administrative and other expenses	2,659	3,454	5,327	5,747
Total general, administrative and other expenses	2,659	3,454	5,327	5,747
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	5,414	4,543	11,313	7,062
Income tax expense	467	363	467	363
INCOME FROM CONTINUING OPERATIONS	4,947	4,180	10,846	6,699
Income from discontinued operation - net of tax	42	9	33	4
NET INCOME	4,989	4,189	10,879	6,703
Net (loss) income attributable to noncontrolling interest	(148)	20	(97)	20
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$5,137	$4,169	$10,976	$6,683

Basic income per common share	$0.34	$0.44	$0.75	$0.71
Diluted income per common share	$0.34	$0.44	$0.75	$0.71
Dividends declared per common share	$0.27	$0.22	$0.52	$0.40
Weighted average shares outstanding-basic	15,262	9,447	14,630	9,440
Weighted average shares outstanding-diluted	15,262	9,447	14,630	9,440

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollar amounts in thousands)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$5,137	$4,169	$10,976	$6,683
OTHER COMPREHENSIVE INCOME (LOSS)				
Increase (decrease) in net unrealized gain on available for sale securities	240	(362)	4,454	3,088
Reclassification adjustment for net gain included in net income	-	(2,017)	-	(3,885)
Increase in fair value of derivative instruments utilized for cash flow hedges	62	149	173	409
OTHER COMPREHENSIVE INCOME (LOSS)	302	(2,230)	4,627	(388)
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$5,439	$1,939	$15,603	$6,295

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(Dollar amounts in thousands)
(unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-controlling Interest	Total
Balance, December 31, 2011	$139	$153,710	$ (79,863)	$ 11,292	$1,029	$86,307
Net income	-	-	10,976	-	(97)	10,879
Stock issuance, net	35	20,309	-	-	-	20,344
Dividends declared	-	(8,234)	-	-	-	(8,234)
Decrease in noncontrolling interest related to sale of interest in a mortgage loan held for investment	-	-	-	-	(932)	(932)
Increase in net unrealized gain on available for sale securities	-	-	-	4,454	-	4,454
Increase in fair value of derivative instruments utilized for cash flow hedges	-	-	-	173	-	173
Balance, June 30, 2012	$174	$165,785	$ (68,887)	$ 15,919	$-	$112,991

See notes to condensed consolidated financial statements.

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

	For the Six Months Ended June 30, 2012	2011
Cash Flows from Operating Activities:		
Net income	$10,879	$6,703
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization	4,526	410
Realized gain on investment securities and related hedges, net	(626)	(5,474)
Unrealized loss on investment securities and related hedges, net	701	735
Unrealized gain on loans and debt held in multi-family securitization trusts	(4,228)	-
Net decrease in loans held for sale	951	14
Provision for loan losses	289	1,024
Income from investment in limited partnership and limited liability company	(728)	(1,283)
Interest distributions from investment in limited partnership	181	383
Stock issuance expense	448	177
Changes in operating assets and liabilities:		
Receivables and other assets	(10,491)	(749)
Accrued expenses and other liabilities	11,202	1,452
Net cash provided by operating activities	13,104	3,392
Cash Flows from Investing Activities:		
Restricted cash	(14,151)	(2,828)
Purchases of reverse repurchase agreements	-	(18,000)
Purchases of investment securities	(17,374)	(87,585)
Proceeds from sales of investment securities	1,201	26,286
Issuance of mortgage loans held for investment	-	(2,520)
Proceeds from mortgage loans held for investment	3,318	4,989
Purchase of investment in limited liability company	-	(5,322)
Proceeds from investment in limited partnership	7,719	4,517
Net receipts on other derivative instruments settled during the period	3,837	-
Principal repayments received on mortgage loans held in securitization trusts	17,576	10,039
Principal paydowns on investment securities - available for sale	12,563	8,811
Purchases of investments held in multi-family securitization trusts	(80,959)	-
Net cash used in investing activities	(66,270)	(61,613)
Cash Flows from Financing Activities:		
Proceeds from financing arrangements	26,197	60,738
Stock issuance	20,189	-
Dividends paid	(8,422)	(5,475)
Payments made on collateralized debt obligations	(17,582)	(10,358)
Capital (distributed to) contributed by noncontrolling interest	(932)	932
Costs associated with common stock issued	(293)	(106)
Proceeds from securitized debt	26,044	-
Net cash provided by financing activities	45,201	45,731
Net Decrease in Cash and Cash Equivalents	(7,965)	(12,490)

Cash and Cash Equivalents - Beginning of Period	16,586	19,375
Cash and Cash Equivalents - End of Period	$8,621	$6,885
Supplemental Disclosure:		
Cash paid for interest	$2,238	$2,301
Non-Cash Investment Activities:		
Purchase of investment securities not yet settled	$273,981	$15,674
Consolidation of multi-family loans held in securitization trusts	$3,808,556	$-
Consolidation of multi-family collateralized debt obligations	$3,727,742	$-
Non-Cash Financing Activities:		
Dividends declared to be paid in subsequent period	$4,690	$-
Common stock subscribed included in subscription receivable	$-	$10,638

See notes to condensed consolidated financial statements.

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

(unaudited)

1. Summary of Significant Accounting Policies

Organization – New York Mortgage Trust, Inc., together with its consolidated subsidiaries ("NYMT," the "Company," "we," "our" and "us"), is a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and, to a lesser extent, financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes investments sourced from distressed markets in recent years as well as certain credit sensitive assets such as CMBS backed by commercial mortgage loans on multi-family properties ("multi-family CMBS") that create the potential for capital gains, as well as more interest rate sensitive mortgage-related investments, such as Agency RMBS consisting of adjustable-rate and hybrid adjustable-rate RMBS, which we sometimes refer to as Agency ARMs, and Agency RMBS comprised of IOs, which we sometimes refer to as Agency IOs, that generate interest income.

The Company conducts its business through the parent company, NYMT, and several subsidiaries, including special purpose subsidiaries established for residential loan and CMBS securitization purposes, taxable REIT subsidiaries ("TRSs") and qualified REIT subsidiaries ("QRSs"). The Company conducts certain of its portfolio investment operations through one of its wholly-owned TRSs, Hypotheca Capital, LLC ("HC"), in order to utilize, to the extent permitted by law, a portion of a net operating loss carry-forward held in HC that resulted from the Company's exit from the mortgage lending business. Prior to March 31, 2007, the Company conducted substantially all of its mortgage lending business through HC. The Company utilizes one of its wholly-owned QRSs, RB Commercial Mortgage LLC ("RBCM"), for its investments in multi-family CMBS assets, and, to a lesser extent, other commercial real estate-related debt investments. The Company utilizes another of its wholly-owned QRSs, NYMT-Midway LLC, and one of its wholly-owned TRSs, New York Mortgage Funding, LLC ("NYMF"), for its Agency IO portfolio managed by The Midway Group, L.P. ("Midway"). The Company consolidates all of its subsidiaries under generally accepted accounting principles in the United States of America ("GAAP").

The Company is organized and conducts its operations to qualify as a 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.

The following defines certain of the commonly used terms in these financial statements: "RMBS" refers to residential adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only and principal only mortgage-backed securities; "Agency RMBS" refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a federally chartered corporation ("GSE"), such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or an agency of the U.S. government, such as the Government National Mortgage Association ("Ginnie Mae"); "non-Agency RMBS" refers to RMBS backed by prime jumbo and Alternative A-paper ("Alt-A") mortgage loans; "IOs" refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans; "POs" refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; "ARMs" refers to adjustable-rate residential mortgage loans; “CMBS” refers to commercial mortgage-backed securities comprised of commercial mortgage pass-through securities, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans; and “CLO” refers to collateralized loan obligations.

Basis of Presentation – The condensed consolidated balance sheet as of December 31, 2011 has been derived from audited financial statements. The condensed consolidated balance sheet at June 30, 2012, the condensed consolidated statements of operations for the three and six months ended June 30, 2012 and 2011, the condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2012 and 2011, the condensed consolidated statement of equity for the six months ended June 30, 2012 and the condensed consolidated statements of cash flows for the six months ended June 30, 2012 and 2011 are unaudited. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company’s financial position, results of operations and cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission (“SEC”). The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the operating results for the full year.

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The condensed consolidated financial statements of the Company include the accounts of all subsidiaries; significant intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

Variable Interest Entities – An entity is referred to as a variable interest entity ("VIE") if it meets at least one of the following criteria: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support of other parties; or (2) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (3) have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionally few voting rights.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

Investment Securities Available for Sale – The Company's investment securities, where the fair value option has not been elected and which are reported at fair value with unrealized gains and losses reported in other comprehensive income ("OCI"), include RMBS that are issued by GSEs. Our investment securities are classified as available for sale securities. Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the condensed consolidated statements of operations. Purchase premiums or discounts on investment securities are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method. Adjustments to amortization are made for actual prepayment activity.

When the fair value of an investment security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities on at least a quarterly basis, and designates such impairments as either "temporary" or "other-than-temporary." If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then it must recognize an other-than-temporary impairment through earnings equal to the entire difference between the investment's amortized cost and its fair value at the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the other-than-temporary impairment related to credit losses is recognized through earnings with the remainder recognized as a component of other comprehensive income (loss) on the condensed consolidated balance sheet. Impairments recognized through other comprehensive income (loss) do not impact earnings. Following the recognition of an other-than-temporary impairment through earnings, a new cost basis is established for the security, which may not be adjusted for subsequent recoveries in fair value through earnings. However, other-than-temporary impairments recognized through earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an other-than-temporary impairment exists and, if so, the amount considered other-than-temporarily impaired is subjective, as such determinations are based on both factual and subjective information available at the time of assessment. As a result, the timing and amount of other-than-temporary impairments constitute material estimates that are susceptible to significant change.

The Company's investment securities available for sale also includes its investment in a wholly owned account referred to as our Agency IO portfolio. These investments primarily include interest only and inverse interest only securities sometimes referred to as IO's that represent the right to the interest component of the cash flow from a pool of mortgage loans that are guaranteed or issued by a GSE or government agency. The Agency IO portfolio investments include derivative investments not designated as hedging instruments for accounting purposes, with unrealized gains and losses recognized through earnings in the condensed consolidated statements of operations. The Company has elected the fair value option for these investment securities which also measures unrealized gains and losses through earnings in the condensed consolidated statements of operations, as the Company believes this accounting treatment more accurately and consistently reflects their results of operations.

Investment Securities Available for Sale Held in Securitization Trust – On May 23, 2012, the Company’s subsidiary, RB Commercial Trust 2012-RS1 (the “2012-RS1 Trust”), completed a re-securitization of multi-family CMBS collateralized by multi-family mortgage loans. As part of the re-securitization transaction, the 2012 RS-1 Trust issued a Class A Senior Note and a Class B Note (collectively, the “2012-RS1 Notes”). The Notes are secured by multi-family CMBS contributed to the 2012-RS1Trust by the Company. The multi-family CMBS contributed to the 2012-RS1 Trust are comprised of the Company’s interest in first loss securities and certain IO’s issued by the FREMF 2011-K13 Mortgage Trust Multi-Family Mortgage Pass-Through Certificates 2011-K13 (the “K-13 Series”), the FREMF 2011-K15 Mortgage Trust Multi-Family Mortgage Pass-Through Certificates Series 2011-K15 (the “K-15 Series”), and the FREMF 2012-K18 Mortgage Trust Multi-Family Pass-Through Certificates, Series 2012-K18 (the “K-18 Series”). The Company’s investment securities available for sale held in securitization trust are comprised of the first loss tranche PO security and certain IOs issued by the K-13 Series and K-15 Series that are held in the 2012 RS1 Trust. We determined that we were the primary beneficiary of the K-18 Series and have consolidated the entire K-18 Series securitization and related debt, interest income and expense in our financial statements. Refer to “–Multi-Family Loans Held in Securitization.”

Residential Mortgage Loans Held in Securitization Trusts – Residential mortgage loans held in securitization trusts are certain adjustable rate mortgage ("ARM") loans transferred to New York Mortgage Trust 2005-1, New York Mortgage Trust 2005-2 and New York Mortgage Trust 2005-3 that have been securitized into sequentially rated classes of beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the financial statements. Residential mortgage loans held in securitization trusts are carried at their unpaid principal balances, net of unamortized premium or discount, unamortized loan origination costs and allowance for loan losses.

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.

Allowance for Loan Losses on Residential Mortgage Loans Held in Securitization Trusts – We establish an allowance for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of residential mortgage loans held in securitization trusts.

Estimation involves the consideration of various credit-related factors including but not limited to, macro-economic conditions, the current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's current economic condition and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the current value of the collateralizing property. We utilize various home valuation methodologies including appraisals, broker pricing opinions, internet-based property data services to review comparable properties in the same area or consult with a realtor in the property's area.

Multi-Family Loans Held in Securitization Trusts – Multi-family loans held in securitization trusts are comprised of multi-family mortgage loans held in the COMM 2009-K3 Mortgage Trust (“K-3 Series”), the FREMF 2010-K6 Mortgage Trust, Multi-Family Mortgage Pass Through Certificates, Series 2010-K6 (the “K-6 Series”), and the K-18 Series (and together with the K-3 Series and the K-6 Series, the “Consolidated K-Series”). Based on a number of factors, we determined that we were the primary beneficiary of each VIE within the Consolidated K-Series, met the criteria for consolidation and, accordingly have consolidated these securitizations and their related debt, interest income and expense in our financial statements. The Company has elected the fair value option on each of the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series be reflected in the Company's statement of operations.

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 Loans Held for Investment – Mortgage loans held for investment are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances, and are included in receivables and other assets. Interest income is accrued on the principal amount of the loan based on the loan’s contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in interest income. Loans are considered to be impaired when it is probable that based upon current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Based on the facts and circumstances of the individual loans being impaired, loan specific valuation allowances are established for the excess carrying value of the loan over either: (i) the present value of expected future cash flows discounted at the loan’s original effective interest rate, (ii) the estimated fair value of the loan’s underlying collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or (iii) the loan’s observable market price.

Investment in Limited Partnership – The Company has an equity investment in a limited partnership and a limited liability company. In circumstances where the Company has a non-controlling interest but either owns a significant interest or is able to exert influence over the affairs of the enterprise, the Company utilizes the equity method of accounting. Under the equity method of accounting, the initial investment is increased each period for additional capital contributions and a proportionate share of the entity's earnings and decreased for cash distributions and a proportionate share of the entity's losses. Where the Company is not required to fund additional losses, the Company does not continue to record its proportionate share of the entity's losses such that its investment balance would go below zero.

Management periodically reviews its investments for impairment based on projected cash flows from the entity over the holding period. When any impairment is identified, the investments are written down to recoverable amounts.

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.

Receivables and Other Assets – Receivables and other assets include restricted cash held by third parties of $39.9 million which includes $27.0 million held in our Agency IO portfolio to be used for trading purposes and $12.7 million held by counterparties as collateral for hedging instruments at June 30, 2012. Also included is interest receivable on multi-family loans held in securitization trusts of $11.5 million.

Financing Arrangements, Portfolio Investments – Investment securities available for sale are typically financed with repurchase agreements, a form of collateralized borrowing which is secured by the securities on the balance sheet. Such financings are recorded at their outstanding principal balance with any accrued interest due recorded as an accrued expense.

Residential Collateralized Debt Obligations ("Residential CDOs") – We use Residential CDOs to permanently finance our residential mortgage loans held in securitization trusts. For financial reporting purposes, the ARM loans held as collateral are recorded as assets of the Company and the Residential CDOs are recorded as the Company's debt. The Company has completed four securitizations since inception, the first three were accounted for as a permanent financing and the fourth was accounted for as a sale and accordingly, not included in the Company's financial statements.

Multi-Family Collateralized Debt Obligations ("Multi-Family CDOs") – We consolidated the Consolidated K-Series and related debt, referred to as Multi-Family CDOs, in our financial statements. The Multi-Family CDOs permanently finance the multi-family mortgage loans held in the Consolidated K-Series securitizations. For financial reporting purposes, the loans held as collateral are recorded as assets of the Company and the Multi-Family CDOs are recorded as the Company's debt. We refer to both the Residential CDOs and Multi-Family CDOs as CDOs in this report.

Securitized Debt – On May 23, 2012, the 2012-RS1 Trust, a subsidiary of the Company, completed a re-securitization of multi-family CMBS collateralized by multi-family mortgage loans. As part of the re-securitization transaction, the 2012-RS1 Trust issued the 2012-RS1 Notes, which are secured by the multi-family CMBS contributed to the 2012-RS1 Trust. The multi-family CMBS contributed to the 2012-RS1 Trust are comprised of the Company's interest in the first loss tranche (PO securities) and certain IOs issued by the K-13 Series, K-15 Series and the K-18 Series. The Company has consolidated the 2012-RS1 Trust on its financial statements beginning with the quarter ended June 30, 2012.

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 condensed 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 interest rate and prepayment risk associated with its securities investment activities.

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 and investment banks who meet established credit and capital guidelines.

The Company invests in To-Be-Announced securities ("TBAs") through its Agency IO portfolio. TBAs are forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are "To-Be-Announced." Pursuant to these TBA transactions, we agree to purchase or sell, for future settlement, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. For TBA contracts that we have entered into, we have not asserted that physical settlement is probable, therefore we have not designated these forward commitments as hedging instruments. Realized and unrealized gains and losses associated with these TBAs are recognized through earnings in the condensed consolidated statements of operations.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is 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.

For instruments that are not designated or qualify as a cash flow hedge, such as our use of U.S. Treasury securities or Eurodollar futures contracts, any realized and unrealized gains and losses associated with these instruments are recognized through earnings in the condensed consolidated statement of operations.

Termination of Hedging Relationships – The Company employs 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 un-designate 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.

Revenue Recognition – Interest income on our investment securities and on our mortgage loans is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with investment securities and mortgage loans at the time of purchase or origination are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Interest income on our credit sensitive securities, such as our non-Agency RMBS and certain of our CMBS that were purchased at a discount to par value, is recognized based on the security's effective interest rate. The effective interest rate on these securities is based on management's estimate from each security of the projected cash flows, which are estimated based on the Company's assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities.

Based on the projected cash flows from the Company's first loss principal only CMBS purchased at a discount to par value, a portion of the purchase discount is designated as non-accretable purchase discount or credit reserve, which partially mitigates the Company's risk of loss on the mortgages collateralizing such CMBS, and is not expected to be accreted into interest income. The amount designated as a credit reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit reserve is more favorable than forecasted, a portion of the amount designated as credit reserve may be accreted into interest income over time. Conversely, if the performance of a security with a credit reserve is less favorable than forecasted, the amount designated as credit reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

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

Other Comprehensive Income (Loss) – Other comprehensive income (loss) is comprised primarily of 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.

Employee Benefits 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. The Company made no contributions to the Plan for the six months ended June 30, 2012 and 2011.

Stock Based Compensation – Compensation expense for equity based awards and stock issued for services are recognized over the vesting period of such awards and services, based upon the fair value of the stock at the grant date.

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. Distribution of 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.

HC and NYMF are TRSs and therefore are subject to federal and state income taxes. Accordingly, 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.

Accounting Standards Codification Topic 740 Accounting for Income Taxes ("ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. In situations involving uncertain tax positions related to income tax matters, we do not recognize benefits unless it is more likely than not that they will be sustained. ASC 740 was applied to all open taxable years as of the effective date. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based on factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof. The Company will recognize interest and penalties, if any, related to uncertain tax positions as income tax expense.

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.

A Summary of Recent Accounting Pronouncements Follows:

Transfers and Servicing (ASC 860)

In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements. ASU 2011-03 is intended to improve financial reporting of repurchase agreements ("repos") and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. In a typical repo transaction, an entity transfers financial assets to a counterparty in exchange for cash with an agreement for the counterparty to return the same or equivalent financial assets for a fixed price in the future. FASB Accounting Standards Codification ("Codification") Topic 860, Transfers and Servicing, prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repo agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. The amendments to the Codification in this ASU are intended to improve the accounting for these transactions by removing from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. The guidance in the ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU 2011-03 did not have an effect on our financial condition, results of operations and disclosures.

Fair Value Measurements (ASC 820)

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 represents the converged guidance of the FASB and the IASB (the "Boards") on fair value measurements. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this ASU are required to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not affect our financial condition or results of operations but required us to add additional disclosures.

Balance Sheet (ASC 210)

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The update requires new disclosures about balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective January 1, 2013 and is to be applied retrospectively. The adoption of ASU 2011-11 will have an effect on our disclosures but we do not expect the adoption to have an effect on our financial condition or results of operations.

2. Investment Securities Available For Sale

Investment securities available for sale consist of the following as of June 30, 2012 (dollar amounts in thousands):

	Amortized Costs	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS	$ 135,268	$ 2,952	$ (10,007)	$ 128,213
Non-Agency RMBS	3,605	—	(733)	2,872
CLOs	11,697	15,104	—	26,801
Total	$ 150,570	$ 18,056	$ (10,740)	$ 157,886

Included in investment securities available for sale as of June 30, 2012 are Agency IOs. Agency IOs are measured at fair value through earnings and consist of the following as of June 30, 2012 (dollar amounts in thousands):

	Amortized Costs	Unrealized Gains	Unrealized Losses	Carrying Value
IOs included in Agency RMBS:				
Federal National Mortgage Association ("Fannie Mae")	$ 32,549	$ 643	$ (4,775)	$ 28,417
Federal Home Loan Mortgage Corporation ("Freddie Mac")	24,043	108	(2,725)	21,426
Government National Mortgage Association ("Ginnie Mae")	22,530	491	(2,495)	20,526
Total	$ 79,122	$ 1,242	$ (9,995)	$ 70,369

Investment securities available for sale held in securitization trust consist of the following as of June 30, 2012 (dollar amounts in thousands):

	Amortized Costs	Unrealized Gains	Unrealized Losses	Carrying Value
CMBS	$ 21,486	$ 476	$ (496)	$ 21,466
Total	$ 21,486	$ 476	$ (496)	$ 21,466

Investment securities available for sale consist of the following as of December 31, 2011 (dollar amounts in thousands):

	Amortized Costs	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS	$ 139,639	$ 2,327	$ (9,509)	$ 132,457
CMBS	42,221	128	(1,164)	41,185
Non-Agency RMBS	5,156	—	(1,211)	3,945
CLO	10,262	12,493	—	22,755
Total	$ 197,278	$ 14,948	$ (11,884)	$ 200,342

Included in investment securities available for sale as of December 31, 2011 are Agency IOs. Agency IOs are measured at fair value through earnings and consist of the following as of December 31, 2011 (dollar amounts in thousands):

	Amortized Costs	Unrealized Gains	Unrealized Losses	Carrying Value
Interest only securities included in Agency RMBS:				
Fannie Mae	$ 31,079	$ 490	$ (3,908)	$ 27,661
Freddie Mac	19,477	142	(2,554)	17,065
Ginnie Mae	21,656	304	(3,004)	18,956
Total	$ 72,212	$ 936	$ (9,466)	$ 63,682

During the three and six months ended June 30, 2012, the Company received total proceeds of $0 and approximately $1.2 million, respectively, realizing $0 and approximately $1.1 million, respectively, of losses from the sale of investment securities available for sale. During the three and six months ended June 30, 2011, the Company received total proceeds of approximately $4.3 million and $8.1 million, respectively, realizing approximately $2.5 million and $4.7 million, respectively, of profit before incentive fee to Harvest Capital Strategies LLC (“HCS”) from the sale of investment securities available for sale.

Actual maturities of our available for sale securities are generally shorter than stated contractual maturities (which range up to 30 years), as they are affected by the contractual lives of the underlying mortgages, periodic payments and prepayments of principal. As of June 30, 2012 and December 31, 2011, the weighted average life of the Company’s available for sale securities portfolio was approximately 4.82 and 5.24 years, respectively.

The following tables set forth the stated reset periods of our investment securities available for sale at June 30, 2012 (dollar amounts in thousands):

June 30, 2012	Less than 6 Months	More than 6 Months To 24 Months	More than 24 Months	Total
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
Agency RMBS	$ 64,954	$ 40,788	$ 22,471	$ 128,213
Non-Agency RMBS	2,872	—	—	2,872
CLO	26,801	—	—	26,801

Total	$	94,627	$	40,788	$	22,471	$	157,886

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The following tables set forth the stated reset periods of our investment securities available for sale held in securitization trust at June 30, 2012 (dollar amounts in thousands):

June 30, 2012	Less than 6 Months	More than 6 Months To 24 Months	More than 24 Months	Total
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
CMBS	$ —	$ —	$ 21,466	$ 21,466
Total	$ —	$ —	$ 21,466	$ 21,466

The following tables set forth the stated reset periods of our investment securities available for sale at December 31, 2011 (dollar amounts in thousands):

December 31, 2011	Less than 6 Months	More than 6 Months To 24 Months	More than 24 Months	Total
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
Agency RMBS	$ 74,983	$ 29,210	$ 28,264	$ 132,457
CMBS	—	—	41,185	41,185
Non-Agency RMBS	3,945	—	—	3,945
CLO	22,755	—	—	22,755
Total	$ 101,683	$ 29,210	$ 69,449	$ 200,342

The following tables present the Company's investment securities available for sale in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2012 (dollar amounts in thousands):

June 30, 2012	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Agency RMBS	$ 9,723	$ 12	$ —	$ —	$ 9,723	$ 12
Non-Agency RMBS	—	—	2,872	733	2,872	733
Total	$ 9,723	$ 12	$ 2,872	$ 733	$ 12,595	$ 745

The following tables present the Company's investment securities available for sale held in securitization trust in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2012 (dollar amounts in thousands):

June 30, 2012	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses

CMBS	$ 15,128	$ 496	$ —	$ —	$ 15,128	$ 496
Total	$ 15,128	$ 496	$ —	$ —	$ 15,128	$ 496

The following table presents the Company's investment securities available for sale in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2011 (dollar amounts in thousands):

December 31, 2011	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Agency RMBS	$ 13,718	$ 43	$ —	$ —	$ 13,718	$ 43
CMBS	13,396	1,164	—	—	13,396	1,164
Non-Agency RMBS	—	—	3,944	1,211	3,944	1,211
Total	$ 27,114	$ 1,207	$ 3,944	$ 1,211	$ 31,058	$ 2,418

For the six months ended June 30, 2012, the Company did not have unrealized losses in investment securities that were deemed other-than-temporary. For the year ended December 31, 2011, the Company recognized a $0.3 million other-than-temporary impairment through earnings relating to unrealized losses in investment securities.

3. Residential Mortgage Loans Held in Securitization Trusts (Net) and Real Estate Owned

Residential mortgage loans held in securitization trusts (net) consist of the following at June 30 2012 and December 31, 2011, respectively (dollar amounts in thousands):

	June 30, 2012	December 31, 2011
Mortgage loans principal amount	$ 197,724	$ 208,934
Deferred origination costs – net	1,258	1,317
Reserve for loan losses	(2,604)	(3,331)
Total	$ 196,378	$ 206,920

Allowance for Loan losses - The following table presents the activity in the Company's allowance for loan losses on residential mortgage loans held in securitization trusts for the six months ended June 30, 2012 and 2011, respectively (dollar amounts in thousands):

	Six Months Ended June 30,	
	2012	2011
Balance at beginning of period	$ 3,331	$ 2,589
Provisions for loan losses	298	769
Transfer to real estate owned	(898)	(16)
Charge-offs	(127)	(445)
Balance at the end of period	$ 2,604	$ 2,897

On an ongoing basis, the Company evaluates the adequacy of its allowance for loan losses. The Company’s allowance for loan losses at June 30, 2012 was $2.6 million, representing 132 basis points of the outstanding principal balance of residential loans held in securitization trusts as of June 30, 2012, as compared to 159 basis points as of December 31, 2011. As part of the Company’s allowance for loan adequacy analysis, management will assess an overall level of allowances while also assessing credit losses inherent in each non-performing residential mortgage loan held in securitization trusts. These estimates involve the consideration of various credit related factors, including but not limited to, current housing market conditions, current loan to value ratios, delinquency status, the borrower’s current economic and credit status and other relevant factors.

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Real Estate Owned – The following table presents the activity in the Company's real estate owned held in residential securitization trusts for the six months ended June 30, 2012 and the year ended December 31, 2011, respectively (dollar amounts in thousands):

	June 30, 2012	December 31, 2011
Balance at beginning of period	$ 454	$ 740
Write downs	(20)	(87)
Transfer from mortgage loans held in securitization trusts	1,570	698
Disposal	(542)	(897)
Balance at the end of period	$ 1,462	$ 454

Real estate owned held in residential securitization trusts are included in receivables and other assets on the balance sheet and write downs are included in provision for loan losses in the statement of operations for reporting purposes.

All of the Company's mortgage loans and real estate owned held in residential securitization trusts are pledged as collateral for the Residential CDOs issued by the Company. As of June 30, 2012 and December 31, 2011, the Company's net investment in the residential securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the loans and real estate owned held in residential securitization trusts and the amount of Residential CDOs outstanding, was $7.2 million and $7.6 million, respectively.

Delinquency Status of Our Residential Mortgage Loans Held in Securitization Trusts

As of June 30, 2012, we had 31 delinquent loans with an aggregate principal amount outstanding of approximately $17.9 million categorized as Residential Mortgage Loans Held in Securitization Trusts (net). Of the $17.9 million in delinquent loans, $16.1 million, or 90%, are under some form of modified payment plan. The table below shows delinquencies in our portfolio of residential mortgage loans held in securitization trusts, including real estate owned through foreclosure (REO), as of June 30, 2012 (dollar amounts in thousands):

June 30, 2012

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	2	$ 706	0.35%
61-90	1	$ 843	0.42%
90+	28	$ 16,376	8.19%
Real estate owned through foreclosure	7	$ 2,266	1.13%

As of December 31, 2011, we had 38 delinquent loans with an aggregate principal amount outstanding of approximately $21.0 million categorized as Residential Mortgage Loans Held in Securitization Trusts (net). Of the $21.0 million in delinquent loans, $18.0 million, or 86%, were under some form of modified payment plan. The table below shows delinquencies in our portfolio of residential mortgage loans held in securitization trusts, including real estate owned through foreclosure (REO), as of December 31, 2011 (dollar amounts in thousands):

December 31, 2011

Days Late	Number of Delinquent	Total Dollar Amount	% of Loan Portfolio

	Loans			
30-60	2	$	517	0.25%
61-90	1	$	378	0.18%
90+	35	$	20,138	9.61%
Real estate owned through foreclosure	3	$	656	0.31%

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4. Multi-Family Loans Held in Securitization Trusts

The Company has elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series will be reflected in the Company's statement of operations. We first consolidated the K-3 Series for the quarter ended March 31, 2012, while the K-6 and K-18 Series were first consolidated in our financial statements during the quarter ended June 30, 2012. Our investment in the K-3, K-6 and K-18 Series is limited to the first loss tranche PO securities and/or certain IOs issued by these securitizations with an aggregate carrying value of $86.8 million at June 30, 2012.

The condensed balance sheet of the Consolidated K-Series at June 30, 2012 is as follows (dollar amounts in thousands):

Assets	June 30, 2012
Multi-family loans held in securitization trusts	$ 3,854,884
Receivables	11,512
Total Assets	$ 3,866,396
Liabilities & Equity	
Multi-family CDOs	$ 3,768,116
Accrued expenses	11,306
Total Liabilities	3,779,422
Equity	86,974
Total Liabilities & Equity	$ 3,866,396

The condensed statements of operations of the Consolidated K-Series for the three and six months ended June 30, 2012, respectively, is as follows (dollar amounts in thousands):

Statement of Operations	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Interest income	$18,804	$31,004
Interest expense	17,541	29,115
Net interest income	1,263	1,889
Unrealized gain on multi-family loans and debt held in securitization trusts	2,205	4,228
Net Income	$3,468	$6,117

5. Use of Special Purpose Entities and Variable Interest Entities

A Special Purpose Entity (“SPE”) is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or re-securitizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying securitized financial assets on improved terms. Securitization involves transferring assets to an SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business through the SPE’s issuance of debt or equity instruments. Investors in an SPE usually have recourse only to the assets in the SPE and depending on the overall structure of the transaction, may benefit from various forms of credit enhancement, such as over-collateralization in the form of excess assets in the SPE, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or a line of credit or other form of liquidity agreement that is designed with the objective of ensuring that investors receive principal and/or interest cash flow on the investment in accordance with the terms of their investment agreement.

Re-securitization transaction

In May 2012, the Company entered into a re-securitization transaction that resulted in the Company consolidating as a VIE the SPE that was created to facilitate the transaction and to which the underlying assets in connection with the re-securitization were transferred. On May 23, 2012, the Company completed a re-securitization of multi-family CMBS through the 2012-RS1 Trust. The Company received net cash proceeds of approximately $26.0 million after deducting expenses associated with the re-securitization transaction.

As part of the re-securitization transaction, the 2012-RS1 Trust, a subsidiary of NYMT, issued a Class A Senior Note (the "Class A Note") with a coupon of 5.35% in the initial aggregate principal face amount of $35 million. The Class A Note was issued at a discount that provides for a bond equivalent yield of 9.50% to the purchaser. The Class A Note holder is entitled to receive all distributions of principal and interest from the multi-family CMBS pledged to secure the Class A Note until the Class A Note is fully retired, which is expected to occur by January 2022. NYMT will then receive all remaining cash flow, if any, through the Class B Note issued by the 2012-RS1 Trust and its retained ownership in the 2012-RS1 Trust. The transaction effectively represents a long term structured financing of the multi-family CMBS contributed to the 2012-RS1 Trust by NYMT. The Class A Note is not callable due to collateral valuation or performance. There is no guarantee that the Company will receive any cash flow or its residual interest from the trust.

The 2012-RS1 Trust classified the multi-family CMBS issued by the K-13 Series and K-15 Series and held by the 2012-RS1 Trust as available for sale securities as the purpose is not to trade these securities. Available for sale securities are reported at fair value and unrealized gains and losses are recognized in other comprehensive income, not in earnings.

The 2012-RS1 Trust consolidated the K-18 Series securitization and its related debt, interest income and expense in its financial statements. See “Multi-Family Loans Held in Securitization Trust” (footnote 1 above). Based on a number of factors discussed below, the Company determined that it was the primary beneficiary of the K-18 Series and has consolidated the K-18 Series and related debt, interest income and expense in its financial statements. The Company has elected the fair value option on the assets and liabilities held within the K-18 Series, which requires that changes in valuations in the assets and liabilities of the K-18 Series be reflected in the Company’s condensed consolidated statement of operations.

The Company engaged in the re-securitization transaction primarily for the purpose of obtaining non-recourse financing on a portion of its CMBS portfolio. As a result of engaging in this transaction, the Company remains economically exposed to the first loss position on the underlying CMBS transferred to the VIE.

The activities that can be performed by an entity created to facilitate a re-securitization transaction are predominantly specified in the entity's formation documents. Those documents do not permit the entity, any beneficial interest holder in the entity, or any other party associated with the entity to cause the entity to sell or replace the assets held by the entity, or to limit such ability to specific events of default.

The Company concluded that the entity created to facilitate this transaction, the 2012-RS1 Trust, is a VIE. The Company then completed an analysis of whether the VIE should be consolidated by the Company, based on consideration of its involvement in the VIE, including the design and purpose of the SPE, and whether its involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of the VIE. In determining whether the Company would be considered the primary beneficiary, the following factors were assessed:

- whether the Company has both the power to direct the activities that most significantly impact the economic performance of the VIE; and

- whether the Company has a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE.

Based on its evaluation of the factors discussed above, including its involvement in the purpose and design of the entity, the Company determined that the VIE met the criteria for consolidation and accordingly consolidated the VIE created to facilitate this re-securitization transaction.

As of June 30, 2012, the aggregate fair value of the multi-family CMBS that were re-securitized as described above was $46.0 million. These assets are included in the Company's condensed consolidated balance sheet and disclosed as "Investment securities available for sale, at fair value held in securitization trust" and "Multi-family loans held in securitization trusts" in the amount of $21.5 million and $3.9 billion, respectively. As of June 30, 2012, the aggregate outstanding balance of the Class A Note issued by the 2012-RS1 Trust was $26.0 million. The Class A Note is included in the Company's condensed consolidated balance sheet and disclosed as "Securitized debt". The holders of the Class A Note have no recourse to the general credit of the Company, but the Company does have the obligation, under certain circumstances to repurchase assets from the VIE upon the breach of certain representations and warranties in relation to the CMBS contributed to the VIE. In the absence of such a breach, the Company has no obligation to provide any other explicit or implicit support to the VIE.

The Company has also determined that it has a variable interest in the K-3 Series, K-6 Series and K-18 Series for which it is the primary beneficiary and has a controlling financial interest and accordingly has consolidated the K-3, K-6 and K-18 Series and related debt, interest income and expense in our financial statements.

6. Investment in Limited Partnership

The Company has a non-controlling, unconsolidated limited partnership interest in an entity that is accounted for using the equity method of accounting. Capital contributions, distributions, and profits and losses of the entity are allocated in accordance with the terms of the limited partnership agreement. The Company owns 100% of the equity of the limited partnership, but has no decision-making powers, and therefore does not consolidate the limited partnership. Our maximum exposure to loss in this VIE is $1.4 million and $8.5 million at June 30, 2012 and December 31, 2011, respectively. During the third and fourth quarters of 2010, HC invested, in exchange for limited partnership interests, $19.4 million in this limited partnership that was formed for the purpose of acquiring, servicing, selling or otherwise disposing of first-lien residential mortgage loans. The pool of mortgage loans was acquired by the partnership at a significant discount to the loans' unpaid principal balance.

For the three and six months ended June 30, 2012, the Company recognized income from the investment in limited partnership of $0.4 million and $0.7 million, respectively. For the three and six months ended June 30, 2011, the Company recognized income from the investment in limited partnership of $0.4 million and $1.2 million, respectively. For the three and six months ended June 30, 2012, the Company received distributions from the investment in limited partnership of $4.0 million and $7.9 million, respectively. For the three and six months ended June 30, 2011, the

Company received distributions from the investment in limited partnership of $2.1 million and $4.9 million, respectively.

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The condensed balance sheets of the investment in limited partnership at June 30, 2012 and December 31, 2011, respectively, are as follows (dollar amounts in thousands):

Assets	June 30, 2012	December 31, 2011
Cash	$ 336	$ 1,154
Mortgage loans held for sale (net)	1,310	6,918
Other assets	49	661
Total Assets	$ 1,695	$ 8,733
Liabilities & Partners' Equity		
Other liabilities	$ 256	$ 206
Partners' equity	1,439	8,527
Total Liabilities & Partners' Equity	$ 1,695	$ 8,733

The condensed statements of operations of the investment in limited partnership for the three and six months ended June 30, 2012 and 2011, respectively, are as follows (dollar amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Statement of Operations	2012	2011	2012	2011
Interest income	$76	$353	$294	$761
Realized gain	432	179	705	785
Total Income	508	532	999	1,546
Other expenses	(150)	(85)	(271)	(315)
Net Income	$358	$447	$728	$1,231

7. Derivative Instruments and Hedging Activities

The Company enters into derivative instruments to manage its interest rate risk exposure. These derivative instruments include interest rate swaps and futures. The Company may also purchase or short TBAs and U.S. Treasury securities, purchase put or call options on U.S. Treasury futures or invest in other types of mortgage derivative securities.

The following table presents the fair value of derivative instruments held in our Agency IO portfolio that were not designated as hedging instruments and their location in our condensed consolidated balance sheets at June 30, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	June 30, 2012	December 31, 2011
TBA securities	Derivative assets	$ 274,349	$ 207,891
Options on U.S. Treasury futures	Derivative assets	367	327
U.S. Treasury futures	Derivative liabilities	558	566
Eurodollar futures	Derivative liabilities	2,523	1,749

The tables below summarize the activity of derivative instruments not designated as hedges for the six months ended June 30, 2012 and 2011, respectively (dollar amounts in thousands):

Derivatives Not Designated as Hedging Instruments	Notional Amount For the Six Months Ended June 30, 2012			
	December 31, 2011	Additions	Settlement, Expiration or Exercise	June 30, 2012
TBA securities	$ 202,000	$ 1,328,000	$ (1,269,000)	$ 261,000
U.S. Treasury futures	(92,800)	497,800	(538,800)	(133,800)
Short sales of Eurodollar futures	(2,422,000)	1,128,000	(1,361,000)	(2,655,000)
Options on U.S. Treasury futures	199,500	651,500	(676,500)	174,500

Derivatives Not Designated as Hedging Instruments	Notional Amount For the Six Months Ended June 30, 2011			
	December 31, 2010	Additions	Settlement, Expiration or Exercise	June 30, 2011
TBA securities	$ —	$ 44,000	$ (30,000)	$ 14,000
U.S. Treasury futures	—	187,700	(172,100)	15,600
Short sales of Eurodollar futures	—	394,000	(3,140,000)	(2,746,000)
Options on U.S. Treasury futures	—	186,500	(98,500)	88,000

The TBAs in our Agency IO portfolio are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our condensed consolidated statements of operations. The use of TBAs exposes the Company to market value risk, as the market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price. For the three and six months ended June 30, 2012, we recorded net realized gains of $5.0 million and $8.3 million, respectively, and net unrealized gains of $2.5 million and $0.2 million, respectively. For the three and six months ended June 30, 2011, we recorded net realized gains of $29,000 and $28,000, respectively. For the three and six months ended June 30, 2011, we recorded net unrealized gains of $33,000 and net unrealized losses of $33,000, respectively. At June 30, 2012, our condensed consolidated balance sheet includes TBA-related liabilities of $274.0 million included in payable for securities purchased. Open TBA purchases and sales involving the same counterparty, same underlying deliverable and the same settlement date are reflected in our consolidated financial statements on a net basis.

The Eurodollar futures in our Agency IO portfolio are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our condensed consolidated statements of operations. For the three and six months ended June 30, 2012, we recorded net realized losses of $0.8 million and $0.8 million, respectively, and net unrealized gains of $0.3 million and net unrealized losses of $0.8 million, respectively, in our Eurodollar futures contracts. For each of the three and six months ended June 30, 2011, we recorded net realized losses of $0.2 million and net unrealized losses of $1.8 million in our Eurodollar futures contracts. The Eurodollar futures consist of 2,655 contracts with expiration dates ranging between September 2012 and September 2014.

The U.S. Treasury futures and options in our Agency IO portfolio are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our condensed consolidated statements of operations. For the three and six months ended June 30, 2012, we recorded net realized losses of $4.6 million and $5.8 million, respectively, and unrealized losses of $1.2 million and unrealized gains of $0.1 million, respectively. For each of the three and six months ended June 30, 2011, we recorded net realized gains of $0.8 million and net unrealized losses of $0.1 million.

The following table presents the fair value of derivative instruments designated as hedging instruments and their location in the Company's condensed consolidated balance sheets at June 30, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	June 30, 2012	December 31, 2011
Interest Rate Swaps	Derivative liabilities	$ 132	$ 304

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The following table presents the impact of the Company's derivative instruments on the Company's accumulated other comprehensive income (loss) for the six months ended June 30, 2012 and 2011, respectively (dollar amounts in thousands):

Derivatives Designated as Hedging Instruments	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Accumulated other comprehensive income (loss) for derivative instruments:		
Balance at beginning of the period	$ (304)	$ (1,087)
Unrealized gain on interest rate swaps	172	409
Balance at end of the period	$ (132)	$ (678)

The Company estimates that over the next 12 months, approximately $0.1 million of the net unrealized losses on the interest rate swaps will be reclassified from accumulated other comprehensive income (loss) into earnings.

The following table details the impact of the Company's interest rate swaps included in interest expense for the three and six months ended June 30, 2012 and 2011, respectively (dollar amounts in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest Rate Swaps:				
Interest expense-investment securities	$64	$223	$192	$503

The Company's interest rate swaps are designated as cash flow hedges against the benchmark interest rate risk associated with its short term repurchase agreements. There were no costs incurred at the inception of our interest rate swaps, under which the Company agrees to pay a fixed rate of interest and receive a variable interest rate based on one month LIBOR, on the notional amount of the interest rate swaps. The Company's interest rate swap notional amounts are based on an amortizing schedule fixed at the start date of the transaction.

The Company documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities, and upon entering into hedging transactions, documents the relationship between the hedging instrument and the hedged liability contemporaneously. The Company assesses, both at inception of a hedge and on an on-going basis, whether or not the hedge is "highly effective" when using the matched term basis.

The Company discontinues hedge accounting on a prospective basis and recognizes changes in the fair value through earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a hedge is no longer appropriate. The Company's derivative instruments are carried on the Company's balance sheet at fair value, as assets, if their fair value is positive, or as liabilities, if their fair value is negative. For the Company's derivative instruments that are designated as "cash flow hedges," changes in their fair value are recorded in accumulated other comprehensive income (loss), provided that the hedges are effective. A change in fair value for any ineffective amount of the Company's derivative instruments would be recognized in earnings. The Company has not recognized any change in the value of its existing derivative instruments designated as cash flow hedges through earnings as a result of ineffectiveness of any of its hedges.

The following table presents information about the Company's interest rate swaps as of June 30, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

	June 30, 2012		December 31, 2011	
Maturity (1)	Notional Amount	Weighted Average Fixed Pay Interest Rate	Notional Amount	Weighted Average Fixed Pay Interest Rate
Within 30 Days	$ 130	2.93%	$ 14,930	3.02%
Over 30 days to 3 months	240	2.93	260	2.93
Over 3 months to 6 months	440	2.93	380	2.93
Over 6 months to 12 months	8,380	2.93	810	2.93
Over 12 months to 24 months	—		8,380	2.93
Total	$ 9,190	2.93%	$ 24,760	2.99%

(1) The Company enters into scheduled amortizing interest rate swap transactions whereby the Company pays a fixed rate of interest and receives one month LIBOR.

Interest Rate Swaps, Futures Contracts and TBAs - The use of interest rate swaps ("Swaps") exposes the Company to counterparty credit risks in the event of a default by a Swap counterparty. If a counterparty defaults under the applicable Swap agreement, the Company may be unable to collect payments to which it is entitled under its Swap agreements, and may have difficulty collecting the assets it pledged as collateral against such Swaps. The Company currently has in place with all outstanding Swap counterparties bi-lateral margin agreements thereby requiring a party to post collateral to the Company for any valuation deficit. This arrangement is intended to limit the Company's exposure to losses in the event of a counterparty default.

The Company is required to pledge assets under a bi-lateral margin arrangement, including either cash or Agency RMBS, as collateral for its interest rate swaps, futures contracts and TBAs, whose collateral requirements vary by counterparty and change over time based on the market value, notional amount, and remaining term of the agreement. In the event the Company is unable to meet a margin call under one of its agreements, thereby causing an event of default or triggering an early termination event under one of its agreements, the counterparty to such agreement may have the option to terminate all of such counterparty's outstanding transactions with the Company. In addition, under this scenario, any close-out amount due to the counterparty upon termination of the counterparty's transactions would be immediately payable by the Company pursuant to the applicable agreement. The Company believes it was in compliance with all margin requirements under its agreements as of June 30, 2012 and December 31, 2011. The Company had $12.7 million and $9.1 million of restricted cash related to margin posted for its agreements as of June 30, 2012 and December 31, 2011, respectively. The restricted cash held by third parties is included in receivables and other assets in the accompanying condensed consolidated balance sheets.

8. Financing Arrangements, Portfolio Investments

The Company has entered into repurchase agreements with third party financial institutions to finance its investment portfolio. The repurchase agreements are short-term borrowings that bear interest rates typically based on a spread to LIBOR, and are secured by the securities which they finance. At June 30, 2012, the Company had repurchase agreements with an outstanding balance of $138.9 million and a weighted average interest rate of 1.79%. As of December 31, 2011, the Company had repurchase agreements with an outstanding balance of $112.7 million and a weighted average interest rate of 0.71%. At June 30, 2012 and December 31, 2011, securities pledged by the Company as collateral for repurchase agreements had estimated fair values of $131.4 million and $129.9 million, respectively. As of June 30, 2012, the average days to maturity for all repurchase agreements are 34 days.

The follow table summarizes outstanding repurchase agreement borrowings secured by portfolio investments as of June 30, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

Repurchase Agreements by Counterparty

Counterparty Name	June 30, 2012	December 31, 2011
Cantor Fitzgerald, L.P.	$ 10,203	$ 9,225
Credit Suisse First Boston LLC	9,876	11,147
Jefferies & Company, Inc.	35,969	18,380
JPMorgan Chase & Co.	62,292	49,226
South Street Securities LLC	20,531	24,696
Total Financing Arrangements, Portfolio Investments	$ 138,871	$ 112,674

As of June 30, 2012, the outstanding balance under our repurchase agreements was funded at an advance rate of 78% that implies an average haircut of 22%. The weighted average “haircut” related to our repurchase agreement financing for our Agency ARMs, Agency IOs, CLOs and CMBS was approximately 6%, 25%, 35% and 53%, respectively, for a total weighted average “haircut” of 22%. The amount at risk for Credit Suisse First Boston LLC, South Street Securities LLC, Jefferies & Company, Inc., JPMorgan Chase & Co. and Cantor Fitzgerald, L.P. are $0.7 million, $1.0 million, $33.8 million, $4.5 million and $5.1 million, respectively.

In the event we are unable to obtain sufficient short-term financing through repurchase agreements or otherwise, or our lenders start to require additional collateral, we may have to liquidate our investment securities at a disadvantageous time, which could result in losses. Any losses resulting from the disposition of our investment securities in this manner could have a material adverse effect on our operating results and net profitability.

As of June 30, 2012, the Company had $8.6 million in cash and $33.9 million in unencumbered investment securities to meet additional haircut or market valuation requirements, including $11.0 million of RMBS, of which $8.1 million are Agency RMBS. The $8.6 million of cash and the $11.0 million in RMBS (which, collectively, represents 14% of our financing arrangements, portfolio investments) are liquid and could be monetized to pay down or collateralize the liability immediately. There is also an additional $27.0 million held in overnight deposits in our Agency IO portfolio included in restricted cash that is available to meet margin calls as it relates to our Agency IO portfolio repurchase agreements.

9. Residential Collateralized Debt Obligations

The Company’s Residential CDOs, which are recorded as liabilities on the Company’s balance sheet, are secured by ARM loans pledged as collateral, which are recorded as assets of the Company. As of June 30, 2012 and December

31, 2011, the Company had Residential CDOs outstanding of $190.6 million and $199.8 million, respectively. As of June 30, 2012 and December 31, 2011, the current weighted average interest rate on these CDOs was 0.69% and 0.68%, respectively. The Residential CDOs are collateralized by ARM loans with a principal balance of $197.7 million and $208.9 million at June 30, 2012 and December 31, 2011, respectively. The Company retained the owner trust certificates, or residual interest for three securitizations, and, as of June 30, 2012 and December 31, 2011, had a net investment in the residential securitization trusts of $7.2 million and $7.6 million, respectively.

10. Multi-Family Collateralized Debt Obligations

The Company's Multi-Family CDOs, which represent the CDOs issued by the Consolidated K-Series and are recorded as liabilities on the Company's balance sheet, are secured by multi-family mortgage loans pledged as collateral, which are recorded as assets of the Company. As of June 30, 2012, the current weighted average interest rate on these CDOs was 5.10%. The Multi-Family CDOs are collateralized by multi-family mortgage loans with a principal balance of $3.5 billion at June 30, 2012. The Company had a net investment in the Consolidated K-Series of $86.8 million.

11. Securitized Debt

On May 23, 2012, the 2012-RS1 Trust, a subsidiary of the Company, completed a re-securitization of multi-family CMBS collateralized by multi-family mortgage loans. As part of the re-securitization transaction, the 2012-RS1 Trust issued the 2012-RS1 Notes, which are secured by the multi-family CMBS contributed to the 2012-RS1 Trust. The multi-family CMBS contributed to the 2012-RS1 Trust are comprised of the Company's interest in the first loss tranche (PO securities) and certain IOs issued by the K-13 Series, K-15 Series and the K-18 Series. We determined that we were the primary beneficiary of the K-18 Series and accordingly have consolidated the K-18 Series and related debt, interest income and expense in our financial statements with our other consolidated K-3 Series and K-6 Series, however, the K-18 Series is held in a re-securitization.

The 2012-RS1 Trust issued a Class A Senior Note (the "Note") with a coupon of 5.35% in the initial aggregate principal face amount of $35 million. The Note was issued at a discount that provides for a bond equivalent yield of 9.50% to the purchaser. The Note holder will be entitled to receive all distributions of principal and interest from the Multifamily CMBS pledged to secure the Note until the Note is fully retired, which is expected to occur by January 2022. NYMT will then receive all remaining cash flow, if any, through its retained ownership in the 2012-RS1 Trust. The transaction effectively represents a long term structured financing of the Multifamily CMBS contributed to the 2012-RS1 Trust by NYMT. The Note is not callable due to collateral valuation or performance. There is no guarantee that the Company will receive any cash flow or its residual interest in the trust. As of June 30, 2012, the Company had securitized debt outstanding of $26.0 million.

12. Discontinued Operation

In connection with the sale of our mortgage origination platform assets during the quarter ended March 31, 2007, we classified our mortgage lending segment as a discontinued operation. As a result, we have reported revenues and expenses related to the segment as a discontinued operation for all periods presented in the accompanying condensed consolidated financial statements. Certain assets, such as the deferred tax asset, and certain liabilities, such as subordinated debentures and liabilities related to lease facilities not sold, are part of our ongoing operations and accordingly, we have not included these items as part of the discontinued operation. Assets and liabilities related to the discontinued operation are $3.1 million and $0.4 million, respectively, at June 30, 2012, and $4.0 million and $0.5 million, respectively, at December 31, 2011, and are included in receivables and other assets and accrued expenses and other liabilities in the condensed consolidated balance sheets.

Statements of Operations Data

The statements of operations of the discontinued operation for the three and six months ended June 30, 2012 and 2011, respectively, are as follows (dollar amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011

Revenues	$40	$57	$77	$101
Expenses	(2)	48	44	97
Income from discontinued operations – net of tax	$42	$9	$33	$4

13. Commitments and Contingencies

Loans Sold to Third Parties – The Company sold its discontinued mortgage lending business in March 2007. In the normal course of business, the Company is obligated to repurchase loans based on violations of representations and warranties in the loan sale agreements. The Company did not repurchase any loans during the six months ended June 30, 2012. At June 30, 2012, the Company had a reserve of approximately $0.3 million.

Outstanding Litigation – The Company is at times subject to various legal proceedings arising in the ordinary course of business. As of June 30, 2012, the Company does not believe that any of its current legal proceedings, individually or in the aggregate, will have a material adverse effect on its operations, financial condition or cash flows.

14. Concentrations of Credit Risk

At June 30, 2012 and December 31, 2011, there were geographic concentrations of credit risk exceeding 5% of the total loan balances as follows:

Residential mortgage loans held in securitization trusts and real estate owned held in residential securitization trusts:	June 30, 2012	December 31, 2011
New York	37.8%	37.5%
Massachusetts	25.4%	24.6%
New Jersey	9.3%	9.2%
Florida	5.1%	5.7%
Connecticut	4.8%	5.1%

CMBS investments and multi-family loans held in securitization trusts:	June 30, 2012	December 31, 2011
Texas	12.9%	14.3%
California	11.8%	9.3%
New York	6.4%	7.2%
Georgia	4.8%	6.7%
Washington	5.2%	6.3%
Florida	5.7%	5.5%

15. Fair Value of Financial Instruments

The Company has established and documented processes for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that primarily use inputs that are market-based or independently-sourced market parameters, including interest rate yield curves.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following describes the valuation methodologies used for the Company's financial instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

a. Investment Securities Available for Sale (RMBS) – Fair value for the RMBS in our portfolio is based on quoted prices provided by dealers who make markets in similar financial instruments. The dealers will incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. If quoted prices for a security are not reasonably available from a dealer, the security will be re-classified as a Level 3 security and, as a result, management will determine the fair value based on characteristics of the security that the Company receives from the issuer and based on available market information. Management reviews all prices used in determining valuation to ensure they represent current market conditions. This review includes surveying similar market transactions, comparisons to interest pricing models as well as offerings of like securities by dealers. The Company's investment securities that are comprised of RMBS are valued based upon readily observable market parameters and are classified as Level 2 fair values.

b. Investment Securities Available for Sale Held in Securitization Trust (CMBS)– As the Company's CMBS investments are comprised of securities for which there are not substantially similar securities that trade frequently, the Company classifies these securities as Level 3 fair values. Fair value of the Company's CMBS investments is based on an internal valuation model that considers expected cash flows from the underlying loans and yields required by market participants. The significant unobservable inputs used in the measurement of these investments are projected losses of certain identified loans within the pool of loans and a discount rate. The discount rate used in determining fair value incorporates default rate, loss severity and current market interest rates. The discount rate ranges from 6.0% to 16.7%. Significant increases or decreases in these inputs would result in a significantly lower or higher fair value measurement. We also obtain quoted prices provided by dealers who make markets in similar financial instruments.

c. Multi-Family Loans Held in Securitization Trusts – Multi-family loans held in securitization trusts are recorded at fair value and classified as Level 3 fair values. Fair value is based on an internal valuation model that considers expected cash flows from the underlying loans and yields required by market participants. The significant unobservable inputs used in the measurement of these investments are discount rates. The discount rate used in determining fair value incorporates default rate, loss severity and current market interest rates. The discount rate ranges from 3.1% to 6.8%. Significant increases or decreases in these inputs would result in a significantly lower or higher fair value measurement. We also obtain quoted prices provided by dealers who make markets in similar financial instruments.

d. Investment Securities Available for Sale (CLO) – The fair value of the CLO notes was based on quoted prices provided by dealers who make markets in similar financial instruments. The Company classifies these securities as Level 2 fair values.

e. Investment Securities Available for Sale – The fair value of other investment securities available for sale, such as U.S. Treasury securities, are based on quoted prices provided by dealers who make markets in similar financial instruments and are typically classified as Level 2 fair values.

f. Derivative Instruments – The fair value of interest rate swaps, options and TBAs are based on dealer quotes. The fair value of futures are based on exchange-traded prices. The Company's derivatives are classified as Level 1 and Level 2 fair values.

g. Multi-Family CDOs – The fair value of Multi-Family CDOs is based on contractual cash payments and yields expected by market participants. We also obtain quoted market prices provided by dealers who make markets in similar securities.

The following table presents the Company’s financial instruments measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011, respectively, on the Company’s condensed consolidated balance sheets (dollar amounts in thousands):

	Measured at Fair Value on a Recurring Basis at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investment securities available for sale:				
Agency RMBS				