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AMERICAN HOME MORTGAGE INVESTMENT CORP

Form 10-Q

July 29, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-31916  
-----

AMERICAN HOME MORTGAGE INVESTMENT CORP.

-----  
(Exact Name of Registrant as Specified in its Charter)

Maryland 20-0103914

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

538 Broadhollow Road, Melville, New York 11747

-----  
(Address of Principal Executive Offices) (Zip Code)

(516) 949-3900

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

-----  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 25, 2005, there were 40,565,425 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (Unaudited)  
(Dollars in thousands, except per share amounts)

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Assets:

Cash and cash equivalents  
Accounts receivable and servicing advances  
Mortgage-backed securities (including securities pledged of \$6,534,770 as of  
June 30, 2005 and \$5,968,969 as of December 31, 2004)  
Mortgage loans held for sale, net  
Mortgage loans held for investment, net  
Derivative assets  
Mortgage servicing rights, net  
Premises and equipment, net  
Goodwill  
Other assets

Total assets

Liabilities and Stockholders' Equity:

Liabilities:

Warehouse lines of credit  
Drafts payable  
Commercial paper  
Reverse repurchase agreements  
Collateralized debt obligations  
Derivative liabilities  
Trust preferred securities  
Accrued expenses and other liabilities  
Notes payable  
Income taxes payable

Total liabilities

Commitments and contingencies

Stockholders' Equity:

Preferred Stock, par value \$0.01 per share, 10,000,000 shares authorized:  
9.75% Series A Cumulative Redeemable, 2,150,000 shares issued and outstanding  
as of June 30, 2005 and December 31, 2004, respectively  
9.25% Series B Cumulative Redeemable, 3,450,000 shares issued and outstanding  
as of June 30, 2005 and December 31, 2004, respectively  
Common stock, par value \$0.01 per share, 100,000,000 shares authorized,  
40,538,479 and 40,288,077 shares issued and outstanding as of June 30, 2005  
and December 31, 2004, respectively  
Additional paid-in capital  
Retained earnings  
Accumulated other comprehensive loss

Total stockholders' equity

Total liabilities and stockholders' equity

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
(In thousands, except per share amounts)

|                                                                      | Three Mo<br>Ended Jun  |
|----------------------------------------------------------------------|------------------------|
|                                                                      | -----<br>2005<br>----- |
| Net interest income:                                                 |                        |
| Interest income                                                      | \$ 135,318             |
| Interest expense                                                     | (90,336)               |
|                                                                      | -----                  |
| Total net interest income                                            | 44,982                 |
|                                                                      | -----                  |
| Non-interest income:                                                 |                        |
| Gain on sales of mortgage loans                                      | 77,377                 |
| Gain on sales of current period securitized mortgage loans           | 104,377                |
| Gain (loss) on sales of mortgage-backed securities and derivatives   | 620                    |
| Unrealized (loss) gain on mortgage-backed securities and derivatives | (10,292)               |
|                                                                      |                        |
| Loan servicing fees                                                  | 16,970                 |
| Amortization of mortgage servicing rights                            | (12,832)               |
| Impairment (provision) recovery of mortgage servicing rights         | (20,398)               |
|                                                                      | -----                  |
| Net loan servicing (loss) fees                                       | (16,260)               |
|                                                                      | -----                  |
| Other non-interest income                                            | 2,543                  |
|                                                                      | -----                  |
| Total non-interest income                                            | 158,365                |
|                                                                      | -----                  |
| Non-interest expenses:                                               |                        |
| Salaries, commissions and benefits, net                              | 94,859                 |
| Occupancy and equipment                                              | 14,397                 |
| Data processing and communications                                   | 5,957                  |
| Office supplies and expenses                                         | 5,657                  |
| Marketing and promotion                                              | 5,126                  |
| Travel and entertainment                                             | 5,427                  |
| Professional fees                                                    | 3,432                  |
| Other                                                                | 6,843                  |
|                                                                      | -----                  |
| Total non-interest expenses                                          | 141,698                |
|                                                                      | -----                  |
| Net income before income tax benefit                                 | 61,649                 |
| Income tax benefit                                                   | (3,851)                |
|                                                                      | -----                  |
| Net income                                                           | \$ 65,500              |
|                                                                      | =====                  |
| Dividends on preferred stock                                         | 3,304                  |
|                                                                      | -----                  |
| Net income available to common shareholders                          | \$ 62,196              |
|                                                                      | =====                  |

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Per share data:

|                                             |         |
|---------------------------------------------|---------|
| Basic                                       | \$ 1.54 |
| Diluted                                     | \$ 1.52 |
| Weighted average number of shares - basic   | 40,384  |
| Weighted average number of shares - diluted | 40,886  |

See notes to consolidated financial statements.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)  
SIX MONTHS ENDED JUNE 30, 2005 AND 2004  
(In thousands)

|                                                                                   | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings |
|-----------------------------------------------------------------------------------|--------------------|-----------------|----------------------------------|----------------------|
|                                                                                   | -----              | -----           | -----                            | -----                |
| Balance at January 1, 2004                                                        | \$ --              | \$ 252          | \$ 281,432                       | \$ 121,029           |
| Comprehensive income:                                                             |                    |                 |                                  |                      |
| Net income                                                                        | --                 | --              | --                               | 54,705               |
| Net change in unrealized loss on<br>mortgage-backed securities available for sale | --                 | --              | --                               | --                   |
| Net change in unrealized gain on cash flow<br>hedges, net of amortization         | --                 | --              | --                               | --                   |
| Comprehensive income                                                              |                    |                 |                                  |                      |
| Issuance of common stock - offering                                               | --                 | 144             | 339,647                          | --                   |
| Issuance of common stock - earnouts                                               | --                 | 2               | 4,692                            | --                   |
| Issuance of common stock, 1999 Omnibus<br>Stock Incentive Plan                    | --                 | 3               | 1,833                            | --                   |
| Tax benefit from stock options exercised                                          | --                 | --              | 1,599                            | --                   |
| Dividends declared on common stock                                                | --                 | --              | --                               | (41,219)             |
| Balance at June 30, 2004                                                          | \$ --              | \$ 401          | \$ 629,203                       | \$ 134,515           |
| Balance at January 1, 2005                                                        | \$ 134,040         | \$ 403          | \$ 631,530                       | \$ 99,628            |
| Comprehensive income:                                                             |                    |                 |                                  |                      |
| Net income                                                                        | --                 | --              | --                               | 190,880              |
| Net change in unrealized loss on<br>mortgage-backed securities available for sale | --                 | --              | --                               | --                   |
| Net change in unrealized gain on cash flow<br>hedges, net of amortization         | --                 | --              | --                               | --                   |
| Comprehensive income                                                              |                    |                 |                                  |                      |
| Issuance of common stock - earnouts                                               | --                 | 2               | 5,851                            | --                   |
| Issuance of common stock, 1999 Omnibus<br>Stock Incentive Plan                    | --                 | --              | 1,214                            | --                   |
| Dividends declared on Series A preferred stock                                    | --                 | --              | --                               | (2,620)              |
| Dividends declared on Series B preferred stock                                    | --                 | --              | --                               | (3,990)              |
| Dividends declared on common stock                                                | --                 | --              | --                               | (59,456)             |

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|                          |            |        |            |            |
|--------------------------|------------|--------|------------|------------|
| Balance at June 30, 2005 | \$ 134,040 | \$ 405 | \$ 638,595 | \$ 224,442 |
|--------------------------|------------|--------|------------|------------|

See notes to consolidated financial statements.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(In thousands)

|                                                                                             | Three Months Ended<br>June 30, |          |
|---------------------------------------------------------------------------------------------|--------------------------------|----------|
|                                                                                             | 2005                           | 2004     |
| Cash flows from operating activities:                                                       |                                |          |
| Net income                                                                                  | \$ 65,500                      | \$ 33,4  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                |          |
| Depreciation and amortization                                                               | 2,739                          | 1,9      |
| Amortization and impairment of mortgage servicing rights                                    | 33,230                         | 5        |
| Accretion and amortization of mortgage-backed securities, net                               | (1,169)                        | 7,2      |
| Deferred cash flow hedge gain, net of amortization                                          | 1,738                          | 1,8      |
| Loss (gain) on sales of mortgage-backed securities and derivatives                          | 447                            | 4,2      |
| Unrealized (gain) loss on mortgage-backed securities                                        | (4,533)                        | 20,9     |
| Unrealized loss (gain) on free standing derivatives                                         | 25,903                         | (41,4    |
| Additions to mortgage servicing rights on securitized loans                                 | (62,629)                       | (22,5    |
| Additions to mortgage servicing rights on sold loans                                        | (4,027)                        | (6,2     |
| (Increase) decrease in interest rate lock commitments                                       | (6,264)                        | 21,6     |
| (Increase) decrease in mortgage loan basis adjustments                                      | (10,584)                       | 15,6     |
| Other                                                                                       | (2,155)                        | 2,8      |
| (Increase) decrease in operating assets:                                                    |                                |          |
| Accounts receivable and servicing advances                                                  | (13,540)                       | (20,0    |
| Other assets                                                                                | 28,147                         | (1,5     |
| Increase (decrease) in operating liabilities:                                               |                                |          |
| Accrued expenses and other liabilities                                                      | (1,269)                        | 41,2     |
| Income taxes payable                                                                        | (6,497)                        | (12,5    |
| Forward delivery contracts                                                                  | 13,930                         | 9,2      |
| Origination of mortgage loans held for sale                                                 | (10,647,029)                   | (6,619,6 |
| Proceeds from sales and repayments of mortgage loans                                        | 4,457,519                      | 4,643,5  |
| Proceeds from securitizations and repayments of mortgage loans                              | 5,855,914                      | 1,876,4  |
| Additions to mortgage-backed securities                                                     | (466,522)                      | (1,470,2 |
| Proceeds from sales of mortgage-backed securities                                           | 1,104,227                      | 121,4    |
| Principal repayments of mortgage-backed securities                                          | 195,711                        | 72,6     |
| Net cash provided by (used in) operating activities                                         | 558,787                        | (1,319,2 |
| Cash flows from investing activities:                                                       |                                |          |
| Purchases of premises and equipment                                                         | (8,194)                        | (5,2     |
| Origination of mortgage loans held for investment                                           | (133,757)                      |          |
| Purchases of mortgage-backed securities                                                     | (933,929)                      | (2,557,3 |
| Proceeds from sales of mortgage-backed securities                                           | 20,962                         | 208,2    |

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|                                                           |            |          |
|-----------------------------------------------------------|------------|----------|
| Principal repayments of mortgage-backed securities        | 361,049    | 218,8    |
| Other                                                     | --         | 1        |
|                                                           | -----      | -----    |
| Net cash (used in) provided by investing activities       | (693,869)  | (2,135,3 |
|                                                           | -----      | -----    |
| Cash flows from financing activities:                     |            |          |
| Increase (decrease) in warehouse lines of credit, net     | 7,011      | (579,3   |
| (Decrease) increase in reverse repurchase agreements, net | (382,537)  | 3,018,5  |
| Decrease in collateralized debt obligations               | --         |          |
| Increase in payable for securities purchased              | --         | 289,2    |
| Increase in commercial paper, net                         | 433,302    | 1,047,0  |
| (Decrease) increase in drafts payable, net                | (1,853)    | 21,9     |
| Increase in trust preferred securities                    | 48,414     |          |
| Proceeds from issuance of common stock                    | 587        | 3        |
| Dividends paid                                            | (31,950)   | (7,5     |
| Increase in notes payable, net                            | 96,721     | 8        |
|                                                           | -----      | -----    |
| Net cash provided by (used in) financing activities       | 169,695    | 3,791,0  |
|                                                           | -----      | -----    |
| Net increase in cash and cash equivalents                 | 34,613     | 336,3    |
| Cash and cash equivalents, beginning of period            | 162,762    | 97,5     |
|                                                           | -----      | -----    |
| Cash and cash equivalents, end of period                  | \$ 197,375 | \$ 433,9 |
|                                                           | =====      | =====    |
| Supplemental disclosure of cash flow information:         |            |          |
| Interest paid                                             | \$ 120,860 | \$ 23,3  |
| Income taxes paid                                         | 673        |          |

See notes to consolidated financial statements.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - American Home Mortgage Investment Corp. ("AHM Investment") is a mortgage REIT focused on earning net interest income from purchased and self-originated mortgage-backed securities, and through its taxable subsidiaries, on earning income from originating and selling mortgage loans and servicing mortgage loans for institutional investors. Mortgages are originated through a network of loan origination offices as well as through mortgage brokers and are serviced at the Company's Irving, Texas servicing center. As used herein, references to the "Company," "American Home," "we," "our" and "us" refer to AHM Investment collectively with its subsidiaries.

Basis of Presentation - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's estimates and assumptions primarily arise from risks and uncertainties associated with interest rate volatility, prepayment volatility, credit exposure and regulatory changes.

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Although management is not currently aware of any factors that would significantly change its estimates and assumptions in the near term, future changes in market trends and conditions may occur which could cause actual results to differ materially. When necessary, certain reclassifications of prior year financial statement amounts have been made to conform to the current year presentation.

The unaudited consolidated financial statements included herein have been prepared in conformity with generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Management believes all adjustments considered necessary for a fair presentation have been included. The consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's report on Form 10-K/A for the year ended December 31, 2004.

Due to the Company's exercising significant influence on the operations of its joint ventures, their balances and operations have been fully consolidated in the accompanying consolidated financial statements and all intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, amounts due from banks and overnight deposits. The carrying amount of cash and cash equivalents approximates its fair value.

Mortgage-backed Securities - Mortgage-backed securities are classified as either trading or available for sale. Trading securities are reported at fair value, and changes in fair value are reported in unrealized gain on mortgage-backed securities and derivatives in the consolidated statements of income. Available for sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income (loss). Realized gains and losses on sales of available for sale securities are determined on an average cost basis and included in gain on sales of mortgage-backed securities and derivatives.

When the fair value of an available for sale security is less than amortized cost, management evaluates whether there is an other than temporary impairment in the value of the security (e.g., whether the security is likely to be sold prior to the recovery of fair value) based on estimated credit losses, prepayment speeds and the length of time in an unrealized loss position. If, in management's assessment, an other-than-temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and the unrealized loss is transferred from accumulated other comprehensive income as an immediate reduction of current earnings (i.e., as if the loss had been realized in the period of impairment). Premiums and discounts on the Company's mortgage-backed securities held in available for sale are amortized to interest income using the level yield method over the estimated life of the security.

Mortgage Loans Held for Sale - Mortgage loans held for sale are carried at the lower of cost or aggregate market value. The cost basis includes the capitalized value of the prior interest rate lock commitments ("IRLCs") related to the mortgage loans and any net deferred origination costs. For mortgage loans held for sale that are hedged with forward sale commitments, if the Company meets hedge accounting requirements, the carrying value is adjusted for the change in market during the time the hedge was deemed to be highly effective. The market value is determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate basis.



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Mortgage Loans Held for Investment - Mortgage loans held for investment are carried at the aggregate of their remaining unpaid principal balances, less any related charge-offs, net deferred origination costs and allowance for loan losses. Loan fees and direct origination costs are deferred and amortized into interest income over the contractual life of the loan using the level-yield method.

Mortgage Servicing Rights - Mortgage servicing rights ("MSRs") are carried at the lower of cost or fair value, based on defined interest rate risk strata, and are amortized in proportion to and over the period of estimated net servicing income. When the Company sells certain loans and retains the servicing rights, it allocates the cost basis of the loans between the assets sold and the MSRs based on their relative fair values on the date of sale.

The Company estimates the fair value of its MSRs by obtaining market information from one of the primary MSR brokers. When the book value of capitalized MSRs exceeds its fair value, impairment is recognized through a valuation allowance. In determining impairment, our mortgage servicing portfolio is stratified by the predominant risk characteristic of the underlying mortgage loans. The Company has determined that the predominant risk characteristic is the interest rate on the underlying loans. The Company measures impairment for each stratum by comparing the estimated fair value to the recorded book value. Temporary impairment is recorded through a valuation allowance and amortization expense in the period of occurrence. In addition, the Company periodically evaluates its MSRs for other-than-temporary impairment to determine if the carrying value before the application of the valuation allowance is recoverable. The Company receives a sensitivity analysis of the estimated fair value of its MSRs assuming a 200-basis-point instantaneous increase in interest rates from an independent MSR broker. The fair value estimate includes changes in market assumptions that would be expected given the increase in mortgage rates (e.g., prepayment speeds would be lower). The Company believes this 200-basis-point increase in mortgage rates to be an appropriate threshold for determining the recoverability of the temporary impairment because that size rate increase is foreseeable and consistent with historical mortgage rate fluctuations. When using this instantaneous change in rates, if the fair value of the strata of MSRs is estimated to increase to a point where all of the impairment would be recovered, the impairment is considered to be temporary. When the Company determines that a portion of the MSRs is not recoverable, the related MSRs and the previously established valuation allowance are correspondingly reduced to reflect other than temporary impairment.

Premises and Equipment - Premises and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated service lives of the premises and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or service lives of the improvements using the straight-line method. Depreciation and amortization are recorded within occupancy and equipment expense in the consolidated statements of income.

Goodwill - Goodwill represents the excess purchase price over the fair value of net assets acquired from business acquisitions. The Company tests for impairment at least annually and will test for impairment more frequently if events or circumstances indicate that an asset may be impaired. The Company tests for impairment by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. The discounted cash flow calculation related to the Company's loan origination segment includes a forecast of the expected future loan originations and the related revenues and expenses. The discounted cash flow calculation related to the Company's mortgage-backed securities holdings segment includes a forecast of the expected future net interest income,

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gain on mortgage-backed securities and the related revenues and expenses. These cash flows are discounted using a rate that is estimated to be a weighted-average cost of capital for similar companies. We further test to ensure that the fair value of all of our business units does not exceed our total market capitalization.

Reverse Repurchase Agreements - The Company has entered into reverse repurchase agreements to finance certain of its investments. These agreements are secured by a portion of the Company's investments and bear interest rates that have historically moved in close relationship to the London Inter-Bank Offer Rate ("LIBOR"). Reverse repurchase agreements are accounted for as borrowings and recorded as a liability on the consolidated balance sheet.

Collateralized Debt Obligations - The Company has issued adjustable-rate collateralized debt obligations to finance certain portions of its mortgage loans held for sale. The collateralized debt obligations are collateralized by adjustable rate mortgage ("ARM") loans held for sale that have been placed in a trust and bear interest rates that have historically moved in close relationship to the LIBOR. Collateralized debt obligations are accounted for as borrowings and recorded as a liability on the consolidated balance sheet.

Commercial Paper - The Company formed a wholly owned special purpose entity for the purpose of issuing commercial paper in the form of short-term Secured Liquidity Notes ("SLNs") to finance certain portions of the Company's mortgage loans held for sale. The commercial paper is secured by the Company's loans held for sale, mortgage-backed securities and cash and bears interest at prevailing money market rates approximating LIBOR. Commercial paper is accounted for as a borrowing and recorded as a liability on the consolidated balance sheet.

Drafts Payable - Drafts payable represent outstanding mortgage loan disbursements that the Company has provided to its customers for the purchase of a home. The amounts outstanding do not bear interest and are transferred into one of the Company's warehouse facilities when they are presented to a bank.

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Derivative Financial Instruments - The Company has developed risk management programs and processes designed to manage market risk associated with normal business activities.

Interest Rate Lock Commitments ("IRLCs"). The Company's mortgage committed pipeline includes IRLCs that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria. The Company classifies and accounts for the IRLCs associated with loans expected to be sold or securitized as free-standing derivatives. Accordingly, IRLCs are recorded at fair value with changes in fair value recorded to current earnings. The fair value of the IRLCs initiated on or before March 31, 2004 is determined by an estimate of the ultimate gain on sale of the loans, including the value of MSR, net of estimated net costs to originate the loan. In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 105 ("SAB No. 105"), which provided industry guidance that changed the timing of recognition of the value of MSR for IRLCs initiated after March 31, 2004. In SAB No. 105, the SEC stated that the value of expected future cash flows related to MSR should be excluded when determining the fair value of derivative IRLCs. Under the new policy, the value of the expected future cash flows related to MSR is not recognized until the underlying loans are sold.

Forward Delivery Commitments Used to Hedge IRLCs. The Company uses mortgage forward delivery contracts to economically hedge the IRLCs, which are also classified and accounted for as free-standing derivatives and thus are recorded

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at fair value with the changes in fair value recorded to current earnings.

Forward Delivery Commitments Used to Hedge Mortgage Loans Held for Sale. The Company's risk management objective for its mortgage loans held for sale is to protect earnings from an unexpected charge due to a decline in value. The Company's strategy is to engage in a risk management program involving the use of mortgage forward delivery contracts designated as fair value hedging instruments to hedge 100% of its agency-eligible conforming loans and most of its non-conforming loans held for sale. At the inception of the hedge, to qualify for hedge accounting, the Company formally documents the relationship between the forward delivery contracts and the mortgage inventory as well as its objective and strategy for undertaking the hedge transaction. For conventional conforming fixed-rate loans, the notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount of the mortgage inventory being hedged; hence, the forward delivery contracts effectively fix the forward sales price and thereby substantially eliminate interest rate and price risk to the Company. The Company classifies and accounts for these forward delivery contracts as fair value hedges. The derivatives are carried at fair value with the changes in fair value recorded to current earnings. When the hedges are deemed highly effective, the book value of the hedged loans held for sale is adjusted for its change in fair value during the hedge period.

Interest Rate Swap Agreements. The Company enters into interest rate swap agreements which require it to pay a fixed interest rate and receive a variable interest rate based on LIBOR. The fair value of interest rate swap agreements is based on the net present value of estimated future interest payments over the remaining life of the interest rate swap agreement. All changes in the unrealized gains and losses on swap agreements designated as cash flow hedges have been recorded in accumulated other comprehensive income (loss) and are reclassified to earnings as interest expense is recognized on the Company's hedged borrowings. For interest rate swap agreements accounted for as cash flow hedges, the net amount accrued for the variable interest receivable and fixed interest payable affects the amount recorded as interest expense. If it becomes probable that the forecasted transaction, which in this case refers to interest payments to be made under the Company's short-term borrowing agreements, will not occur by the end of the originally specified time period, as documented at the inception of the hedging relationship, or within an additional two-month time period thereafter, then the related gain or loss in accumulated other comprehensive income (loss) would be reclassified to income. Certain swap agreements are designated as cash flow hedges against the benchmark interest rate risk associated with the Company's borrowings. Although the terms and characteristics of the Company's swap agreements and hedged borrowings are nearly identical, due to the explicit requirements of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Company does not account for these hedges under a method defined in SFAS No. 133 as the "shortcut" method, but rather the Company calculates the effectiveness of these hedges on an ongoing basis, and, to date, has calculated effectiveness of approximately 100%. The Company classifies and accounts for interest rate swap agreements that are not designated as cash flow hedges as free-standing derivatives. Accordingly, these swap agreements are recorded at fair value with changes in fair value recorded to current earnings as a component of unrealized gain on mortgage-backed securities and derivatives as they are used to offset the price change exposure of mortgage-backed securities classified as trading. For interest rate swap agreements accounted for as free-standing derivatives, the net amount accrued for the variable interest receivable and fixed interest payable is recorded in current earnings as unrealized gain on mortgage-backed securities and derivatives.

Termination of Hedging Relationships. The Company employs a number of risk management monitoring procedures to ensure that the designated hedging relationships are demonstrating, and are expected to continue to demonstrate, a

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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 de-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 in their value recorded in earnings.

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**Gain on Sale of Loans** - The Company recognizes gain on sale of loans for the difference between the sales price and the adjusted book value of the loans at the time of sale. The adjusted book value of the loans includes the original principal amount plus adjustments related to previously recognized income plus deferrals of fees and points received and direct loan origination costs.

**Loan Origination Fees and Direct Origination Costs** - The Company records loan fees, discount points and certain direct origination costs as an adjustment of the cost of the loan or security and such amounts are included in revenues when the loan or security is sold. When loans are securitized and held as securities available for sale, net deferred origination costs are amortized over the life of the security using the level-yield method and such amounts are included in interest income. When loans are securitized and held as trading securities, net deferred origination costs are an adjustment to the cost of the security and such amounts affect the amount recorded as unrealized gain on mortgage-backed securities and derivatives. Gain on sales of mortgage loans and salaries, commissions and benefits have been reduced by \$65.2 million and \$47.8 million due to direct loan origination costs, including commission costs, incurred for the six months ended June 30, 2005 and 2004, respectively.

**Interest Recognition** - The Company accrues interest income as it is earned. Loans are placed on a nonaccrual status when any portion of the principal or interest is 90 days past due or earlier when concern exists as to the ultimate collectibility of principal or interest. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible. Interest expense is recorded on outstanding lines of credit at a rate based on a spread to the LIBOR.

The Company enters into interest rate swap agreements which require it to pay a fixed interest rate and receive a variable interest rate based on the LIBOR. For interest rate swap agreements accounted for as cash flow hedges, the net amount accrued for the variable interest receivable and fixed interest payable affects the amount recorded as interest expense. For interest rate swap agreements accounted for as free-standing derivatives, the net amount accrued for the variable interest receivable and fixed interest payable is recorded in current earnings as unrealized gain on mortgage-backed securities and derivatives.

**Servicing Fees** - The Company recognizes servicing fees when the fees are collected.

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

**Income Taxes** - The Company accounts for income taxes in conformity with SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for accounting and reporting of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences ("temporary differences") attributable to the differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and

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liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. A valuation allowance is provided for deferred tax assets where realization is not considered "more likely than not." The Company recognizes the effect of changes in tax laws or rates on deferred tax assets and liabilities in the period that includes the enactment date.

Stock Option Plans - In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). The Company has elected to account for the Plan using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and to provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value based method, as required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123," had been applied.

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The following table presents pro forma net income available to common shareholders, basic earnings per share and diluted earnings per share had compensation cost been determined based on the fair value at the grant dates for awards under the Plan:

|                                                                                                                                                 | Three Months<br>Ended June 30 |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------|
| (In thousands, except per share data)                                                                                                           | 2005                          | 2004      |
| Net income available to common<br>shareholders - as reported                                                                                    | \$ 62,196                     | \$ 30,196 |
| Less: Total stock-based employee compensation<br>expense determined under fair value based<br>method for all awards, net of related tax effects | (342)                         | (342)     |
| Net income available to common<br>shareholders - pro forma                                                                                      | \$ 61,854                     | \$ 29,854 |
| Earnings per share:                                                                                                                             |                               |           |
| Basic - as reported                                                                                                                             | \$ 1.54                       | \$ 1.54   |
| Basic - pro forma                                                                                                                               | \$ 1.53                       | \$ 1.53   |
| Diluted - as reported                                                                                                                           | \$ 1.52                       | \$ 1.52   |
| Diluted - pro forma                                                                                                                             | \$ 1.51                       | \$ 1.51   |

In December 2004, the FASB issued SFAS 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R requires compensation cost related to share-based payments to employees to be recognized in the financial statements based on their fair value. In April 2005, the SEC issued a rule which delays the required effective date to the beginning of an entity's fiscal year which begins after June 15, 2005. Accordingly, we will adopt SFAS 123R effective January 1, 2006, using the modified prospective method of transition. This method requires

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the provisions of SFAS 123R be applied to new awards and awards modified, repurchased or cancelled after the effective date. The Company will adopt this statement when effective and is currently evaluating the impact. The impact, had the Company adopted the fair-value based method under existing guidance, is shown in the table above.

Earnings Per Share - Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders 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.

Cash Flows - Cash and cash equivalents are demand deposits and short-term investments with a maturity of 90 days or less.

Recently Issued Accounting Standards - Emerging Issues Task Force ("EITF") Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" ("EITF 03-1") was ratified by the FASB in March 2004. EITF 03-1 addresses how to determine the meaning of other-than-temporary impairment and its application to investments classified as either available for sale or held to maturity under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (including individual securities and investments in mutual funds), and investments accounted for under the cost method or the equity method. In September 2004, the Financial Accounting Standards Board ("FASB") delayed the effective date of the portion of EITF 03-1 that relates to measuring and recognizing other-than-temporary impairment until implementation guidance was finalized. In June 2005, the FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed the staff to issue proposed FASB Staff Position ("FSP") EITF 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1," as final. The final FSP will supersede EITF 03-1, and EITF Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value." The final FSP (retitled FSP FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments") will replace the guidance set forth in paragraphs 10-18 of EITF 03-1 with references to existing other-than-temporary impairment guidance. FSP FAS 115-1 will codify the guidance set forth in EITF Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other than temporary, even if a decision to sell has not been made.

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### NOTE 2 - MORTGAGE-BACKED SECURITIES

The following table presents the Company's mortgage-backed securities available for sale as of June 30, 2005 and December 31, 2004:

|                   | Adjusted Cost | Gross Unrealized Gains |
|-------------------|---------------|------------------------|
| (In thousands)    |               |                        |
| Agency securities | \$ 187,477    | \$                     |

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|                               |  |                     |             |
|-------------------------------|--|---------------------|-------------|
| Privately issued:             |  |                     |             |
| Rated                         |  | 3,031,091           | 7           |
| Unrated                       |  | 9,720               |             |
| Securities available for sale |  | <u>\$ 3,228,288</u> | <u>\$ 7</u> |

|                               |    |                  |                |
|-------------------------------|----|------------------|----------------|
|                               |    |                  | Dece           |
|                               |    | Adjusted Cost    | Gross Unrealiz |
|                               |    |                  | Gains          |
| (In thousands)                |    |                  |                |
| Agency securities             | \$ | 620,196          | \$             |
| Privately issued:             |    |                  |                |
| Rated                         |    | 3,584,211        | 10,7           |
| Unrated                       |    | 15,952           |                |
| Securities available for sale | \$ | <u>4,220,359</u> | <u>\$ 10,8</u> |

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The following table presents the Company's securities available for sale in an unrealized loss position as of June 30, 2005 and December 31, 2004:

|                               |                     |                    |                     |                 |
|-------------------------------|---------------------|--------------------|---------------------|-----------------|
|                               |                     |                    | June 30, 2005       |                 |
|                               |                     |                    | Less Than 12 Months | 12 Months or Mo |
|                               |                     |                    |                     |                 |
|                               |                     | Gross              |                     | Gr              |
|                               |                     | Unrealized         |                     | Unrea           |
|                               |                     | Losses             |                     | Los             |
|                               | Fair Value          |                    | Fair Value          |                 |
| (In thousands)                |                     |                    |                     |                 |
| Agency securities             | \$ 1,581            | \$ (23)            | \$ 179,056          | \$              |
| Privately issued:             |                     |                    |                     |                 |
| Rated                         | 1,862,334           | (11,471)           | 598,090             | (               |
| Securities available for sale | <u>\$ 1,863,915</u> | <u>\$ (11,494)</u> | <u>\$ 777,146</u>   | <u>\$ (</u>     |
|                               |                     |                    |                     |                 |
|                               |                     |                    | December 31, 20     |                 |
|                               |                     |                    | Less Than 12 Months | 12 Months or Mo |

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|                               | Fair Value   | Gross<br>Unrealized<br>Losses | Fair Value | Gross<br>Unrealized<br>Losses |
|-------------------------------|--------------|-------------------------------|------------|-------------------------------|
| (In thousands)                |              |                               |            |                               |
| Agency securities             | \$ 608,730   | \$ (7,700)                    | \$ --      | \$ --                         |
| Privately issued:             |              |                               |            |                               |
| Rated                         | 1,861,777    | (12,527)                      | --         | --                            |
| Securities available for sale | \$ 2,470,507 | \$ (20,227)                   | \$ --      | \$ --                         |

The following table presents the Company's mortgage-backed trading securities as of June 30, 2005 and December 31, 2004:

|                    | June 30, 2005<br>Fair Value | December 31, 2004<br>Fair Value |
|--------------------|-----------------------------|---------------------------------|
| (In thousands)     |                             |                                 |
| Privately issued:  |                             |                                 |
| Rated              | \$3,475,018                 | \$1,751,335                     |
| Unrated            | 241,633                     | 54,591                          |
| Trading securities | \$3,716,651                 | \$1,805,926                     |

During the three months ended June 30, 2005, the Company recorded \$21.5 million in unrealized gains on trading securities that related to trading securities held at June 30, 2005.

During the six months ended June 30, 2005, the Company recorded \$44.8 million in unrealized gains on trading securities that related to trading securities held at June 30, 2005.

During the three months ended June 30, 2005, the Company sold \$1.1 billion of mortgage-backed securities, excluding securities sold contemporaneously with the execution of securitization transactions, and realized \$4.2 million in gains. The \$1.1 billion of mortgage-backed

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securities sold were primarily self-originated. During the three months ended June 30, 2005, the Company securitized and held in its portfolio \$463 million of mortgage-backed securities.

During the six months ended June 30, 2005, the Company sold \$2.3 billion of mortgage-backed securities, excluding securities sold contemporaneously with the execution of securitization transactions, and realized \$0.9 million in gains. During the six months ended June 30, 2005, the Company securitized and held in its portfolio \$3.2 billion of mortgage-backed securities.

The Company's mortgage-backed securities held at June 30, 2005 are primarily either agency obligations or are rated AAA or AA by Standard & Poor's.



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The Company has credit exposure on \$15.5 billion and \$3.9 billion of loans it has securitized privately as of June 30, 2005 and December 31, 2004, respectively. The following table summarizes the loan delinquency information as of June 30, 2005 and December 31, 2004:

| June 30, 2005          |            |              |                                  |                               |
|------------------------|------------|--------------|----------------------------------|-------------------------------|
| -----                  |            |              |                                  |                               |
| (Dollars in thousands) |            |              |                                  |                               |
| Delinquency Status     | Loan Count | Loan Balance | Percentage of<br>Total Portfolio | Percentage of<br>Total Assets |
| -----                  | -----      | -----        | -----                            | -----                         |
| 60 to 89 days          | 96         | \$ 16,695    | 0.11%                            | 0.17%                         |
| 90 and greater days    | 60         | 11,203       | 0.07%                            | 0.11%                         |
| Foreclosure            | 134        | 34,237       | 0.22%                            | 0.35%                         |
|                        | -----      | -----        | -----                            | -----                         |
|                        | 290        | \$ 62,135    | 0.40%                            | 0.63%                         |
|                        | =====      | =====        | =====                            | =====                         |

| December 31, 2004      |            |              |                                  |                               |
|------------------------|------------|--------------|----------------------------------|-------------------------------|
| -----                  |            |              |                                  |                               |
| (Dollars in thousands) |            |              |                                  |                               |
| Delinquency Status     | Loan Count | Loan Balance | Percentage of<br>Total Portfolio | Percentage of<br>Total Assets |
| -----                  | -----      | -----        | -----                            | -----                         |
| 60 to 89 days          | 6          | \$ 2,018     | 0.05%                            | 0.02%                         |
| 90 and greater days    | 2          | 418          | 0.01%                            | --                            |
| Foreclosure            | 48         | 13,666       | 0.35%                            | 0.12%                         |
|                        | -----      | -----        | -----                            | -----                         |
|                        | 56         | \$ 16,102    | 0.41%                            | 0.14%                         |
|                        | =====      | =====        | =====                            | =====                         |

As of June 30, 2005, the fair value of residual assets from securitizations reported in mortgage-backed securities was \$333.8 million. The significant assumptions used in estimating the fair value of residual cash flows as of June 30, 2005 were as follows:

|                                         | June 30, 2005 |
|-----------------------------------------|---------------|
|                                         | -----         |
| Weighted-average prepayment speed (CPR) | 26.85%        |
| Weighted-average discount rate          | 17.84%        |
| Weighted-average default rate           | 0.55%         |

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### NOTE 3 - MORTGAGE LOANS, NET

The following table presents the Company's mortgage loans held for sale, net, as of June 30, 2005 and December 31, 2004:

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| (In thousands)                    | June 30,<br>2005 | December 31,<br>2004 |
|-----------------------------------|------------------|----------------------|
| -----                             | -----            | -----                |
| Mortgage loans held for sale      | \$1,948,640      | \$ 4,815,749         |
| SFAS No. 133 basis adjustments    | 981              | 40                   |
| Deferred origination costs, net   | 15,453           | 37,605               |
| -----                             | -----            | -----                |
| Mortgage loans held for sale, net | \$1,965,074      | \$ 4,853,394         |
|                                   | =====            | =====                |

During the three months ended June 30, 2005, the Company sold non-securitized mortgage loans to third parties totaling \$4.5 billion and realized \$77.4 million in gains.

During the six months ended June 30, 2005, the Company sold non-securitized mortgage loans to third parties totaling \$7.6 billion and realized \$112.6 million in gains.

During the three months ended June 30, 2005, the Company securitized mortgage loans totaling \$5.8 billion, of which \$5.4 billion were sold, and realized \$104.4 million in gains.

During the six months ended June 30, 2005, the Company securitized mortgage loans totaling \$13.1 billion, of which \$9.9 billion were sold, and realized \$174.3 million in gains.

The following table presents the Company's mortgage loans held for investment, net, as of June 30, 2005:

| (In thousands)                          | June 30,<br>2005 |
|-----------------------------------------|------------------|
| -----                                   | -----            |
| Mortgage loans held for investment      | \$133,757        |
| Deferred origination costs, net         | 840              |
| -----                                   | -----            |
| Mortgage loans held for investment, net | \$134,597        |
|                                         | =====            |

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NOTE 4 - DERIVATIVE ASSETS AND LIABILITIES

The following table presents the Company's derivative assets and liabilities as of June 30, 2005 and December 31, 2004:

| (In thousands)                                  | June 30,<br>2005 | December 31,<br>2004 |
|-------------------------------------------------|------------------|----------------------|
| -----                                           | -----            | -----                |
| Derivative Assets                               |                  |                      |
| Interest rate lock commitments                  | \$ 18,079        | \$ 12,025            |
| Interest rate swaps                             | 6,606            | 9,192                |
| Interest rate caps - free standing derivatives  | 289              | 1,459                |
| Interest rate swaps - free standing derivatives | 10,782           | 2,127                |
| -----                                           | -----            | -----                |
| Derivative assets                               | \$ 35,756        | \$ 24,803            |
|                                                 | =====            | =====                |

Derivative Liabilities

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|                                                  |          |    |       |
|--------------------------------------------------|----------|----|-------|
| Forward delivery contracts - Loan commitments    | \$ 3,884 | \$ | 896   |
| Forward delivery contracts - Loans held for sale | 2,311    |    | 964   |
|                                                  | -----    |    | ----- |
| Derivative liabilities                           | \$ 6,195 | \$ | 1,860 |
|                                                  | =====    |    | ===== |

As of June 30, 2005, the notional amount of forward delivery contracts and interest rate swap agreements amounted to approximately \$1.8 billion and \$3.8 billion, respectively.

As of December 31, 2004, the notional amount of forward delivery contracts and interest rate swap agreements amounted to approximately \$954 million and \$3.4 billion, respectively.

During the three months ended June 30, 2005, the Company realized \$3.6 million in losses on sales of interest rate swap agreements associated with its securitizations of mortgage loans.

During the six months ended June 30, 2005, the Company realized \$5.9 million in gains on sales of interest rate swap agreements associated with its securitizations of mortgage loans. These gains are recorded in gain on sales of mortgage-backed securities and derivatives in the consolidated statements of income.

The forward delivery contracts have a high correlation to the price movement of the loans being hedged. The ineffectiveness in hedging loans held for sale recorded on the consolidated balance sheets was insignificant as of June 30, 2005 and December 31, 2004.

As of June 30, 2005, the unrealized loss on interest rate swap agreements relating to cash flow hedges recorded in accumulated other comprehensive loss was a loss of \$17.3 million. The Company estimates that \$7.3 million of this unrealized loss will be reclassified from accumulated other comprehensive loss to interest expense for the twelve months ended June 30, 2006.

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### NOTE 5 - MORTGAGE SERVICING RIGHTS, NET

The following table presents the activity in the Company's mortgage servicing rights, net, for the three and six months ended June 30, 2005 and 2004:

| (In thousands)                    | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|-----------------------------------|--------------------------------|------------|------------------------------|------------|
|                                   | 2005                           | 2004       | 2005                         | 2004       |
| <b>Mortgage Servicing Rights:</b> |                                |            |                              |            |
| Balance at beginning of period    | \$ 236,931                     | \$ 129,971 | \$ 163,374                   | \$ 121,652 |
| Additions                         | 66,657                         | 28,811     | 148,715                      | 44,476     |
| Amortization                      | (12,832)                       | (7,764)    | (21,333)                     | (15,110)   |
|                                   | -----                          | -----      | -----                        | -----      |
| Balance at end of period          | \$ 290,756                     | \$ 151,018 | \$ 290,756                   | \$ 151,018 |
|                                   | -----                          | -----      | -----                        | -----      |

Impairment Allowance:

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|                                 |             |             |             |            |
|---------------------------------|-------------|-------------|-------------|------------|
| Balance at beginning of period  | \$ (8,519)  | \$ (16,452) | \$ (11,938) | \$ (3,868) |
| Impairment (provision) recovery | (20,398)    | 7,252       | (16,979)    | (5,332)    |
|                                 | -----       | -----       | -----       | -----      |
| Balance at end of period        | \$ (28,917) | \$ (9,200)  | \$ (28,917) | \$ (9,200) |
|                                 | -----       | -----       | -----       | -----      |
| Mortgage servicing rights, net  | \$ 261,839  | \$ 141,818  | \$ 261,839  | \$ 141,818 |
|                                 | =====       | =====       | =====       | =====      |

Aggregate Amortization Expense

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Six months ended June 30, 2005 \$ 21,333

Estimated Amortization Expense

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Twelve months ended June 30, 2006 \$ 58,841

Twelve months ended June 30, 2007 46,730

Twelve months ended June 30, 2008 34,848

Twelve months ended June 30, 2009 26,695

Twelve months ended June 30, 2010 21,342

Thereafter 102,300

On a quarterly basis, the Company reviews MSR for impairment based on risk strata. The MSR are stratified based on the predominant risk characteristics of the underlying loans. The Company's predominant risk characteristic is interest rate. A valuation allowance is recognized for MSR that have an amortized balance in excess of the estimated fair value for the individual risk stratification.

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The estimated fair value of MSR is determined by obtaining a market valuation from an independent MSR broker. To determine the market value of MSR, the MSR broker uses a valuation model which incorporates assumptions relating to the estimate of the cost of servicing the loan, a discount rate, a float value, an inflation rate, ancillary income per loan, prepayment speeds and default rates that market participants use for similar MSR. Market assumptions are held constant over the life of the portfolio.

The significant assumptions used in estimating the fair value of MSR at June 30, 2005 and December 31, 2004 were as follows:

|                                         | June 30, 2005 | December 31, 2004 |
|-----------------------------------------|---------------|-------------------|
|                                         | -----         | -----             |
| Weighted-average prepayment speed (PSA) | 378           | 316               |
| Weighted-average discount rate          | 11.83%        | 10.37%            |
| Weighted-average default rate           | 3.18%         | 2.76%             |

The following table presents certain information regarding the Company's servicing portfolio of loans serviced for others at June 30, 2005 and December 31, 2004:

June 30, 2005      December 31, 2004

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|                                                      | -----<br>(Dollars in thousands)<br>----- |               |
|------------------------------------------------------|------------------------------------------|---------------|
| Loan servicing portfolio - loans sold or securitized | \$ 22,597,126                            | \$ 11,955,608 |
| ARM loans                                            | 72%                                      | 60%           |
| Average loan size                                    | \$ 182                                   | \$ 156        |
| Weighted-average servicing fee                       | 0.336%                                   | 0.348%        |
| Weighted-average note rate                           | 5.62%                                    | 5.48%         |
| Weighted-average remaining term (in months)          | 335                                      | 318           |
| Weighted-average age (in months)                     | 13                                       | 20            |

NOTE 6 - GOODWILL

The following table presents the activity in the Company's goodwill for the six months ended June 30, 2005 and 2004:

| (In thousands)                      | Loan Origination<br>Segment | Mortgage-Backed<br>Securities Holdings<br>Segment | Total    |
|-------------------------------------|-----------------------------|---------------------------------------------------|----------|
|                                     | -----                       | -----                                             | -----    |
| Balance at January 1, 2004          | \$ 58,605                   | \$ 24,840                                         | \$83,445 |
| Earnouts from previous acquisitions | 5,354                       | --                                                | 5,354    |
|                                     | -----                       | -----                                             | -----    |
| Balance at June 30, 2004            | \$ 63,959                   | \$ 24,840                                         | \$88,799 |
|                                     | =====                       | =====                                             | =====    |
| Balance at January 1, 2005          | \$ 66,037                   | \$ 24,840                                         | \$90,877 |
| Earnouts from previous acquisitions | 7,949                       | --                                                | 7,949    |
|                                     | -----                       | -----                                             | -----    |
| Balance at June 30, 2005            | \$ 73,986                   | \$ 24,840                                         | \$98,826 |
|                                     | =====                       | =====                                             | =====    |

As of December 31, 2004, the Company completed a goodwill impairment test by comparing the fair value of goodwill with its carrying value and did not recognize impairment.

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NOTE 7 - WAREHOUSE LINES OF CREDIT, REVERSE REPURCHASE AGREEMENTS AND COMMERCIAL PAPER

Warehouse Lines of Credit

To originate a mortgage loan, the Company draws against a \$3.3 billion Secured Liquidity Note Program, a \$1.2 billion pre-purchase facility with UBS Real Estate Securities Inc. ("UBS"), a facility of \$950 million with Bear Stearns, a \$700 million bank syndicated facility led by Bank of America (which includes a \$175 million term loan facility which the Company uses to finance its MSRs), a

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\$500 million facility with IXIS Real Estate Capital Inc. (formerly CDC Mortgage Capital Inc.) ("IXIS"), a facility of \$500 million with Morgan Stanley Bank ("Morgan Stanley"), a facility of \$500 million with Lehman Brothers, and a facility of \$250 million with Calyon New York Branch ("Calyon"). The Bank of America, IXIS, Morgan Stanley and Calyon facilities are committed facilities. In addition, the Company has a gestation facility with Greenwich Capital Financial Products, Inc. ("Greenwich"). The interest rate on outstanding balances fluctuates daily based on a spread to the LIBOR and interest is paid monthly.

The facilities are secured by mortgage loans and other assets of the Company. The facilities contain various covenants pertaining to maintenance of net worth, working capital and maximum leverage. At June 30, 2005, the Company was in compliance with respect to the loan covenants.

Included within the Bank of America line of credit, the Company has a working capital sub-limit that allows for borrowings up to \$50 million at a rate based on a spread to the LIBOR that may be adjusted for earnings on compensating balances on deposit at creditors' banks. As of June 30, 2005, borrowings under the working capital line of credit were \$21.2 million.

The following table presents the amounts outstanding on the Company's warehouse lines of credit as of June 30, 2005 and December 31, 2004:

| (Dollars in thousands)    | June 30, 2005          |                             | December 31, 2004      |                             |
|---------------------------|------------------------|-----------------------------|------------------------|-----------------------------|
|                           | Outstanding<br>Balance | Weighted<br>Average<br>Rate | Outstanding<br>Balance | Weighted<br>Average<br>Rate |
| Calyon                    | \$ 250,502             | 3.90%                       | \$ 249,540             | 3.05%                       |
| IXIS                      | 224,754                | 4.14                        | 207,841                | 2.81                        |
| Bank of America           | 185,190                | 4.27                        | 244,462                | 3.53                        |
| UBS                       | 3,509                  | 3.97                        | --                     | --                          |
| Greenwich                 | 1,742                  | 3.75                        | 33,400                 | 2.89                        |
| Morgan Stanley            | --                     | --                          | 540                    | 3.06                        |
|                           | -----                  |                             | -----                  |                             |
| Warehouse lines of credit | \$ 665,697             | 4.08%                       | \$ 735,783             | 3.13%                       |
|                           | =====                  |                             | =====                  |                             |

### Reverse Repurchase Agreements

The Company has arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with fourteen different financial institutions and on June 30, 2005 had borrowed funds from seven of these firms. Because the Company borrows money under these agreements based on the fair value of its mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, the Company's borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of the Company's mortgage-backed securities declines for other reasons.

As of June 30, 2005, the Company had \$6.3 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 3.27% and a weighted-average remaining maturity of two months. As of December 31, 2004, the Company had \$7.1 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 2.13% and a weighted-average remaining

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maturity of three months.

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As of June 30, 2005 and December 31, 2004, the Company's reverse repurchase agreements had the following remaining maturities:

|                               | June 30,<br>2005 | December 31,<br>2004 |  |
|-------------------------------|------------------|----------------------|--|
|                               | -----            | -----                |  |
|                               | (In thousands)   |                      |  |
| Within 30 days                | \$3,589,083      | \$ 3,617,325         |  |
| 31 to 89 days                 | 1,762,103        | 2,050,529            |  |
| 90 to 365 days                | 986,444          | 1,403,314            |  |
|                               | -----            | -----                |  |
| Reverse repurchase agreements | \$6,337,630      | \$ 7,071,168         |  |
|                               | =====            | =====                |  |

The Company's average reverse repurchase agreements outstanding were \$6.3 billion and \$4.5 billion for the three months ended June 30, 2005 and 2004, respectively.

The Company's average reverse repurchase agreements outstanding were \$6.6 billion and \$3.1 billion for the six months ended June 30, 2005 and 2004, respectively.

### Commercial Paper

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In May 2004, the Company formed a wholly owned special purpose entity for the purpose of issuing commercial paper in the form of short-term Secured Liquidity Notes ("SLNs") to finance certain portions of the Company's mortgage loans held for sale. The special purpose entity allows for issuance of short-term notes with maturities of up to 180 days, extendable up to 300 days. The SLNs bear interest at prevailing money market rates approximating the LIBOR. The SLN program capacity, based on aggregate commitments of underlying credit enhancers, was \$3.3 billion at June 30, 2005.

As of June 30, 2005, the Company had \$1.3 billion of SLNs outstanding, with an average interest cost of 3.19%. The SLNs were collateralized by loans held for sale and cash with a balance of \$1.3 billion as of June 30, 2005. As of December 31, 2004, the Company had \$529.8 million of SLNs outstanding, with an average interest cost of 2.51%. The SLNs were collateralized by loans held for sale and cash with a balance of \$550.0 million as of December 31, 2004.

The Company's commercial paper had the following remaining maturities as of June 30, 2005 and December 31, 2004 :

|                  | June 30,<br>2005 | December 31,<br>2004 |  |
|------------------|------------------|----------------------|--|
|                  | -----            | -----                |  |
|                  | (In thousands)   |                      |  |
| Within 30 days   | \$1,228,391      | \$ 529,790           |  |
| 31 to 89 days    | 63,293           | --                   |  |
|                  | -----            | -----                |  |
| Commercial paper | \$1,291,684      | \$ 529,790           |  |

=====

NOTE 8 - COLLATERALIZED DEBT OBLIGATIONS

In December of 2004, the Company transferred \$3.5 billion of its mortgage loans held for sale to American Home Mortgage Investment Trust 2004-4 (the "Trust") in a securitization transaction. This securitization transaction was accounted for as a financing of the mortgage loans held for sale. The Company financed the transaction by issuing \$2.0 billion of collateralized debt obligations, which were collateralized by loans held for sale transferred to the Trust. This securitization transaction qualified for sale treatment under Statement of Financial Accounting Standards No. 140 in the first quarter of 2005, and consequently the Company had no collateralized debt obligations as of March 31, 2005. As of June 30, 2005, the Company had no collateralized debt obligations. As of December 31, 2004, the collateralized debt obligations had a balance of \$2.0 billion and an effective interest cost of 3.16%. As of December 31, 2004, the collateralized debt obligations were collateralized by mortgage loans held for sale of \$2.0 billion.

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NOTE 9 - COMMON STOCK AND PREFERRED STOCK

Under our charter, our Board of Directors is authorized to issue 110,000,000 shares of stock, of which up to 100,000,000 shares may be common stock and up to 10,000,000 shares may be preferred stock. As of June 30, 2005, there were 40,538,479 shares of common stock issued and outstanding, 2,150,000 shares of our 9.75% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred") issued and outstanding and 3,450,000 shares of our 9.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred") issued and outstanding.

During the three months ended June 30, 2005, the Company declared a dividend totaling \$30.8 million, or \$0.76 per common share, which was paid on July 27, 2005. During the three months ended June 30, 2004, the Company declared a dividend totaling \$24.5 million, or \$0.61 per common share, which was paid on July 14, 2004.

During the six months ended June 30, 2005, the Company declared dividends totaling \$59.5 million, or \$1.47 per common share.

During the six months ended June 30, 2004, the Company declared dividends totaling \$41.2 million, or \$1.16 per common share.

During the three months ended June 30, 2005, the Company declared a dividend of \$1.3 million, or \$0.609375 per Series A Preferred share, which is payable on August 1, 2005.

During the six months ended June 30, 2005, the Company declared dividends of \$2.6 million, or \$1.21875 per Series A Preferred share.

During the three months ended June 30, 2005, the Company declared a dividend of \$2.0 million, or \$0.578125 per Series B Preferred share, which is payable on August 1, 2005.

During the six months ended June 30, 2005, the Company declared dividends of \$4.0 million, or \$1.15625 per Series B Preferred share.

NOTE 10 - INCOME TAXES



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A reconciliation of the statutory income tax provision to the effective income tax benefit is as follows:

| (Dollars in thousands)                                   | Three Months Ended June 30, |               |                    |                |               |
|----------------------------------------------------------|-----------------------------|---------------|--------------------|----------------|---------------|
|                                                          | 2005                        |               | 2004               |                |               |
| Tax provision at statutory rate                          | \$ 21,579                   | 35.0%         | \$ 7,334           | 35.0%          | \$ 65         |
| Non-taxable REIT income                                  | (26,050)                    | (42.2)        | (18,138)           | (86.6)         | (69)          |
| State and local taxes, net of federal income tax benefit | (222)                       | (0.4)         | (2,084)            | (9.9)          |               |
| Other                                                    | 842                         | 1.4           | 370                | 1.8            |               |
| Income tax benefit                                       | <u>\$ (3,851)</u>           | <u>(6.2)%</u> | <u>\$ (12,518)</u> | <u>(59.7)%</u> | <u>\$ (3)</u> |

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The major sources of temporary differences and their deferred tax effect at June 30, 2005 and December 31, 2004 are as follows:

|                                                 | June 30,<br>2005 | December 31,<br>2004 |
|-------------------------------------------------|------------------|----------------------|
|                                                 | (In thousands)   |                      |
| Deferred tax liabilities:                       |                  |                      |
| Capitalized cost of mortgage servicing rights   | \$116,242        | \$ 82,399            |
| Loan origination costs                          | 14,035           | 11,236               |
| Depreciation                                    | 3,083            | 2,341                |
| Deferred state income taxes                     | 663              | --                   |
| Deferred tax liabilities                        | <u>134,023</u>   | <u>95,976</u>        |
| Deferred tax assets:                            |                  |                      |
| Tax loss carryforwards                          | 77,067           | 36,384               |
| Allowance for bad debts and foreclosure reserve | 3,182            | 2,711                |
| Mark-to-market adjustments                      | 5,223            | 811                  |
| Deferred state income taxes                     | --               | 353                  |
| Broker fees                                     | 1,498            | 528                  |
| AMT Credit                                      | 1,745            | --                   |
| Other                                           | 450              | 847                  |
| Deferred tax assets                             | <u>89,165</u>    | <u>41,634</u>        |
| Net deferred tax liabilities                    | <u>\$ 44,858</u> | <u>\$ 54,342</u>     |

In June 2002, American Home Mortgage Holdings Inc. ("AHM Holdings"), currently a

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wholly owned subsidiary of AHM Investment, acquired all of the outstanding stock of American Home Mortgage Servicing, Inc. ("AHM Servicing") (formerly known as Columbia National, Incorporated). The acquisition was accounted for under the purchase method of accounting for financial statement purposes. For federal income tax purposes, the historical basis of the assets and liabilities were carried over to AHM Holdings. AHM Servicing has approximately \$40 million of separate company net operating loss carryforwards which begin to expire in 2008. In addition, AHM Holdings has approximately \$130 million of federal and approximately \$229 million of state net operating loss carryforwards which begin to expire in 2024 and 2009, respectively.

At June 30, 2005 and December 31, 2004, no valuation allowance has been established against deferred tax assets since it is more likely than not that the deferred tax assets will be realized.

The Company has been audited by various state tax jurisdictions which have settled with a no change decision. In addition, the Company is currently under examination by other tax jurisdictions which the Company expects to result in no material assessment. The Company regularly assesses the likelihood of additional assessments in each of the tax jurisdictions in the calculation of its provision and maintains an appropriate reserve as needed.

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### NOTE 11 - EARNINGS PER SHARE

The following is a reconciliation of the denominators used in the computations of basic and diluted earnings per share for the three and six months ended June 30, 2005 and 2004:

|                                                                                      | Three Months<br>Ended June |    |
|--------------------------------------------------------------------------------------|----------------------------|----|
| (Dollars in thousands, except per share amounts)                                     | 2005                       |    |
| Numerator for basic earnings per share - Net income available to common shareholders | \$ 62,196                  | \$ |
| Denominator:                                                                         |                            |    |
| Denominator for basic earnings per share                                             |                            |    |
| Weighted average number of common shares outstanding during the period               | 40,383,799                 | 40 |
| Net effect of dilutive stock options                                                 | 502,464                    |    |
| Denominator for diluted earnings per share                                           | 40,886,263                 | 40 |
| Net income per share available to common shareholders:                               |                            |    |
| Basic                                                                                | \$ 1.54                    | \$ |
| Diluted                                                                              | \$ 1.52                    | \$ |

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### NOTE 12 - STOCK OPTION PLANS

In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). Pursuant to the Plan, eligible employees, officers and directors may be offered the opportunity to acquire the Company's common stock through the grant of options and the award of restricted stock under the Plan. The total number of shares that may be optioned or awarded under the Plan is 4,000,000 shares of common stock. The Plan provides for the granting of options at the fair market value on the date of grant. The options issued primarily vest 50% on the two-year anniversary of the grant date and 50% on the three-year anniversary of the grant date, and expire ten years from the grant date.

As of June 30, 2005, the Company has awarded 211,410 shares of restricted stock under the Plan. During the three months ended June 30, 2005 and 2004, the Company recognized compensation expense of \$174 thousand and \$336 thousand, respectively, relating to shares of restricted stock granted under the Plan. During the six months ended June 30, 2005 and 2004, the Company recognized compensation expense of \$315 thousand and \$524 thousand, respectively, relating to shares of restricted stock granted under the Plan. At June 30, 2005, 133,463 shares are vested. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

For options granted under the Plan, there was no intrinsic value of the options when granted, as the exercise price was equal to the quoted market price at the grant date. No compensation cost has been recognized for the six months ended June 30, 2005 and 2004.

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There were 90,000 and 357,419 options granted under the Plan in the three months and six months ended June 30, 2005, with weighted-average exercise prices of \$31.74 and \$32.58, in the three months and six months ended June 30, 2005, respectively. The weighted-average fair value per share of options granted during the three months and six months ended June 30, 2005 was \$3.83 and \$3.75, respectively.

There were 251,813 and 425,134 options granted under the Plan in the three months and six months ended June 30, 2004, with weighted-average exercise prices of \$22.67 and \$22.61, in the three months and six months ended June 30, 2004, respectively. The weighted-average fair value per share of options granted during the three months and six months ended June 30, 2004 was \$4.69 and \$5.12, respectively.

The fair value of the options granted is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the grants:

|                         | Three Months<br>Ended June 30, |         | Six Months<br>Ended June 30, |         |
|-------------------------|--------------------------------|---------|------------------------------|---------|
|                         | 2005                           | 2004    | 2005                         | 2004    |
| Dividend yield          | 8.9%                           | 9.0%    | 9.1%                         | 8.1%    |
| Expected volatility     | 29.4%                          | 44.0%   | 28.7%                        | 47.3%   |
| Risk-free interest rate | 5.0%                           | 5.0%    | 5.0%                         | 5.0%    |
| Expected life           | 3 years                        | 3 years | 3 years                      | 3 years |

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### NOTE 13 - ACQUISITION

Valley Bancorp, Inc.  
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In August 2001, AHM Holdings entered into an agreement to acquire Valley Bancorp, Inc. ("Valley Bancorp") and its wholly-owned subsidiary, Valley Bank of Maryland, a federal savings bank located in suburban Baltimore, Maryland. In 2004, subsequent to the merger with Apex and internal reorganization, AHM Investment, as successor in interest to AHM Holdings, entered into an amended and restated agreement and plan of reorganization with Valley Bancorp. Under the terms of the definitive agreement, the Company will pay \$46 for each share of Valley Bancorp common stock outstanding, and will pay in cash to the holders of Valley Bancorp stock options the difference between \$46 and the exercise price of such options, or an aggregate of approximately \$6.3 million. This transaction is subject to regulatory approval and no assurance can be given that such approval will be obtained or that the acquisition agreement with Valley Bancorp will be further extended if necessary.

### NOTE 14 - SEGMENTS AND RELATED INFORMATION

The Company has three segments, the Mortgage-Backed Securities Holdings segment, the Loan Origination segment and the Loan Servicing segment. The Mortgage-Backed Securities Holdings segment uses the Company's equity capital and borrowed funds to invest in mortgage-backed securities, thereby producing net interest income. The Loan Origination segment originates mortgage loans through the Company's retail and internet branches and loans sourced through mortgage brokers (wholesale channel). The Loan Servicing segment includes investments in MSRs as well as servicing operations primarily for other financial institutions.

The Mortgage-Backed Securities Holdings segment includes realized gains or losses on sales of mortgage-backed securities and unrealized mark-to-market gains or losses subsequent to the securitization date on mortgage-backed securities classified as trading securities.

The Loan Origination segment includes unrealized gains or losses that exist on the date of securitization of self-originated loans that are classified as trading securities.

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|                           | Three Month     |       |
|---------------------------|-----------------|-------|
|                           | -----           | (I    |
|                           |                 | Lo    |
|                           | Mortgage-Backed | Origi |
|                           | Securities      | Seg   |
|                           | Holdings        | ----- |
|                           | Segment         |       |
|                           | -----           |       |
| Net interest income:      |                 |       |
| Interest income           | \$ 77,041       | \$    |
| Interest expense          | (52,238)        | (     |
|                           | -----           | ----- |
| Total net interest income | 24,803          | ----- |
|                           | -----           |       |

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|                                                                      |              |        |
|----------------------------------------------------------------------|--------------|--------|
| Non-interest income:                                                 |              |        |
| Gain on sales of mortgage loans                                      | --           | 1      |
| Gain on sales of current period securitized mortgage loans           | --           |        |
| Gain (loss) on sales of mortgage-backed securities and derivatives   | 4,246        |        |
| Unrealized (loss) gain on mortgage-backed securities and derivatives | (14,755)     |        |
| Loan servicing fees                                                  |              |        |
| Amortization of mortgage servicing rights                            | --           |        |
| Impairment provision of mortgage servicing rights                    | --           |        |
| Net loan servicing loss                                              | --           |        |
| Other non-interest income                                            | --           |        |
| Total non-interest income                                            | (10,509)     | 1      |
| Non-interest expenses:                                               |              |        |
| Salaries, commissions and benefits, net                              | 3,493        |        |
| Occupancy and equipment                                              | 1            |        |
| Data processing and communications                                   | 20           |        |
| Office supplies and expenses                                         | --           |        |
| Marketing and promotion                                              | --           |        |
| Travel and entertainment                                             | 5            |        |
| Professional fees                                                    | 1,049        |        |
| Other                                                                | 2,043        |        |
| Total non-interest expenses                                          | 6,611        | 1      |
| Net income before income tax expense (benefit)                       | 7,683        |        |
| Income tax expense (benefit)                                         | --           |        |
| Net income                                                           | \$ 7,683     | \$     |
| Dividends on preferred stock                                         | 3,304        |        |
| Net income available to common shareholders                          | \$ 4,379     | \$     |
| Segment assets                                                       | \$ 7,018,101 | \$ 2,4 |

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Three Months

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|                                                               | Mortgage-Backed<br>Securities<br>Holdings<br>Segment | Loa<br>Origin<br>Segm |
|---------------------------------------------------------------|------------------------------------------------------|-----------------------|
|                                                               | -----                                                | -----                 |
| Net interest income:                                          |                                                      |                       |
| Interest income                                               | \$ 41,189                                            | \$ 2                  |
| Interest expense                                              | (30,490)                                             | (1)                   |
|                                                               | -----                                                | -----                 |
| Total net interest income                                     | 10,699                                               | 1                     |
|                                                               | -----                                                | -----                 |
| Non-interest income:                                          |                                                      |                       |
| Gain on sales of mortgage loans                               | --                                                   | 1                     |
| Gain on sales of current period securitized mortgage loans    | --                                                   |                       |
| Loss on sales of mortgage-backed securities and derivatives   | (1,322)                                              |                       |
| Unrealized gain on mortgage-backed securities and derivatives | 12,006                                               | 2                     |
| Loan servicing fees                                           | --                                                   |                       |
| Amortization of mortgage servicing rights                     | --                                                   |                       |
| Impairment recovery of mortgage servicing rights              | --                                                   |                       |
|                                                               | -----                                                | -----                 |
| Net loan servicing fees                                       | --                                                   |                       |
| Other non-interest income                                     | --                                                   |                       |
|                                                               | -----                                                | -----                 |
| Total non-interest income                                     | 10,684                                               | 5                     |
|                                                               | -----                                                | -----                 |
| Non-interest expenses:                                        |                                                      |                       |
| Salaries, commissions and benefits, net                       | 54                                                   | 4                     |
| Occupancy and equipment                                       | --                                                   |                       |
| Data processing and communications                            | 4                                                    |                       |
| Office supplies and expenses                                  | --                                                   |                       |
| Marketing and promotion                                       | --                                                   |                       |
| Travel and entertainment                                      | --                                                   |                       |
| Professional fees                                             | 136                                                  |                       |
| Other                                                         | 2,028                                                |                       |
|                                                               | -----                                                | -----                 |
| Total non-interest expenses                                   | 2,222                                                | 6                     |
|                                                               | -----                                                | -----                 |
| Net income before income tax (benefit) expense                | 19,161                                               | (                     |
|                                                               | -----                                                | -----                 |
| Income tax (benefit) expense                                  | --                                                   | (1                    |
|                                                               | -----                                                | -----                 |
| Net income                                                    | \$ 19,161                                            | \$ 1                  |
|                                                               | =====                                                | =====                 |
| Dividends on preferred stock                                  | --                                                   |                       |
|                                                               | -----                                                | -----                 |
| Net income available to common shareholders                   | \$ 19,161                                            | \$ 1                  |
|                                                               | =====                                                | =====                 |

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|                                             |              |        |
|---------------------------------------------|--------------|--------|
| Net income                                  | \$ 35,868    | \$ 1   |
| Dividends on preferred stock                | 6,609        |        |
| Net income available to common shareholders | \$ 29,259    | \$ 1   |
| Segment assets                              | \$ 7,018,101 | \$ 2,4 |

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|                                                                    | Six Months                                           |                           |
|--------------------------------------------------------------------|------------------------------------------------------|---------------------------|
|                                                                    | Mortgage-Backed<br>Securities<br>Holdings<br>Segment | Loan<br>Original<br>Segme |
| Net interest income:                                               |                                                      |                           |
| Interest income                                                    | \$ 56,338                                            | \$ 47                     |
| Interest expense                                                   | (39,902)                                             | (29)                      |
| Total net interest income                                          | 16,436                                               | 18                        |
| Non-interest income:                                               |                                                      |                           |
| Gain on sales of mortgage loans                                    | --                                                   | 69                        |
| Gain on sales of current period securitized mortgage loans         | --                                                   | 9                         |
| Gain (loss) on sales of mortgage-backed securities and derivatives | 6,188                                                |                           |
| Unrealized gain on mortgage-backed securities and derivatives      | 16,169                                               | 38                        |
| Loan servicing fees                                                | --                                                   |                           |
| Amortization of mortgage servicing rights                          | --                                                   |                           |
| Impairment provision of mortgage servicing rights                  | --                                                   |                           |
| Net loan servicing loss                                            | --                                                   |                           |
| Other non-interest income                                          | --                                                   | 2                         |
| Total non-interest income                                          | 22,357                                               | 119                       |
| Non-interest expenses:                                             |                                                      |                           |
| Salaries, commissions and benefits, net                            | 104                                                  | 79                        |
| Occupancy and equipment                                            | --                                                   | 15                        |
| Data processing and communications                                 | 6                                                    | 6                         |



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|                                             |              |          |
|---------------------------------------------|--------------|----------|
| Office supplies and expenses                | --           | 5        |
| Marketing and promotion                     | --           | 4        |
| Travel and entertainment                    | 2            | 5        |
| Professional fees                           | 207          | 3        |
| Other                                       | 3,073        | 4        |
|                                             | -----        | -----    |
| Total non-interest expenses                 | 3,392        | 125      |
|                                             | -----        | -----    |
| Net income before income tax benefit        | 35,401       | 12       |
|                                             | -----        | -----    |
| Income tax benefit                          | --           | (12)     |
|                                             | -----        | -----    |
| Net income                                  | \$ 35,401    | \$ 24    |
|                                             | =====        | =====    |
| Dividends on preferred stock                | --           |          |
|                                             | -----        | -----    |
| Net income available to common shareholders | \$ 35,401    | \$ 24    |
|                                             | =====        | =====    |
|                                             |              | Dece     |
|                                             | -----        | -----    |
| Segment assets                              | \$ 6,136,642 | \$ 5,194 |
|                                             | =====        | =====    |

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ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

This report, including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains certain forward-looking statements within the meaning of the federal securities laws. Some of the forward-looking statements can be identified by the use of forward-looking words. When used in this report, statements which are not historical in nature, including the words "anticipate," "may," "estimate," "should," "seek," "expect," "plan," "believe," "intend," and similar words, or the negatives of those words, are intended to identify forward-looking statements. Statements which also contain a projection of revenues, earnings (loss), capital expenditures, dividends, capital structure or other financial terms are intended to be forward-looking statements. Certain statements regarding the following particularly are forward-looking in nature:

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

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

The forward-looking statements in this report are based on our management's beliefs, assumptions, and expectations of our future economic performance, taking into account the information currently available to it. These statements are not statements of historical fact. Forward-looking statements are subject to a number of factors, risks and uncertainties, some of which are not currently known to us, that may cause our actual results, performance or financial condition to be materially different from our expectations of future results, performance or financial position. These factors include, without limitation:

- o our limited operating history with respect to our portfolio strategy;
- o our portfolio strategy may be changed or modified by our management without advance notice to stockholders, and that we may suffer losses as a result of such modifications or changes;
- o our need for a significant amount of cash to operate our business;
- o risks associated with the use of leverage;
- o disruptions in the market for repurchase facilities;
- o failure to match the interest rates on our borrowings with the interest rates on the mortgage-backed securities we hold;
- o failure to maintain our status as a real estate investment trust;
- o changes in federal and state tax laws affecting real estate investment trusts;
- o general economic, political, market, financial or legal conditions; and
- o those risks and uncertainties discussed in our filings with the Securities and Exchange Commission ("SEC").

In light of these risks, uncertainties and assumptions, any forward-looking events discussed in this report might not occur, and we qualify any and all of our forward-looking statements entirely by these cautionary factors. You are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements are inherently uncertain, and actual results may differ from expectations. We are not

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under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

### Critical Accounting Policies and Estimates

Our accounting policies are described in Note 1 to the Consolidated Financial Statements. We have identified the following accounting policies that are

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critical to the presentation of our financial statements and that require critical accounting estimates by management.

**Mortgage-Backed Securities** - We record our mortgage-backed securities at fair value. The fair values of our mortgage-backed securities are generally based on market prices provided by certain dealers who make markets on these financial instruments.

**Mortgage Loans Held for Sale** - Mortgage loans held for sale are carried at the lower of cost or aggregate market value. For mortgage loans held for sale that are hedged with forward sale commitments, the carrying value is adjusted for the change in market during the time the hedge was deemed to be highly effective. The market value is determined by outstanding commitments from investors or current yield requirements calculated on an aggregate basis.

**Mortgage Servicing Rights ("MSRs")** - When we acquire servicing assets through either purchase or origination of loans and sell or securitize those loans with servicing assets retained, the total cost of the loans is allocated to the servicing assets and the loans (without the servicing assets) based on their relative fair values. The amount attributable to the servicing assets is capitalized as MSRs on the consolidated balance sheets. The MSRs are amortized to expense in proportion to and over the period of estimated net servicing income.

The MSRs are assessed for impairment based on the fairvalue of those assets. We estimate the fair value of the servicing assets by obtaining market information from a primary MSR broker. When the book value of capitalized servicing assets exceeds their fair value, impairment is recognized through a valuation allowance. In determining impairment, the mortgage servicing portfolio is stratified by the predominant risk characteristic of the underlying mortgage loans. We have determined that the predominant risk characteristic is the interest rate on the underlying loan. We measure impairment for each stratum by comparing the estimated fair value to the recorded book value. Temporary impairment is recorded through a valuation allowance and amortization expense in the period of occurrence. In addition, we periodically evaluate our MSRs for other than temporary impairment to determine if the carrying value before the application of the valuation allowance is recoverable. We receive a sensitivity analysis of the estimated fair value of our MSRs assuming a 200-basis-point instantaneous increase in interest rates from an independent MSR broker. The fair value estimate includes changes in market assumptions that would be expected given the increase in mortgage rates (e.g., prepayment speeds would be lower). We believe this 200-basis-point increase in mortgage rates to be an appropriate threshold for determining the recoverability of the temporary impairment because that size rate increase is foreseeable and consistent with historical mortgage rate fluctuations. When using this instantaneous change in rates, if the fair value of the strata of MSRs is estimated to increase to a point where all of the impairment would be recovered, the impairment is considered to be temporary. When we determine that a portion of the MSRs is not recoverable, the related MSRs and the previously established valuation allowance are correspondingly reduced to reflect other than temporary impairment.

**Derivative Assets and Derivative Liabilities** - Our mortgage-committed pipeline includes interest rate lock commitments ("IRLCs") that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria. IRLCs associated with loans expected to be sold are recorded at fair value with changes in fair value recorded to current earnings. The fair value of the IRLCs initiated on or before June 30, 2005 is determined by an estimate of the ultimate gain on sale of the loans, including the value of MSRs, net of estimated net costs remaining to originate the loan and any net deferred origination costs. In March 2004, the SEC issued Staff Accounting Bulletin No. 105 ("SAB No. 105"), which provides industry guidance which changed the timing of recognition of MSRs for IRLCs initiated after March 31, 2004. In

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SAB No. 105, the SEC stated that the value of expected future cash flows related to servicing rights should be excluded when determining the fair value of derivative IRLCs. Under the new policy, the value of the expected future cash flows related to servicing rights is not recognized until the underlying loans are sold.

We use other derivative instruments, including mortgage forward delivery contracts and treasury futures options, to economically hedge the IRLCs, which are also classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

We use mortgage forward delivery contracts designated as fair value hedging instruments to hedge 100% of our agency-eligible conforming fixed-rate loans and most of our non-conforming fixed-rate loans held for sale. At the inception of the hedge, we formally document the relationship between the forward delivery contracts and the mortgage inventory, as well as our objective and strategy for undertaking the hedge transactions. In the case of our conventional conforming fixed-rate loan products, the notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount of the mortgage inventory being hedged; hence, the forward delivery contracts effectively fix the forward sales price and thereby substantially eliminate interest rate and price risk to us. We classify and account for these forward delivery contracts as fair value hedges. The derivatives are carried at fair

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value with the changes in fair value recorded to current earnings. When the hedges are deemed to be highly effective, the book value of the hedged loans held for sale is adjusted for its change in fair value during the hedge period.

We enter into interest rate swap agreements to manage our interest rate exposure when financing our adjustable-rate mortgage loans and mortgage-backed securities. Certain swap agreements accounted for as cash flow hedges and certain swap agreements not designated as cash flow hedges are both carried on the balance sheet at fair value. The fair values of our swap agreements are generally based on market prices provided by certain dealers who make markets in these financial instruments or third-party pricing services.

Goodwill - Goodwill represents the excess purchase price over the fair value of net assets stemming from business acquisitions, including identifiable intangibles. We test for impairment, at least annually, by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. The discounted cash flow calculation related to our loan origination segment includes a forecast of the expected future loan originations and the related revenues and expenses. The discounted cash flow calculation related to our Mortgage-Backed Securities Holdings segment includes a forecast of the expected future net interest income, gain on mortgage-backed securities and the related revenues and expenses. These cash flows are discounted using a rate that is estimated to be a weighted-average cost of capital for similar companies. We further test to ensure that the fair value of all our business units does not exceed our total market capitalization.

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### Adjusted Financial Measures

The Company securitizes a substantial portion of its mortgage loans held for sale each quarter and has intended for each of these transactions to qualify as a sale under Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). Our December 2004 securitization ("Q4-04 Securitization") did not qualify as a sale at December 31, 2004 and was accounted for as a financing in accordance with SFAS 140 because we retained a small amount of securities which were benefited by derivative contracts embedded in the securitization trust. These securities were sold during the first quarter of 2005, qualifying the Q4-04 Securitization as a sale at March 31, 2005 in accordance with SFAS 140. The Q4-04 Securitization was originally accounted for as a sale. The subsequent discovery of the retained derivative benefit resulted in our restating our financial statements for the period ended December 31, 2004, which restated financial statements were included in an amended Annual Report on Form 10-K/A filed with the SEC on April 22, 2005. Throughout the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Quarterly Report on Form 10-Q, the term "as adjusted" identifies financial measures that are not prepared in accordance with generally accepted accounting principles ("GAAP"). These adjusted financial measures reflect the effect of treating the Q4-04 Securitization as a sale in the fourth quarter of 2004 rather than in the first quarter of 2005 when the transaction subsequently qualified as a sale. Since the filing of our amended Annual Report on Form 10-K/A, we have enforced our policies, procedures and controls to ensure all securitizations are accounted for in accordance with SFAS 140. The Company has been, and expects to continue to be, managed on the basis of the adjusted financial measures. The adjusted financial measures should be read in conjunction with the Company's GAAP consolidated balance sheets and consolidated statements of income. The following financial tables include GAAP, adjusted and reconciling information for the reasons and purposes described herein:

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### AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (In thousands)

|                                            | June 30,<br>2005 | December 31,<br>2004 |
|--------------------------------------------|------------------|----------------------|
|                                            |                  | GAAP                 |
| <b>Assets:</b>                             |                  |                      |
| Cash and cash equivalents                  | \$ 197,375       | \$ 192,800           |
| Accounts receivable and servicing advances | 116,835          | 116,900              |
| Mortgage-backed securities                 | 6,917,986        | 6,016,800            |
| Mortgage loans held for sale, net          | 1,965,074        | 4,853,300            |
| Mortgage loans held for investment, net    | 134,597          |                      |
| Derivative assets                          | 35,756           | 24,800               |
| Mortgage servicing rights, net             | 261,839          | 151,400              |
| Premises and equipment, net                | 61,441           | 51,500               |
| Goodwill                                   | 98,826           | 90,800               |
| Other assets                               | 21,185           | 57,000               |

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|                                            |              |             |
|--------------------------------------------|--------------|-------------|
| Total assets                               | \$ 9,810,914 | \$ 11,555,7 |
|                                            | =====        | =====       |
| Liabilities and Stockholders' Equity:      |              |             |
| Liabilities:                               |              |             |
| Warehouse lines of credit                  | \$ 665,697   | \$ 735,7    |
| Drafts payable                             | 26,538       | 26,2        |
| Commercial paper                           | 1,291,684    | 529,7       |
| Reverse repurchase agreements              | 6,337,630    | 7,071,1     |
| Collateralized debt obligations            | --           | 2,022,2     |
| Derivative liabilities                     | 6,195        | 1,8         |
| Trust preferred securities                 | 48,414       |             |
| Accrued expenses and other liabilities     | 177,761      | 152,4       |
| Notes payable                              | 256,060      | 135,7       |
| Income taxes payable                       | 47,753       | 54,3        |
|                                            | -----        | -----       |
| Total liabilities                          | 8,857,732    | 10,729,5    |
|                                            | -----        | -----       |
| Stockholders' Equity:                      |              |             |
| Preferred Stock                            | 134,040      | 134,0       |
| Common stock                               | 405          | 4           |
| Additional paid-in capital                 | 638,595      | 631,5       |
| Retained earnings                          | 224,442      | 99,6        |
| Accumulated other comprehensive loss       | (44,300)     | (39,3       |
|                                            | -----        | -----       |
| Total stockholders' equity                 | 953,182      | 826,2       |
|                                            | -----        | -----       |
| Total liabilities and stockholders' equity | \$ 9,810,914 | \$ 11,555,7 |
|                                            | =====        | =====       |

Note:

(1) - Adjustments reflect the net effect on the period presented to reconcile the Company's operating statistics, results of operations and financial condition prepared in accordance with GAAP to the amounts adjusted as if the Company's fourth quarter 2004 securitization had qualified for SFAS 140 sale accounting treatment in the fourth quarter of 2004.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)

|                      | June 30,<br>2005 | March 31,<br>2005     |
|----------------------|------------------|-----------------------|
|                      | -----            | -----                 |
| Net interest income: |                  | (1)<br>As<br>Adjusted |
|                      | -----            | -----                 |

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|                                                                      |            |            |
|----------------------------------------------------------------------|------------|------------|
| Interest income                                                      | \$ 135,318 | \$ 119,969 |
| Interest expense                                                     | (90,336)   | (71,325)   |
|                                                                      | -----      | -----      |
| Net interest income                                                  | 44,982     | 48,644     |
|                                                                      | -----      | -----      |
| Non-interest income:                                                 |            |            |
| Gain on sales of mortgage loans                                      | 77,377     | 35,253     |
| Gain on sales of current period securitized mortgage loans           | 104,377    | 44,661     |
| Gain (loss) on sales of mortgage-backed securities and derivatives   | 620        | 4,732      |
| Unrealized (loss) gain on mortgage-backed securities and derivatives | (10,292)   | 20,236     |
| Loan servicing fees                                                  | 16,970     | 14,163     |
| Amortization                                                         | (12,832)   | (10,671)   |
| Impairment reserve (provision) recovery                              | (20,398)   | 5,467      |
|                                                                      | -----      | -----      |
| Net loan servicing (loss) fees                                       | (16,260)   | 8,959      |
|                                                                      | -----      | -----      |
| Other non-interest income                                            | 2,543      | 1,466      |
|                                                                      | -----      | -----      |
| Non-interest income                                                  | 158,365    | 115,307    |
|                                                                      | -----      | -----      |
| Non-interest expenses:                                               |            |            |
| Salaries, commissions and benefits, net                              | 94,859     | 68,475     |
| Occupancy and equipment                                              | 14,397     | 12,671     |
| Data processing and communications                                   | 5,957      | 5,950      |
| Office supplies and expenses                                         | 5,657      | 4,429      |
| Marketing and promotion                                              | 5,126      | 4,130      |
| Travel and entertainment                                             | 5,427      | 3,928      |
| Professional fees                                                    | 3,432      | 3,470      |
| Other                                                                | 6,843      | 6,869      |
|                                                                      | -----      | -----      |
| Non-interest expenses                                                | 141,698    | 109,922    |
|                                                                      | -----      | -----      |
| Net income before income tax (benefit) expense                       | 61,649     | 54,029     |
| Income tax (benefit) expense                                         | (3,851)    | --         |
|                                                                      | -----      | -----      |
| Net income                                                           | \$ 65,500  | \$ 54,029  |
|                                                                      | =====      | =====      |
| Dividends on preferred stock                                         | 3,304      | 3,305      |
|                                                                      | -----      | -----      |
| Net income available to common shareholders                          | \$ 62,196  | \$ 50,724  |
|                                                                      | =====      | =====      |
| Per share data:                                                      |            |            |
| Basic                                                                | \$ 1.54    | \$ 1.26    |
| Diluted                                                              | \$ 1.52    | \$ 1.24    |
| Weighted average number of shares - basic                            | 40,384     | 40,308     |
| Weighted average number of shares - diluted                          | 40,886     | 40,811     |

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Note:

(1) - Adjustments reflect the net effect on the period presented to reconcile the Company's operating statistics, results of operations and financial condition prepared in accordance with GAAP to the amounts adjusted as if the Company's fourth quarter 2004 securitization had qualified for SFAS 140 sale accounting treatment in the fourth quarter of 2004.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF INCOME  
 (In thousands, except per share amounts)

|                                                                      | Three Months   |                    |                    |
|----------------------------------------------------------------------|----------------|--------------------|--------------------|
|                                                                      | March 31, 2005 |                    |                    |
|                                                                      | GAAP           | (1)<br>Adjustments | (1)<br>As Adjusted |
| <b>Net interest income:</b>                                          |                |                    |                    |
| Interest income                                                      | \$ 146,894     | \$ (26,925)        | \$ 119,969         |
| Interest expense                                                     | (88,091)       | 16,766             | (71,325)           |
| Net interest income                                                  | 58,803         | (10,159)           | 48,644             |
| <b>Non-interest income:</b>                                          |                |                    |                    |
| Gain on sales of mortgage loans                                      | 35,253         | --                 | 35,253             |
| Gain on sales of current period securitized mortgage loans           | 69,919         | (25,258)           | 44,661             |
| Gain on sales of mortgage-backed securities and derivatives          | 6,132          | (1,400)            | 4,732              |
| Unrealized gain (loss) on mortgage-backed securities and derivatives | 57,499         | (37,263)           | 20,236             |
| Loan servicing fees                                                  | 11,312         | 2,851              | 14,163             |
| Amortization                                                         | (8,501)        | (2,170)            | (10,671)           |
| Impairment reserve recovery (provision)                              | 3,419          | 2,048              | 5,467              |
| Net loan servicing fees (loss)                                       | 6,230          | 2,729              | 8,959              |
| Other non-interest income                                            | 1,466          | --                 | 1,466              |
| Non-interest income                                                  | 176,499        | (61,192)           | 115,307            |
| <b>Non-interest expenses:</b>                                        |                |                    |                    |
| Salaries, commissions and benefits, net                              | 68,475         | --                 | 68,475             |
| Occupancy and equipment                                              | 12,671         | --                 | 12,671             |
| Data processing and communications                                   | 5,950          | --                 | 5,950              |
| Office supplies and expenses                                         | 4,429          | --                 | 4,429              |
| Marketing and promotion                                              | 4,130          | --                 | 4,130              |
| Travel and entertainment                                             | 3,928          | --                 | 3,928              |



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|                                             |            |             |           |
|---------------------------------------------|------------|-------------|-----------|
| Professional fees                           | 3,470      | --          | 3,470     |
| Other                                       | 6,869      | --          | 6,869     |
|                                             | -----      | -----       | -----     |
| Non-interest expenses                       | 109,922    | --          | 109,922   |
|                                             | -----      | -----       | -----     |
| Net income before income tax expense        | 125,380    | (71,351)    | 54,029    |
| Income tax expense                          | --         | --          | --        |
|                                             | -----      | -----       | -----     |
| Net income                                  | \$ 125,380 | \$ (71,351) | \$ 54,029 |
|                                             | =====      | =====       | =====     |
| Dividends on preferred stock                | 3,305      | --          | 3,305     |
|                                             | -----      | -----       | -----     |
| Net income available to common shareholders | \$ 122,075 | \$ (71,351) | \$ 50,724 |
|                                             | =====      | =====       | =====     |
| Per share data:                             |            |             |           |
| Basic                                       | \$ 3.03    | \$ (1.77)   | \$ 1.26   |
| Diluted                                     | \$ 2.99    | \$ (1.75)   | \$ 1.24   |
| Weighted average number of shares - basic   | 40,308     | 40,308      | 40,308    |
| Weighted average number of shares - diluted | 40,811     | 40,811      | 40,811    |

Note:

(1) - Adjustments reflect the net effect on the period presented to reconcile the Company's operating statistics, results of operations and financial condition prepared in accordance with GAAP to the amounts adjusted as if the Company's fourth quarter 2004 securitization had qualified for SFAS 140 sale accounting treatment in the fourth quarter of 2004.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)

|                      |  |  |            |       |
|----------------------|--|--|------------|-------|
|                      |  |  |            |       |
|                      |  |  |            | Si    |
|                      |  |  | -----      | ----- |
|                      |  |  | 2005       |       |
|                      |  |  | -----      | ----- |
|                      |  |  | GAAP       | Ad    |
|                      |  |  | -----      | ----- |
| Net interest income: |  |  |            |       |
| Interest income      |  |  | \$ 282,212 | \$    |
| Interest expense     |  |  | (178,427)  |       |
|                      |  |  | -----      | ----- |

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|                                                               |            |    |
|---------------------------------------------------------------|------------|----|
| Net interest income                                           | 103,785    |    |
| -----                                                         |            |    |
| Non-interest income:                                          |            |    |
| Gain on sales of mortgage loans                               | 112,630    |    |
| Gain on sales of current period securitized mortgage loans    | 174,296    |    |
| Gain on sales of mortgage-backed securities and derivatives   | 6,752      |    |
| Unrealized gain on mortgage-backed securities and derivatives | 47,207     |    |
| Loan servicing fees                                           | 28,282     |    |
| Amortization                                                  | (21,333)   |    |
| Impairment reserve provision                                  | (16,979)   |    |
| -----                                                         |            |    |
| Net loan servicing fees (loss)                                | (10,030)   |    |
| -----                                                         |            |    |
| Other non-interest income                                     | 4,009      |    |
| -----                                                         |            |    |
| Non-interest income                                           | 334,864    |    |
| -----                                                         |            |    |
| Non-interest expenses:                                        |            |    |
| Salaries, commissions and benefits, net                       | 163,334    |    |
| Occupancy and equipment                                       | 27,068     |    |
| Data processing and communications                            | 11,907     |    |
| Office supplies and expenses                                  | 10,086     |    |
| Marketing and promotion                                       | 9,256      |    |
| Travel and entertainment                                      | 9,355      |    |
| Professional fees                                             | 6,902      |    |
| Other                                                         | 13,712     |    |
| -----                                                         |            |    |
| Non-interest expenses                                         | 251,620    |    |
| -----                                                         |            |    |
| Net income before income tax benefit                          | 187,029    |    |
| Income tax benefit                                            | (3,851)    |    |
| -----                                                         |            |    |
| Net income                                                    | \$ 190,880 | \$ |
| =====                                                         |            |    |
| Dividends on preferred stock                                  | 6,609      |    |
| -----                                                         |            |    |
| Net income available to common shareholders                   | \$ 184,271 | \$ |
| =====                                                         |            |    |
| Per share data:                                               |            |    |
| Basic                                                         | \$ 4.57    | \$ |
| Diluted                                                       | \$ 4.51    | \$ |
| Weighted average number of shares - basic                     | 40,346     |    |
| Weighted average number of shares - diluted                   | 40,849     |    |

Note:

(1) - Adjustments reflect the net effect on the period presented to reconcile the Company's operating statistics, results of operations and financial condition prepared in accordance with GAAP to the amounts adjusted as if the Company's fourth quarter 2004 securitization had qualified for SFAS 140 sale accounting treatment in the fourth quarter of 2004.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
MORTGAGE-BACKED SECURITIES HOLDINGS SEGMENT  
(In thousands)

|                                                                      | 2005       | Six |
|----------------------------------------------------------------------|------------|-----|
|                                                                      | GAAP       | Ad  |
| Net interest income:                                                 |            |     |
| Interest income                                                      | \$ 135,346 | \$  |
| Interest expense                                                     | (91,223)   |     |
| Net interest income                                                  | 44,123     |     |
| Non-interest income:                                                 |            |     |
| Gain on sales of mortgage loans                                      | --         |     |
| Gain on sales of current period securitized mortgage loans           | --         |     |
| Gain (loss) on sales of mortgage-backed securities and derivatives   | 909        |     |
| Unrealized gain (loss) on mortgage-backed securities and derivatives | 2,085      |     |
| Loan servicing fees                                                  | --         |     |
| Amortization                                                         | --         |     |
| Impairment reserve recovery (provision)                              | --         |     |
| Net loan servicing fees                                              | --         |     |
| Other non-interest income                                            | --         |     |
| Non-interest income                                                  | 2,994      |     |
| Non-interest expenses:                                               |            |     |
| Salaries, commissions and benefits, net                              | 4,569      |     |
| Occupancy and equipment                                              | 3          |     |
| Data processing and communications                                   | 42         |     |
| Office supplies and expenses                                         | 1          |     |
| Marketing and promotion                                              | 2          |     |
| Travel and entertainment                                             | 5          |     |
| Professional fees                                                    | 2,022      |     |
| Other                                                                | 4,605      |     |
| Non-interest expenses                                                | 11,249     |     |
| Net income before income tax expense (benefit)                       | 35,868     |     |

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|                              |           |
|------------------------------|-----------|
| Income tax expense (benefit) | --        |
|                              | -----     |
| Net income                   | \$ 35,868 |
|                              | =====     |

Note:

(1) - Adjustments reflect the net effect on the period presented to reconcile the Company's operating statistics, results of operations and financial condition prepared in accordance with GAAP to the amounts adjusted as if the Company's fourth quarter 2004 securitization had qualified for SFAS 140 sale accounting treatment in the fourth quarter of 2004.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
LOAN ORIGINATION SEGMENT  
(In thousands)

|                                                                    | 2005       | Six   |
|--------------------------------------------------------------------|------------|-------|
|                                                                    | GAAP       | Ad    |
|                                                                    | -----      | ----- |
| Net interest income:                                               |            |       |
| Interest income                                                    | \$ 146,866 | \$    |
| Interest expense                                                   | (83,862)   |       |
|                                                                    | -----      | ----- |
| Net interest income                                                | 63,004     |       |
|                                                                    | -----      | ----- |
| Non-interest income:                                               |            |       |
| Gain on sales of mortgage loans                                    | 112,630    |       |
| Gain on sales of current period securitized mortgage loans         | 174,296    |       |
| Gain (loss) on sales of mortgage-backed securities and derivatives | 5,843      |       |
| Unrealized gain on mortgage-backed securities and derivatives      | 45,122     |       |
|                                                                    |            |       |
| Loan servicing fees                                                | --         |       |
| Amortization                                                       | --         |       |
| Impairment reserve recovery (provision)                            | --         |       |
|                                                                    | -----      | ----- |
| Net loan servicing fees                                            | --         |       |
|                                                                    | -----      | ----- |
| Other non-interest income                                          | 2,608      |       |
|                                                                    | -----      | ----- |
| Non-interest income                                                | 340,499    |       |
|                                                                    | -----      | ----- |
| Non-interest expenses:                                             |            |       |

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|                                                |            |
|------------------------------------------------|------------|
| Salaries, commissions and benefits, net        | 153,441    |
| Occupancy and equipment                        | 26,660     |
| Data processing and communications             | 11,580     |
| Office supplies and expenses                   | 9,339      |
| Marketing and promotion                        | 9,193      |
| Travel and entertainment                       | 9,001      |
| Professional fees                              | 4,307      |
| Other                                          | 6,316      |
|                                                | -----      |
| Non-interest expenses                          | 229,837    |
|                                                | -----      |
| Net income before income tax expense (benefit) | 173,666    |
| Income tax expense (benefit)                   | 4,998      |
|                                                | -----      |
| Net income                                     | \$ 168,668 |
|                                                | =====      |

Note:

(1) - Adjustments reflect the net effect on the period presented to reconcile the Company's operating statistics, results of operations and financial condition prepared in accordance with GAAP to the amounts adjusted as if the Company's fourth quarter 2004 securitization had qualified for SFAS 140 sale accounting treatment in the fourth quarter of 2004.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
LOAN SERVICING SEGMENT  
(In thousands)

|                                 | 2005    | GAAP  | Ad    |
|---------------------------------|---------|-------|-------|
|                                 | -----   | ----- | ----- |
| Net interest income:            |         |       |       |
| Interest income                 | \$ --   |       |       |
| Interest expense                | (3,342) |       |       |
|                                 | -----   |       |       |
| Net interest income             | (3,342) |       |       |
|                                 | -----   |       |       |
| Non-interest income:            |         |       |       |
| Gain on sales of mortgage loans | --      |       |       |

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|                                                                      |             |
|----------------------------------------------------------------------|-------------|
| Gain on sales of current period securitized mortgage loans           | --          |
| Gain (loss) on sales of mortgage-backed securities and derivatives   | --          |
| Unrealized gain (loss) on mortgage-backed securities and derivatives | --          |
| Loan servicing fees                                                  | 28,282      |
| Amortization                                                         | (21,333)    |
| Impairment reserve provision                                         | (16,979)    |
|                                                                      | -----       |
| Net loan servicing loss                                              | (10,030)    |
|                                                                      | -----       |
| Other non-interest income                                            | 1,401       |
|                                                                      | -----       |
| Non-interest income                                                  | (8,629)     |
|                                                                      | -----       |
| Non-interest expenses:                                               |             |
| Salaries, commissions and benefits, net                              | 5,324       |
| Occupancy and equipment                                              | 405         |
| Data processing and communications                                   | 285         |
| Office supplies and expenses                                         | 746         |
| Marketing and promotion                                              | 61          |
| Travel and entertainment                                             | 349         |
| Professional fees                                                    | 573         |
| Other                                                                | 2,791       |
|                                                                      | -----       |
| Non-interest expenses                                                | 10,534      |
|                                                                      | -----       |
| Net income before income tax benefit                                 | (22,505)    |
| Income tax benefit                                                   | (8,849)     |
|                                                                      | -----       |
| Net income                                                           | \$ (13,656) |
|                                                                      | =====       |

### Note:

(1) - Adjustments reflect the net effect on the period presented to reconcile the Company's operating statistics, results of operations and financial condition prepared in accordance with GAAP to the amounts adjusted as if the Company's fourth quarter 2004 securitization had qualified for SFAS 140 sale accounting treatment in the fourth quarter of 2004.

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### Financial Condition

Total assets at June 30, 2005 were \$9.8 billion, a \$1.8 billion decrease from \$11.6 billion at December 31, 2004, and an increase of \$192.8 million compared to the \$9.6 billion of total assets as adjusted at December 31, 2004. The decrease in total assets primarily reflects a decrease in mortgage loans held for sale of \$2.9 billion, partly offset by an increase in mortgage-backed securities of \$0.9 billion. Total assets at December 31, 2004 includes the full \$3.5 billion amount of the loans held for sale in the Q4-04 Securitization and excludes \$1.5 billion of mortgage-backed securities that the Company retained in connection with the transaction. At June 30, 2005, 70.5% of our total assets

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were mortgage-backed securities and 20.0% were mortgage loans held for sale, compared to 52.1% and 42.0%, respectively, at December 31, 2004 and 79.0% and 13.7%, respectively, at December 31, 2004 as adjusted.

The following table summarizes our mortgage-backed securities owned at June 30, 2005, December 31, 2004 and December 31, 2004 as adjusted, classified by type of issuer and by ratings categories:

|                   | June 30, 2005      |               |                               |                        |
|-------------------|--------------------|---------------|-------------------------------|------------------------|
|                   | Trading Securities |               | Securities Available for Sale |                        |
|                   | Carrying Value     | Portfolio Mix | Carrying Value                | Portfolio Mix          |
|                   |                    |               |                               | (Dollars in thousands) |
| Agency securities | \$ --              | --%           | \$ 183,066                    |                        |
| Privately issued: |                    |               |                               |                        |
| AAA               | 3,095,541          | 83.2          | 2,979,460                     |                        |
| AA                | 47,256             | 1.3           | 12,714                        |                        |
| A                 | 143,417            | 3.9           | 11,041                        |                        |
| BBB               | 188,804            | 5.1           | 5,333                         |                        |
| Unrated           | 241,633            | 6.5           | 9,721                         |                        |
| Total             | \$3,716,651        | 100.0%        | \$3,201,335                   |                        |

|                   | December 31, 2004  |               |                               |                        |
|-------------------|--------------------|---------------|-------------------------------|------------------------|
|                   | Trading Securities |               | Securities Available for Sale |                        |
|                   | Carrying Value     | Portfolio Mix | Carrying Value                | Portfolio Mix          |
|                   |                    |               |                               | (Dollars in thousands) |
| Agency securities | \$ --              | --%           | \$ 612,513                    |                        |
| Privately issued: |                    |               |                               |                        |
| AAA               | 1,634,702          | 90.6          | 3,542,772                     |                        |
| AA                | --                 | --            | 16,043                        |                        |
| A                 | 58,480             | 3.2           | 15,750                        |                        |
| BBB               | 58,153             | 3.2           | 7,910                         |                        |
| Unrated           | 54,591             | 3.0           | 15,952                        |                        |
| Total             | \$1,805,926        | 100.0%        | \$4,210,940                   |                        |





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|                                     | Trading Securities |               | Securities Available for |     |
|-------------------------------------|--------------------|---------------|--------------------------|-----|
|                                     | Carrying Value     | Portfolio Mix | Carrying Value           | Por |
| Index:                              |                    |               |                          |     |
| One-month LIBOR                     | \$ 86,199          | 4.8%          | \$ 114,149               |     |
| Six-month LIBOR                     | 829,413            | 45.9          | 2,385,582                |     |
| One-year LIBOR                      | 890,314            | 49.3          | 1,231,392                |     |
| One-year constant maturity treasury | --                 | --            | 479,817                  |     |
| Total                               | \$1,805,926        | 100.0%        | \$4,210,940              |     |

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|                                     | Trading Securities |               | Securities Available for |     |
|-------------------------------------|--------------------|---------------|--------------------------|-----|
|                                     | Carrying Value     | Portfolio Mix | Carrying Value           | Por |
| Index:                              |                    |               |                          |     |
| One-month LIBOR                     | \$ 198,201         | 5.8%          | \$ 114,149               |     |
| Six-month LIBOR                     | 2,266,802          | 66.9          | 2,385,582                |     |
| One-year LIBOR                      | 925,850            | 27.3          | 1,231,392                |     |
| One-year constant maturity treasury | --                 | --            | 479,817                  |     |
| Total                               | \$3,390,853        | 100.0%        | \$4,210,940              |     |

The following table classifies our mortgage-backed securities portfolio by product type at June 30, 2005, December 31, 2004 and December 31, 2004 as adjusted:

|  | Trading Securities |               | Securities Available for |     |
|--|--------------------|---------------|--------------------------|-----|
|  | Carrying Value     | Portfolio Mix | Carrying Value           | Por |
|  |                    |               |                          |     |

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|                        |             |        |             |
|------------------------|-------------|--------|-------------|
| Product:               |             |        |             |
| ARMs less than 3 years | \$ 785,096  | 21.1%  | \$ 746,969  |
| 3/1 Hybrid ARM         | 246,448     | 6.6    | 357,816     |
| 5/1 Hybrid ARM         | 2,685,107   | 72.3   | 2,096,550   |
|                        | -----       | -----  | -----       |
| Total                  | \$3,716,651 | 100.0% | \$3,201,335 |
|                        | =====       | =====  | =====       |

|  |                    |               |                               |
|--|--------------------|---------------|-------------------------------|
|  |                    |               | December 31, 2005             |
|  | Trading Securities |               | Securities Available for Sale |
|  | Carrying Value     | Portfolio Mix | Carrying Value                |
|  | -----              | -----         | -----                         |
|  |                    |               | (Dollars in thousands)        |

|                        |             |        |             |
|------------------------|-------------|--------|-------------|
| Product:               |             |        |             |
| ARMs less than 3 years | \$ 149,040  | 8.3%   | \$ 954,794  |
| 3/1 Hybrid ARM         | 381,831     | 21.1   | 488,696     |
| 5/1 Hybrid ARM         | 1,275,055   | 70.6   | 2,767,450   |
|                        | -----       | -----  | -----       |
| Total                  | \$1,805,926 | 100.0% | \$4,210,940 |
|                        | =====       | =====  | =====       |

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|  |                    |               |                                 |
|--|--------------------|---------------|---------------------------------|
|  |                    |               | December 31, 2004 (as reported) |
|  | Trading Securities |               | Securities Available for Sale   |
|  | Carrying Value     | Portfolio Mix | Carrying Value                  |
|  | -----              | -----         | -----                           |
|  |                    |               | (Dollars in thousands)          |

|                        |             |        |             |
|------------------------|-------------|--------|-------------|
| Product:               |             |        |             |
| ARMs less than 3 years | \$ 342,694  | 10.1%  | \$ 954,794  |
| 3/1 Hybrid ARM         | 381,831     | 11.3   | 488,696     |
| 5/1 Hybrid ARM         | 2,666,328   | 78.6   | 2,767,450   |
|                        | -----       | -----  | -----       |
| Total                  | \$3,390,853 | 100.0% | \$4,210,940 |
|                        | =====       | =====  | =====       |

During the three months ended June 30, 2005, we purchased \$934 million of mortgage-backed securities and added \$463 million of self-originated mortgage-backed securities to our portfolio.

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During the six months ended June 30, 2005, we purchased \$934 million of mortgage-backed securities and added \$3.2 billion of self-originated mortgage-backed securities to our portfolio, including \$1.5 billion from the Q4-04 Securitization.

During the three and six months ended June 30, 2005, we sold \$1.1 billion and \$2.3 billion of mortgage-backed securities, respectively.

### Results of Operations - Comparison of the Three Months Ended June 30, 2005 and 2004

#### Overview

-----

Net income for the three months ended June 30, 2005 was \$65.5 million compared to \$33.5 million for the three months ended June 30, 2004, an increase of \$32.0 million, or 95.6%. The increase in net income was the result of an \$89.2 million increase in non-interest income and a \$24.9 million increase in net interest income, partly offset by a \$73.4 million increase in non-interest expenses and an \$8.7 million decrease in income tax benefit. The \$89.2 million increase in non-interest income consists of a \$96.6 million increase in gain on sales of current period securitized mortgage loans, a \$60.2 million increase in gain on sales of mortgage loans, a \$1.3 million increase in other non-interest income, offset by a \$44.4 million decrease in realized and unrealized gains on mortgage-backed securities and derivatives, and a \$24.5 million decrease in net loan servicing fees.

#### Net Interest Income

-----

The following tables present the average balances for our interest-earning assets, interest-bearing liabilities, corresponding annualized effective rates of interest and the related interest income or expense for the three months ended June 30, 2005 compared to the three months ended June 30, 2004:

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(Dollars in thousands)

|                                     | Three Months Ended June |           |                       |              |
|-------------------------------------|-------------------------|-----------|-----------------------|--------------|
|                                     | 2005                    |           |                       |              |
|                                     | Average<br>Balance      | Interest  | Average<br>Yield/Cost | Aver<br>Bala |
| Interest earning assets:            |                         |           |                       |              |
| Mortgage-backed securities, net (1) | \$ 6,804,436            | \$ 77,042 | 4.53%                 | \$ 4,81      |
| Mortgage loans held for sale        | 3,861,999               | 58,276    | 6.04%                 | 2,19         |
|                                     | 10,666,435              | 135,318   | 5.07%                 | 7,00         |

Interest bearing liabilities:

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|                                   |            |           |       |       |
|-----------------------------------|------------|-----------|-------|-------|
| Warehouse lines of credit (2)     | 1,790,318  | 20,587    | 4.55% | 1,66  |
| Commercial paper                  | 1,845,695  | 14,760    | 3.16% | 35    |
| Reverse repurchase agreements (3) | 6,296,377  | 52,237    | 3.29% | 4,50  |
| Trust preferred securities        | 26,923     | 482       | 7.08% |       |
| Notes payable                     | 189,313    | 2,270     | 4.74% | 13    |
|                                   | -----      | -----     |       | ----- |
|                                   | 10,148,626 | 90,336    | 3.52% | 6,65  |
|                                   | -----      | -----     |       | ----- |
| Net interest income               |            | \$ 44,982 |       |       |
|                                   |            | =====     |       |       |
| Interest rate spread              |            |           | 1.55% |       |
|                                   |            |           | ===== |       |
| Net interest margin               |            |           | 1.72% |       |
|                                   |            |           | ===== |       |

- (1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.
- (2) Includes \$103 thousand and \$4.3 million of net interest expense on interest rate swap agreements for the 2005 and 2004 periods, respectively.
- (3) Includes \$4.5 million and \$14.7 million of net interest expense on interest rate swap agreements for the 2005 and 2004 periods, respectively.

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The following table presents the effects of changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities on our interest income and interest expense for the three months ended June 30, 2005 compared to the three months ended June 30, 2004:

| (In thousands)                  | Three Months Ended June 30, 2005<br>Compared to<br>Three Months Ended June 30, 2004 |                   |       |
|---------------------------------|-------------------------------------------------------------------------------------|-------------------|-------|
|                                 | Average<br>Rate                                                                     | Average<br>Volume |       |
|                                 | -----                                                                               | -----             | ----- |
| Mortgage-backed securities, net | \$ 15,549                                                                           | \$ 20,182         | \$    |
| Mortgage loans held for sale    | 5,043                                                                               | 24,545            |       |
|                                 | -----                                                                               | -----             | ----- |
| Interest income                 | 20,592                                                                              | 44,727            |       |
|                                 | -----                                                                               | -----             | ----- |
| Warehouse lines of credit       | 2,426                                                                               | 1,387             |       |
| Commercial paper                | 2,228                                                                               | 10,990            |       |
| Reverse repurchase agreements   | 7,606                                                                               | 14,141            |       |
| Trust preferred securities      | --                                                                                  | 482               |       |
| Notes payable                   | 571                                                                                 | 592               |       |
|                                 | -----                                                                               | -----             | ----- |

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|                     |          |           |
|---------------------|----------|-----------|
| Interest expense    | 12,831   | 27,592    |
|                     | -----    | -----     |
| Net interest income | \$ 7,761 | \$ 17,135 |
|                     | =====    | =====     |

Interest Income: Interest income on mortgage-backed securities for the three months ended June 30, 2005 was \$77.0 million, compared to \$41.3 million for the three months ended June 30, 2004, a \$35.7 million, or 86.5%, increase. This increase reflects primarily the growth of our mortgage-backed securities portfolio and higher interest rates in 2005 versus 2004.

Interest income on our mortgage loans held for sale for the three months ended June 30, 2005 was \$58.3 million compared to \$28.7 million for the three months ended June 30, 2004, an increase of \$29.6 million, or 103.1%. The increase in interest income on loans held for sale was primarily the result of an increase in average volume in 2005 versus 2004 due to higher mortgage origination volume.

Interest Expense: We fund our loan inventory primarily through borrowing facilities with several mortgage warehouse lenders and through a \$3.3 billion commercial paper, or secured liquidity note ("SLN"), program. Interest expense on warehouse lines of credit for the three months ended June 30, 2005 was \$20.6 million, compared to interest expense for the three months ended June 30, 2004 of \$16.8 million, a \$3.8 million increase. The increase in warehouse lines of credit interest expense was primarily the result of an increase in average volume due to higher mortgage origination volume and an increase in average rate due to generally higher short-term interest rates in 2005 versus 2004. In May 2004, we formed a wholly-owned special purpose entity for the purpose of issuing commercial paper in the form of SLNs to finance certain portions of our mortgage loans held for sale. Interest expense on commercial paper for the three months ended June 30, 2005 was \$14.8 million, versus \$1.6 million for the three months ended June 30, 2004, a \$13.2 million increase. By funding a portion of our loan inventory through the commercial paper program, we were able to reduce our average funding cost versus borrowing exclusively through warehouse lenders.

We have borrowed funds under reverse repurchase agreements, a form of collateralized short-term borrowing, with seven different financial institutions as of June 30, 2005. We borrow funds under these arrangements based on the fair value of our mortgage-backed securities. Total interest expense on reverse repurchase agreements for the three months ended June 30, 2005 was \$52.2 million, compared to interest expense for the three months ended June 30, 2004 of \$30.5 million, a \$21.7 million increase. The increase in reverse repurchase agreements interest expense in 2005 versus 2004 was primarily the result of an increase in borrowings used to fund the growth of our mortgage-backed securities portfolio.

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### Gain on Mortgage Loans, Mortgage-Backed Securities and Derivatives

-----

Gain on Sales and Securitizations of Mortgage Loans: Gain on sales and securitizations of mortgage loans in our Loan Origination segment during the three months ended June 30, 2005 totaled \$182.6 million, or 1.78% of mortgage loans sold or securitized, compared to \$49.0 million, or 0.75%, of mortgage loans sold or securitized during the three months ended June 30, 2004. The increase primarily reflects a \$3.7 billion increase in mortgage loans sold or

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securitized to \$10.3 billion in the second quarter of 2005 from \$6.6 billion in the second quarter of 2004. The change in fair value of IRLCs included in gain on sales of mortgage loans in the 2004 period was reduced as a result of our adoption of Staff Accounting Bulletin No. 105 ("SAB No. 105").

The following table presents the components of gain on sales and securitizations of mortgage loans in our Loan Origination segment during the three months ended June 30, 2005 and 2004:

### Gains on Sales and Securitizations of Mortgage Loans

|                                                                                                              | Three Months Ended June 30, |            |
|--------------------------------------------------------------------------------------------------------------|-----------------------------|------------|
|                                                                                                              | 2005                        | 2004       |
| (Dollars in thousands)                                                                                       |                             |            |
| Gain on sales of mortgage loans                                                                              | \$ 77,377                   | \$ 17,1    |
| Gain on sales of current period securitized mortgage loans                                                   | 104,377                     | 7,8        |
| Loss on sales of free standing derivatives                                                                   | (3,626)                     |            |
| Unrealized gain on self-originated mortgage-backed securities retained in period                             | 8,493                       | 24,0       |
| Unrealized loss on free standing derivatives                                                                 | (4,030)                     |            |
| Total gain on sales and securitizations of mortgage loans                                                    | \$ 182,591                  | \$ 49,0    |
| Total mortgage loans sold or securitized                                                                     | \$ 10,273,356               | \$ 6,567,2 |
| Total gain on sales and securitizations of mortgage loans as a % of total mortgage loans sold or securitized | 1.78%                       | 0.         |

Portfolio Gains and Losses: During the three months ended June 30, 2005, portfolio gains and losses in our Mortgage-Backed Securities Holdings segment were a portfolio loss of \$10.5 million compared to a portfolio gain of \$10.7 million during the three months ended June 30, 2004. The decrease in portfolio gains in the second quarter of 2005 compared to the second quarter of 2004 was primarily the result of a \$26.8 million net decrease in unrealized gain on mortgage-backed securities and free standing derivatives, partly offset by a \$5.6 million increase in gain on sales of mortgage-backed securities.

The following table presents the components of portfolio gains and losses in our Mortgage-Backed Securities Holdings segment during the three months ended June 30, 2005 and 2004:

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### Portfolio Gains and Losses

| Three Months Ended June 30 |     |
|----------------------------|-----|
| 2005                       | 200 |

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(In thousands)

|                                                                                        |             |       |
|----------------------------------------------------------------------------------------|-------------|-------|
| Gain (loss) on sales of mortgage-backed securities                                     | \$ 4,246    | \$ (  |
| Unrealized gain (loss) on mortgage-backed securities                                   | 13,031      | (2    |
| Unrealized (loss) gain on free standing derivatives                                    | (27,786)    | 4     |
|                                                                                        | -----       | ----- |
| Net unrealized (loss) gain on mortgage-backed securities and free standing derivatives | (14,755)    | 1     |
|                                                                                        | -----       | ----- |
| Total portfolio (loss) gain                                                            | \$ (10,509) | \$ 1  |
|                                                                                        | =====       | ===== |

The following table presents the components of gain on sales of mortgage-backed securities and derivatives shown in the Company's consolidated statements of income:

Components of Gains and Losses on Sales of Mortgage-backed Securities and Derivatives

|                                                                    | Three Months Ended June 3 |       |
|--------------------------------------------------------------------|---------------------------|-------|
|                                                                    | 2005                      | 200   |
|                                                                    | -----                     | ----- |
| (In thousands)                                                     |                           |       |
| Gain (loss) on sales of mortgage-backed securities                 | \$ 4,246                  | \$ (  |
| Loss on sales of free standing interest rate swap derivatives      | (3,626)                   | ----- |
|                                                                    | -----                     | ----- |
| Gain (loss) on sales of mortgage-backed securities and derivatives | \$ 620                    | \$ (  |
|                                                                    | =====                     | ===== |

The following table presents the components of unrealized gain on mortgage-backed securities and derivatives shown in the Company's consolidated statements of income:

Components of Unrealized Gains and Losses on Mortgage-backed Securities and Derivatives

|                                                                                  | Three Months Ended June 3 |       |
|----------------------------------------------------------------------------------|---------------------------|-------|
|                                                                                  | 2005                      | 200   |
|                                                                                  | -----                     | ----- |
| (In thousands)                                                                   |                           |       |
| Unrealized gain on self-originated mortgage-backed securities retained in period | \$ 8,493                  | \$ 2  |
| Unrealized gain (loss) on mortgage-backed securities                             | 13,031                    | (2    |
| Unrealized (loss) gain on free standing derivatives                              | (31,816)                  | 4     |
|                                                                                  | -----                     | ----- |

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Unrealized (loss) gain on mortgage-backed securities and derivatives

\$ (10,292)

\$ 3

=====

=====

### Net Loan Servicing Fees

Net loan servicing fees were a loss of \$16.3 million for the three months ended June 30, 2005 compared to a gain of \$8.2 million for the three months ended June 30, 2004.

**Loan Servicing Fees:** Loan servicing fees increased to \$17.0 million for the three months ended June 30, 2005 from \$8.7 million for the three months ended June 30, 2004, an increase of \$8.3 million, or 94.4%. Included in loan servicing fees are gains on Ginnie Mae early buy-out sales of \$0.4 million for the three months ended June 30, 2005 compared to \$0.6 million for the three months ended June 30, 2004, a decrease of \$0.2 million, or 33.3%. This decrease partly offset the increase in loan servicing fees in the second quarter of 2005 versus the second quarter of 2004 as a result of an increase in loans serviced for others.

**Amortization of MSRs:** Amortization of MSRs increased to \$12.8 million for the three months ended June 30, 2005 from \$7.8 million for the three months ended June 30, 2004, an increase of \$5.0 million, or 65.3%. The increase in amortization was due to a higher average servicing portfolio in the second quarter of 2005 versus the second quarter of 2004.

**Impairment (Provision) Recovery of MSRs:** We recognized a temporary impairment provision of \$20.4 million for the three months ended June 30, 2005 versus a temporary impairment recovery of \$7.3 million for the three months ended June 30, 2004, resulting in a decrease in net loan servicing fees of \$27.7 million. The increase in impairment provision in the three months ended June 30, 2005 was due to lower interest rates, which was attributable to a subsequent increase in estimated future prepayment speeds versus the initial estimated future prepayment speeds used to value the MSR upon securitization.

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The following table presents net loan servicing fees (loss) for the three months ended June 30, 2005 and 2004:

|                                         | Three Months Ended Ju |    |
|-----------------------------------------|-----------------------|----|
|                                         | 2005                  |    |
|                                         |                       |    |
| (In thousands)                          |                       |    |
| Loan servicing fees                     | \$ 16,970             | \$ |
| Amortization                            | (12,832)              |    |
| Impairment reserve (provision) recovery | (20,398)              |    |
|                                         | \$ (16,260)           | \$ |
|                                         | =====                 | =  |

### Other Non-Interest Income



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Other non-interest income totaled \$2.5 million for the three months ended June 30, 2005 compared to \$1.2 million for the three months ended June 30, 2004. For the three months ended June 30, 2005, other non-interest income primarily includes reinsurance premiums earned totaling approximately \$1.5 million, rental income of \$0.4 million and revenue from title services of \$0.3 million. For the three months ended June 30, 2004, other non-interest income primarily includes rental income of \$0.6 million, reinsurance premiums earned totaling approximately \$0.4 million and revenue from title services of \$0.2 million.

### Non-Interest Expenses

-----

Our non-interest expenses for the three months ended June 30, 2005 were \$141.7 million compared to \$68.3 million for the three months ended June 30, 2004, an increase of \$73.4 million, or 107.6%. The increase primarily reflects a \$65.8 million rise in our Loan Origination segment non-interest expenses to \$129.1 million, or 1.20% of total loan originations in the second quarter of 2005, from \$63.2 million, or 0.96% of total loan originations in the second quarter of 2004.

Our operating expenses represent costs that are not eligible to be added to the book value of the loans because they are not considered to be certain direct origination costs under the rules of Statement of Financial Accounting Standards ("SFAS") No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Costs of Leases." Direct origination costs are added to the book value of loans and either reduce the gain on sale of loans if the loans are sold or are amortized over the life of the loan.

Salaries, Commissions and Benefits, net: Salaries, commissions and benefits, net, for the three months ended June 30, 2005 were \$94.9 million, compared to \$42.7 million for the three months ended June 30, 2004, an increase of \$52.2 million, or 122.2%. The increase in expenses reflects higher origination volume and a resulting higher commission expense and higher salaries due to an increase in employees to 6,075 at June 30, 2005 from 4,010 at June 30, 2004.

Other Operating Expenses: Operating expenses, excluding salaries, commissions and benefits, were \$46.8 million for the three months ended June 30, 2005, compared to \$25.5 million for the three months ended June 30, 2004, an increase of \$21.3 million, or 83.3%. The increase in operating expenses in the second quarter of 2005 versus the second quarter of 2004 includes a \$6.4 million increase in occupancy and equipment expense. The operating expenses in the three months ended June 30, 2005 include lease obligations and certain fixed asset expenses relating to our acquisition of certain residential home loan centers and associated satellite offices of Washington Mutual, Inc. in August 2004.

### Income Tax Benefit

-----

A \$3.9 million income tax benefit was recognized for the three months ended June 30, 2005, compared to a benefit of \$12.5 million for the three months ended June 30, 2004. The decrease in income tax benefit in the second quarter of 2005 versus the second quarter of 2004 reflects a decrease in loss before income taxes relating to our taxable REIT subsidiary ("TRS").

### Loan Originations

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We originate and sell or securitize one-to-four family residential mortgage loans. Total loan originations for the three months ended June 30, 2005 were \$10.8 billion compared to \$6.6 billion for the three months ended June 30, 2004, a 63.6% increase. Our retail originations, which are conducted through our

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community loan production offices and Internet call center, were 48% of our loan originations in the three months ended June 30, 2005 compared to 47% of our originations in the three months ended June 30, 2004. Mortgage brokers accounted for 52% of our loan originations in the three months ended June 30, 2005 compared to 53% of our originations in the three months ended June 30, 2004.

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Results of Operations - Comparison of the Six Months Ended June 30, 2005 and 2004

### Overview

Net income for the six months ended June 30, 2005 was \$190.9 million compared to \$54.7 million for the six months ended June 30, 2004, an increase of \$136.2 million, or 248.9%. Net income for the six months ended June 30, 2005 includes approximately \$71.4 million of revenues related to the delay in recognizing the Q4-04 Securitization as a sale into the first quarter of 2005. The increase in net income was the result of a \$194.4 million increase in non-interest income and a \$70.9 million increase in net interest income, partly offset by a \$116.7 million increase in non-interest expenses and a \$12.5 million decrease in income tax benefit. The \$194.4 million increase in non-interest income consists of a \$164.6 million increase in gain on sales of current period securitized mortgage loans, a \$42.9 million increase in gain on sales of mortgage loans and a \$1.8 million increase in other non-interest income, partly offset by a \$6.3 million decrease in realized and unrealized gains on mortgage-backed securities and derivatives, and a \$8.6 million decrease in net loan servicing fees in the six months ended June 30, 2005 versus the six months ended June 30, 2004.

Net income as adjusted for the six months ended June 30, 2005 was \$119.5 million, an increase of \$64.8 million, or 118.5%, over net income for the six months ended June 30, 2004. The increase in net income as adjusted was the result of a \$133.2 million increase in non-interest income as adjusted and a \$60.8 million increase in net interest income as adjusted, partly offset by a \$116.7 million increase in non-interest expenses and \$12.5 million decrease in income tax benefit. The \$133.2 million increase in non-interest income as adjusted consists of a \$139.4 million increase in gain on sales of current period securitized mortgage loans as adjusted, a \$42.9 million increase in gain on sales of mortgage loans and a \$1.8 million increase in other non-interest income partly offset by a \$45.0 million decrease in realized and unrealized gains on mortgage-backed securities and derivatives as adjusted and a \$5.9 million decrease in net loan servicing fees as adjusted in the six months ended June 30, 2005 versus the six months ended June 30, 2004.

### Net Interest Income

The following table presents the average balances for our interest-earning assets, interest-bearing liabilities, corresponding annualized effective rates of interest and the related interest income or expense for the six months ended June 30, 2005 compared to the six months ended June 30, 2004 and for the six months ended June 30, 2005 as adjusted compared to the six months ended June 30, 2004:

(Dollars in thousands)

Six Months Ended June 30, 2005

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|                                     | 2005               |            |                       |                    |
|-------------------------------------|--------------------|------------|-----------------------|--------------------|
|                                     | Average<br>Balance | Interest   | Average<br>Yield/Cost | Average<br>Balance |
| Interest earning assets:            |                    |            |                       |                    |
| Mortgage-backed securities, net (1) | \$ 6,331,504       | \$ 135,347 | 4.28%                 | \$ 3,381,187       |
| Mortgage loans held for sale        | 5,044,356          | 146,865    | 5.82%                 | 1,811,187          |
|                                     | 11,375,860         | 282,212    | 4.96%                 | 5,200,000          |
| Interest bearing liabilities:       |                    |            |                       |                    |
| Warehouse lines of credit (2)       | 1,623,620          | 37,543     | 4.60%                 | 1,471,187          |
| Commercial paper                    | 1,520,347          | 20,818     | 2.72%                 | 1,711,187          |
| Reverse repurchase agreements (3)   | 6,595,756          | 98,961     | 2.99%                 | 3,141,187          |
| Collateralized debt obligations     | 988,053            | 16,766     | 3.37%                 |                    |
| Trust preferred securities          | 13,536             | 482        | 7.08%                 |                    |
| Notes payable                       | 169,816            | 3,857      | 4.52%                 | 111,187            |
|                                     | 10,911,128         | 178,427    | 3.25%                 | 4,921,187          |
| Net interest income                 |                    | \$ 103,785 |                       |                    |
| Interest rate spread                |                    |            | 1.71%                 |                    |
| Net interest margin                 |                    |            | 1.84%                 |                    |

- (1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.
- (2) Includes \$2.8 million and \$5.4 million of net interest expense on interest rate swap agreements for the 2005 and 2004 periods, respectively.
- (3) Includes \$10.5 million and \$18.4 million of net interest expense on interest rate swap agreements for the 2005 and 2004 periods, respectively.

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(Dollars in thousands)

|                                     | Six Months Ended June 30, 2005 (As Adjusted) |            |                       |                    |
|-------------------------------------|----------------------------------------------|------------|-----------------------|--------------------|
|                                     | Average<br>Balance                           | Interest   | Average<br>Yield/Cost | Average<br>Balance |
| Interest earning assets:            |                                              |            |                       |                    |
| Mortgage-backed securities, net (1) | \$ 7,102,300                                 | \$ 155,315 | 4.37%                 | \$ 3,381,187       |
| Mortgage loans held for sale        | 3,330,187                                    | 99,972     | 6.00%                 | 1,811,187          |
|                                     | 10,432,487                                   | 255,287    | 4.89%                 | 5,200,000          |
| Interest bearing liabilities:       |                                              |            |                       |                    |
| Warehouse lines of credit (2)       | 1,623,620                                    | 37,543     | 4.60%                 | 1,471,187          |

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|                                   |           |           |       |      |
|-----------------------------------|-----------|-----------|-------|------|
| Commercial paper                  | 1,520,347 | 20,818    | 2.72% | 17   |
| Reverse repurchase agreements (3) | 6,595,756 | 98,961    | 2.99% | 3,14 |
| Trust preferred securities        | 13,536    | 482       | 7.08% |      |
| Notes payable                     | 169,816   | 3,857     | 4.52% | 11   |
|                                   | -----     | -----     |       |      |
|                                   | 9,923,075 | 161,661   | 3.24% | 4,92 |
|                                   | -----     | -----     |       |      |
| Net interest income               |           | \$ 93,626 |       |      |
|                                   |           | =====     |       |      |
| Interest rate spread              |           |           | 1.65% |      |
|                                   |           |           | ===== |      |
| Net interest margin               |           |           | 1.81% |      |
|                                   |           |           | ===== |      |

- (1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.
- (2) Includes \$2.8 million and \$5.4 million of net interest expense on interest rate swap agreements for the 2005 and 2004 periods, respectively.
- (3) Includes \$10.5 million and \$18.4 million of net interest expense on interest rate swap agreements for the 2005 and 2004 periods, respectively.

The following table presents the effects of changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities on our interest income and interest expense for the six months ended June 30, 2005 compared to the six months ended June 30, 2004 and for the six months ended June 30, 2005 as adjusted compared to the six months ended June 30, 2004:

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| (In thousands)                  | Six Months Ended June 30, 2005<br>Compared to<br>Six Months Ended June 30, 2004 |                   |       |
|---------------------------------|---------------------------------------------------------------------------------|-------------------|-------|
|                                 | Average<br>Rate                                                                 | Average<br>Volume |       |
|                                 | -----                                                                           | -----             | ----- |
| Mortgage-backed securities, net | \$ 19,293                                                                       | \$ 59,594         | \$    |
| Mortgage loans held for sale    | 5,917                                                                           | 93,359            |       |
|                                 | -----                                                                           | -----             | ----- |
| Interest income                 | 25,210                                                                          | 152,953           |       |
|                                 | -----                                                                           | -----             | ----- |
| Warehouse lines of credit       | 7,048                                                                           | 2,961             |       |
| Commercial paper                | 1,397                                                                           | 17,879            |       |
| Reverse repurchase agreements   | 8,374                                                                           | 50,685            |       |
| Collateralized debt obligations | --                                                                              | 16,766            |       |
| Trust preferred securities      | --                                                                              | 482               |       |
| Notes payable                   | 553                                                                             | 1,091             |       |
|                                 | -----                                                                           | -----             | ----- |
| Interest expense                | 17,372                                                                          | 89,864            |       |

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| (In thousands)                  | Six Months Ended June 30, 2005<br>(As Adjusted) Compared to<br>Six Months Ended June 30, 2004 |                   |    |
|---------------------------------|-----------------------------------------------------------------------------------------------|-------------------|----|
|                                 | Average<br>Rate                                                                               | Average<br>Volume |    |
| Net interest income             | \$ 7,838                                                                                      | \$ 63,089         | \$ |
| Mortgage-backed securities, net | \$ 21,832                                                                                     | \$ 77,023         | \$ |
| Mortgage loans held for sale    | 7,871                                                                                         | 44,512            |    |
| Interest income                 | 29,703                                                                                        | 121,535           |    |
| Warehouse lines of credit       | 7,048                                                                                         | 2,961             |    |
| Commercial paper                | 1,397                                                                                         | 17,879            |    |
| Reverse repurchase agreements   | 8,217                                                                                         | 50,842            |    |
| Trust preferred securities      | --                                                                                            | 482               |    |
| Notes payable                   | 553                                                                                           | 1,091             |    |
| Interest expense                | 17,215                                                                                        | 73,255            |    |
| Net interest income             | \$ 12,488                                                                                     | \$ 48,280         | \$ |

Interest Income: Interest income on mortgage-backed securities for the six months ended June 30, 2005 was \$135.3 million, compared to \$56.4 million for the six months ended June 30, 2004, a \$78.9 million, or 139.7%, increase. This increase reflects primarily the growth of our mortgage-backed securities portfolio and higher interest rates in 2005 versus 2004.

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Interest income on mortgage-backed securities as adjusted for the six months ended June 30, 2005 was \$155.3 million compared to \$56.4 million for the six months ended June 30, 2004, a \$98.9 million, or 175.1% increase. This increase reflects primarily the growth of our mortgage-backed securities portfolio.

Interest income on our mortgage loans held for sale for the six months ended June 30, 2005 was \$146.9 million compared to \$47.6 million for the six months ended June 30, 2004, an increase of \$99.3 million, or 208.6%. The increase in interest income on loans held for sale was primarily the result of an increase in average volume in 2005 versus 2004 due to accounting for the Q4-04 Securitization as a financing for most of the first quarter of 2005 and higher mortgage origination volume.

Interest income on our mortgage loans held for sale as adjusted for the six

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months ended June 30, 2005 was \$100.0 million compared to \$47.6 million for the six months ended June 30, 2004, an increase of \$52.4 million, or 110.1%. The increase in loans held for sale interest income was primarily the result of an increase in average volume in 2005 versus 2004 due to higher mortgage origination volume.

**Interest Expense:** We fund our loan inventory primarily through borrowing facilities with several mortgage warehouse lenders and through a \$3.3 billion commercial paper, or secured liquidity note ("SLN"), program. Interest expense on warehouse lines of credit for the six months ended June 30, 2005 was \$37.5 million, compared to interest expense for the six months ended June 30, 2004 of \$27.5 million, a \$10.0 million increase. The increase in warehouse lines of credit interest expense was primarily the result of an increase in average rate due to generally higher short-term interest rates in 2005 versus 2004 and an increase in average volume due to higher mortgage origination volume. In May 2004, we formed a wholly-owned special purpose entity for the purpose of issuing commercial paper in the form of SLNs to finance certain portions of our mortgage loans held for sale. Interest expense on commercial paper for the six months ended June 30, 2005 was \$20.8 million versus \$1.6 million for the six months ended June 30, 2004, a \$19.2 million increase. By funding a portion of our loan inventory through the commercial paper program, we were able to reduce our average funding cost versus borrowing exclusively through warehouse lenders.

We have borrowed funds under reverse repurchase agreements, a form of collateralized short-term borrowing, with seven different financial institutions as of June 30, 2005. We borrow funds under these arrangements based on the fair value of our mortgage-backed securities. Total interest expense on reverse repurchase agreements for the six months ended June 30, 2005 was \$99.0 million, compared to interest expense for the six months ended June 30, 2004 of \$39.9 million, a \$59.1 million increase. The increase in reverse repurchase agreements interest expense in 2005 versus 2004 was primarily the result of an increase in borrowings used to fund the growth of our mortgage-backed securities portfolio.

For the six months ended June 30, 2005, we recognized \$16.8 million of interest expense on collateralized debt obligations related to accounting for the Q4-04 Securitization as a financing for most of the first quarter of 2005. Management believes that this expense is non-recurring.

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### Gain on Mortgage Loans, Mortgage-Backed Securities and Derivatives

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**Gain on Sales and Securitizations of Mortgage Loans:** Gain on sales and securitizations of mortgage loans in our Loan Origination segment during the six months ended June 30, 2005 totaled \$337.9 million including \$43.4 million recognized in connection with the Q4-04 Securitization. Gain on sales and securitizations of mortgage loans in our Loan Origination segment, as adjusted, during the six months ended June 30, 2005 were \$294.5 million, or 1.71%, of mortgage loans sold or securitized, as adjusted, compared to \$117.3 million, or 1.08%, of mortgage loans sold or securitized during the six months ended June 30, 2004. The increase primarily reflects a \$6.3 billion increase in mortgage loans sold or securitized, as adjusted, to \$17.2 billion, as adjusted, in the first six months of 2005 from \$10.9 billion in the first six months of 2004. The change in fair value of IRLCs included in gain on sales of mortgage loans in the 2004 period was reduced as a result of our adoption of SAB No. 105.

The following table presents the components of gain on sales and securitizations of mortgage loans in our Loan Origination segment during the six months ended June 30, 2005 and 2004:

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Gains on Sales and Securitizations of Mortgage Loans

|                                                                                                              | Six Months    |                |
|--------------------------------------------------------------------------------------------------------------|---------------|----------------|
|                                                                                                              | 2005          | 2005           |
|                                                                                                              | GAAP          | Adjustments    |
| (Dollars in thousands)                                                                                       |               |                |
| Gain on sales of mortgage loans                                                                              | \$ 112,630    | \$ --          |
| Gain on sales of current period securitized mortgage loans                                                   | 174,296       | (25,258)       |
| Gain (loss) on sales of free standing derivatives                                                            | 5,843         | --             |
| Unrealized gain on self-originated mortgage-backed securities retained in period                             | 50,202        | (18,180)       |
| Unrealized loss on free standing derivatives                                                                 | (5,080)       | --             |
| Total gain on sales and securitizations of mortgage loans                                                    | \$ 337,891    | \$ (43,438)    |
| Total mortgage loans sold or securitized                                                                     | \$ 20,703,986 | \$ (3,526,123) |
| Total gain on sales and securitizations of mortgage loans as a % of total mortgage loans sold or securitized | 1.63%         |                |

Portfolio Gains and Losses: During the six months ended June 30, 2005, portfolio gains and losses in our Mortgage-Backed Securities Holdings segment, as adjusted, were a portfolio loss of \$17.5 million compared to a portfolio gain of \$22.4 million during the six months ended June 30, 2004. The decrease in portfolio gains in the first six months of 2005 compared to the first six months of 2004 was the result of a \$33.2 million net decrease in unrealized gain on mortgage-backed securities and free standing derivatives, as adjusted, and a \$6.7 million decrease in gain on sales of mortgage-backed securities, as adjusted.

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The following table presents the components of portfolio gains and losses in our Mortgage-Backed Securities Holdings segment during the six months ended June 30, 2005 and 2004:

Portfolio Gains and Losses

|                                                    | Six Months |             |
|----------------------------------------------------|------------|-------------|
|                                                    | 2005       | 2005        |
|                                                    | GAAP       | Adjustments |
| (In thousands)                                     |            |             |
| Gain (loss) on sales of mortgage-backed securities | \$ 909     | \$ (1,400)  |
| Unrealized loss on mortgage-backed securities      | (5,429)    | (19,083)    |

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|                                                                                        |          |             |
|----------------------------------------------------------------------------------------|----------|-------------|
| Unrealized gain on free standing derivatives                                           | 7,514    | --          |
| Net unrealized gain (loss) on mortgage-backed securities and free standing derivatives | 2,085    | (19,083)    |
| Total portfolio gain (loss)                                                            | \$ 2,994 | \$ (20,483) |

The following table presents the components of gain on sales of mortgage-backed securities and derivatives shown in the Company's consolidated statements of income:

Components of Gain on Sales of Mortgage-backed Securities and Derivatives

|                                                                      | Six Months End |             |
|----------------------------------------------------------------------|----------------|-------------|
|                                                                      | 2005           | 2005        |
|                                                                      | GAAP           | Adjustments |
| (In thousands)                                                       |                |             |
| Gain (loss) on sales of mortgage-backed securities                   | \$ 909         | \$ (1,400)  |
| Gain (loss) on sales of free standing interest rate swap derivatives | 5,843          | --          |
| Gain on sales of mortgage-backed securities and derivatives          | \$ 6,752       | \$ (1,400)  |

The following table presents the components of unrealized gain on mortgage-backed securities and derivatives shown in the Company's consolidated statements of income:

Components of Unrealized Gain on Mortgage-backed Securities and Derivatives

|                                                                                  | Six Months End |             |
|----------------------------------------------------------------------------------|----------------|-------------|
|                                                                                  | 2005           | 2005        |
|                                                                                  | GAAP           | Adjustments |
| (In thousands)                                                                   |                |             |
| Unrealized gain on self-originated mortgage-backed securities retained in period | \$ 50,202      | \$ (18,180) |
| Unrealized loss on mortgage-backed securities                                    | (5,429)        | (19,083)    |
| Unrealized gain on free standing derivatives                                     | 2,434          | --          |
| Unrealized gain on mortgage-backed securities and derivatives                    | \$ 47,207      | \$ (37,263) |



## Net Loan Servicing Fees

Net loan servicing fees were a loss of \$10.0 million for the six months ended June 30, 2005 compared to a loss of \$1.4 million for the six months ended June 30, 2004.

Loan Servicing Fees: Loan servicing fees increased to \$28.3 million for the six months ended June 30, 2005 from \$19.1 million for the six months ended June 30, 2004, an increase of \$9.2 million, or 48.5%. Included in loan servicing fees are gains on Ginnie Mae early buy-out sales of \$0.8 million for the six months ended June 30, 2005 compared to \$3.0 million for the six months ended June 30, 2004, a decrease of \$2.2 million, or 73.3%. This decrease partly offset the increase in loan servicing fees in the first six months of 2005 versus the first six months of 2004, as a result of an increase in loans serviced for others.

Amortization of MSRs: Amortization of MSRs increased to \$21.3 million for the six months ended June 30, 2005 from \$15.1 million for the six months ended June 30, 2004, an increase of \$6.2 million, or 41.2%. The increase in amortization was due to a higher average servicing portfolio in the first six months of 2005 versus the first six months of 2004.

Impairment Provision of MSRs: We recognized a temporary impairment provision of \$17.0 million for the six months ended June 30, 2005 versus a temporary impairment provision of \$5.3 million for the six months ended June 30, 2004, resulting in an decrease in net loan servicing fees of \$11.7 million. The increase in impairment provision in the six months ended June 30, 2005 was due to lower interest rates, which was attributable to a subsequent increase in estimated future prepayment speeds versus the initial estimated future prepayment speeds used to value the MSR upon securitization.

The following table presents GAAP, as adjusted and reconciling adjustments to net loan servicing fees for the six months ended June 30, 2005 and 2004:

|                              | Six Months Ended June 30, |             |             |    |
|------------------------------|---------------------------|-------------|-------------|----|
|                              | 2005                      | 2005        | 2005        |    |
|                              | GAAP                      | Adjustments | As Adjusted |    |
| Loan servicing fees          | \$ 28,282                 | \$ 2,851    | \$ 31,133   | \$ |
| Amortization                 | (21,333)                  | (2,170)     | (23,503)    |    |
| Impairment reserve provision | (16,979)                  | 2,048       | (14,931)    |    |
| Net loan servicing loss      | \$ (10,030)               | \$ 2,729    | \$ (7,301)  | \$ |

## Other Non-Interest Income

Other non-interest income totaled \$4.0 million for the six months ended June 30, 2005 compared to \$2.2 million for the six months ended June 30, 2004. For the six months ended June 30, 2005, other non-interest income primarily includes

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reinsurance premiums earned totaling approximately \$2.4 million, rental income of \$0.8 million and revenue from title services of \$0.5 million. For the six months ended June 30, 2004, other non-interest income primarily includes rental income of \$1.1 million, reinsurance premiums earned totaling approximately \$0.5 million and revenue from title services of \$0.5 million.

### Non-Interest Expenses

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Our non-interest expenses for the six months ended June 30, 2005 were \$251.6 million compared to \$134.9 million for the six months ended June 30, 2004, an increase of \$116.7 million, or 86.5%. The increase primarily reflects a \$104.1 million rise in our Loan Origination segment non-interest expenses to \$229.8 million, or 1.27%, of total loan originations in the first six months of 2005 from \$125.7 million, or 1.15%, of total loan originations in the first six months of 2004.

Our operating expenses represent costs that are not eligible to be added to the book value of the loans because they are not considered to be certain direct origination costs under the rules of Statement of Financial Accounting Standards ("SFAS") No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Costs of Leases." Direct origination costs are added to the book value of loans and either reduce the gain on sale of loans if the loans are sold or are amortized over the life of the loan.

Salaries, Commissions and Benefits, net: Salaries, commissions and benefits, net, for the six months ended June 30, 2005 were \$163.3 million, compared to \$82.3 million for the six months ended June 30, 2004, an increase of \$81.0 million, or 98.4%. The increase in expenses reflects higher origination volume and a resulting higher commission expense and higher salaries due to an increase in employees to 6,075 at June 30, 2005 from 4,010 at June 30, 2004.

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Other Operating Expenses: Operating expenses, excluding salaries, commissions and benefits, were \$88.3 million for the six months ended June 30, 2005 compared to \$52.6 million for the six months ended June 30, 2004, an increase of \$35.7 million, or 67.7%. The increase in operating expenses in the first six months of 2005 versus the first six months of 2004 includes an \$11.0 million increase in occupancy and equipment expense. The operating expenses in the six months ended June 30, 2005 include lease obligations and certain fixed asset expenses relating to our acquisition of certain residential home loan centers and associated satellite offices of Washington Mutual, Inc. in August 2004.

### Income Tax Benefit

-----

A \$3.9 million income tax benefit was recognized for the six months ended June 30, 2005, compared to a benefit of \$16.3 million for the six months ended June 30, 2004. The decrease in income tax benefit in the first half of 2005 versus the first half of 2004 reflects a decrease in loss before income taxes relating to our TRS.

### Loan Originations

-----

We originate and sell or securitize one-to-four family residential mortgage loans. Total loan originations for the six months ended June 30, 2005 were \$18.0 billion compared to \$11.0 billion for the six months ended June 30, 2004, a

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63.5% increase. Our retail originations, which are conducted through our community loan production offices and Internet call center, were 49% of our loan originations in the six months ended June 30, 2005 compared to 46% of our originations in the six months ended June 30, 2004. Mortgage brokers accounted for 51% of our loan originations in the six months ended June 30, 2005 compared to 54% of our originations in the six months ended June 30, 2004.

### Liquidity and Capital Resources

We have arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with fourteen different financial institutions and on June 30, 2005 had borrowed funds from seven of these firms. Because we borrow money under these agreements based on the fair value of our mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, our borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of our mortgage-backed securities declines for other reasons.

As of June 30, 2005, we had \$6.3 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 3.27% before the impact of interest rate swaps and a weighted-average remaining maturity of two months.

To originate a mortgage loan, we draw against a \$3.3 billion Secured Liquidity Note Program, a \$1.2 billion pre-purchase facility with UBS Real Estate Securities Inc. ("UBS"), a facility of \$950 million with Bear Stearns, a \$700 million bank syndicated facility led by Bank of America (which includes a \$175 million term loan facility which the Company uses to finance its MSR), a \$500 million facility with IXIS Real Estate Capital Inc. (formerly CDC Mortgage Capital Inc.) ("IXIS"), a facility of \$500 million with Morgan Stanley Bank ("Morgan Stanley"), a facility of \$500 million with Lehman Brothers, and a facility of \$250 million with Calyon New York Branch ("Calyon"). The Bank of America, IXIS, Morgan Stanley and Calyon facilities are committed facilities. In addition, we have a gestation facility with Greenwich Capital Financial Products, Inc. ("Greenwich"). These facilities are secured by the mortgages owned by us and by certain of our other assets. Advances drawn under the facilities bear interest at rates that vary depending on the type of mortgages securing the advances. These loans are subject to sublimits, advance rates and terms that vary depending on the type of securing mortgages and the ratio of our liabilities to our tangible net worth. At July 25, 2005, the aggregate outstanding balance under the commercial paper program was \$3.0 billion, the aggregate outstanding balance under the warehouse facilities was \$1.4 billion, the aggregate outstanding balance in drafts payable was \$5.9 million and the aggregate maximum amount available for additional borrowings was \$2.8 billion.

The documents governing our warehouse facilities contain a number of compensating balance requirements and restrictive financial and other covenants that, among other things, require us to adhere to a maximum ratio of total liabilities to tangible net worth and maintain a minimum level of tangible net worth and liquidity, as well as to comply with applicable regulatory and investor requirements. The facility agreements also contain covenants limiting the ability of our subsidiaries to transfer or sell assets other than in the ordinary course of business and to create liens on the collateral without obtaining the prior consent of the lenders, which consent may not be unreasonably withheld.

In addition, under our warehouse facilities, we cannot continue to finance a mortgage loan that we hold if:

- o the loan is rejected as "unsatisfactory for purchase" by the ultimate investor and has exceeded its permissible 120-day warehouse period;

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- o we fail to deliver the applicable mortgage note or other documents evidencing the loan within the requisite time period;

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- o the underlying property that secures the loan has sustained a casualty loss in excess of 5% of its appraised value; or
- o the loan ceases to be an eligible loan (as determined pursuant to the applicable warehousing agreement).

As of June 30, 2005, our aggregate warehouse facility borrowings were \$665.7 million (including \$21.2 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were \$26.5 million, compared to \$735.8 million (including \$25.5 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were \$26.2 million as of December 31, 2004. At June 30, 2005, our loans held for sale were \$2.0 billion compared to \$4.9 billion at December 31, 2004.

In addition to the UBS, IXIS, Bank of America, Morgan Stanley, and Calyon warehouse facilities, we have a purchase and sale agreement with UBS and Greenwich Capital. This agreement allows us to accelerate the sale of our mortgage loan inventory, resulting in a more effective use of the warehouse facility. Amounts sold and being held under this agreement at June 30, 2005 and December 31, 2004 were \$942.6 million and \$443.8 million, respectively. The amount so held under this agreement at July 25, 2005 was \$557.6 million. This agreement is not a committed facility and may be terminated at the discretion of the counterparty.

We make certain representations and warranties under the purchase and sale agreements regarding, among other things, the loans' compliance with laws and regulations, their conformity with the ultimate investors' underwriting standards and the accuracy of information. In the event of a breach of these representations or warranties or in the event of an early payment default, we may be required to repurchase the loans and indemnify the investor for damages caused by that breach. We have implemented strict procedures to ensure quality control and conformity to underwriting standards and minimize the risk of being required to repurchase loans. From time to time we have been required to repurchase loans that we sold; however, the liability for the fair value of those obligations has been immaterial.

We also have a \$175.0 million term loan facility with a bank syndicate led by Bank of America which we use to finance our MSR's. The term loan facility expires on December 14, 2005. Interest is based on a spread to the LIBOR and may be adjusted for earnings on escrow balances. At June 30, 2005 and December 31, 2004, borrowings under our term loan facility were \$142.6 million and \$108.6 million, respectively.

Cash and cash equivalents increased to \$197.4 million at June 30, 2005 from \$192.8 million at December 31, 2004.

Our primary sources of cash and cash equivalents during the six months ended June 30, 2005, were as follows:

- o \$13.2 billion of proceeds from securitizations and repayments of mortgage loans;
- o \$7.5 billion of proceeds from sales and repayments of mortgage loans; and
- o \$2.3 billion of proceeds from sales of mortgage-backed securities.

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Our primary uses of cash and cash equivalents during the six months ended June 30, 2005, were as follows:

- o \$17.9 billion of origination of mortgage loans held for sale;
- o \$3.3 billion of additions to mortgage-backed securities; and
- o \$2.0 billion decrease in collateralized debt obligations.

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### Commitments

The Company had the following commitments (excluding derivative financial instruments) at June 30, 2005:

|                               | Total        | Less than<br>1 Year | 1 - 3 Year |
|-------------------------------|--------------|---------------------|------------|
|                               |              |                     |            |
| (In thousands)                |              |                     |            |
| Reverse repurchase agreements | \$ 6,337,630 | \$ 6,337,630        | \$ -       |
| Commercial paper              | 1,291,684    | 1,291,684           | -          |
| Warehouse liabilities         | 665,697      | 665,697             | -          |
| Notes payable                 | 256,060      | 144,279             | 1,         |
| Trust preferred securities    | 48,414       | --                  | -          |
| Operating leases              | 86,950       | 26,884              | 42,        |

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### ITEM 3.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Movements in interest rates can pose a major risk to the Company in either a rising or declining interest rate environment. The Company depends on substantial borrowings to conduct its business. These borrowings are all done at variable interest rate terms, which will increase as short-term interest rates rise. Additionally, when interest rates rise, loans held for sale and any applications in process with locked-in rates decrease in value. To preserve the value of such fixed-rate loans or applications in process with locked-in rates, agreements are executed for mandatory loan sales to be settled at future dates with fixed prices. These sales take the form of forward sales of mortgage-backed securities.

When interest rates decline, fallout may occur as a result of customers withdrawing their applications. In those instances, the Company may be required to purchase loans at current market prices to fulfill existing mandatory loan sale agreements, thereby incurring losses upon sale. The Company uses an interest rate hedging program to manage these risks. Through this program, mortgage-backed securities are purchased and sold forward and options are

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acquired on treasury futures contracts.

In the event that the Company does not deliver into the forward delivery commitments or exercise its option contracts, the instruments can be settled on a net basis. Net settlement entails paying or receiving cash based upon the change in market value of the existing instrument. All forward delivery commitments and option contracts to buy securities are to be contractually settled within nine months of the balance sheet date.

The Company's hedging program contains an element of risk because the counterparties to its mortgage and treasury securities transactions may be unable to meet their obligations. While the Company does not anticipate nonperformance by any counterparty, it is exposed to potential credit losses in the event the counterparty fails to perform. The Company's exposure to credit risk in the event of default by a counterparty is the difference between the contract and the current market price. The Company minimizes its credit risk exposure by limiting the counterparties to well-capitalized banks and securities dealers who meet established credit and capital guidelines.

Movements in interest rates also impact the value of MSR's. When interest rates decline, the loans underlying the MSR's are generally expected to prepay faster, which reduces the market value of the MSR's. The Company considers the expected increase in loan origination volumes and the resulting additional origination related income as a natural hedge against the expected change in the value of MSR's. Lower mortgage rates generally reduce the fair value of the MSR's, as increased prepayment speeds are highly correlated with lower levels of mortgage interest rates.

The Company enters into interest rate swap agreements ("Swap Agreements") to manage its interest rate exposure when financing its ARM loans and its mortgage-backed securities. The Company generally borrows money based on short-term interest rates, by entering into borrowings with maturity terms of less than one year, and frequently nine to twelve months. The Company's adjustable-rate mortgage ("ARM") loans and mortgage-backed securities financing vehicles generally have an interest rate that reprices based on frequency terms of one to twelve months. The Company's mortgage-backed securities have an initial fixed interest rate period of three to five years. When the Company enters into a Swap Agreement, it generally agrees to pay a fixed rate of interest and to receive a variable interest rate, generally based on LIBOR. These Swap Agreements have the effect of converting the Company's variable-rate debt into fixed-rate debt over the life of the Swap Agreements. These instruments are used as a cost-effective way to lengthen the average repricing period of the Company's variable-rate and short-term borrowings such that the average repricing of the borrowings more closely matches the average repricing of the Company's mortgage-backed securities. The Company's duration gap was less than one month on June 30, 2005.

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The following table summarizes the Company's interest rate sensitive instruments as of June 30, 2005 and December 31, 2004:

| June 30, 2005      |          |
|--------------------|----------|
| Carrying<br>Amount | Es<br>Fa |
|                    |          |

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|                                         |              |    |
|-----------------------------------------|--------------|----|
| Assets:                                 |              |    |
| Mortgage-backed securities              | \$ 6,917,986 | \$ |
| Derivative assets (1)                   | 35,756       |    |
| Mortgage loans held for sale, net       | 1,965,074    |    |
| Mortgage loans held for investment, net | 134,597      |    |
| Mortgage servicing rights, net          | 261,839      |    |
| Liabilities:                            |              |    |
| Reverse repurchase agreements           | \$ 6,337,630 | \$ |
| Derivative liabilities                  | 6,195        |    |

|                                   |              |                 |       |
|-----------------------------------|--------------|-----------------|-------|
|                                   |              | December 31, 20 |       |
|                                   |              | -----           |       |
|                                   | Carrying     |                 | Es    |
|                                   | Amount       |                 | Fa    |
|                                   | -----        |                 | ----- |
| Assets:                           |              |                 |       |
| Mortgage-backed securities        | \$ 6,016,866 |                 | \$    |
| Derivative assets (1)             | 24,803       |                 |       |
| Mortgage loans held for sale, net | 4,853,394    |                 |       |
| Mortgage servicing rights, net    | 151,436      |                 |       |
| Liabilities:                      |              |                 |       |
| Reverse repurchase agreements     | \$ 7,071,168 |                 | \$    |
| Collateralized debt obligations   | 2,022,218    |                 |       |
| Derivative liabilities            | 1,860        |                 |       |

(1) Derivative assets includes interest rate lock commitments ("IRLCs") to fund mortgage loans. The carrying value excludes the value of the mortgage servicing rights ("MSRs") attached to the IRLCs in accordance with SEC Staff Accounting Bulletin No. 105. The fair value includes the value of MSRs.

The Company had total commitments to lend at June 30, 2005 and December 31, 2004 of \$10.7 billion and \$6.2 billion, respectively.

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ITEM 4.

CONTROLS AND PROCEDURES

Controls and Procedures

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective

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as of the end of the fiscal quarter covered by this quarterly report. The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to determine whether any changes occurred during the second quarter of 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the second quarter of 2005.

### Remediation Efforts Related to Previously Reported Material Weakness in Internal Control over Financial Reporting

The Company previously disclosed in its Annual Report on Form 10-K/A for the year ended December 31, 2004 material weaknesses related to the operating efficiencies of certain controls over financial reporting. The Company is enforcing the appropriate policies, procedures and controls over these areas to ensure that they are operating effectively.

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## PART II-OTHER INFORMATION

### ITEM 1.

#### LEGAL PROCEEDINGS

In the ordinary course of its business, the Company is from time to time subject to various legal proceedings. 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 or financial condition.

Columbia National, Incorporated  
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As previously reported in our report on Form 10-K/A for the year ended December 31, 2004, in June 2002, the Company acquired Columbia National, Incorporated, a Maryland corporation ("Columbia"), which is currently a subsidiary of the Company, and which changed its name in July 2004 to "American Home Mortgage Servicing, Inc." Prior to the Company's acquisition of Columbia, Columbia discovered fraudulent loan activity at its Bensalem, Pennsylvania, office and notified the U.S. Department of Housing and Urban Development ("HUD"). HUD then instituted an investigation into the loan originations of the Bensalem office. Shortly thereafter, several years before Columbia was acquired by the Company, Columbia closed the Bensalem office and terminated the employees involved in the alleged fraudulent activity. In 2000, Columbia settled with HUD, paying a fine to HUD in the amount of \$24,000 and agreeing to indemnify HUD for certain losses. Columbia, as loan servicer for institutional investors, subsequently made FHA insurance claims with respect to approximately 60 loans that were originated by the Bensalem office between 1997 and 1999. The federal government is now seeking to recover insurance proceeds paid in connection with certain of those claims, along with potentially applicable fines and penalties. The Company is cooperating fully with respect to the federal government's review of these loans. The Company does not expect that the amount of any potential settlement will materially affect its financial condition or results of operations.



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ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following is a description of the Company's securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act"), which were sold during the quarter ended June 30, 2005.

The Company acquired Marina Mortgage Company, Inc. ("Marina") on December 29, 1999. In addition to the shares paid to former Marina shareholders as initial consideration, the Company is required to issue unregistered shares of common stock to the former shareholders under the earnout provisions of the merger agreement. On June 17, 2005, pursuant to these earnout provisions, the Company issued an aggregate of 153,745 unregistered shares of common stock to such shareholders as additional consideration. These securities were exempt from registration under Section 4(2) of the Securities Act because they were issued pursuant to the terms of a private transaction rather than through a public offering.

The Company acquired First Home Mortgage Corp. ("First Home") on June 30, 2000. In addition to the shares paid to former First Home shareholders as initial consideration, the Company is required to issue unregistered shares of common stock to the former shareholders as additional consideration under the earnout provisions of the merger agreement. Pursuant to these earnout provisions, on April 1, 2005, and May 20, 2005, the Company issued an aggregate of 1,860 and 2,115 unregistered shares of common stock, respectively, to such stockholders as additional consideration. These securities were exempt from registration under Section 4(2) of the Securities Act because they were issued pursuant to the terms of a private transaction rather than through a public offering.

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's 2005 Annual Meeting of Stockholders held on June 14, 2005, the following actions were voted upon by the Company's common stockholders of record as of May 12, 2005, (on which date there were 40,359,012 shares of common stock issued and outstanding), which are described in greater detail in the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on May 19, 2005:

Proposal

Votes For

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To elect each of Michael Strauss, Nicholas R. Marfino, and Irving J. Thau to the Board of Directors of the Company, each, to

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serve as a Class III director for a term of approximately three years expiring at the 2008 Annual Meeting of Stockholders, and in each case until their respective successors are duly elected and qualify.

|                     |            |
|---------------------|------------|
| Michael Strauss     | 37,531,941 |
| Nicholas R. Marfino | 37,903,185 |
| Irving J. Thau      | 38,275,923 |

|                                                                                                             |            |
|-------------------------------------------------------------------------------------------------------------|------------|
| To ratify Deloitte & Touche LLP as the Company's independent auditors for the year ending December 31, 2005 | 38,423,533 |
|-------------------------------------------------------------------------------------------------------------|------------|

|                                                                                                                                                                                                                                                         |            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| To amend the Company's 1999 Omnibus Stock Incentive Plan (the "Plan") to increase the number of shares subject to awards granted under the Plan and maximum number of shares that are available to be granted as incentive stock options under the Plan | 28,153,054 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|

Each of the above proposals was approved by the Company's stockholders.

### ITEM 5.

#### OTHER INFORMATION

None.

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### ITEM 6.

#### EXHIBITS

The following exhibits are filed with this Quarterly Report on Form 10-Q:

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1        | -- Amendment No. 8, dated as of June 8, 2005, to the Amended and Restated Master Loan and Security Agreement, dated as of November 26, 2003, by and among American Home Mortgage Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Investment Corp., American Home Mortgage Holdings, Inc., and American Home Mortgage Servicing, Inc., the Lenders from time to time party thereto, and Morgan Stanley Bank. |
| 10.2        | -- Third Amended and Restated Master Repurchase Agreement, dated as of July 15, 2005, by and among IXIS Real Estate Capital Inc. and American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., and American Home Mortgage Servicing, Inc.                                                                                             |
| 31.1        | -- Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) of the Securities Exchange                                                                                                                                                                                                                                                                                                                   |

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Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 31.2 -- Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 -- Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 -- Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN HOME MORTGAGE INVESTMENT CORP.  
(Registrant)

Date: July 28, 2005

By: /s/ Michael Strauss

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Michael Strauss  
Chairman, Chief Executive Officer  
and President

Date: July 28, 2005

By: /s/ Stephen A. Hozie

-----  
Stephen A. Hozie  
Executive Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

INDEX TO EXHIBITS

| Exhibit No. | Description                                                                                                                                                                                                                                                                        |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| -----       | -----                                                                                                                                                                                                                                                                              |
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Home Mortgage Holdings, Inc., and American Home Mortgage Servicing, Inc., the Lenders from time to time party thereto, and Morgan Stanley Bank.

- 10.2 -- Third Amended and Restated Master Repurchase Agreement, dated as of July 15, 2005, by and among IXIS Real Estate Capital Inc. and American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., and American Home Mortgage Servicing, Inc.
- 31.1 -- Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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