AMERICAN HOME MORTGAGE INVESTMENT CORP
Form 10-K
March 16, 2006

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 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)

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	N
Common Stock, $0.01 par value per share	Ne
9.75% Series A Cumulative Redeemable Preferred Stock, $0.01 par value per share	Ne
9.25% Series B Cumulative Redeemable Preferred Stock, $0.01 par value per share	Ne

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

As of December 31, 2005, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $1.56 billion (computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2005). For purposes of this information, the outstanding shares of common stock owned by directors and executive officers of the registrant were deemed to be shares of common stock held by affiliates.

As of March 9, 2006, the registrant had 49,666,886 outstanding shares of common stock, par value $0.01 per share, which is the registrant's only class of common stock.

Documents Incorporated By Reference:

The information required to be furnished pursuant to Part III of this Annual Report on Form 10-K will be set forth in, and incorporated by reference from, the registrant's definitive proxy statement for the registrant's 2006 Annual Meeting of Stockholders, which definitive proxy statement will be filed by the registrant with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year ended December 31, 2005.

TABLE OF CONTENTS

PART I

SPECIAL NOTES OF CAUTION

Cautionary Note Regarding Forward-Looking Statements

This report, including, but not limited to, the section entitled "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 that are not historical in nature, including, but not limited to, 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. In addition, statements that 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:

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

It is important to note that the description of our business in general, and our 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 and are not guarantees of future performance, events or results. 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 the expectations of future results, performance or financial position. These factors include, without limitation, those factors set forth in Item 1A of this report, entitled "Risk Factors," as well as general economic, political, market, financial or legal conditions and any other factors, risks and uncertainties discussed in filings we make 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 you must recognize that actual results may differ from expectations. We are not 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.

ITEM 1. BUSINESS

American Home Mortgage Investment Corp., a Maryland corporation ("AHM Investment" and, collectively with its subsidiaries, the "Company," "we" or "us"), is in the business of investing in mortgage-backed securities and mortgage loans resulting from the securitization of residential mortgage loans that its subsidiaries originate and service. We also invest in securitized mortgage loans originated by others. Most of our portfolio consists of securitized adjustable-rate mortgage loans, or ARM loans, that are of prime quality. Our aim is to earn interest income, net of interest expense, sufficient to meet our obligations and distribute dividends to our stockholders. An important element of our business strategy is self-originating many of the securitized loans in which we invest, so as to acquire those loans at a lower cost than would be required to purchase similar loans in the capital markets. If we can invest in securitized loans produced at a low cost, we expect that our net interest income from those loans will be enhanced. In addition to investing in securitized mortgage loans, we also are in the businesses of originating and selling mortgage loans to institutional investors for a profit, as well as servicing mortgage loans owned by others.

We are organized and operate as a real estate investment trust, or REIT, for federal income tax purposes, and our corporate structure includes both qualified REIT subsidiaries ("QRSs") and taxable REIT subsidiaries ("TRSs"). We conduct most of our investment activities, including loan origination for our own portfolio, directly or through our QRSs. We conduct our businesses of originating loans for sale and servicing mortgages, as well as ancillary businesses such as mortgage reinsurance, in our TRSs. In addition, our TRSs operate our retail and mortgage broker acceptance branches where we accept mortgage applications from consumers. The net interest income we earn from our investment activities generally will not be subject to federal income tax to the extent we dividend such income to our stockholders. By contrast, income that we earn on activities we conduct in our TRSs will be subject to federal and state corporate income tax. We may retain any after-tax income generated by our TRSs, and, as a result, may increase our consolidated equity capital and thereby grow our business through retained earnings. We may, however, dividend all or a portion of our after-tax TRS earnings to our stockholders, subject to REIT qualification limitations. See "Certain Federal Income Tax Considerations" below.

American Home Mortgage Holdings, Inc. ("AHM Holdings"), a Delaware corporation, is a direct, wholly owned subsidiary of AHM Investment that serves as the parent holding company for American Home Mortgage Corp. ("AHM Corp."), a New York corporation, which (together with American Home Mortgage Acceptance, Inc. ("AHM Acceptance"), a Maryland corporation and direct, wholly owned subsidiary of AHM Investment) primarily originates our loans, and American Home Mortgage Servicing, Inc. ("AHM Servicing"), a Maryland corporation, which services our loans as well as certain loans for third parties.

As of December 31, 2005, we held a leveraged portfolio of mortgage loans held for investment and mortgage-backed securities in the amount of approximately $14.1 billion in order to generate net interest income and serviced approximately 158,000 loans with an aggregate principal amount of approximately $30.7 billion. As of December 31, 2005, we operated more than 600 loan production offices located in 45 states and the District of Columbia, and made loans throughout all 50 states and the District of Columbia. We originated approximately $45.3 billion in aggregate principal amount of loans in 2005 and for the fourth quarter of 2005 were ranked as the nation's 11th largest residential mortgage lender according to National Mortgage News.

The common stock of AHM Investment is traded on the New York Stock Exchange ("NYSE") under the symbol "AHM." AHM Investment's 9.75% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") and 9.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") are also traded on the NYSE under the symbols "AHM PrA" and "AHM PrB," respectively.

Our website is http://www.americanhm.com. We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of our directors and executive officers and any amendments to such reports filed pursuant to

Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. We also will provide any of the foregoing information without charge upon written request to American Home Mortgage Investment Corp., 538 Broadhollow Road, Melville, New York 11747, Attention: Investor Relations Director.

Also posted on our website within the "investor relations" section under the heading "corporate governance" are (i) the charters for the committees of our Board of Directors, which include the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, (ii) our Corporate Governance Principles and (iii) our Code of Business Conduct and Ethics (the "Code of Ethics") governing our directors, officers and employees. These documents also are available in print upon request of any stockholder to our Investor Relations Director. Within the time period required by the SEC and the NYSE, we will post on our website any modifications to the Code of Ethics and any waivers applicable to Senior Financial Officers (as defined in the Code of Ethics).

The certifications by our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as Exhibits 31.1 and 31.2, respectively, to this Annual Report on Form 10-K. We also have submitted to the NYSE our 2005 Annual Chief Executive Officer Certification required pursuant to NYSE Corporate Governance Standards Section 303A.12(a), to the effect that, as of the date of such certification, the Chief Executive Officer of the Company was not aware of any violation by the Company of the NYSE's Corporate Governance listing standards.

Description of Our Business

Our businesses include holding a leveraged portfolio of mortgage loans held for investment and mortgage-backed securities in order to earn net interest income, originating mortgage loans (and either securitizing those loans or selling them for a profit), and servicing our securitized loans for fee income. A growing portion of our portfolio of mortgage loans and mortgage-backed securities are self-originated, and our core strategy is to hold self-originated mortgage loans held for investment and mortgage-backed securities, which we have, to date, been able to produce at a lower cost than the price for comparable mortgage loans and mortgage-backed securities offered for sale in the capital markets. We are organized and operate as a REIT for federal income tax purposes. Our REIT-eligible assets and activities are held or performed at the parent level or in QRSs. Our primary QRS, AHM Acceptance, originates and securitizes REIT-eligible mortgage loans. Our assets and activities that are not REIT-eligible, such as part of our mortgage origination business and our servicing business, are conducted by certain of our direct or indirect TRSs, AHM Holdings, AHM Corp. and AHM Servicing. Our TRSs are subject to federal and state corporate income tax.

In general, under our current business strategy, we expect to maximize the operational and tax benefits provided by our REIT structure. Our TRSs accept and process loan applications. Loan applications that meet the requirements of the REIT, which typically consist of ARMs, are then sold by our TRSs to our QRS, while loan applications that do not meet these requirements are closed and sold to third-party purchasers. The associated servicing rights of all loans originated by our QRS are retained by our TRSs. We generate net interest income from our portfolio of mortgage loans and mortgage-backed securities, which is the difference between (i) the interest income we receive from mortgage loans and mortgage-backed securities and (ii) the interest we pay on the debt used to finance these investments, plus certain administrative expenses.

Certain of our TRSs also engage in other businesses that are ancillary to their loan origination and servicing activities, including operating two mortgage reinsurance subsidiaries, a title abstract subsidiary and a vendor management company. These TRSs also are participants in mortgage lending joint ventures that are designed to generate assets for us.

Mortgage Holdings Segment

Our current investment strategy, which is subject to change at any time without notice to our stockholders, and which we expect may change from time to time, is to realize net interest income we expect from our investment in securitized loans held for investment. We also seek to mitigate risks associated with holding a leveraged portfolio of securitized mortgage loans held for investment. A key risk mitigation practice we attempt to employ is approximately matching the duration of our securitized mortgage loans held for investment with the duration of the liabilities we utilize to finance those loans. Toward this end, we issue collateralized debt obligations ("CDOs") with payment requirements that wholly or partially mirror the receipts from our loans. We also use interest rate swaps to extend repurchase and other short-term borrowings. Additional risk mitigation strategies we employ include using cash flow matching to limit our exposure to changes in the slope of the yield curve and limiting the extension and repayment risk of our holdings by investing primarily in ARM and hybrid-ARM securitized loans. We attempt to actively manage our portfolio of securitized mortgage loans and measure the likely impact of changing interest rates, prepayment speeds, delinquencies and other factors on the income the portfolio will produce and on the portfolio's value. Still, we cannot ensure that our risk mitigation or portfolio management practices will preserve the income or value of our securitized mortgage loans. See Item 1A of this report, entitled "Risk Factors."

A growing percentage of our portfolio of mortgage loans and mortgage-backed securities are self-originated, and our core strategy is to hold self-originated mortgage loans held for investment and mortgage-backed securities, which we have, to date, been able to produce at a lower cost than the price for comparable mortgage loans and mortgage-backed securities offered for sale in the capital markets. We believe that the cost advantage we obtain from self-originating loans, and holding such loans in securitized form in the REIT or in our primary QRS, is primarily the result of two economic factors. First, through self-origination, we avoid the intermediation costs associated with purchasing mortgage assets in the capital markets. Second, the REIT or our primary QRS is able to acquire loan applications from our TRSs, rather than purchase closed loans, at a price substantially less than the purchase price of a closed loan.

The size of our leveraged portfolio of mortgage loans held for investment and mortgage-backed securities was approximately $14.1 billion as of December 31, 2005. Our mortgage-backed securities are funded through borrowings in the reverse repurchase market. Our loans held for investment are funded through reverse repurchase agreements and CDOs. Rollover risk is managed

by laddering the maturities of the reverse repurchase borrowings. Our termed repurchase agreements generally have maturities ranging from one to twelve months.

Loan Origination Segment

Our loan origination business originates the securitized loans in which we invest as well as additional loans that we sell, typically at a gain. We are one of the nation's largest home mortgage lenders; National Mortgage News ranked the Company as the nation's 11th largest residential mortgage lender for the fourth quarter of 2005. During 2005, we made loans to approximately 164,000 borrowers and our total originations were approximately $45.3 billion. Our loan origination business is the generator of a significant portion of our assets and the source of our gain on sale revenue. It also is the source of many of the customers whose loans are being serviced by us.

Our originations are sourced through our own sales force of approximately 2,373 loan officers and account executives, as well as through mortgage brokers and loan correspondents. As of December 31, 2005, we conducted our lending through over 600 retail and wholesale loan production offices located in 45 states and the District of Columbia. During 2005, our origination business obtained approximately 54% of our originations from mortgage brokers through our wholesale loan production offices and 45% of our originations through our retail loan production offices and Internet call center, while 1% of our originations were purchased from correspondents. Of the $45.3 billion aggregate principal amount of loans we made during 2005, 53% were to fund home purchases while 47% were to fund refinancings.

We offer a broad array of mortgage products and primarily make loans to borrowers with good credit profiles. The weighted-average FICO score for our $45.3 billion of total originations in 2005 was 717. All of the loans we made in 2005 were secured by one- to four-family dwellings.

Our origination business seeks to utilize a combination of skilled loan officers, advanced technology, a broad product line and a high level of customer service to successfully compete in the marketplace. Once a consumer applies for a loan, our mortgage banking operation processes and underwrites the consumer's application and we fund the consumer's loan by drawing on a warehouse line of credit. These loans are then typically either sold, securitized with the resulting mortgage-backed securities being sold, or held by us as a long-term investment.

Our loan origination business has rapidly grown its market share and scale since we became a public company in 1999. The aggregate principal amount of our total loan originations was approximately $45.3 billion in 2005, compared to $23.1 billion in 2004, $21.7 billion in 2003, $12.2 billion in 2002 and $7.8 billion in 2001. Based on Freddie Mac's Office of the Chief Economist Economic and Housing Market Outlook estimates of the total industry originations, our national market share was 0.56% in 2003, 0.79% in 2004 and 1.60% in 2005. We believe our growth has made our mortgage banking operation more profitable and more effective at serving our customers. Specifically, growth in originations has lowered the per-loan cost of our centralized support operations and, consequently, our overall per-loan cost of origination. Our growth has also given us a relatively large presence in the secondary mortgage market, and, as a result, has improved our ability to execute loan sales to third-party purchasers. In addition, our size has enabled us to negotiate better terms with warehouse lenders and credit enhancers such as Fannie Mae and Freddie Mac. Finally, our size has made it possible for us to profitably enter businesses ancillary to mortgage lending, such as mortgage reinsurance, title brokerage and vendor management.

We have grown our mortgage origination business both through the acquisition of smaller mortgage origination companies and through organic growth. In each of our acquisitions, we have generally retained and grown the acquired company's loan production offices while substantially eliminating their centralized support operations and associated costs. These acquisitions have significantly increased our origination capability. Our strategy is to continue to opportunistically seek acquisitions to grow our loan origination business. Growth in our business with mortgage brokers has resulted from adding additional branches and account executives in our wholesale channel and increasing the depth of our mortgage broker support capabilities.

Our newly originated loans held pending sale or securitization were $2.2 billion as of December 31, 2005. These loans are financed through our commercial paper program and through borrowings from banks and securities dealers. The interest rate risk posed by our agency-eligible conforming loans and most of our non-conforming loans is hedged through forward sales, interest rate swaps or interest rate caps.

Mortgage Products

We offer a broad and competitive range of mortgage products that aim to meet the mortgage needs of primarily high-credit-quality borrowers. Our product line includes ARMs, conventional conforming fixed rate loans, alternate "A" loans, jumbo fixed rate loans, home equity or second mortgage loans, government fixed rate loans, non-prime loans, construction loans and bridge loans.

The following table summarizes information with respect to the most significant categories of mortgage loans we originated for the years ended December 31, 2005 and 2004:

LOAN ORIGINATION SUMMARY

Loan Type	Number of Loans		Loan Originations	
	Year Ended December 31,		Year Ended December 31,	
(Dollars in millions)	2005	2004	2005	2004
Adjustable rate mortgages	62,516	34,023	$ 19,072.0	$ 8,466
Conventional conforming fixed rate	67,801	43,295	12,281.1	7,147
Alternate "A"	27,541	16,102	5,239.6	3,091
Jumbo fixed rate	6,932	3,953	3,657.2	1,704
Home equity/Second	55,369	19,927	3,362.5	1,025
Government fixed rate	10,592	8,840	1,440.6	1,162
Non-prime	617	3,044	134.0	465
Construction	175	7	111.0	1
Bridge	-	19	-	3
Loan originations	231,543	129,210	$ 45,298.0	$ 23,069

Adjustable Rate Mortgages. The ARM's defining feature is a variable interest rate that fluctuates over the life of the loan, usually 30 years. Interest rate fluctuations are based on an index that is related to Treasury bill rates, regional or national average cost of funds of savings and loan associations, or another widely published rate, such as LIBOR. The period between the rate changes is called an adjustment period and may change every month to one year. We also offer ARMs with a fixed period of three years, five years or ten years.

Some of our ARMs may include interest rate caps, which limit the interest rate increase for each adjustment period.

Conventional Conforming Fixed Rate Loans. These mortgage loans conform to the underwriting standards established by Fannie Mae or Freddie Mac. This product is limited to high-quality borrowers with good credit records and involves adequate down payments or mortgage insurance.

Alternate "A" Loans. Alternate "A" mortgage loans consist primarily of mortgage loans that are first lien mortgage loans made to borrowers whose credit is generally within typical Fannie Mae or Freddie Mac guidelines, but have loan characteristics that make them non-conforming under these guidelines. From a credit risk standpoint, alternate "A" loan borrowers present a risk profile comparable to that of conforming loan borrowers, but entail special underwriting considerations, such as a higher loan to value ratio or limited income or asset verification.

Jumbo Loans. Jumbo loans are considered non-conforming mortgage loans because they have a principal loan amount in excess of the loan limits set by Fannie Mae and Freddie Mac, (which limits were $359,650, for single-family, one-unit mortgage loans in the continental United States originated during the year ended December 31, 2005. The current Fannie Mae and Freddie Mac loan limit is $417,000). We offer jumbo loans with creative financing features, such as the pledging of security portfolios. Our jumbo loan program is geared to the more financially sophisticated borrower.

Home Equity or Second Mortgage Loans. These loans are generally secured by second liens on the related property. Home equity mortgage loans can take the form of a home equity line of credit, which generally bears an adjustable interest rate, while second mortgage loans are closed-end loans with fixed interest rates. Both types of loans are designed for borrowers with high-quality credit profiles. Home equity lines generally provide for a 5- or 15-year draw period where the borrower withdraws needed cash and pays interest only, followed by a 10- to 20-year repayment period. Second mortgage loans are fixed in amount at the time of origination and typically amortize over 15 to 30 years with a balloon payment due after 15 years.

Government Fixed Rate Loans. These mortgage loans conform to the underwriting standards established by the Federal Housing Authority ("FHA") or the Veterans Administration ("VA"). These loans may qualify for insurance from the FHA or guarantees from the VA. We have been designated by the U.S. Department of Housing and Urban Development ("HUD") as a direct endorser of loans insured by the FHA and as an automatic endorser of loans partially guaranteed by the VA, allowing us to offer FHA or VA mortgages to qualified borrowers. FHA and VA mortgages must be underwritten within specific governmental

guidelines, which include borrower income verification, asset verification, borrower creditworthiness, property value and property condition.

Non-Prime Mortgage Loans. Non-prime mortgage loans focus on customers whose borrowing needs are not served by traditional financial institutions. Borrowers of non-prime mortgage loans may have impaired or limited credit profiles, high levels of debt service to income, or other factors that disqualify them for prime loans. When we originate mortgage loans of borrowers with higher credit risk, we offset this risk with higher interest rates than would be charged for our conventional and government loans. Offering this category of mortgage loans on a limited basis allows us to provide loan products to borrowers with a variety of credit profiles.

Construction Loans. We offer a variety of construction loans for owner-occupied, single-family residences. These loans are available on a rollover basis, meaning that the borrower can secure funding for the land purchase and construction of the home, then roll the financing over into a permanent mortgage loan. During the construction period, interest-only payments are made. Withdrawals during the construction period, to cover the costs associated with each stage of completion, are usually made in five to ten disbursements.

Bridge Loans. The bridge loans that we make are short-term loans and may be used in conjunction with our other loan products. Bridge loans provide a means for a borrower to obtain cash based on the equity of a current home that is on the market but not yet sold and to use that cash to purchase a new home.

Loan Underwriting

Our primary goal in making a decision whether to extend a loan is whether that loan conforms to the expectations and underwriting standards of the secondary mortgage market. Typically, these standards focus on a potential borrower's credit history (often as summarized by credit scores), income and stability of income, liquid assets and net worth and the value and the condition of the property securing the loan. Whenever possible, we use "artificial intelligence" underwriting systems to determine whether a particular loan meets those standards and expectations. In those cases where artificial intelligence is not available, we rely on our credit officer staff to make the determination.

Quality Control

We perform monthly quality control testing on a statistical sample of the loans we originate. The quality control testing includes checks on the accuracy of the borrower's income and assets and the credit report used to make the loan, reviews whether the loan buyer's underwriting standards were properly applied and examines whether the loan complies with government regulations. Quality control findings are summarized in monthly reports that we use to identify areas that need corrective action or could use improvement. To date, those reports have not identified any material quality control concerns, although there can be no assurances that we will not experience material quality control concerns in the future.

Sale of Loans and Servicing Rights

With respect to mortgage loans that we originate but do not securitize, we typically seek to sell those loans within 45 days of origination. We sell those loans to Fannie Mae, Freddie Mac, large national banks, thrifts and smaller banks, securities dealers, real estate investment trusts and other institutional loan buyers. We also swap loans with Fannie Mae and Freddie Mac in exchange for mortgage-backed securities, which we then sell.

Typically, we sell loans with limited recourse. By doing so, with some exceptions, we reduce our exposure to default risk at the time we sell the loan, except that we may be required to repurchase the loan if it breaches the representations or warranties that we make in connection with the sale of the loan, in the event of an early payment default, or if the loan does not comply with the underwriting standards or other requirements of the ultimate investor.

We sell the loans to investors pursuant to written agreements that establish an ongoing sale program under which those investors stand ready to purchase loans so long as the loans we offer for sale satisfy the investors' underwriting standards.

In 2005, the three institutions that bought the most loans from us were

Countrywide Financial Corporation, Wells Fargo Bank, N.A. and Credit Suisse Group, which accounted for 24%, 21% and 6%, respectively, of our total loan sales.

With respect to mortgage loans that we originate but do not securitize, we generally sell the mortgage servicing rights ("MSRs") to those loans at the time we sell those loans. The prices at which we are able to sell our MSRs vary over time and may be materially adversely affected by a number of factors, including, for example, the general supply of, and demand for, MSRs and

changes in interest rates. From time to time, we retain the servicing rights on a portion of our loan originations. When we retain servicing rights, we earn an annual servicing fee.

On December 31, 2005, the carrying value of our MSRs was $319.7 million. The MSRs are financed by borrowings from a bank syndicate, and are not hedged due to their counter-cyclicality with our mortgage origination business and their relatively small size.

Loan Servicing Segment

On December 31, 2005, our servicing business, conducted through AHM Servicing, serviced the home mortgage loans of approximately 144,000 borrowers. Loans are serviced primarily for the trusts of our securitizations and for Fannie Mae, Ginnie Mae and other third-party purchasers of our loans. We have been rated a "Select Servicer" for both first and second lien products by Standard & Poor's, and "RPS3" for our prime, alternate-A and home equity products by Fitch.

Our servicing business enables us to retain an ongoing business relationship with our borrowers, which we believe makes it more likely that we will earn those borrowers' business when they need a new loan or wish to refinance an existing loan. Our servicing business collects mortgage payments, administers tax and insurance escrows, responds to borrower inquiries and enables us to maintain control over our collection and default mitigation processes and, we believe, to better manage the credit performance of borrowers. Our loan servicing business also provides us with a countercyclical source of revenue and a stable cash flow, as net income from servicing activities generally tends to increase during periods of rising interest rates when revenue from originations generally tends to diminish.

As of December 31, 2005, AHM Servicing serviced approximately 158,000 loans with an aggregate principal amount of approximately $30.7 billion. The average annual servicing fee on our servicing portfolio as of December 31, 2005, was 0.330% of the principal amount of each loan we service. We expect our servicing business to grow as we increase our portfolio of self-originated mortgage loans and mortgage-backed securities.

The following table sets forth certain information regarding our servicing portfolio of single-family mortgage loans serviced for others for the years ended December 31, 2005 and 2004:

LOANS SERVICED FOR OTHERS	Year Ended December 31,

(In millions)	2005	2004
Composition at end of year:		
Conventional mortgage loans	$ 24,347.7	$ 10,926.8
FHA-insured mortgage loans	553.1	823.1
VA-guaranteed mortgage loans	143.9	205.7
Loans serviced for others at end of year	$ 25,044.7	$ 11,955.6
Loans serviced for others at beginning of year	$ 11,955.6	$ 8,272.3
Loans sold or securitized with servicing retained	19,806.9	6,981.1
Prepayments and foreclosures	(6,300.5)	(2,649.1)
Amortization of principal	(417.3)	(648.7)
Loans serviced for others at end of year	$ 25,044.7	$ 11,955.6
Delinquent mortgage loans and pending foreclosures at end of year		
30 days	$ 99.1	$ 201.9
60 days	19.2	42.4
90 days	40.5	51.5
Total delinquencies	$ 158.8	$ 295.8
Foreclosures pending	$ 148.3	$ 44.6

At December 31, 2005, our servicing portfolio of single-family mortgage loans serviced for others was stratified by interest rate as follows:

(Dollars in millions)	December 31, 2005			
Interest Rate	Principal Balance	Percent of Total Principal	Weighted Average Maturity (Years)	Mortg Servicing
Under 6%	$ 16,298.8	65.1%	28.2	$
6.00-6.99%	6,257.5	25.0%	28.3	
7.00-7.99%	2,133.9	8.5%	27.5	
8% and over	354.5	1.4%	24.8	
	$ 25,044.7	100.0%	28.1	$

The weighted-average interest rate of the single-family mortgage loans serviced for others as of December 31, 2005 was 5.79%. As of December 31, 2005, 73% of loans serviced for others bore interest at adjustable rates and 27% bore interest at fixed rates. The weighted average net service fee of our loans serviced for others was 0.330% as of December 31, 2005. The weighted-average interest rate of our fixed-rate loans serviced for others was 6.39% as of December 31, 2005.

Financial Information About Industry Segments

We primarily conduct our business in three principal segments: mortgage holdings, loan origination and loan servicing. The business conducted by each segment is described above under "Description of Our Business." Additional financial information regarding our business segments as of December 31, 2005, December 31, 2004, and December 31, 2003, and for the years ended

December 31, 2005, December 31, 2004, and December 31, 2003, is set forth in Note 23 to Consolidated Financial Statements, entitled "Segments and Related Information," and is incorporated herein by reference.

Hedging Activities

We hedge interest rate risk and price volatility on our mortgage loan interest rate lock commitments and mortgage loans during the time we commit to acquire or originate mortgages at a pre-determined rate until the time we sell or securitize mortgages. We also hedge interest rate risk associated with funding our portfolio of mortgage loans and mortgage-backed securities. To mitigate interest rate and price volatility risks, we may enter into certain hedging transactions. The nature and quantity of our hedging transactions are determined based on various factors, including market conditions and the expected volume of mortgage acquisitions and originations.

Additional information regarding interest rate hedging is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 1 to Consolidated Financial Statements, entitled "Summary of Significant Accounting Policies," and is incorporated herein by reference.

Government Regulation

The Company's loan origination and loan servicing segments are subject to extensive and complex rules and regulations of, and examinations by, various federal, state, and local government authorities and government sponsored enterprises, including, without limitation, HUD, FHA, VA, Fannie Mae, Freddie Mac and Ginnie Mae. These rules and regulations impose obligations and restrictions on the Company's loan origination and credit activities, including, without limitation, the processing, underwriting, making, selling, securitizing and servicing of mortgage loans.

The Company's lending activities also are subject to various federal laws, including the Federal Truth-in-Lending Act and Regulation Z thereunder, the Homeownership and Equity Protection Act of 1994, the Federal Equal Credit Opportunity Act and Regulation B thereunder, the Fair Credit Reporting Act of 1970, the Real Estate Settlement Procedures Act of 1974 and Regulation X thereunder, the Fair Housing Act, the Home Mortgage Disclosure Act and Regulation C thereunder and the Federal Debt Collection Practices Act, as well as other federal statutes and regulations affecting its activities. The Company's loan origination activities also are subject to the laws and regulations of each of the states in which it conducts its activities.

These laws, rules, regulations and guidelines limit mortgage loan amounts and the interest rates, finance charges and other fees the Company may assess, mandate extensive disclosure and notice to its customers, prohibit discrimination, impose qualification and licensing obligations on it, establish eligibility criteria for mortgage loans, provide for inspections and appraisals of properties, require credit reports on prospective borrowers, regulate payment features, and prohibit kickbacks and referral fees, among other things. These rules and requirements also impose on the Company certain reporting and net worth requirements. Failure to comply with these requirements can lead to, among other things, loss of approved status, termination of contractual rights without compensation, demands for indemnification or mortgage loan repurchases, certain rights of rescission for mortgage loans, class action lawsuits, and administrative enforcement actions.

Although the Company believes that it has systems and procedures in place to ensure compliance with these requirements and that it currently is in compliance in all material respects with applicable federal, state and local laws, rules and regulations, there can be no assurance of full compliance with current laws, rules and regulations, that more restrictive laws, rules and regulations will not be adopted in the future, or that existing laws, rules and regulations or the mortgage loan documents with borrowers will not be interpreted in a different or more restrictive manner. The occurrence of any such event could make compliance substantially more difficult or expensive, restrict the Company's ability to originate, purchase, sell or service mortgage loans, further limit or restrict the amount of interest and other fees and charges earned from mortgage loans that the Company originates, purchases or services, expose it to claims by borrowers and administrative enforcement actions, or otherwise materially and adversely affect its business, financial condition and results of operations.

Members of Congress, government officials and political candidates have from time to time suggested the elimination of the mortgage interest deduction for federal income tax purposes, either entirely or in part, based on borrower income, type of loan or principal amount. Because many of the Company's loans are made to borrowers for the purpose of purchasing a home, the competitive advantage of tax deductible interest, when compared with alternative sources of financing, could be eliminated or seriously impaired by this type of governmental action. Accordingly, the reduction or elimination of these tax benefits could have a material adverse effect on the demand for the kind of mortgage loans the Company offers.

The Company also is performing various mortgage-related operations on the Internet. The Internet, and the laws, rules and regulations related to it, are relatively new and still evolving. As such, there exist many opportunities for the Company's business

operations on the Internet to be challenged or to become subject to legislation, any of which may materially and adversely affect its business, financial condition and results of operations.

Information Systems

The Company's loan origination enterprise system controls most aspects of the Company's loan origination operations, from the processing of a loan application through the closing of the loan and the sale of the loan to institutional investors. The system also performs checks and balances on many aspects of the Company's operations and supports the Company's marketing efforts. The Company's enterprise system functions on a wide area network that connects all of its branches in "real time." With its wide area network, a transaction at any one of its locations is committed centrally and is therefore immediately available to all personnel at all other locations. An important benefit of the enterprise system is that it aids the Company in controlling its business processes. The system assures that the Company's underwriting policies are adhered to, that only loans that are fully approved are disbursed, and that the correct disclosures and loan documents for a borrower are used based upon such borrower's state and loan program. The Company's enterprise system also provides its management with operating reports and other key data. In addition, the Company has developed a proprietary website and supporting call center software through the efforts of its in-house computer programming staff.

The Company's loan servicing system, LSAMS ("Loan Servicing and Accounting Management System"), manages most aspects of the loan servicing function, from loan funding to its ultimate payoff or disposition. The Company has developed enhancements and ancillary systems to further automate this function. Efficiencies have been gained through the use of Interactive Voice Response units that allow customers to ask questions and receive answers 24 hours a day. The Company also utilizes skill set routing along with CTI ("Computer-Telephone Integration") to speed the work of customer service agents. The Company's customers are able to utilize the Internet to check on current account information as well as to make monthly payments. DRI, a default management system, has been implemented to streamline and provide timeline management of the loss mitigation, foreclosure process, track bankruptcies, expedite foreclosure claims processing and dispose of real estate owned ("REO") property. The Company's loan servicing system is scalable well beyond its current workload.

Seasonality

Seasonality affects the Company's loan origination and loan servicing segments, as loan originations and payoffs are typically at their lowest levels during the first and fourth quarters due to a reduced level of home buying activity during the winter months. Loan originations and payoffs generally increase during the warmer months, beginning in March and continuing through October. As a result, the Company may experience higher earnings in the second and third quarters and lower earnings in the first and fourth quarters from its loan origination segment. Conversely, we may experience lower earnings in the second and third quarters and higher earnings in the first and fourth quarters from our loan servicing segment.

Competition

We face intense competition from mortgage REITs, commercial banks, savings and loan associations and other finance and mortgage banking companies, as well as from Internet-based lending companies and other lenders participating on the Internet. Entry barriers in the mortgage industry are relatively low and increased competition is likely. As we seek to expand our business, we will face a greater number of competitors, many of whom will be well established in the markets that we seek to penetrate. Many of our competitors are much larger than we are, have better name recognition than we do and have far greater financial and other resources than we do. In addition, competition may lower the interest rates we are able to charge borrowers, thereby potentially lowering the amount of revenue we earn either upon selling our loans, or the amount of interest we earn upon retaining our loans. Increased competition also may reduce the volume of our loan originations and loan sales.

Employees

We recruit, hire and retain individuals with the specific skills that complement our corporate growth and business strategies. As of December 31, 2005, we employed 6,544 employees.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

General

AHM Investment elected to be treated as a REIT for federal income tax purposes in the federal income tax return for its first taxable year ending December 31,

2003. In brief, if AHM Investment meets certain detailed conditions imposed by the REIT provisions of the Internal Revenue Code of 1986, as amended (the "Code"), including a requirement that we invest primarily in

qualifying REIT assets (which generally include real estate and mortgage loans) and a requirement that we satisfy certain income tests, AHM Investment will not be taxed at the corporate level on the income that we currently distribute to our stockholders. Therefore, to this extent, AHM Investment's stockholders will avoid double taxation, at the corporate level and then again at the stockholder level when the income is distributed, that they would otherwise experience if AHM Investment failed to qualify as a REIT.

If AHM Investment does not qualify as a REIT in any given year, we would be subject to federal income tax as a corporation for the year of the disqualification and for each of the following four years. This disqualification would result in federal income tax, which would reduce the amount of the after-tax cash available for distribution to our stockholders. AHM Investment believes that we have satisfied the requirements for qualification as a REIT since the year ended December 31, 2003. AHM Investment intends at all times to continue to comply with the requirements for qualification as a REIT under the Code, as described below.

In addition, to the extent AHM Investment holds a residual interest in a real estate mortgage investment conduit or is subject to the "taxable mortgage pool" ("TMP") rules, AHM Investment's status as a REIT will not be impaired, but a portion of the taxable income generated by the residual interest or AHM Investment's mezzanine debt and other assets constituting a TMP may be characterized as "excess inclusion" income allocated to AHM Investment's stockholders. Any such excess inclusion income (i) will not be allowed to be offset by the net operating losses of a stockholder, (ii) will be subject to tax as unrelated business taxable income to a tax-exempt stockholder, (iii) will result in the application of U.S. federal income tax withholding at the maximum rate (without reduction for any otherwise applicable income tax treaty) on any excess inclusion income allocable to a stockholder that is not a "United States Person" (as defined in the Code), and (iv) may result in AHM Investment having to pay tax on excess inclusion income to the extent the AHM Investment's stockholders are certain "disqualified organizations."

Requirements for Qualification as a REIT

To qualify for tax treatment as a REIT under the Code, we must meet certain tests, as described briefly below.

Ownership of Common Stock

Each taxable year for which we elect to be a REIT, a minimum of 100 persons must hold our shares of capital stock for at least 335 days of a 12-month year (or a proportionate part of a short tax year). In addition, at all times during the second half of each taxable year, no more than 50% in value of our capital stock may be owned directly or indirectly by five or fewer individuals. We are required to maintain records regarding the ownership of our shares and to demand statements from persons who own more than a certain number of our shares regarding their ownership of shares. We must keep a list of those stockholders who fail to reply to such a demand.

We are required to use the calendar year as our taxable year for income tax purposes.

Nature of Assets

On the last day of each calendar quarter, at least 75% of the value of our assets and any assets held by a QRS must consist of qualified REIT assets (primarily, real estate and mortgages secured by real estate) ("Qualified REIT Assets"), government assets, cash and cash items. We expect that substantially all of our assets will continue to be Qualified REIT Assets. On the last day of each calendar quarter, of the assets not included in the foregoing 75% assets test, the value of mortgage-backed securities that we hold issued by any one issuer may not exceed 5% in value of our total assets and we may not own more than 10% of any one issuer's outstanding securities (with an exception for a qualified electing TRS). Under that exception, the aggregate value of business that we may undertake through TRSs is limited to 20% or less of our total assets. We monitor the purchase and holding of our assets in order to comply with the above asset tests.

We may from time to time hold, through one or more TRSs, assets that, if we held directly, could generate income that would have an adverse effect on our qualification as a REIT or on certain classes of our stockholders.

Sources of Income

We must meet the following separate income-based tests each year:

1. The 75% Test. At least 75% of our gross income for the taxable year must be derived from Qualified REIT Assets including interest (other than interest based in whole or in part on the income or profits of any person) on obligations secured by mortgages on real property or interests in real property. The investments that we have made and will continue to make will give rise primarily to mortgage interest qualifying under the 75% income test.

2. The 95% Test. In addition to deriving 75% of our gross income from the sources listed above, at least an additional 20% of our gross income for the taxable year must generally be derived from those sources, or from dividends, interest or gains from the sale or disposition of stock or other assets that are not dealer property. We intend to limit substantially all of the assets that we acquire (other than stock in certain affiliate corporations as discussed below) to Qualified REIT Assets. Our strategy to maintain REIT status may limit the type of assets, including certain hedging contracts and other assets, that we otherwise might acquire.

Distributions

We must distribute to our stockholders on a pro rata basis each year an amount equal to at least (i) 90% of our taxable income before deduction of dividends paid and excluding net capital gain, plus (ii) 90% of the excess of the net income from foreclosure property over the tax imposed on such income by the Code, less (iii) any "excess noncash income." We intend to make distributions to our stockholders in sufficient amounts to meet the distribution requirement.

Taxation of Stockholders

For any taxable year in which we are treated as a REIT for federal income tax purposes, the amounts that we distribute to our stockholders out of current or accumulated earnings and profits will be includable by the stockholders as ordinary income for federal income tax purposes unless properly designated by us as capital gain dividends. Our distributions will not be eligible for the dividends received deduction for corporations and generally will not be treated as "qualified dividend income" eligible for reduced rates. Stockholders may not deduct any of our net operating losses or capital losses.

If we make distributions to our stockholders in excess of our current and accumulated earnings and profits, those distributions will be considered first a tax-free return of capital, reducing the tax basis of a stockholder's shares until the tax basis is zero. Such distributions in excess of the tax basis will be taxable as gain realized from the sale of our shares.

In reading this annual report on Form 10-K and the tax disclosure set forth above, please note that the Company is combined with all of its subsidiaries for financial accounting purposes. For federal income tax purposes, only AHM Investment and AHM Acceptance (and their assets and income) constitute the REIT, and the Company's remaining subsidiaries constitute a separate consolidated group subject to regular corporate income taxes.

The provisions of the Code are highly technical and complex. This summary is not intended to be a detailed discussion of the Code or its rules and regulations, or of related administrative and judicial interpretations. We have not obtained a ruling from the Internal Revenue Service with respect to tax considerations relevant to our organization or operation, or to an acquisition of our stock. This summary is not intended to be a substitute for prudent tax planning and each of our stockholders is urged to consult his or her own tax advisor with respect to these and other federal, state, local and foreign tax consequences of the acquisition, ownership and disposition of shares of our stock and any potential changes in applicable law.

Taxation of AHM Investment

In each year that AHM Investment qualifies as a REIT, it generally will not be subject to federal income tax on that portion of its REIT taxable income or capital gain that it distributes to stockholders. AHM Investment is subject to corporate level taxation on any undistributed income. In addition, AHM Investment faces corporate level taxation due to any failure to make timely distributions, on the built-in gain on assets acquired from a taxable corporation such as a TRS, on the income from any property that it takes in foreclosure and on which it makes a foreclosure property election, and on the gain from any property that is treated as "dealer property" in AHM Investment's hands.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating the Company's business. The Company's business, financial condition or results of operations could be materially adversely affected by any of these risks. Additional risks not presently known to the Company or that the Company currently deems immaterial may also adversely affect its business, financial condition or results of operations.

Risks Related to Our Business

We have a limited operating history with respect to our portfolio strategy.

Prior to December of 2003, our business consisted primarily of the origination and sale of mortgage loans. Since then, our business's financial results have also been founded on a leveraged portfolio of mortgage assets held for net interest income. If we are unsuccessful in managing the risks inherent in our portfolio, we may expect income shortfalls, significant losses and significant losses in the value of our holdings.

An interruption or reduction in the securitization market would harm our financial position.

We are dependent on the securitization market for both the sale and financing of a substantial portion of the loans we originate or purchase. The securitization market is dependent upon a number of factors, including general economic conditions, conditions in the securities market generally and conditions in the asset-backed securities market specifically. In addition, in the event of poor performance of our previously securitized loans, our access to the securitization market could be harmed. Accordingly, a decline in the securitization market or a change in the market's demand for our loans could harm our results of operations, financial condition and business prospects.

Our results from holding mortgage assets may be harmed by changes in the level of interest rates, changes to the difference between short- and longer-term interest rates, changes to the difference between interest rates for mortgage assets compared to other debt instruments, and an absence of or reduction in the availability, at favorable terms, of repurchase financing and other liquidity sources typically utilized by mortgage REITs.

The value of, and return from, the mortgage-backed securities we hold may be volatile and will be affected by changes in the marketplace for mortgage-backed securities and debt securities in general, as well as market interest rates. The impact of changes in the marketplace for mortgage-backed securities and debt securities on our results will be magnified because our mortgage-backed securities holdings are highly leveraged. Additionally, much of the financing we use to hold our mortgage-backed securities is cancelable by our lenders on short notice. If our lenders cease to provide financing to us on favorable terms, we would be forced to liquidate some or all of our mortgage-backed securities, possibly at a substantial loss.

Our business requires a significant amount of cash, and if it is not available, our business and financial performance will be significantly harmed.

We require substantial cash to fund our loan originations, to pay our loan origination expenses, to hold our loans pending securitization or sale and to fund our portfolio of mortgage-backed securities. We also need cash to meet our working capital, REIT dividend distribution requirements and other needs. Cash could be required to meet margin calls under the terms of our borrowings in the event that there is a decline in the market value of our loans that collateralize our debt, if the terms of our debt become less attractive or for other reasons.

In addition, if our income as calculated for federal income tax purposes exceeds our cash flow from operations, we could be forced to borrow or raise capital on unfavorable terms in order to make the distributions to avoid federal income tax and maintain our REIT status.

We expect that our primary sources of cash will consist of:

- our repurchase facilities, warehouse lines of credit, mortgage servicing credit facilities and our commercial paper program;
- the net interest income we earn on our mortgage asset holdings;
- the income we earn from originating and selling mortgage loans; and
- the income we earn from servicing mortgage loans.

Pending sale or securitization of a pool of mortgage loans, we will originate mortgage loans that we finance through borrowings from our warehouse lines of credit and commercial paper program. It is possible that our warehouse lenders could experience changes in their ability to advance funds to us, independent of our performance or the performance of our loans. In addition, if the regulatory capital requirements imposed on our lenders change, our lenders may be required to increase significantly the cost of the lines of credit that they provide to us.

As of December 31, 2005, we financed loans through seven warehouse lines of credit. Each of these facilities is cancelable by the lender for cause at any time. As of December 31, 2005, the aggregate balance outstanding under these facilities was approximately $3.5 billion. Three of these facilities are subject to periodic renewal and four have no expiration date. We cannot provide any assurances that we will be able to extend these existing facilities on favorable terms, or at all. If we are not able to renew any of these credit facilities or arrange for new financing on terms acceptable to us, or if we default on our covenants or are otherwise unable to access funds under any of these facilities, we may not be able to originate new loans or continue to fund our operations, which would have a material adverse effect on our business, financial condition, liquidity and results of operations.

In connection with those loans we securitize other than through guaranteed performance swaps and similar transactions with Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Home Loan Banks, we plan to provide credit enhancement for a portion of the securities that we sell, called "senior securities," to improve the price at which we sell them. Our current expectation is that this credit enhancement for the senior securities will be primarily in the form of either designating another portion of the securities we issue as "subordinate securities" (on which the credit risk from the loans is concentrated), paying for financial guaranty insurance policies for the loans, or both. If we use financial guaranty insurance policies, and the expense of these insurance policies increases, the net interest income we receive will be reduced. While we plan to use credit enhancement features in the future, these features may not be available at costs that would allow us to achieve the desired level of net interest income from the securitizations that we anticipate being able to achieve.

We may not be able to achieve our optimal leverage.

We use leverage as a strategy to increase the return to our investors. However, we may not be able to achieve our desired leverage for various reasons, including, but not limited to, the following:

- we determine that the leverage would expose us to excessive risk;
- our lenders do not make funding available to us on acceptable terms; or
- our lenders require that we provide additional collateral to cover our borrowings.

Our use of repurchase facilities to borrow funds may be limited or curtailed in the event of disruptions in the repurchase market.

We rely upon repurchase facilities in order to finance our portfolio of mortgage-backed securities. Our repurchase facilities are dependent on our counterparties' ability to resell our obligations to third-party purchasers. There have been in the past, and in the future there may be, disruptions in the repurchase market. If there is a disruption of the repurchase market generally, or if one of our counterparties is itself unable to access the repurchase market, our access to this source of liquidity could be adversely affected.

Our use of repurchase agreements to borrow funds may give our lenders greater rights in the event that either we or a lender files for bankruptcy.

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and liquidate our collateral under the repurchase agreements without delay in the event that we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that a lender files for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either a lender or us.

Our efforts to match fund our mortgage-backed securities with our borrowings may not be effective to protect against losses due to movements in interest rates.

The interest rates on our borrowings generally adjust more frequently than the interest rates on our ARM mortgage-backed securities. Accordingly, in a period of rising interest rates, we could experience a decrease in net income or a net loss because the interest rates on our borrowings adjust faster than the interest rates on our ARM mortgage-backed securities.

Although we attempt to limit our exposure to changing interest rates by matching as closely as possible the duration of our liabilities and hedges with the duration of our mortgage loan holdings, our liabilities, hedges and assets could react differently than we expect in response to changes in interest rates, which would cause us to suffer significant losses. Matched funding is difficult, if not impossible, to achieve, and there can be no assurances that our efforts to match fund will protect us against losses.

Our credit facilities contain covenants that restrict our operations and any default under our credit facilities would have a material adverse effect on our financial condition.

Our existing warehouse and repurchase facilities and commercial paper program contain restrictions and covenants and require us to maintain or satisfy specified financial ratios and tests, including maintenance of asset quality and portfolio performance tests. Failure to meet or satisfy any of these covenants, financial ratios or financial tests could result in an event of default under these agreements. These agreements are typically recourse borrowing facilities that are secured by specific mortgage loans pledged under those agreements. The agreements also contain cross-default provisions, so that if an event of default occurs under any

agreement, the lenders could elect to declare all amounts outstanding under all of our agreements to be immediately due and payable, enforce their interests against collateral pledged under the agreements and, in certain circumstances, restrict our ability to make additional borrowings.

Our warehouse and repurchase facilities contain additional restrictions and covenants that may:

- restrict the ability of our TRSs to make distributions to us;

- restrict our ability to make certain investments or acquisitions; and
- restrict our ability to engage in certain mergers or consolidations.

These restrictions may interfere with our ability to obtain financing or to engage in other business activities, which may have a material adverse effect on our business, financial condition, liquidity and results of operations.

Our credit facilities are subject to margin calls based on the lender's opinion of the value of our loan collateral. An unanticipated large margin call could harm our liquidity.

The amount of financing we receive under our credit facilities depends in large part on the lender's valuation of the mortgage loans that secure the financings. Each such facility provides the lender the right, under certain circumstances, to reevaluate the loan collateral that secures our outstanding borrowings at any time. In the event the lender determines that the value of the loan collateral has decreased, it has the right to initiate a margin call. A margin call would require us to provide the lender with additional collateral or to repay a portion of the outstanding borrowings. Any such margin call could harm our liquidity, results of operations, financial condition and business prospects.

If warehouse lenders and securitization underwriters face exposure stemming from legal violations committed by the companies to whom they provide financing or underwriting services, this could increase our borrowing costs and harm the market for whole loans and mortgage-backed securities.

In June of 2003, a California jury found a warehouse lender and securitization underwriter liable in part for fraud on consumers committed by a lender to whom it provided financing and underwriting services. The jury found that the investment bank was aware of the fraud and substantially assisted the lender in perpetrating the fraud by providing financing and underwriting services that allowed the lender to continue to operate, and held the bank liable for 10% of the plaintiff's damages. This is the first case we know of in which an investment bank was held partly responsible for violations committed by the bank's mortgage lender customer. If other courts or regulators adopt this theory, investment banks may face increased litigation as they are named as defendants in lawsuits and regulatory actions against the mortgage companies with which they do business. Some investment banks may exit the business, charge more for warehouse lending or reduce the prices they pay for whole loans in order to build in the costs of this potential litigation. This could, in turn, harm our results of operations, financial condition and business prospects.

If the prepayment rates for our mortgage assets are higher than expected, our results of operations may be significantly harmed.

The rate and timing of unscheduled payments and collections of principal on our loans is impossible to predict accurately and will be affected by a variety of factors including, without limitation, the level of prevailing interest rates, the availability of lender credit and other economic, demographic, geographic, tax and legal factors. In general, however, if prevailing interest rates fall significantly below the interest rate on a loan, the borrower is more likely to prepay the then higher-rate loan than if prevailing rates remain at or above the interest rate on the loan. Unscheduled principal prepayments could adversely affect our results of operations to the extent we are unable to reinvest the funds we receive at an equivalent or higher yield rate, if at all. In addition, a large amount of prepayments, especially prepayments on loans with interest rates that are high relative to the rest of the asset pool, will likely decrease the net interest income we receive.

We may suffer credit losses with respect to, and be required to repurchase, loans that we originate and sell, regardless of credit enhancements that we purchase.

Although we typically purchase credit enhancements from Fannie Mae and Freddie Mac with respect to the agency-eligible ARM loans that we originate and sell, we may nevertheless suffer credit losses with respect to these loans if we do not originate the loans correctly. We also may be required to repurchase the loans under these circumstances. In addition, we may suffer credit losses on non-agency eligible securities to the extent that they do not have, or have only limited, credit enhancements. Credit enhancements will not protect us from such credit losses or repurchase obligations.

Our hedging strategy may adversely affect our borrowing cost and expose us to other risks.

From time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps and floors, options to purchase these items, and futures and forward contracts. Currently, we intend to primarily use term reverse repurchase agreements and interest rate swap agreements to manage the interest rate risk of our portfolio of mortgage assets. However, our actual hedging decisions will be determined in light of the facts and circumstances existing at the time and may differ from our currently anticipated hedging strategy. Developing an effective strategy for dealing with movements in interest rates is complex and no strategy can completely insulate us from risks associated with such fluctuations. Our hedging activities may not effectively hedge against adverse interest rate movement.

The results from our mortgage origination business will be harmed by rising interest rates.

Rising interest rates have substantially reduced the number of potential customers that can achieve a lower interest rate from refinancing, and to a lesser extent the number of potential customers that can afford to buy homes, and consequently are substantially reducing the amount of loans originated by our loan origination business and the revenue therefrom. In addition, rising interest rates are likely to reduce the margins achieved by our loan origination business. While rising interest rates generally will have a beneficial impact on our mortgage servicing business, the negative impact from rising interest rates on our mortgage origination business generally has been greater than the offsetting beneficial impact, and consequently, in a period of rising interest rates, our earnings are projected to decline.

The results from our mortgage servicing business will be harmed by falling interest rates.

AHM Holdings historically has suffered losses from its mortgage servicing business. If interest rates remain low enough to cause a large number of borrowers whose loans are being serviced by our servicing business to refinance, we will experience high amortization and possibly continued impairment of our servicing assets, and would likely experience a loss from our mortgage servicing business.

An increase in interest rates could reduce the value of our loan inventory and commitments and our hedging strategy may not protect us from interest rate risk and may lead to losses.

The value of our loan inventory will be based, in part, on market interest rates. Accordingly, we may experience losses on loan sales if interest rates change rapidly or unexpectedly. If interest rates rise after we fix a price for a loan or commitment but before we close and sell such loan, the value of the loan will decrease. If the amount we receive from selling the loan is less than our cost of originating the loan, we may incur net losses, and our business and operating results could be harmed. While we will use hedging and other strategies to minimize our exposure to interest rate risks, no hedging or other strategy can completely protect us. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. Our hedging strategy and the hedges that we make may not adequately offset the risks of interest rate volatility and our hedges may result in losses.

We may fail to generate expected returns on our mortgage-related assets because of interest rate caps associated with adjustable-rate mortgages.

ARM assets are typically subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the interest yield of an ARM asset may change during any given period. However, our borrowing costs will not be subject to similar restrictions. Hence, in a period of rising interest rates, interest rate costs on our borrowings could increase without limitation by caps, while the interest-rate yields on our ARM assets would generally be limited by caps. This could result in the receipt of less cash income on our ARM assets than needed in order to pay the interest cost on our related borrowings. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would negatively impact our financial condition, cash flows and results of operations.

We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, other vendors and our employees.

When we originate mortgage loans, we rely heavily upon information supplied by third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the mortgage broker, another third party or one of our employees, we generally bear the risk of loss associated with the

misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation, the persons and entities involved are often difficult to locate and it is often difficult to collect any monetary losses that we have suffered from the misrepresentation.

We have controls and processes designed to help us identify misrepresented information in our loan origination operations, but, we may not detect all misrepresented information in our loan originations.

A material difference between the assumptions used in the determination of the value of our residual interests and our actual experience could harm our financial position.

As of December 31, 2005, the value on our balance sheet of our residual interests from securitization transactions was $276.0 million. The value of these residuals is a function of the forecasted delinquency, loss, prepayment speed and discount rate assumptions we use. It is extremely difficult to validate the assumptions we use in valuing our residual interests. In the future, if our actual experience differs materially from these assumptions, our cash flow, financial condition, results of operations and business prospects could be harmed.

We depend upon distributions from our operating subsidiaries to fund our operations and may be subordinate to the rights of their existing and future creditors.

We conduct substantially all of our operations through our subsidiaries. Without independent means of generating operating revenue, we depend on distributions and other payments from the subsidiaries to make distributions to our stockholders. Our subsidiaries must first satisfy their cash needs, which may include salaries of our executive officers, insurance, professional fees and service of indebtedness that may be outstanding at various times before making distributions. Financial covenants under future credit agreements, or provisions of the laws of Maryland, where we and our principal operating QRS are organized, or Delaware or New York, where our other operating subsidiaries are organized, may limit our subsidiaries' ability to make sufficient dividend, distribution or other payments to permit us to make distributions to stockholders.

By virtue of our holding company status, our Series A Preferred Stock and Series B Preferred Stock are structurally junior in right of payment to all existing and future liabilities of our subsidiaries. The inability of our operating subsidiaries to make distributions to us could have a material adverse effect on our results of operations, financial condition and business.

Our financial results fluctuate as a result of seasonality and other factors, including the demand for mortgage loans, which makes it difficult to predict our future performance.

Our business is generally subject to seasonal trends. These trends reflect the general pattern of resales of homes, which typically peak during the spring and summer seasons. AHM Holdings' quarterly results have fluctuated in the past and are expected to fluctuate in the future, reflecting the seasonality of the industry. Further, if the sale of a loan is postponed, the recognition of income from the sale is also postponed. If such a delay causes us to recognize income in the next quarter, our results of operations for the previous quarter could be harmed. Unanticipated delays could also increase our exposure to interest rate fluctuations by lengthening the period during which our variable rate borrowings under credit facilities are outstanding. If our results of operations do not meet the expectations of our stockholders and securities analysts, then the price of our securities may be harmed.

We may not be able to manage our growth efficiently, which may harm our results and may, in turn, harm the market price of our securities and our ability to distribute dividends.

Over the last several years, AHM Holdings experienced significant growth in its business activities and in the number of its employees. We will seek continued growth through both acquisitions and internal growth. AHM Holdings' growth has required, and our growth will continue to require, increased investment in management and professionals, personnel, financial and management systems and controls and facilities, which could cause our operating margins to decline from historical levels, especially in the absence of revenue growth.

We face risks in connection with any completed or potential acquisition, which could have a material adverse impact on our growth or our operations.

AHM Holdings has completed multiple acquisitions over the past few years, and we from time to time will continue to consider additional strategic acquisitions of mortgage lenders and other mortgage banking and finance-related companies. Upon completion of an acquisition, we are faced with the challenges of integrating the operations, services, products, personnel and systems of acquired companies into our business, identifying and eliminating duplicated efforts and systems and incorporating

different corporate strategies, addressing unanticipated legal liabilities and other contingencies, all of which divert management's attention from ongoing business operations. Any acquisition we make may also result in potentially dilutive issuances of equity securities, the incurrence of additional debt and the amortization of expenses related to goodwill and other intangible assets. We may not be successful in integrating any acquired business effectively into the operations of our business. In addition, there is substantial competition for acquisition opportunities in the mortgage industry. This competition could result in an increase in the price of, and a decrease in the number of, attractive acquisition candidates. As a result, we may not be able to successfully acquire attractive candidates on terms we deem acceptable. We may not be able to overcome the risks associated with acquisitions and such risks may adversely affect our growth and results of operations.

We face intense competition that could harm our market share and our revenues.

We face intense competition from commercial banks, savings and loan associations and other finance and mortgage banking companies, as well as from Internet-based lending companies and other lenders participating on the Internet. Entry barriers in the mortgage industry are relatively low and increased competition is likely. As we seek to expand our business, we will face a greater number of competitors, many of whom will be well established in the markets we seek to penetrate. Many of our competitors are much larger than we are, have better name recognition than we do and have far greater financial and other resources than we do. We may not be able to effectively compete against them or any future competitors.

In addition, competition may lower the rates we are able to charge borrowers, thereby potentially lowering the amount of income on future loan sales and sales of servicing rights. Increased competition also may reduce the volume of our loan originations and loan sales. We may not be able to compete successfully in this evolving market.

The success and growth of our business will depend on our ability to adapt to technological changes.

Our mortgage origination business is currently dependent on our ability to effectively interface with our customers and efficiently process loan applications and closings. The origination process is becoming more dependent on technology advancement, such as the ability to process applications over the Internet, accept electronic signatures, provide process status updates instantly and other customer expected conveniences. As these requirements increase in the future, we will have to remain competitive with new technology and such advances may require significant capital expenditures.

An interruption in or breach of our information systems may result in lost business.

We rely heavily upon communications and information systems to conduct our business. Any failure or interruption or breach in security of our information systems or the third-party information systems on which we rely could cause underwriting or other delays and could result in fewer loan applications being received, slower processing of applications and reduced efficiency in loan servicing. We are required to comply with significant federal and state regulations with respect to the handling of customer information, and a failure, interruption or breach of our information systems could result in regulatory action and litigation against us. Failures or interruptions may occur and they may not be adequately addressed by us or the third parties on which we rely. The occurrence of any failures or interruptions could harm our results of operations, financial condition and business prospects.

We face intense competition for personnel that could harm our business and in turn negatively affect the market price of our securities and our ability to distribute dividends.

Generally, our business is dependent on the highly skilled, and often highly specialized, individuals we employ. Our failure to recruit and retain qualified employees, including employees qualified to manage a portfolio of structured products or mortgage-backed securities, could harm our future operating results and may, in turn, negatively affect the market price of our securities and our ability to pay dividends.

Specifically, we depend on our loan originators to generate customers by, among other things, developing relationships with consumers, real estate agents and brokers, builders, corporations and others, which we believe leads to repeat and referral business. Accordingly, we must be able to attract, motivate and retain skilled loan originators. In addition, our growth strategy contemplates hiring additional loan originators. The market for such persons is highly competitive and historically has experienced a high rate of turnover. Competition for qualified loan originators may lead to increased costs to hire and retain them. We cannot guarantee that we will be able to attract or retain qualified loan originators. If we cannot attract or retain a sufficient number of skilled loan originators, or even if we can retain them but at higher costs, our business and results of operations could be harmed.

The conduct of the independent brokers through whom we originate our wholesale loans could subject us to fines or other penalties.

The mortgage brokers through whom we originate wholesale loans have parallel and separate legal obligations to which they are subject. While these laws may not explicitly hold the originating lenders responsible for the legal violations of mortgage brokers, federal and state agencies increasingly have sought to impose such liability. Recently, for example, the United States Federal Trade Commission (the "FTC") entered into a settlement agreement with a mortgage lender where the FTC characterized a broker that had placed all of its loan production with a single lender as the "agent" of the lender; the FTC imposed a fine on the lender in part because, as "principal," the lender was legally responsible for the mortgage broker's unfair and deceptive acts and practices. The United States Department of Justice in the past has sought to hold mortgage lenders responsible for the pricing practices of mortgage brokers, alleging that the mortgage lender is directly responsible for the total fees and charges paid by the borrower under the Fair Housing Act even if the lender neither dictated what the mortgage broker could charge nor kept the money for its own account. We exercise little or no control over the activities of the independent mortgage brokers from whom we obtain our wholesale loans. Nevertheless, we may be subject to claims for fines or other penalties based upon the conduct of our independent mortgage brokers.

We depend on brokers for a substantial portion of our loan production.

We depend on brokers as the source of the majority of our loan originations. Our brokers are not contractually obligated to do business with us. Further, our competitors also have relationships with the same brokers and actively compete with us in our efforts to expand our broker networks. Accordingly, we may not be successful in maintaining our existing relationships or expanding our broker networks. The failure to do so could negatively impact the volume and pricing of our loans, which could have a material adverse effect on our business, financial condition, liquidity and results of operations.

The loss of key purchasers of our loans or a reduction in prices paid could harm our financial condition.

In 2005, 51% of the loans that we sold were to three large national financial institutions, two of which compete with us directly for retail originations. If these financial institutions or any other significant purchaser of our loans cease to buy our loans and equivalent purchasers cannot be found on a timely basis, then our business and results of operations could be harmed. Our results of operations could also be harmed if these financial institutions or other purchasers lower the price they pay to us or adversely change the material terms of their loan purchases from us. The prices at which we sell our loans vary over time. A number of factors determine the price we receive for our loans. These factors include:

- the number of institutions that are willing to buy our loans;
- the amount of comparable loans available for sale;
- the levels of prepayments of, or defaults on, loans;
- the types and volume of loans that we sell;
- the level and volatility of interest rates; and
- the quality of our loans.

We may be required to return proceeds obtained from the sale of loans, which would negatively impact our results of operations.

When we sell a loan to an investor, we are required to make representations and warranties regarding the loan, the borrower and the property. These representations are made based in part on our due diligence and related information provided to us by the borrower and others. If any of these representations or warranties is later determined not to be true, we may be required to repurchase the loan, including principal and interest, from the investor and/or indemnify the investor for any damages or losses caused by the breach of such representation or warranty. In connection with some non-prime loan sales, we may be required to return a portion of the premium paid by the investor if the loan is prepaid within the first year after its sale. If, to any significant extent, we are required to repurchase loans, indemnify investors or return loan premiums, it could have a material adverse effect on our business and results of operations.

Changes in existing government sponsored and federal mortgage programs could negatively affect our mortgage banking business.

Our ability to generate revenue through mortgage sales to institutional investors largely depends on programs sponsored by Fannie Mae, Freddie Mac, Ginnie Mae and others which facilitate the issuance of mortgage-backed securities in the secondary market. A portion of our business also depends on various programs of the Federal Housing Administration (FHA) and the Veterans Administration (VA). Any discontinuation of, or significant reduction in, the operation of those programs could have a material adverse effect on our mortgage banking business and results of operations. Also, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these entities would reduce our revenues.

We must comply with numerous government regulations and we are subject to changes in law that could increase our costs and adversely affect our business.

Our mortgage banking business is subject to the laws, rules and regulations of various federal, state and local government agencies regarding the origination, processing, underwriting, sale and servicing of mortgage loans. These laws, rules and regulations, among other things, limit the interest rates, finance charges and other fees we may charge, require us to make extensive disclosure, prohibit discrimination and impose qualification and licensing obligations on us. They also impose on us various reporting and net worth requirements. We also are subject to inspection by these government agencies. Our mortgage banking business is also subject to laws, rules and regulations regarding the disclosure of non-public information about our customers to non-affiliated third parties. Our failure to comply with any of these requirements could lead to, among other things, the loss of approved status, termination of contractual rights without compensation, demands for indemnification or mortgage loan repurchases, class action lawsuits and administrative enforcement actions.

Regulatory and legal requirements are subject to change. If such requirements change and become more restrictive, it would be more difficult and expensive for us to comply and could affect the way we conduct our business, which could adversely impact our results of operations. While we believe we are currently in material compliance with the laws, rules and regulations to which we are subject, we may not be in full compliance with applicable laws, rules and regulations. If we cannot comply with those laws or regulations, or if new laws limit or eliminate some of the benefits of purchasing a mortgage, our business and results of operations may be materially adversely affected.

As a mortgage lender, we must comply with numerous licensing requirements, and our inability to remain in compliance with such requirements could adversely affect our operations and our reputation generally.

Like other mortgage companies, we must comply with the applicable licensing and other regulatory requirements of each jurisdiction in which we are authorized to lend. These requirements are quite complex and vary from jurisdiction to jurisdiction. We monitor and regularly review our compliance with such requirements. From time to time we are subject to examination by regulators, and if it is determined that we are not in compliance with the applicable requirements, we may be fined, and our license to lend in one or more jurisdictions may be suspended or revoked. We have in the past violated, and we may in the future violate, certain aspects of the licensing requirements in some jurisdictions. Although the past violations of which we are aware have not had a material adverse effect on our business, operations or reputation, future violations or past violations of which we are not aware may have such an effect.

The loss of our relationships with government agencies and related entities would have an adverse effect on our business.

Our agreements with Fannie Mae, Freddie Mac, Ginnie Mae, the FHA and the VA afford us a number of advantages and may be canceled by the counterparty for cause. Cancellation of one or more of these agreements would have a material adverse impact on our operating results and could result in further disqualification with other counterparties, loss of technology and other materially adverse consequences.

We are exposed to environmental liabilities with respect to properties to which we take title, which could increase our costs of doing business and adversely impact our results of operations.

In the course of our business, at various times, we may foreclose and take title (for security purposes) to residential properties and could be subject to environmental liabilities with respect to such properties. To date, we have not been required to perform any environmental investigation or remediation activities, nor have we been subject to any environmental claims relating to these activities. However, this may not remain the case in the future. We may be held liable to a governmental entity or to third parties for property damage, personal injury and investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or remediate hazardous or toxic substances or chemical releases at a property. The costs associated with an environmental investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties seeking damages and costs resulting from environmental contamination emanating from such property.

Our Board of Directors or management may change our operating policies and strategies without prior notice or stockholder approval and such changes could harm our business and results of operations and the value of our securities.

Our Board of Directors and, in certain cases, our management, have the authority to modify or waive our current operating policies and our strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock and it is possible that the effects might be adverse.

Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control of our company.

Certain provisions of Maryland law and our charter and bylaws could have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control of our company. These provisions include the following:

- Classified Board of Directors. Our Board of Directors is divided into three classes with staggered terms of office of three years each. The classification and staggered terms of office of our directors make it more difficult for a third party to gain control of our Board of Directors. At least two annual meetings of stockholders, instead of one, generally would be required to effect a change in a majority of our Board of Directors.
- Removal of Directors. Under our charter, subject to any rights of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed only for cause and only by the affirmative vote of at least two-thirds of all votes entitled to be cast by our stockholders generally in the election of directors.
- Number of Directors, Board Vacancies, Term of Office. We may, in the future, elect to be subject to certain provisions of Maryland law

which vest in the Board of Directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining directors, to fill vacancies on the Board even if the remaining directors do not constitute a quorum. These provisions of Maryland law, which are applicable even if other provisions of Maryland law or our charter or bylaws provide to the contrary, also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of stockholders as would otherwise be the case, and until his or her successor is elected and qualifies.

- Stockholder Requested Special Meetings. Our bylaws provide that our stockholders have the right to call a special meeting only upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast by the stockholders at such meeting.
- Advance Notice Provisions for Stockholder Nominations and Proposals. Our bylaws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of stockholders. This bylaw provision limits the ability of stockholders to make nominations of persons for election as directors or to introduce other proposals unless we are notified in a timely manner prior to the meeting.
- Exclusive Authority of Our Board to Amend the Bylaws. Our bylaws provide that our Board of Directors has the exclusive power to adopt, alter or repeal any provision of the bylaws or to make new bylaws. Thus, our stockholders may not effect any changes to our bylaws.
- Preferred Stock. Under our charter, our Board of Directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of our stockholders. The issuance of shares of preferred stock could adversely impact the voting power of the holders of common stock and could have the effect of delaying or preventing a change in control or other corporate action.
- Duties of Directors with Respect to Unsolicited Takeovers. Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to (i) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (ii) authorize the corporation to redeem any rights under, or modify or render inapplicable, any stockholders' rights plan, (iii) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act (to the extent either Act is otherwise applicable), or (iv) act or fail to act solely because of the effect that the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, under Maryland law, the act of the directors of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

- Ownership Limit. In order to preserve our status as a REIT under the Code, our charter prohibits (with certain exceptions) any single stockholder, or any group of affiliated stockholders, from beneficially owning more than (i) 6.5% of our outstanding common stock, or more than 6.5% of our outstanding common and preferred stock, (ii) more than 9.8% of either the total number or the value of the total number of outstanding shares of the Series A Preferred Stock or (iii) more than 9.8% of either the total number or the value of the total number of outstanding shares of the Series B Preferred Stock, unless and to the extent to which our Board of Directors decides to waive or modify this ownership limit.
- Maryland Business Combination Act. The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares of stock and other specified transactions, with an "interested stockholder" or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding stock of a Maryland corporation. Our Board of Directors has adopted a resolution exempting the company from this statute. However, our Board of Directors may repeal or modify this resolution in the future, in which case the provisions of the Maryland Business Combination Act will be applicable to business combinations between us and other persons.
- Maryland Control Share Acquisition Act. Maryland law provides that "control shares"' of a corporation acquired in a "control share acquisition" shall have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. "Control shares" means shares of stock that, if aggregated with all other shares of stock previously acquired by the acquiror, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of the voting power: one-tenth or more but less than one-third, one-third or more but less than a majority or a majority or more of all voting power. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions. If voting rights or control shares acquired in a control share acquisition are not approved at a stockholders' meeting, then subject to certain conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights. Our bylaws contain a provision exempting acquisitions of our shares from the Maryland Control Share Acquisition Act. However, our Board of Directors may amend our bylaws in the future to repeal or modify this exemption, in which case any control shares of ours acquired in a control share acquisition will be subject to the Maryland Control Share Acquisition Act.

Loss of Investment Company Act exemption would adversely affect us and negatively affect the market price of shares of our securities and our ability to distribute dividends.

We are not regulated as an investment company under the Investment Company Act of 1940, as amended, and we intend to operate so as to not become regulated as an investment company under the Investment Company Act. We intend to be "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." Specifically, we intend to invest at least 55% of our assets in mortgage loans or mortgage-backed securities that represent the entire ownership in a pool of mortgage loans ownership and at least an additional 25% of our assets in mortgages, mortgage-backed securities, securities of REITs and other real estate-related assets.

If we fail to qualify for an exemption under the Investment Company Act, we may be required to restructure our activities. For example, if the market value of our investments in equity securities were to increase by an amount that resulted in less than 55% of our assets being invested in mortgage loans or mortgage-backed securities that represent the entire ownership in a pool of mortgage loans, we might have to sell equity securities in order to qualify for exemption under the Investment Company Act. In the event we must restructure our activities, our results of operations could be adversely affected.

Risks Relating to Our Status as a REIT

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Code substantially limit our ability to hedge mortgage-backed securities and related borrowings. Under these provisions, our annual income from certain qualified hedges, together with any other income not generated from qualified REIT real estate assets, must be less than 25% of our gross income. As a result, we might in the future be required to limit our use of advantageous hedging techniques. Unhedged positions could leave us exposed to greater risks associated with changes in interest rates than we would otherwise bear.

22

We may fail to qualify as a REIT and be subject to tax.

If we are compelled to sell qualifying REIT assets, or we have insufficient cash flow to originate or purchase qualifying REIT assets, we may have insufficient qualifying REIT assets, in which case we may fail to qualify as a REIT.

To qualify as a REIT, we must satisfy the requirements discussed in Item 1 of this report, "Business--Certain Federal Income Tax Considerations," including the requirement that not more than 20% of the value of our total assets may be represented by the securities of one or more TRSs at the close of any calendar quarter, subject to certain "cure" periods. We monitor the value of our investment in our TRSs in relation to our other assets to comply with the 20% asset test. We may not be successful in that effort. In certain cases, we may need to borrow from third parties to acquire additional qualifying REIT assets or increase the amount and frequency of dividends from our TRSs in order to comply with the 20% asset test. Moreover, the Internal Revenue Service may disagree with our determinations of value. If the Internal Revenue Service determines that the value of our investment in our TRSs was more than 20% of the value of our total assets at the close of any calendar quarter, we could lose our REIT status.

Our TRSs earn income from activities that are prohibited for REITs and owe income taxes on the taxable income from these activities. For example, our TRSs earn income from loan origination and sales activities, as well as from other origination and servicing functions, which would generally not be qualifying income for purposes of the gross income tests applicable to REITs or might otherwise be subject to adverse tax liability if the income were generated by a REIT.

We may, at some point in the future, borrow funds from one or more of our TRSs. Although any such intercompany borrowings will be structured so as to constitute indebtedness for all tax purposes, the Internal Revenue Service may challenge such arrangements, in which case the borrowing may be characterized as a dividend distribution to us by our TRS. Any such characterization may cause us to fail one or more of the REIT requirements.

Even if we continue to qualify as a REIT, we may nevertheless be subject to taxes (and possibly excise taxes) on undistributed income, net income from certain prohibited transactions (including certain transactions between us and our TRSs), and state and local taxes. Prohibited transactions could include transactions in which loans are sold by our QRS rather than by our TRSs. In addition, in the event that any transactions between us or our QRS and our TRSs are determined not to be on an arm's-length basis, we could be subject to excise taxes on such transactions. We believe that all such transactions are conducted on an arm's-length basis, but the Internal Revenue Service may successfully contest the arm's-length nature of such transactions and we may not otherwise be able to avoid application of excise taxes or other additional taxes. Any such taxes could affect our overall profitability and the amounts of distributions to our stockholders.

Our management has limited experience operating a REIT and our management's past experience may not be sufficient to successfully manage our business as a REIT.

The requirements for qualifying as a REIT are highly technical and complex. We have limited experience as a REIT and our management has limited experience in complying with the income, asset and other limitations imposed by the REIT provisions of the Code. The REIT provisions are complex and the failure to comply with those provisions in a timely manner could prevent us from qualifying as a REIT or could force us to pay unexpected taxes and penalties. In such event, our net income would be substantially reduced, and we could incur a loss, which could materially harm our results of operation, financial condition and business prospects.

Risks Related to Our Capital Stock

Various factors may cause the market price of our capital stock to become volatile, which could harm our ability to access the capital markets in the future.

The following factors, many of which are beyond our control, could contribute to the volatility of the price of our capital stock:

- all of the risk factors described in this report;
- actual or anticipated variations in our quarterly results;
- changes in our level of dividend payments;
- changes in the value of our mortgage holdings and related liabilities;
- changes in the prospects for, or results from, our mortgage holdings, mortgage origination or mortgage servicing businesses;
- new products or services offered by us or our subsidiaries and our competitors;

- our actual results being different from our earnings guidance or other projections;
- changes in projections of our financial results by securities analysts;
- general conditions or trends in the mortgage holding, mortgage origination and mortgage servicing businesses;
- announcements by us of significant acquisitions, strategic relationships, investments or joint ventures;
- negative changes in the public's perception of the prospects for returns from holding mortgage assets and from the mortgage origination and servicing businesses, which could depress our stock price, regardless of actual results;
- interest rate fluctuations or general economic conditions, such as inflation or a recession;
- any obstacles in continuing to qualify as a REIT, including obstacles due to changes in law applicable to REITs;
- additions or departures of our key personnel; and
- issuing new securities.

This volatility may make it difficult for us to access the capital markets through additional secondary offerings of our common stock and additional preferred stock offerings, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet our obligations, which could, in turn, harm our results of operations, financial condition and business prospects.

There may be substantial sales of our common stock after an offering, which would cause a decline in our stock price.

Sales of substantial amounts of our common stock in the public market following an offering of our securities, or the perception that such sales could occur, could have a material adverse effect on the market price of our common stock.

The amount of our dividends may be less than projected.

The amount of any dividend paid by us will depend on a number of factors, including the amount of income generated from our mortgage holdings, the amount of income generated from our mortgage origination and servicing businesses and the amount of such earnings retained by our TRSs to provide for future growth.

Our ability to pay our dividends depends upon the availability of funds and our actual operating results. If funds are not available or our actual operating results are below our expectations, we may need to sell assets or borrow funds to pay these distributions.

Dividends or distributions on shares of our securities may reduce the funds of our company that are legally available for payment of future dividends on any outstanding common or preferred stock. In addition, if we do not generate sufficient cash flow from ongoing operations (including principal payments and interest payments on our mortgage-backed securities) to fund our dividends, we may need to sell mortgage-backed securities or borrow funds by entering into repurchase agreements or otherwise borrowing funds under our lines of credit to pay the distributions. If we were to borrow funds on a regular basis to make distributions in excess of operating cash flow, it is likely that our operating results and our stock price would be adversely affected.

Our Board of Directors may authorize the issuance of additional shares that may cause dilution and may depress the price of our common stock.

Our charter permits our Board of Directors, without stockholder approval, to:

- authorize the issuance of additional common or preferred stock in connection with future equity offerings, acquisitions of securities or other assets of companies; and

- classify or reclassify any unissued common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares, including the issuance of shares of preferred stock that have preference rights over the common stock with respect to dividends, liquidation, voting and other matters or shares of common stock that have preference rights over our common stock with respect to voting.

The issuance of additional shares of our common stock could be substantially dilutive to our outstanding shares and may depress the price of our common stock.

Due to an exception to the stock ownership limitations applicable to our status as a REIT, our Chief Executive Officer and President holds a significant percentage of our outstanding securities.

Under our charter, the Company's founder, our Chief Executive Officer and President, Michael Strauss, is exempted from the general ownership limitation that applies to holders of our securities in connection with maintaining our status as a REIT and is permitted to beneficially own up to 20% of the value of the total number of our outstanding common and preferred shares of stock. As of December 31, 2005, Mr. Strauss beneficially owned approximately 9.2% of our outstanding common stock. Accordingly, Mr. Strauss has the ability to influence any of our affairs requiring stockholder approval, including, for example, the election and removal of directors, amendments to our charter and approval of significant corporate transactions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices and principal administrative offices occupy approximately 177,000 square feet located at 538 Broadhollow Road, Melville, New York 11747, an office building that we purchased on November 25, 2003.

In addition, we own an office building located at 950 North Elmhurst Road, Mt. Prospect, Illinois 60056, which consists of approximately 35,700 square feet, and which serves as the headquarters for our Eastern Retail Sales Division.

As of December 31, 2005, the Company leased real estate premises at an additional 518 locations in 46 states, ranging in size from 100 to 39,810 square feet with remaining lease terms ranging from one month to six years. The aggregate annual rent for these locations is approximately $28.5 million.

ITEM 3. 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

As previously reported in our current report on Form 8-K dated June 21, 2004 and our quarterly report on Form 10-Q for the quarter ended June 30, 2004, in June of 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 of 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. While the amount of any potential settlement is not known at this time, the Company does not expect that such amount will materially affect its financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matter to a vote of our security holders during the quarter ended December 31, 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NYSE under the symbol "AHM" and began trading on the NYSE on December 4, 2003. Our trading symbol on the NYSE has been "AHM" since June 1, 2004. From December 4, 2003, until June 1, 2004, our common stock traded on the NYSE under the symbol "AHH."

The following table shows the high, low and closing sales prices for our common stock during each fiscal quarter during the years ended December 31, 2005 and 2004 and the cash distributions per share declared during each such period:

	Stock Prices			Cash Distrib
	High	Low	Close	Declared Per
Year Ended December 31, 2005				
Fourth Quarter	$ 33.98	$ 25.45	$ 32.57	$
Third Quarter	40.75	28.45	30.30	
Second Quarter	36.92	26.87	34.96	
First Quarter	34.28	26.80	28.64	
Year Ended December 31, 2004				
Fourth Quarter	$ 34.50	$ 25.00	$ 34.25	$

Third Quarter	29.61	24.90	27.95
Second Quarter	29.15	21.80	25.93
First Quarter	28.85	21.10	28.80

As of March 15, 2006, the closing sales price of our common stock, as reported on the NYSE, was $28.99. As of March 10, 2006, there were 260 holders of record of our common stock.

Dividends are payable on the last calendar day of each January, April, July and October (or, if such date is not a business day, the next succeeding business day) on our Series A Preferred Stock and Series B Preferred Stock. The Series A Preferred Stock and Series B Preferred Stock rank senior to our common stock with respect to dividend rights, redemption rights and rights upon our voluntary or involuntary liquidation, dissolution or winding up. The terms of the Series A Preferred Stock and Series B Preferred Stock require that all accumulated dividends in arrears be paid prior to the payment of any dividends on our common stock.

To maintain our qualification as a REIT, we intend to make regular quarterly distributions to our stockholders. In order to qualify as a REIT for federal income tax purposes, we must distribute to our stockholders with respect to each year at least 90% of our taxable income. Although we generally intend to distribute to our stockholders each year an amount equal to our taxable income for that year, distributions paid by us will be at the discretion of our Board of Directors and will depend on, among other things, our actual cash flow, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code, as well as any other factors that our Board of Directors deems relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans as of December 31, 2005 is disclosed in Item 12 of this report, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Recent Issuances of Unregistered Securities

During the quarter ended December 31, 2005, the Company did not issue any securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act").

Issuer Purchases of Equity Securities

During the quarter ended December 31, 2005, there were no purchases by the Company of its equity securities.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 have been derived from our audited consolidated financial statements, beginning on page F-1 of this report. The selected financial data as of December 31, 2003 and 2002 and for the years ended December 31, 2002 and 2001 have been derived from prior year audited consolidated financial statements. The selected consolidated financial data as of and for each of the years in the two-year period ended December 31, 2002 is derived from the consolidated financial statements of AHM Holdings. These consolidated financial statements include all adjustments which we consider necessary for a fair presentation of our consolidated financial position and results of operations for these periods. You should not assume that the results below indicate results that we will achieve in the future. The operating data are derived from unaudited financial information that we compiled.

You should read the information below along with all the other financial information and analysis presented in this report, including, but not limited to, our financial statements and related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

27

(In thousands, except per share and operating data)	As of and for the Years End		
	2005	2004	2003
Statement of Income Data:			
Net interest income	$ 201,032	$ 112,933	$ 49,031
Provision for loan losses	(2,142)	-	-
Gain on sales of mortgage loans	335,065	134,099	376,605
Gain on sales of current period securitized mortgage loans	194,256	40,120	149
Gain on sales of mortgage-backed securities and derivatives	50,936	63	2,210
Unrealized (loss) gain on mortgage-backed securities and derivatives	(8,536)	75,460	3,272
Net loan servicing fees (loss)	15,561	(4,467)	(6,365)
Total revenues (1)	793,947	365,241	432,131
Total non-interest expenses	550,882	315,904	310,114
Income before income tax (benefit) expense	243,065	49,337	122,017
Income tax (benefit) expense	(17,721)	(25,575)	48,223
Net income	260,786	74,912	73,794
Net income available to common shareholders	247,569	70,924	73,794
Per share data:			
Basic earnings per share	$ 5.64	$ 1.89	$ 4.16
Diluted earnings per share	5.58	1.86	4.07
Dividends declared per share	3.24	2.43	0.91
Weighted average number of shares outstanding:			
Basic	43,897	37,612	17,727
Diluted	44,375	38,087	18,113
Balance Sheet Data (end of period):			
Cash and cash equivalents	$ 575,650	$ 192,821	$ 53,148
Mortgage-backed securities	10,602,104	6,016,866	1,763,628
Mortgage loans held for sale, net	2,208,749	4,853,394	1,216,353
Mortgage loans held for investment, net	3,479,721	-	-
Mortgage servicing rights, net	319,671	151,436	117,784
Total assets	17,754,745	11,555,797	3,404,690
Warehouse lines of credit	3,474,191	735,783	1,121,760

Commercial paper	1,079,179	529,790	-
Reverse repurchase agreements	9,806,144	7,071,168	1,344,327
Collateralized debt obligations	1,057,906	2,022,218	-
Total liabilities	16,547,729	10,729,535	3,006,720
Total stockholders' equity	1,207,016	826,262	397,970
Ratios:			
Return on average common equity (2)	28.05%	10.42%	34.11%
Debt to equity ratio (3)	13.22	12.73	6.51
Operating Data:			
Loan originations	$ 45,298,006	$ 23,069,085	$ 21,705,250
Retail	20,362,095	11,238,235	16,386,791
Wholesale	24,298,621	11,830,850	5,318,459
Correspondent	637,290	-	-
Loans sold to third parties	28,465,935	13,685,246	20,758,110
Loan servicing portfolio - loans sold or securitized	25,044,676	11,955,608	8,272,294
Loans securitized and held	4,498,672	1,847,987	586,573

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(1) Total revenues consist of net interest income, provision for loan losses and non-interest income.

(2) This measure is calculated by dividing net income available to common shareholders by the average common stockholders' equity outstanding during the year expressed as a percentage.

(3) This ratio is calculated by dividing debt, which is comprised of reverse repurchase agreements, collateralized debt obligations, warehouse lines of credit, commercial paper and other borrowings, by stockholders' equity.

28

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 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 in 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 Loans Held for Investment - Mortgage loans held for investment are carried at the aggregate of their remaining unpaid principal balances, plus net deferred origination costs, less any related charge-offs and allowance for loan losses. Our periodic evaluation of the adequacy of the allowance for loan losses is based on our past loan loss experience, known and inherent risks in the loan portfolio, adverse circumstances which may affect the borrowers' ability to repay, the estimated value of the underlying real estate collateral and current market conditions within the geographic areas surrounding the underlying real estate. The allowance for loan losses is increased by provision to loan losses charged to income and reduced by charge-offs, net of recoveries.

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 fair value 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 and have locked their terms and rates. 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 March 31, 2004 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 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 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 mortgage-backed securities and certain ARM loans. 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 by 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 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.

Financial Condition

The following table presents the Company's consolidated balance sheets as of December 31, 2005 and 2004:

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2005	December 31, 2004
Assets:		
Cash and cash equivalents	$ 575,650	$ 192,821
Accounts receivable and servicing advances	329,132	116,978
Mortgage-backed securities	10,602,104	6,016,866
Mortgage loans held for sale, net	2,208,749	4,853,394
Mortgage loans held for investment, net	3,479,721	-
Derivative assets	44,594	24,803
Mortgage servicing rights, net	319,671	151,436
Premises and equipment, net	68,782	51,576
Goodwill	99,527	90,877
Other assets	26,815	57,046
Total assets	$ 17,754,745	$ 11,555,797
Liabilities and Stockholders' Equity:		
Liabilities:		
Warehouse lines of credit	$ 3,474,191	$ 735,783
Drafts payable	20,754	26,200
Commercial paper	1,079,179	529,790
Reverse repurchase agreements	9,806,144	7,071,168
Payable for securities purchased	261,539	-
Collateralized debt obligations	1,057,906	2,022,218
Derivative liabilities	16,773	1,860
Trust preferred securities	203,688	-
Accrued expenses and other liabilities	277,476	152,413
Notes payable	319,309	135,761
Income taxes payable	30,770	54,342
Total liabilities	16,547,729	10,729,535
Stockholders' Equity:		
Preferred stock	134,040	134,040
Common stock	496	403
Additional paid-in capital	947,512	631,530
Retained earnings	203,778	99,628
Accumulated other comprehensive loss	(78,810)	(39,339)
Total stockholders' equity	1,207,016	826,262
Total liabilities and stockholders' equity	$ 17,754,745	$ 11,555,797

31

Total assets at December 31, 2005 were $17.8 billion, a $6.2 billion increase from $11.6 billion at December 31, 2004. The increase in total assets primarily reflects an increase in mortgage-backed securities of $4.6 billion and an increase in mortgage loans held for investment of $3.5 billion, partly offset by a decrease in mortgage loans held for sale of $2.6 billion. Through the third quarter of 2005, we securitized a substantial portion of our mortgage loans held for sale each quarter and had intended for each of these transactions to qualify as a sale under Statement of Financial Accounting Standards ("SFAS") 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. 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 December 31, 2005, 59.7% of our total assets were mortgage-backed securities, 19.6% were mortgage loans held for investment and 12.4% were mortgage loans held for sale, compared to 52.1%, 0.0% and 42.0%, respectively, at December 31, 2004.

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

	December 31, 2005			
	Trading Securities		Securities Available for Sal	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mi
	(Dollars in thousands)			
Agency securities	$ -	-%	$ 130,320	1.
Privately issued:				
AAA	2,619,546	81.1	7,216,527	97.
AA	47,253	1.5	9,989	0.
A	166,507	5.2	7,558	0.
BBB	164,344	5.1	3,441	0.
Unrated	229,418	7.1	7,201	0.
Total	$ 3,227,068	100.0%	$ 7,375,036	100.

	December 31, 2004			
	Trading Securities		Securities Available for Sal	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mi
	(Dollars in thousands)			
Agency securities	$ -	-%	$ 612,513	14.
Privately issued:				
AAA	1,634,702	90.6	3,542,772	84.
AA	-	-	16,043	0.

A	58,480	3.2	15,750	0.
BBB	58,153	3.2	7,910	0.
Unrated	54,591	3.0	15,952	0.
Total	$ 1,805,926	100.0%	$ 4,210,940	100.

The following table classifies our mortgage-backed securities portfolio by type of interest rate index at December 31, 2005 and 2004:

	December 31, 2005			
	Trading Securities		Securities Available for Sal	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mi
			(Dollars in thousands)	
Index:				
One-month LIBOR	$ 402,311	12.5%	$ 10,836	0.
Six-month LIBOR	2,538,016	78.6	4,838,532	65.
One-year LIBOR	218,530	6.8	2,128,376	28.
One-year constant maturity treasury	2,054	0.1	397,292	5.
One-year monthly treasury average	66,157	2.0	-	
Total	$ 3,227,068	100.0%	$ 7,375,036	100.

	December 31, 2004			
	Trading Securities		Securities Available for Sal	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mi
			(Dollars in thousands)	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mi
Index:				
One-month LIBOR	$ 86,199	4.8%	$ 114,149	2.
Six-month LIBOR	829,413	45.9	2,385,582	56.
One-year LIBOR	890,314	49.3	1,231,392	29.
One-year constant maturity treasury	-	-	479,817	11.
Total	$ 1,805,926	100.0%	$ 4,210,940	100.

The following table classifies our mortgage loans held for investment and mortgage-backed securities portfolio by product type at December 31, 2005 and 2004:

	December 31, 20				
	Trading Securities		Securities Available for Sale		
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carr
	(Dollars in thousa				
Product:					
ARMs less than 3 years	$ 700,164	21.7%	$ 487,122	6.6%	$
3/1 Hybrid ARM	194,313	6.0	262,598	3.6	
5/1 Hybrid ARM	2,332,591	72.3	6,625,316	89.8	
Home equity/Second	-	-	-	-	
Other	-	-	-	-	
Total	$ 3,227,068	100.0%	$ 7,375,036	100.0%	$

	Total	
	Carrying Value	Portfolio Mix
Product:		
ARMs less than 3 years	$ 3,816,263	27.1%
3/1 Hybrid ARM	468,474	3.3
5/1 Hybrid ARM	9,079,134	64.5
Home equity/Second	611,370	4.3
Other	106,584	0.8
Total	$ 14,081,825	100.0%

	December 31, 2004			
	Trading Securities		Securities Available for Sal	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mi
	(Dollars in thousands)			
Product:				
ARMs less than 3 years	$ 149,040	8.3%	$ 954,794	22.
3/1 Hybrid ARM	381,831	21.1	488,696	11.
5/1 Hybrid ARM	1,275,055	70.6	2,767,450	65.
Total	$ 1,805,926	100.0%	$ 4,210,940	100.

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During the year ended December 31, 2005, we purchased $6.8 billion of mortgage-backed securities and added $4.4 billion of self-originated mortgage-backed securities to our portfolio.

During the year ended December 31, 2005, we sold $4.1 billion of mortgage-backed securities.

During the year ended December 31, 2005, we added $3.5 billion of loans held for investment to our portfolio.

Results of Operations

The following tables present our consolidated and segment statements of income for the years ended December 31, 2005, 2004 and 2003:

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

	Year Ended December 31,		
	2005	2004	2003
Net interest income:			
Interest income	$ 727,685	$ 314,306	$ 106,017
Interest expense	(526,653)	(201,373)	(56,986
Net interest income	201,032	112,933	49,031
Provision for loan losses	(2,142)	-	-
Net interest income after provision for loan losses	198,890	112,933	49,031
Non-interest income:			
Gain on sales of mortgage loans	335,065	134,099	376,605
Gain on sales of current period securitized mortgage loans	194,256	40,120	149
Gain on sales of mortgage-backed securities and derivatives	50,936	63	2,210
Unrealized (loss) gain on mortgage-backed securities and derivatives	(8,536)	75,460	3,272
Loan servicing fees	76,096	40,571	39,125
Amortization	(51,767)	(32,615)	(51,824
Impairment reserve (provision) recovery	(8,768)	(12,423)	6,334
Net loan servicing fees (loss)	15,561	(4,467)	(6,365
Other non-interest income	7,775	7,033	7,229
Non-interest income	595,057	252,308	383,100

Non-interest expenses:			
	359,949	189,393	204,939
Salaries, commissions and benefits, net	58,855	37,642	27,015
Occupancy and equipment	24,788	16,165	13,201
Data processing and communications	19,722	13,730	13,312
Office supplies and expenses	20,311	10,409	12,239
Marketing and promotion	21,007	14,190	9,964
Travel and entertainment	14,232	12,159	7,547
Professional fees	32,018	22,216	21,897
Other			
Non-interest expenses	550,882	315,904	310,114
Net income before income tax (benefit) expense	243,065	49,337	122,017
Income tax (benefit) expense	(17,721)	(25,575)	48,223
Net income	$ 260,786	$ 74,912	$ 73,794
Dividends on preferred stock	13,217	3,988	-
Net income available to common shareholders	$ 247,569	$ 70,924	$ 73,794
Per share data:			
Basic	$ 5.64	$ 1.89	$ 4.16
Diluted	$ 5.58	$ 1.86	$ 4.07
Weighted average number of shares - basic	43,897	37,612	17,727
Weighted average number of shares - diluted	44,375	38,087	18,113

35

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
MORTGAGE HOLDINGS SEGMENT

(In thousands)

	Year Ended December 31,		
	2005	2004	2003
Net interest income:			
Interest income	$ 357,920	$ 191,563	$ 3,108
Interest expense	(262,403)	(124,397)	(2,302)
Net interest income	95,517	67,166	806
Provision for loan losses	(947)	-	-

Net interest income after provision for loan losses	94,570	67,166	806
Non-interest income:			
Gain on sales of mortgage loans	-	-	-
Gain on sales of current period securitized mortgage loans	-	-	-
Gain on sales of mortgage-backed securities and derivatives	37,383	3,459	2,210
Unrealized (loss) gain on mortgage-backed securities and derivatives	(85,778)	7,679	381
Loan servicing fees	-	-	-
Amortization	-	-	-
Impairment reserve (provision) recovery	-	-	-
Net loan servicing fees (loss)	-	-	-
Other non-interest income	-	-	-
Non-interest income	(48,395)	11,138	2,591
Non-interest expenses:			
Salaries, commissions and benefits, net	7,576	229	-
Occupancy and equipment	6	7	-
Data processing and communications	114	15	-
Office supplies and expenses	5	-	-
Marketing and promotion	2	2	-
Travel and entertainment	5	3	-
Professional fees	3,050	3,653	-
Other	(1,854)	24,900	-
Non-interest expenses	8,904	28,809	-
Net income before income tax (benefit) expense	37,271	49,495	3,397
Income tax (benefit) expense	-	-	-
Net income	$ 37,271	$ 49,495	$ 3,397
Dividends on preferred stock	13,217	3,988	-
Net income available to common shareholders	$ 24,054	$ 45,507	$ 3,397

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
LOAN ORIGINATION SEGMENT

(In thousands)

	Year Ended December 31,		
	2005	2004	2003
Net interest income:			
Interest income	$ 369,765	$ 122,743	$ 102,921
Interest expense	(257,062)	(73,071)	(54,869)
Net interest income	112,703	49,672	48,052
Provision for loan losses	(1,195)	-	-
Net interest income after provision for loan losses	111,508	49,672	48,052
Non-interest income:			
Gain on sales of mortgage loans	335,065	134,099	376,605
Gain on sales of current period securitized mortgage loans	194,256	40,120	149
Gain (loss) on sales of mortgage-backed securities and derivatives	13,553	(3,396)	-
Unrealized gain on mortgage-backed securities and derivatives	77,242	67,781	2,891
Loan servicing fees	-	-	-
Amortization	-	-	-
Impairment reserve (provision) recovery	-	-	-
Net loan servicing fees (loss)	-	-	-
Other non-interest income	5,203	7,030	7,229
Non-interest income	625,319	245,634	386,874
Non-interest expenses:			
Salaries, commissions and benefits, net	340,492	184,163	201,454
Occupancy and equipment	57,654	37,110	26,609
Data processing and communications	24,113	15,877	13,102
Office supplies and expenses	18,131	12,685	12,082
Marketing and promotion	20,213	10,398	12,225
Travel and entertainment	20,547	14,042	9,926
Professional fees	10,329	7,855	6,693
Other	26,495	(5,767)	19,881
Non-interest expenses	517,974	276,363	301,972
Net income before income tax (benefit) expense	218,853	18,943	132,954
Income tax (benefit) expense	(12,470)	(16,941)	54,100
Net income	$ 231,323	$ 35,884	$ 78,854
Dividends on preferred stock	-	-	-

Net income available to common shareholders	$ 231,323	$ 35,884	$ 78,854

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
LOAN SERVICING SEGMENT

(In thousands)

	Year Ended December 31,		
	2005	2004	2003
Net interest income:			
Interest income	$ -	$ -	$ (12)
Interest expense	(7,188)	(3,905)	185
Net interest income	(7,188)	(3,905)	173
Provision for loan losses	-	-	-
Net interest income after provision for loan losses	(7,188)	(3,905)	173
Non-interest income:			
Gain on sales of mortgage loans	-	-	-
Gain on sales of current period securitized mortgage loans	-	-	-
Gain on sales of mortgage-backed securities and derivatives	-	-	-
Unrealized (loss) gain on mortgage-backed securities and derivatives	-	-	-
Loan servicing fees	76,096	40,571	39,125
Amortization	(51,767)	(32,615)	(51,824)
Impairment reserve (provision) recovery	(8,768)	(12,423)	6,334
Net loan servicing fees (loss)	15,561	(4,467)	(6,365)
Other non-interest income	2,572	3	-
Non-interest income	18,133	(4,464)	(6,365)
Non-interest expenses:			
Salaries, commissions and benefits, net	11,881	5,001	3,485
Occupancy and equipment	1,195	525	406
Data processing and communications	561	273	99
Office supplies and expenses	1,586	1,045	1,230
Marketing and promotion	96	9	14
Travel and entertainment	455	145	38
Professional fees	853	651	854
Other	7,377	3,083	2,016

Non-interest expenses	24,004	10,732	8,142
Net income before income tax benefit	(13,059)	(19,101)	(14,334)
Income tax benefit	(5,251)	(8,634)	(5,877)
Net income	$ (7,808)	$ (10,467)	$ (8,457)
Dividends on preferred stock	-	-	-
Net income available to common shareholders	$ (7,808)	$ (10,467)	$ (8,457)

38

Comparison of the Years Ended December 31, 2005 and 2004

Overview

Net income for the year ended December 31, 2005 was $260.8 million compared to $74.9 million for the year ended December 31, 2004, an increase of $185.9 million, or 248.1%. Net income for the year ended December 31, 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 $342.7 million increase in non-interest income and an $88.1 million increase in net interest income, partly offset by a $235.0 million increase in non-interest expenses, a $7.8 million decrease in income tax benefit and a $2.1 million increase in provision for loan losses. The $342.7 million increase in non-interest income consists of a $201.0 million increase in gain on sales of mortgage loans, a $154.1 million increase in gain on sales of current period securitized mortgage loans, a $20.0 million increase in net loan servicing fees and a $0.7 million increase in other non-interest income, partly offset by a $33.1 million decrease in realized and unrealized gains on mortgage-backed securities and derivatives in the year ended December 31, 2005 versus the year ended December 31, 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 year ended December 31, 2005 compared to the year ended December 31, 2004:

(Dollars in thousands)	Year Ended December 31,				
	2005			2004	
	Average Balance	Interest	Average Yield/Cost	Average Balance	Intere

Interest earning assets:					
Mortgage-backed securities, net (1)	$ 7,329,458	$343,839	4.69%	$ 5,268,631	$191,5
Mortgage loans held for sale	5,698,155	351,650	6.17%	2,289,517	122,7
Mortgage loans held for investment	626,296	32,196	5.14%	-	
	13,653,909	727,685	5.33%	7,558,148	314,3
Interest bearing liabilities:					
Warehouse lines of credit (2)	2,863,982	147,339	5.14%	1,349,435	53,6
Commercial paper	2,160,859	76,993	3.56%	744,335	16,5
Reverse repurchase agreements (3)	7,184,534	260,423	3.62%	4,976,437	124,6
Collateralized debt obligations	706,355	26,485	3.75%	56,207	1,7
Trust preferred securities	65,836	5,029	7.64%	-	
Notes payable	213,935	10,384	4.85%	118,592	4,7
	13,195,501	526,653	3.99%	7,245,006	201,3
Net interest income		$201,032			$112,9
Interest rate spread			1.34%		
Net interest margin			1.47%		

(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 $12.8 million of net interest expense on interest rate swap agreements for 2005 and 2004, respectively.

(3) Includes $17.2 million and $41.3 million of net interest expense on interest rate swap agreements for 2005 and 2004, 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 year ended December 31, 2005 compared to the year ended December 31, 2004:

(In thousands)	Year Ended December 31, 2005 Compared to Year Ended December 31, 2004		
	Average Rate	Average Volume	Total
Mortgage-backed securities, net	$ 64,862	$ 87,414	$152,276
Mortgage loans held for sale	21,095	207,812	228,907
Mortgage loans held for investment	-	32,196	32,196
Interest income	85,957	327,422	413,379
Warehouse lines of credit	19,447	74,242	93,689
Commercial paper	14,552	45,900	60,452
Reverse repurchase agreements	68,165	67,621	135,786
Collateralized debt obligations	394	24,316	24,710

Trust preferred securities	-	5,029	5,029
Notes payable	1,148	4,466	5,614
Interest expense	103,706	221,574	325,280
Net interest income	$ (17,749)	$105,848	$ 88,099

Interest Income: Interest income on mortgage-backed securities for the year ended December 31, 2005 was $343.8 million, compared to $191.5 million for the year ended December 31, 2004, a $152.3 million, or 79.5%, 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 year ended December 31, 2005 was $351.6 million compared to $122.7 million for the year ended December 31, 2004, an increase of $228.9 million, or 186.5%. The increase in interest income on mortgage 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.

For the year ended December 31, 2005, we recognized $32.2 million of interest income on loans held for investment, related to our strategy of holding certain loans in our investment portfolio beginning in June of 2005.

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 year ended December 31, 2005 was $147.3 million, compared to interest expense for the year ended December 31, 2004 of $53.6 million, a $93.7 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. Interest expense on commercial paper for the year ended December 31, 2005 was $77.0 million versus $16.5 million for the year ended December 31, 2004, a $60.5 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.

As of December 31, 2005, we have entered into reverse repurchase agreements, a form of collateralized short-term borrowing, with fourteen different financial institutions and had borrowed funds from nine of these counterparties. We borrow funds under these arrangements based on the fair value of our mortgage-backed securities and loans held for investment. Total interest

expense on reverse repurchase agreements for the year ended December 31, 2005 was $260.4 million, compared to interest expense for the year ended December 31, 2004 of $124.6 million, a $135.8 million increase. The increase in reverse repurchase agreements interest expense in 2005 versus 2004 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 borrowings used to fund the growth of our mortgage-backed securities and loans held for investment portfolio.

Total interest expense on collateralized debt obligations for the year ended December 31, 2005 was $26.5 million, compared to interest expense for the year ended December 31, 2004 of $1.8 million, a $24.7 million increase. The increase in collateralized debt obligation interest expense in 2005 versus 2004 was related to accounting for the Q4-04 Securitization as a financing for most of the first quarter of 2005 and an increase in borrowings used to fund the growth of our loans held for investment portfolio in the fourth quarter of 2005.

Gain on Mortgage Loans, Mortgage-Backed Securities and Derivatives

Gain on Sales and Securitizations of Mortgage Loans: During the year ended December 31, 2005, gain on sales and securitizations of mortgage loans in our Loan Origination segment totaled $620.1 million, or 1.41%, of mortgage loans sold or securitized compared to $238.6 million, or 1.23%, of mortgage loans sold or securitized during the year ended December 31, 2004. The increase primarily reflects a $24.6 billion increase in mortgage loans sold or securitized to $44.1 billion in 2005 from $19.5 billion in 2004. The 2005 period includes $43.4 million recognized in connection with the Q4-04 Securitization. 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 years ended December 31, 2005 and 2004:

Gains on Sales and Securitizations of Mortgage Loans

	Year Ended
	2005
(Dollars in thousands)	
Gain on sales of mortgage loans	$ 335,065
Gain on sales of current period securitized mortgage loans	194,256
Gain (loss) on sales of free standing derivatives	13,553
Unrealized gain on self-originated mortgage-backed securities retained in period	72,806
Unrealized gain on free standing derivatives	4,436
Total gain on sales and securitizations of mortgage loans	$ 620,116
Total mortgage loans sold or securitized	$ 44,115,641
Total gain on sales and securitizations of mortgage loans as a % of total mortgage loans sold or securitized	1.41%

Portfolio Gains and Losses: During the year ended December 31, 2005, portfolio gains and losses in our Mortgage Holdings segment were a portfolio loss of $48.4 million compared to a portfolio gain of $11.1 million during the year ended December 31, 2004. The decrease in portfolio gains in 2005 compared to 2004 was the result of a $93.4 million net decrease in unrealized gain on mortgage-backed securities and free standing derivatives partly offset by a $33.9 million increase in gain on sales of mortgage-backed securities.

The following table presents the components of portfolio gains and losses in our Mortgage Holdings segment during the years ended December 31, 2005 and 2004:

Portfolio Gains and Losses

	Year
	2005
(In thousands)	
Gain on sales of mortgage-backed securities	$ 37
Unrealized loss on mortgage-backed securities	(117
Unrealized gain on free standing derivatives	32
Net unrealized (loss) gain on mortgage-backed securities and free standing derivatives	(85
Total portfolio (loss) gain	$ (48

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

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

	Year Ended December 31,	
	2005	2004
(In thousands)		
Gain on sales of mortgage-backed securities	$ 37,383	$ 3,459
Gain (loss) on sales of free standing derivatives	13,553	(3,396)
Gain on sales of mortgage-backed securities and derivatives	$ 50,936	$ 63

The following table presents the components of unrealized gains and losses on mortgage-backed securities and derivatives shown in our consolidated statements of income:

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

	Year Ended December 31,	
	2005	2004
(In thousands)		

Unrealized gain on self-originated mortgage-backed securities retained in period	$ 72,806	$ 67,781
Unrealized loss on mortgage-backed securities	(117,931)	(23,042)
Unrealized gain on free standing derivatives	36,589	30,721
Unrealized (loss) gain on mortgage-backed securities and derivatives	$ (8,536)	$ 75,460

Net Loan Servicing Fees

Net loan servicing fees were $15.6 million for the year ended December 31, 2005 compared to a loss of $4.5 million for the year ended December 31, 2004.

Loan Servicing Fees: Loan servicing fees increased to $76.1 million for the year ended December 31, 2005 from $40.6 million for the year ended December 31, 2004, an increase of $35.5 million, or 87.6%. Included in loan servicing fees are gains on Ginnie Mae early buy-out sales of $1.3 million for the year ended December 31, 2005 compared to $4.5 million for the year ended December 31, 2004, a decrease of $3.2 million, or 70.6%. This decrease partly offset the increase in loan servicing fees in 2005 versus 2004, as a result of an increase in loans serviced for others.

Amortization of MSRs: Amortization of MSRs increased to $51.8 million for the year ended December 31, 2005 from $32.6 million for the year ended December 31, 2004, an increase of $19.2 million, or 58.7%. The increase in amortization was due to a higher average servicing portfolio in 2005 versus 2004.

Impairment Provision of MSRs: We recognized a temporary impairment provision of $8.8 million for the year ended December 31, 2005 versus a temporary impairment provision of $12.4 million for the year ended December 31, 2004, resulting in an increase in net loan servicing fees of $3.6 million. The decrease in impairment provision in the year ended December 31, 2005 was due to higher interest rates, which resulted in a subsequent decrease in estimated future prepayment speeds versus the initial estimated future prepayment speeds used to value the MSR upon securitization.

The following table presents the net loan servicing fees (loss) for the years ended December 31, 2005 and 2004:

	Year Ended December 31,	
	2005	2004
(In thousands)		
Loan servicing fees	$ 76,096	$ 40,571
Amortization	(51,767)	(32,615)
Impairment reserve provision	(8,768)	(12,423)
Net loan servicing fees (loss)	$ 15,561	$ (4,467)

Other Non-Interest Income

Other non-interest income totaled $7.8 million for the year ended December 31, 2005, compared to $7.0 million for the year ended December 31, 2004. For the year ended December 31, 2005, other non-interest income primarily includes reinsurance premiums earned totaling approximately $4.3 million, rental income of $1.5 million and revenue from title services of $1.2 million. For the year ended December 31, 2004, other non-interest income primarily includes rental income of $2.1 million, reinsurance premiums earned totaling approximately $1.8 million, income from a legal settlement of $1.5 million, and revenue from title services of $1.0 million.

Non-Interest Expenses

Our non-interest expenses for the year ended December 31, 2005 were $550.9 million compared to $315.9 million for the year ended December 31, 2004, an increase of $235.0 million, or 74.4%. The increase primarily reflects a $241.6 million rise in our Loan Origination segment non-interest expenses to $518.0 million, or 1.14% of total loan originations in 2005, from $276.4 million, or 1.20% of total loan originations in 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 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 year ended December 31, 2005 were $359.9 million, compared to $189.3 million for the year ended December 31, 2004, an increase of $170.6 million, or 90.1%. The increase in expenses reflects higher origination volume and a resulting higher commission expense and higher salaries due to an increase in employees to 6,544 at December 31, 2005 from 4,730 at December 31, 2004.

Other Operating Expenses: Operating expenses, excluding salaries, commissions and benefits, were $190.9 million for the year ended December 31, 2005 compared to $126.5 million for the year ended December 31, 2004, an increase of $64.4 million, or 50.9%. The increase in operating expenses in 2005 versus 2004 includes a $21.2 million increase in occupancy and equipment expense, due to higher lease obligations and certain fixed asset expenses relating to the increased number of branches in the 2005 period.

Income Tax Benefit

A $17.7 million income tax benefit was recognized for the year ended December 31, 2005, compared to a benefit of $25.6 million for the year ended December 31, 2004. The decrease in income tax benefit in 2005 versus 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 year ended December 31, 2005 were $45.3 billion compared to $23.1 billion for the year ended December 31, 2004, a 96.4% increase. Mortgage brokers, through our wholesale loan production offices, accounted for 54% of our loan originations for the year ended December 31, 2005 compared to 51% for the year ended December 31, 2004. Originations conducted through our retail loan production offices and internet call center were 45% of our loan originations for the year ended December 31, 2005 compared to 49% for the year ended December 31, 2004. During the year ended December 31, 2005, 1% of our loan originations were purchased from correspondents.

Comparison of the Years Ended December 31, 2004 and 2003

Overview

Net income for the year ended December 31, 2004 was $74.9 million compared to $73.8 million for the year ended December 31, 2003, an increase of $1.1 million, or 1.5%. This increase was the result of a $73.8 million decrease in income tax expense and a $63.9 million increase in net interest income, partly offset by a $130.8 million decrease in non-interest income and a $5.8 million increase in non-interest expenses. The $130.8 million decrease in non-interest income consists of a $242.5 million decrease in gain on sales of mortgage loans which includes a $30.7 million reduction associated with the Company's adoption of SAB No. 105, and a $0.2 million decrease in other non-interest income, partly offset by a $70.0 million increase in realized and unrealized gains on mortgage-backed securities and derivatives, a $40.0 million increase in gain on securitizations of mortgage loans and a $1.9 million increase in net loan servicing fees in 2004 versus 2003.

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 year ended December 31, 2004 compared to the year ended December 31, 2003:

(Dollars in thousands)	Year Ended December 31,				
	2004			20	
	Average Balance	Interest	Average Yield/Cost	Average Balance	Inte
Interest earning assets:					
Mortgage-backed securities, net(1)	$5,268,631	$191,563	3.64%	$ 64,755	$ 2
Mortgage loans held for sale	2,289,517	122,743	5.36%	1,679,835	103
	7,558,148	314,306	4.16%	1,744,590	106
Interest bearing liabilities:					
Warehouse lines of credit(2)	1,349,435	53,650	3.98%	1,646,238	53
Commercial paper	744,335	16,541	2.22%	--	
Reverse repurchase agreements(3)	4,976,437	124,637	2.50%	47,051	
Collateralized debt obligations	56,207	1,775	3.16%	--	
Notes payable	118,592	4,770	4.02%	65,915	2
	7,245,006	201,373	2.78%	1,759,204	56

Net interest income	$112,933		$ 49	
Interest rate spread		1.38%		
Net interest margin		1.49%		

(1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.

(2) The 2004 period includes $12.8 million of net interest expense on interest rate swap agreements.

(3) The 2004 period includes $41.3 million of net interest expense on interest rate swap agreements.

45

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 year ended December 31, 2004 compared to the year ended December 31, 2003:

(In thousands)	Year Ended December 31, 2004 Compared to Year Ended December 31, 2003		
	Average Rate	Average Volume	Total
Mortgage-backed securities, net	$ 18	$ 189,208	$ 189,226
Mortgage loans held for sale	(14,937)	34,000	19,063
Interest income	(14,919)	223,208	208,289
Warehouse lines of credit	10,414	(10,670)	(256)
Commercial paper	--	16,541	16,541
Reverse repurchase agreements	1,022	122,985	124,007
Collateralized debt obligations	--	1,775	1,775
Notes payable	216	2,104	2,320
Interest expense	11,652	132,735	144,387
Net interest income	$(26,571)	$ 90,473	$ 63,902

Interest Income: Interest income on mortgage-backed securities for the year ended December 31, 2004 was $191.5 million, compared to $2.3 million for the year ended December 31, 2003, a $189.2 million increase. This increase reflects the commencement of our holding mortgage-backed securities for net interest income on December 3, 2003, as a result of the reorganization of the Company into a REIT and the merger with Apex Mortgage Capital, Inc.

Interest income on our mortgage loans held for sale for the year ended December 31, 2004 was $122.8 million, compared to $103.7 million for the year ended December 31, 2003, an increase of $19.1 million, or 18.4%. The increase in loans held for sale interest income was primarily the result of an increase in average volume, partly offset by a decrease in average rate in 2004 versus 2003.

Interest Expense: We fund our loan inventory primarily through borrowing facilities with several mortgage warehouse lenders and through a $2.0 billion SLN program in 2004. Interest expense on warehouse lines of credit for the year ended December 31, 2004 was $53.6 million, compared to interest expense for the year ended December 31, 2003 of $53.9 million, a $0.3 million decrease. The decrease in warehouse lines of credit interest expense was primarily the result of a decrease in average volume, partly offset by an increase in average rate in 2004 versus 2003. 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 year ended December 31, 2004 was $16.5 million. The increase in commercial paper interest expense was due to borrowings in the year ended December 31, 2004 used to fund our increased loan inventory.

We borrowed funds under reverse repurchase agreements, a form of collateralized short-term borrowing, with nine different financial institutions as of December 31, 2004. 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 year ended December 31, 2004 was $124.6 million, compared to interest expense for the year ended December 31, 2003 of $0.6 million, a $124.0 million increase. The increase in reverse repurchase agreements interest expense in 2004 versus 2003 was primarily the result of an increase in borrowings used to fund the growth of our mortgage-backed securities portfolio.

Gain on Mortgage Loans, Mortgage-Backed Securities and Derivatives

Gain on Sales of Mortgage Loans: Gain on sales of mortgage loans for the year ended December 31, 2004 totaled $134.1 million on non-securitized loans sales of $13.7 billion, compared to $376.6 million on loan sales of $20.8 billion for the year ended December 31, 2003. Prior to our conversion into a REIT in December 2003, our business strategy was to sell substantially all of the loans that we originated and recognize gain on sales of such loans. The decline in volume of loans sold in 2004 versus 2003 reflects our discontinued strategy of selling virtually all of the loans that we originated. The average gain on sale margin decreased to 0.98% in 2004 from 1.81% in 2003. The decline in average margin reflects higher broker fee expenses included as a reduction to gain on sale of loans as a result of the increased percentage of wholesale originations in 2004 versus the 2003 period. The change in fair value of IRLCs and mortgage loans held for sale included in gain on sales of mortgage loans in the year ended December 31, 2004 was reduced by $30.7 million, or 0.27% of non-securitized loan sales, on a pre-tax basis as a result of our adoption of SAB No. 105.

Gain on Securitizations of Mortgage Loans: Gain on securitizations of mortgage loans totaled $40.1 million during the year ended December 31, 2004 compared to $0.1 million during the year ended December 31, 2003. These gains reflect the gains that existed on the date of securitization of self-originated loans relating to the sale of resultant securities. We securitized loans totaling $9.3 billion during the year ended December 31, 2004, of which $1.9 billion were accounted for as sales, compared to $521.7 million of total securitized loans during the year ended December 31, 2003, of which $22.1 million were accounted for as sales. The increased volume of loans securitized in 2004 versus 2003 reflects our business strategy since our REIT conversion to securitize ARM loans that we originate. The remaining $7.4 billion of securitized loans in 2004 consists of $3.9 billion of mortgage-backed securities and $3.5 billion of mortgage loans collateralizing debt obligations created with the execution of securitization transactions.

Gain on Sales of Mortgage-Backed Securities and Derivatives: Gain on sales of mortgage-backed securities and derivatives totaled $0.1 million on mortgage-backed securities sales of $3.6 billion during the year ended December 31, 2004, compared to $2.2 million on mortgage-backed securities sales of $507.2 million during the year ended December 31, 2003. These gains reflect the realized gains or losses on sales of mortgage-backed securities created by our securitizations, sales of market-purchased mortgage-backed securities and sales of related interest rate swaps.

Unrealized Gain on Mortgage-Backed Securities and Derivatives: We recognized $75.5 million of unrealized gain on mortgage-backed securities and derivatives relating to market valuations of mortgage-backed securities and derivatives classified in the trading portfolio during the year ended December 31, 2004, compared to $3.3 million during the year ended December 31, 2003. During the year ended December 31, 2004, unrealized gain on mortgage-backed securities and derivatives includes $67.8 million of unrealized gain on mortgage-backed securities that existed on the date of securitization, $23.1 million of mark-to-market unrealized loss on our mortgage-backed securities portfolio and $30.8 million of unrealized gain on related interest rate swaps.

Net Loan Servicing Fees

Net loan servicing fees were a loss of $4.5 million for the year ended December 31, 2004, compared to a loss of $6.4 million for the year ended December 31, 2003.

Loan Servicing Fees: Loan servicing fees increased to $40.6 million for the year ended December 31, 2004 from $39.1 million for the year ended December 31, 2003, an increase of $1.5 million, or 3.7%. Included in loan servicing fees are gains on Ginnie Mae early buy-out sales of $4.5 million for the year ended December 31, 2004 compared to $11.4 million for the year ended December 31, 2003, a decrease of $6.9 million, or 60.5%. This decrease partly offset the increase in loan servicing fees in 2004 versus 2003 as a result of an increase in loans serviced for others.

Amortization of MSRs: Amortization of MSRs decreased to $32.6 million for the year ended December 31, 2004 from $51.8 million for the year ended December 31, 2003, a decrease of $19.2 million, or 37.1%. The decrease in amortization was due to a higher interest rate environment, which resulted in slower projected prepayment speeds in the year ended December 31, 2004 versus the year ended December 31, 2003.

Impairment (Provision) Recovery of MSRs: We recognized a temporary impairment provision of $12.4 million for the year ended December 31, 2004 versus a temporary impairment recovery of $6.3 million for the year ended December 31, 2003, resulting in a decrease in net loan servicing fees of $18.7 million. The increase in impairment provision in the year ended December 31, 2004 was due to a decrease in the fair value of MSRs, 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.

Other Non-Interest Income

Other non-interest income totaled $7.0 million for the year ended December 31, 2004 compared to $7.2 million for the year ended December 31, 2003. For the year ended December 31, 2004, other non-interest income primarily includes rental income of $2.1 million, reinsurance premiums earned totaling approximately $1.8 million, income from a legal settlement of $1.5 million and revenue from title services of $1.0 million. For the year ended December 31, 2003, other non-interest income primarily includes revenue from title services of $2.2 million, fulfillment fees of $1.9 million and volume incentive bonuses received from loan purchasers totaling approximately $1.4 million. The fulfillment fees represent non-recurring fees received from Principal Residential Mortgage, Inc. ("PRM") for loans closed by us on behalf of PRM in connection with our acquisition of the retail mortgage lending branches of PRM in June of 2003. As part of the agreement to acquire the retail branches of PRM, we agreed to assume the costs incurred to close out PRM's application pipeline as of the date of the agreement on behalf of PRM for a per-loan fee.

Non-Interest Expenses

Our non-interest expenses for the year ended December 31, 2004 were $315.9 million, compared to $310.1 million for the year ended December 31, 2003, an increase of $5.8 million, or 1.9%.

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 SFAS No. 91. 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 year ended December 31, 2004 were $189.4 million, compared to $204.9 million for the year ended December 31, 2003, a decrease of $15.5 million, or 7.6%. The decrease in expenses reflects the higher percentage of wholesale originations in 2004 versus 2003.

Other Operating Expenses: Operating expenses, excluding salaries, commissions and benefits, were $126.5 million for the year ended December 31, 2004 compared to $105.2 million for the year ended December 31, 2003, an increase of $21.3 million, or 20.3%. The increase in operating expenses in 2004 versus 2003 includes a $10.6 million increase in occupancy and equipment expense. The operating expenses in the year ended December 31, 2004 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 of 2004.

Income Tax (Benefit) Expense

Income tax expense decreased to a benefit of $25.6 million for the year ended December 31, 2004, from an expense of $48.2 million for the year ended December 31, 2003, a decrease of $73.8 million. The decrease in income tax expense in 2004 versus 2003 reflects a decrease in income 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 year ended December 31, 2004 were $23.1 billion compared to $21.7 billion for the year ended December 31, 2003, a 6.3% 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 year ended December 31, 2004 compared to 76% of our originations in the year ended December 31, 2003. Mortgage brokers accounted for 51% of our loan originations in the year ended December 31, 2004 compared to 24% of our originations in the year ended December 31, 2003. Mortgage brokers accounted for an increased percentage of our originations in the year ended December 31, 2004 due to the opening of wholesale branches in the western United States.

Liquidity and Capital Resources

As of December 31, 2005, we had arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with fourteen different financial institutions and had borrowed funds from nine 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 December 31, 2005, we had $9.8 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 4.40% before the impact of interest rate swaps and a weighted-average remaining maturity of four months.

To originate a mortgage loan, we draw against either a $3.3 billion SLN commercial paper program, a $2.0 billion pre-purchase facility with UBS Real Estate Securities Inc. ("UBS"), a facility of $1.5 billion with Bear Stearns, a $1.0 billion bank syndicated facility led by Bank of America, N.A. (which includes a $350 million term loan facility which we use to finance our MSRs), a facility of $750 million with Morgan Stanley Bank ("Morgan Stanley"), a $450 million facility with IXIS Real Estate Capital, Inc. (formerly CDC Mortgage Capital Inc.) ("IXIS"), an early purchase program facility with Countrywide Home Loans, Inc. ("Countrywide") and a facility of $1.4 billion 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 March 9, 2006, the aggregate outstanding balance under the commercial paper program was $3.1 billion, the aggregate outstanding balance under the warehouse facilities was $4.9 billion, the aggregate outstanding balance in drafts payable was $16.6 million and the aggregate maximum amount available for additional borrowings was $1.9 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:

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

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

- the underlying property that secures the loan has sustained a casualty loss in excess of 5% of its appraised value; or

- the loan ceases to be an eligible loan (as determined pursuant to the applicable facility agreement).

As of December 31, 2005, our aggregate warehouse facility borrowings were $3.5 billion (including $21.6 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were $20.8 million, compared to $735.8 million in aggregate warehouse facility borrowings (including $25.5 million of borrowings under a working capital sub-limit) and outstanding drafts payable of $26.2 million as of December 31, 2004. At December 31, 2005, our loans held for sale were $2.2 billion and our loans held for investment were $3.5 billion compared to loans held for sale of $4.9 billion at December 31, 2004.

In addition to the warehouse facilities, we have purchase and sale agreements with UBS, Greenwich Capital and Countrywide. These agreements allow us to accelerate the sale of our mortgage loan inventory, resulting in a more effective use of the warehouse facility. Aggregate amounts sold and being held under these agreements at December 31, 2005 and December 31, 2004 were $3.2 billion and $443.8 million, respectively. Aggregate amounts so held under these agreements at March 9, 2006 were $2.9 billion. These agreements are not committed facilities and may be terminated at the discretion of the counterparties.

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/or 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 $350.0 million term loan facility with a bank syndicate led by Bank of America which we use to finance our MSRs. The term loan facility expires on August 11, 2006. Interest is based on a spread to the LIBOR and may be adjusted for

earnings on escrow balances. At December 31, 2005 and December 31, 2004, borrowings under our term loan facility were $206.2 million and $108.6 million, respectively.

Cash and cash equivalents increased to $575.7 million at December 31, 2005 from

$192.8 million at December 31, 2004.

Our primary sources of cash and cash equivalents during the year ended December 31, 2005, were as follows:

- $28.2 billion of proceeds from principal received from sales of mortgage loans held for sale;
- $16.2 billion of proceeds from securitizations of mortgage loans held for sale;
- $4.1 billion of principal proceeds from sales of mortgage-backed securities;
- $2.7 billion increase in warehouse lines of credit, net;
- $2.7 billion increase in reverse repurchase agreements, net; and
- $2.3 billion of principal repayments of mortgage-backed securities.

Our primary uses of cash and cash equivalents during the year ended December 31, 2005, were as follows:

- $45.3 billion of origination of mortgage loans;
- $6.7 billion of purchases of mortgage-backed securities; and
- $4.7 billion of additions to mortgage-backed securities.

Cash and cash equivalents increased to $192.8 million at December 31, 2004, from $53.1 million at December 31, 2003.

Our primary sources of cash and cash equivalents during the year ended December 31, 2004, were as follows:

- $5.7 billion increase in reverse repurchase agreements;
- $2.0 billion increase in collateralized debt obligations;
- $529.8 million increase in commercial paper; and
- $343.4 million proceeds from issuance of common stock.

Our primary uses of cash and cash equivalents during the year ended December 31, 2004, were as follows:

- $4.3 billion increase in mortgage-backed securities;
- $3.6 billion increase in mortgage loans held for sale, net;
- $386.0 million net decrease in warehouse lines of credit; and
- $259.7 million decrease in payable for mortgage-backed securities purchased.

Inflation

For the period 1997 to 2005, inflation has been relatively low and we believe that inflation has not had a material effect on our results of operations. To the extent inflation increases in the future, interest rates will also likely rise, which would reduce the number of loans we originate. Such a reduction could adversely affect our future results of operations.

Off-Balance Sheet Arrangements

As of December 31, 2005, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are reasonably likely to be material to investors.

Commitments

We had the following commitments (excluding derivative financial instruments) at December 31, 2005:

	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5
(In thousands)					
Warehouse liabilities	$3,474,191	$ 3,474,191	$ --	$ --	$
Commercial paper	1,079,179	1,079,179	--	--	
Reverse repurchase agreements	9,806,144	9,806,144	--	--	
Collateralized debt obligations	1,057,906	--	1,032,008	25,898	
Trust preferred securities	203,688	--	--	--	20
Notes payable	319,309	207,009	2,383	86,053	2
Operating leases	160,987	55,779	90,527	14,396	

Risk Management

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, loans held for investment 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. Additionally, when interest rates decline, the interest income we receive from our mortgage loans held for investment as well as mortgage loans held for sale will decrease. 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 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 MSRs. When interest rates decline, the loans underlying the MSRs are generally expected to prepay faster, which reduces the market value of the MSRs. 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 MSRs. Lower mortgage rates generally reduce the fair value of the MSRs, 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 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 approximately one month on December 31, 2005.

The following tables summarize our interest rate sensitive instruments as of December 31, 2005 and December 31, 2004:

	December 31, 2005	
	Carrying Amount	Estimated Fair Value
Assets:		
Mortgage-backed securities	$ 10,602,104	$10,602,104
Derivative assets (1)	44,594	96,176
Mortgage loans held for sale, net	2,208,749	2,224,234
Mortgage loans held for investment, net	3,479,721	3,529,844
Mortgage servicing rights, net	319,671	320,827
Liabilities:		

Reverse repurchase agreements	$ 9,806,144	$ 9,805,640
Collateralized debt obligations	1,057,906	1,057,906
Derivative liabilities	16,773	16,773

	December 31, 2004	
	Carrying Amount	Estimated Fair Value
Assets:		
Mortgage-backed securities	$ 6,016,866	$ 6,016,866
Derivative assets (1)	24,803	30,838
Mortgage loans held for sale, net	4,853,394	4,931,366
Mortgage servicing rights, net	151,436	152,467
Liabilities:		
Reverse repurchase agreements	$ 7,071,168	$ 7,065,072
Collateralized debt obligations	2,022,218	2,022,218
Derivative liabilities	1,860	1,860

(1) Derivative assets includes interest rate lockcommitments ("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 SAB No 105. The fair value includes the value of MSRs.

52

Changes in fair value that are stated in the table below are derived based upon assuming immediate and equal changes to market interest rates of various maturities. The base or current interest rate curve is adjusted by the levels shown below:

	December 31, 2005		
(In thousands)	-100 Basis Points	-50 Basis Points	+50 Basis Points
Changes in fair value of mortgage-backed securities, net of the related financing and hedges	$(46,038)	$(17,465)	$ 93
Changes in fair value of mortgage loans held for investment, net of the related financing and hedges	7,901	4,415	(5,83
Changes in fair value of mortgage loans held for sale and interest rate lock commitments, net of the related financing and hedges	(4,382)	(3,378)	(1,40
Changes in fair value of mortgage servicing rights, net of the related financing	(47,270)	(21,670)	9,35
Net change	$(89,789)	$(38,098)	$ 3,05

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Management's fair value estimates are made as of a specific point in time based on present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, the fair values used by us should not be compared to those of other companies. A further discussion of the methods and assumptions we use to estimate the above financial instruments is presented in Note 1 to the Consolidated Financial Statements.

Newly Issued Accounting Pronouncements

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The EITF reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and cost method investments. In September 2004, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") No. EITF 03-01-1, "Effective Date of Paragraphs 10-20 of EITF 03-01." This FSP delayed the effective date of the measurement and recognition guidance contained in paragraphs 10-20 of Issue 03-01. In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." This FSP nullifies certain requirements of Issue 03-1 and supersedes EITF Abstracts, Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value." Based on the clarification provided in FSP FAS 115-1 and FAS 124-1, the amount of any other-than-temporary impairment that needs to be recognized will continue to be dependent on market conditions, the occurrence of certain events or changes in circumstances relative to an investee and an entity's intent and ability to hold the impaired investment at the time of the valuation. FSP FAS 115-1 and FAS 124-1 are effective for reporting periods beginning after December 15, 2005. Adoption of this FSP did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment", which requires that the compensation cost relating to share-based payment transactions (including employee stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans) be recognized as an expense in the Company's consolidated financial statements. Under SFAS No. 123R, the related compensation cost will be measured based on the fair value of the award at the date of grant. In March 2005, the SEC released Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment," which expresses views of the SEC Staff about the application of SFAS No. 123R. SFAS No. 123 requires only that

the expense relating to employee stock options be disclosed in the footnotes to the consolidated financial statements. SFAS No. 123R will replace SFAS No. 123 and supersede APB Opinion No. 25. While SFAS No. 123R was originally to have been effective for interim and annual reporting periods beginning after June 15, 2005, the SEC, in April 2005, deferred the compliance date to the first annual reporting period beginning after June 15, 2005. SFAS No. 123R and the provisions of SAB No. 107 are not expected to have a material impact on the Company's consolidated financial statements when they are adopted, under the modified prospective method, on January 1, 2006; however, the Company continues to assess the potential impact that the adoption of SFAS No. 123R will have on the classification of tax deductions for stock-based compensation in the statement of cash flows. In addition, the Company's assessment of the estimated compensation charges is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the volatility of the Company's stock price and the timing and level of stock option exercise activity.

In July 2005, the FASB issued an exposure draft of a proposed Interpretation, "Accounting for Uncertain Tax Positions an Interpretation of FASB Statement No. 109" (the "Interpretation"). This proposed Interpretation would clarify the accounting for uncertain tax positions in accordance with FASB Statement No. 109, "Accounting for Income Taxes". An enterprise would be required to recognize, in its financial statements, the best estimate of the impact of a tax position, if that tax position is probable of being sustained if audited by a tax authority based solely on the technical merits of the position. Individual tax positions that fail to meet the Interpretation's recognition threshold would result in either (a) a reduction in the deferred tax asset or an increase in a deferred tax liability or (b) an increase in a liability for income taxes payable or the reduction of an income tax refund receivable. The FASB expects to issue the Interpretation, along with any amendments, in the first quarter of 2006. Management of the Company does not believe the adoption of this currently proposed Interpretation will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In August 2005, the FASB issued an Exposure Draft, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." This Exposure Draft would amend FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and would require that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, this Exposure Draft would permit the Company to choose either to report servicing assets and liabilities at fair value or at amortized cost. Under the fair value approach, servicing assets and liabilities will be recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. In November 2005, the FASB announced the effective date of the Exposure Draft had been delayed and would be effective for fiscal years beginning after September 15, 2006. The Company is currently in the process of determining which methodology to use to value recognized servicing assets and liabilities and therefore has not yet determined the potential impact of the Exposure Draft on its consolidated financial position, results of operations or cash flows.

In August 2005, the FASB issued an Exposure Draft, "Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140." This Exposure Draft would amend FASB Statement No. 140 by addressing the criteria necessary for obtaining sales accounting on the transfer of all or a portion of financial assets as well as the requirements for qualification as a Qualified Special Purpose Entity ("QSPE"). The proposed changes to the criteria for obtaining sales accounting include a requirement that all arrangements or agreements, including those entered into subsequent to the sale, made in connection with the transfer of financial assets be considered in the determination of whether the financial assets were legally isolated from the transferor and its consolidated affiliates, the establishment of additional conditions for obtaining sales treatment on the transfer of a portion of a financial asset and the requirement that a transferee maintain the right to pledge or exchange the assets it receives and no condition exists that constrains the transferee from taking advantage of its right to pledge or exchange its assets, or provides more than a trivial benefit to the transferor. The proposed changes to the requirements for qualifying as a QSPE include prohibiting a QSPE from holding equity instruments, unless the equity instruments were received as a result of the efforts to collect its financial assets, as well as a requirement to evaluate whether a combination of involvements with a QSPE provide the holder of those involvements with an opportunity to obtain a more than trivial incremental benefit relative to the benefit that would be obtained if separate parties had those same involvements. In December 2005, the FASB announced the effective date of the Exposure Draft had been delayed. The final statement is expected to be issued in the second quarter of 2006. The Company is evaluating the potential impact of the Exposure Draft on its consolidated financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments." Key provisions of SFAS No. 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips and principal-only strips from derivative accounting under paragraph 14 of FAS 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are

hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a QSPE holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. In general, these changes will reduce the operational complexity associated with bifurcating embedded derivatives, and increase the number of beneficial interests in securitization transactions, including interest-only strips and principal-only strips, required to be accounted for in accordance with FAS 133. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. Management does not believe that SFAS No. 155 will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In March 2006, the EITF Agenda Committee released "Transactions Involving the Purchase of Financial Assets and Simultaneous Repurchase of the Same Financial Assets with the Seller." This potential technical interpretation of GAAP relates to the accounting for transactions where assets are purchased from a counterparty and simultaneously financed through a repurchase agreement with that same counterparty, and whether these transactions create a derivative for the security purchase and a deposit receivable as part of the repurchase agreement, instead of the acquisition of assets with related financing recorded on the balance sheet. The Company has engaged in a limited number of transactions of this nature and currently accounts for these transactions as a purchase and subsequent financing. As of December 31, 2005, the Company had $10.6 billion of mortgage-backed securities, of which approximately $335.0

million have been acquired and financed with the same counterparty. If the Company were to change its current accounting based on this interpretation, management does not believe there would be a material impact on the Company's consolidated financial position, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required to be included in this Item 7A regarding Quantitative and Qualitative Disclosures about Market Risk is included in Item 7 of this report, entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations--Risk Management."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is incorporated by reference to the Company's Consolidated Financial Statements, together with the Notes to Consolidated Financial Statements and Independent Auditors' Report, beginning on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure 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 Exchange Act) as of the end of the period covered by this annual 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 as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting

Management of American Home Mortgage Investment Corp. and its subsidiaries (the "Company," "we" or "us") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- o pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- o provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are being made in accordance with authorizations of the Company's management and directors; and
- o provide reasonable assurance regarding prevention or timely

detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2005.

The Company's Independent Registered Public Accounting Firm, Deloitte & Touche LLP, has audited and issued a report on management's assessment of the Company's internal control over financial reporting. The report of Deloitte & Touche LLP appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
American Home Mortgage Investment Corp.

We have audited management's assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting" that American Home Mortgage Investment Corp. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and our report dated March 15, 2006 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
Princeton, New Jersey
March 15, 2006

Changes in Internal Control Over Financial Reporting

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 fourth 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 fourth quarter of 2005.

ITEM 9B. OTHER INFORMATION

NONE.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company intends to file with the SEC a definitive proxy statement on Schedule 14A in connection with the Company's 2006 Annual Meeting of Stockholders (the "Proxy Statement"), which will involve the election of directors, within 120 days after the end of the year covered by this Annual Report on Form 10-K. Information regarding directors and executive officers of the Company will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required to be furnished pursuant to this item will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required to be furnished pursuant to this item will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required to be furnished pursuant to this item will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required to be furnished pursuant to this item will be set forth in the Proxy Statement and is incorporated herein by reference.

59

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed with this Report.

The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

The information called for by this paragraph is set forth in the Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm beginning on page F-1 of this Annual Report on Form 10-K, and is incorporated herein by reference.

2. Financial Statement Schedules

None.

3. Exhibits

The information called for by this paragraph is contained in the Index to Exhibits to this Annual Report on Form 10-K, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 16th day of March, 2006.

AMERICAN HOME MORTGAGE INVESTMENT CORP.

By: /s/ Michael Strauss

Name: Michael Strauss
Title: Chairman, Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael Strauss -------------------------------- Michael Strauss	Chairman, Chief Executive Officer and President (Principal Executive Officer)	March 16, 2
/s/ Stephen A. Hozie -------------------------------- Stephen A. Hozie	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 16, 2
/s/ John A. Johnston -------------------------------- John A. Johnston	Director	March 16, 2
/s/ Nicholas R. Marfino -------------------------------- Nicholas R. Marfino	Director	March 16, 2
/s/ Michael A. McManus, Jr. -------------------------------- Michael A. McManus, Jr.	Director	March 16, 2
/s/ C. Cathleen Raffaeli -------------------------------- C. Cathleen Raffaeli	Director	March 16, 2

/s/ Kenneth P. Slosser	Director	March 16, 2
Kenneth P. Slosser		
/s/ Irving J. Thau	Director	March 16, 2
Irving J. Thau		

61

INDEX TO FINANCIAL STATEMENTS

AMERICAN HOME MORTGAGE INVESTMENT CORP.
TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
American Home Mortgage Investment Corp.

We have audited the accompanying consolidated balance sheets of American Home Mortgage Investment Corp. and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Princeton, New Jersey
March 15, 2006

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

Assets:
- Cash and cash equivalents
- Accounts receivable and servicing advances
- Mortgage-backed securities (including securities pledged of $10,063,621 in 2005 and $5,968,969 in 2004)
- Mortgage loans held for sale, net
- Mortgage loans held for investment, net of allowance of $2,142
- 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
Payable for securities purchased
Derivative liabilities
Trust preferred securities
Accrued expenses and other liabilities
Notes payable
Income taxes payable

Total liabilities

Commitments and contingencies (Note 17)
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 in 2005 and 2004
9.25% Series B Cumulative Redeemable, 3,450,000 shares issued and outstanding in 2005 and 2004
Common stock, par value $0.01 per share, 100,000,000 shares authorized, 49,639,646 shares issued and outstanding in 2005 and 40,288,077 shares issued and outstanding in 2004
Additional paid-in capital
Retained earnings
Accumulated other comprehensive loss

Total stockholders' equity

Total liabilities and stockholders' equity

See notes to consolidated financial statements.

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

	2005
Net interest income:	
Interest income	$ 727,6
Interest expense	(526,6
Total net interest income	201,0
Provision for loan losses	(2,1
Total net interest income after provision for loan losses	198,8

Non-interest income:	
Gain on sales of mortgage loans	335,0
Gain on sales of current period securitized mortgage loans	194,2
Gain on sales of mortgage-backed securities and derivatives	50,9
Unrealized (loss) gain on mortgage-backed securities and derivatives	(8,5
Loan servicing fees	76,0
Amortization of mortgage servicing rights	(51,7
Impairment (provision) recovery of mortgage servicing rights	(8,7
Net loan servicing fees (loss)	15,5
Other non-interest income	7,7
Total non-interest income	595,0
Non-interest expenses:	
Salaries, commissions and benefits, net	359,9
Occupancy and equipment	58,8
Data processing and communications	24,7
Office supplies and expenses	19,7
Marketing and promotion	20,3
Travel and entertainment	21,0
Professional fees	14,2
Other	32,0
Total non-interest expenses	550,8
Net income before income tax (benefit) expense	243,0
Income tax (benefit) expense	(17,7
Net income	$ 260,7
Dividends on preferred stock	13,2
Net income available to common shareholders	$ 247,5
Per share data:	
Basic	$ 5.
Diluted	$ 5.
Weighted average number of shares - basic	43,8
Weighted average number of shares - diluted	44,3

See notes to consolidated financial statements.

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE YEARS ENDED DECEMBER 31, 2005

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings
Balance at January 1, 2003	$ --	$ 167	$ 95,785	$ 68,14
Comprehensive income:				
Net income	--	--	--	73,79
Net change in unrealized gain on mortgage-backed securities available for sale	--	--	--	-
Net change in unrealized loss on cash flow hedges	--	--	--	-
Comprehensive income				
Issuance of common stock - purchase of Apex Mortgage Capital, Inc.	--	77	177,248	-
Issuance of common stock - earnouts	--	4	5,160	-
Issuance of common stock - 1999 Omnibus Stock Incentive Plan	--	4	2,772	-
Issuance of common stock - warrants	--	--	467	-
Dividends declared on common stock	--	--	--	(20,90
Balance at December 31, 2003	$ --	$ 252	$ 281,432	$ 121,02
Comprehensive income:				
Net income	--	--	--	74,91
Net change in unrealized loss on mortgage-backed securities available for sale	--	--	--	-
Net change in unrealized loss on cash flow hedges, net of amortization	--	--	--	-
Comprehensive income:				
Issuance of Series A preferred stock - offering	50,857	--	--	-
Issuance of Series B preferred stock - offering	83,183	--	--	-
Issuance of common stock - offering	--	144	339,647	-
Issuance of common stock - earnouts	--	2	5,577	-
Issuance of common stock - 1999 Omnibus Stock Incentive Plan	--	5	3,275	-
Tax benefit from stock options exercised	--	--	1,599	-
Dividends declared on Series A preferred stock	--	--	--	(2,95
Dividends declared on Series B preferred stock	--	--	--	(1,02
Dividends declared on common stock	--	--	--	(92,32
Balance at December 31, 2004	$ 134,040	$ 403	$ 631,530	$ 99,62
Comprehensive income:				
Net income	--	--	--	260,78

Net change in unrealized loss on mortgage-backed securities available for sale	--	--	--	-
Net change in unrealized gain on cash flow hedges, net of amortization	--	--	--	-
Comprehensive income				
Issuance of common stock - offering	--	90	304,033	-
Issuance of common stock - earnouts	--	2	5,990	-
Issuance of common stock - 1999 Omnibus Stock Incentive Plan	--	1	2,887	-
Tax benefit from stock options exercised	--	--	3,072	-
Dividends declared on Series A preferred stock	--	--	--	(5,24
Dividends declared on Series B preferred stock	--	--	--	(7,97
Dividends declared on common stock	--	--	--	(143,41
Balance at December 31, 2005	$ 134,040	$ 496	$ 947,512	$ 203,77

See notes to consolidated financial statements.

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

	Year End	
	2005	
Cash flows from operating activities:		
Net income	$ 260,786	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,730	
Provision for loan losses	2,142	
Amortization and impairment of mortgage servicing rights	60,535	
Accretion and amortization of mortgage-backed securities, net	2,362	
Deferred cash flow hedge gain (loss), net of amortization	20,133	
Loss (gain) on sales of mortgage-backed securities and derivatives	7,478	
Unrealized loss (gain) on mortgage-backed securities	162,033	
Unrealized gain on free standing derivatives	(39,397)	
Increase (decrease) in forward delivery contracts	14,912	
Capitalized mortgage servicing rights on securitized loans	(169,876)	
Capitalized mortgage servicing rights on sold loans	(58,893)	
(Increase) decrease in interest rate lock commitments	(2,061)	
Increase in mortgage loan basis adjustments	(24,480)	
Other	573	
(Increase) decrease in operating assets:		
Accounts receivable	(201,812)	
Servicing advances	(10,342)	

Income taxes receivable	25,797	
Other assets	4,434	
Increase (decrease) in operating liabilities:		
Accrued expenses and other liabilities	105,516	
Income taxes payable	(23,138)	
Origination of mortgage loans held for sale	(41,778,860)	(2
Principal received from sales of mortgage loans held for sale	28,165,622	1
Proceeds from securitizations of mortgage loans held for sale	16,185,841	
Additions to mortgage-backed securities and derivatives	(4,650,656)	(
Principal proceeds from sales of self-originated mortgage-backed securities	2,437,415	
Cash received from residual assets in securitizations	102,484	
Principal repayments of mortgage-backed securities	767,537	
Net cash provided by (used in) operating activities	1,377,815	(
Cash flows from investing activities:		
Purchases of premises and equipment	(28,936)	
Origination of mortgage loans held for investment	(3,519,146)	
Proceeds from repayments of mortgage loans held for investment	80,721	
Purchases of mortgage-backed securities	(6,650,130)	(
Principal proceeds from sales of purchased mortgage-backed securities	1,698,060	
Principal repayments of purchased mortgage-backed securities	1,553,467	
Acquisition of businesses, net of cash acquired	--	
Other	--	
Net cash used in investing activities	(6,865,964)	(
Cash flows from financing activities:		
Increase (decrease) in warehouse lines of credit, net	2,738,408	
Increase in reverse repurchase agreements, net	2,734,976	
(Decrease) increase in collateralized debt obligations	(964,312)	
Increase (decrease) in payable for securities purchased	261,539	
Increase in commercial paper, net	549,389	
(Decrease) increase in drafts payable, net	(5,446)	
Increase in trust preferred securities	203,688	
Increase in notes payable, net	183,548	
Proceeds from issuance of preferred stock	--	
Proceeds from issuance of common stock	306,277	
Dividends paid	(137,089)	
Net cash provided by financing activities	5,870,978	
Net increase in cash and cash equivalents	382,829	
Cash and cash equivalents, beginning of period	192,821	
Cash and cash equivalents, end of period	$ 575,650	$
Supplemental disclosure of cash flow information:		
Interest paid	$ 498,936	$
Income taxes paid	1,028	

See notes to consolidated financial statements.

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 mortgage loans and 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 and mortgage brokers or are purchased from correspondents, 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. 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.

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

Mortgage Loans Held for Investment - Mortgage loans held for investment represent loans securitized through transactions structured as financings, or pending securitization through transactions that are expected to be structured as financings. Mortgage loans held for investment are carried at the aggregate of their remaining unpaid principal balances, plus net deferred origination costs, less any related charge-offs 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.

Allowance for Losses on Mortgage Loans Held for Investment - The Company maintains an allowance for loan losses for its mortgage loans held for investment, based on the Company's estimate of current existing losses. Additions to the allowance for loan losses are based on assessments of certain factors, including historical loan loss experience of similar types of loans, the Company's loan loss

experience, the amount of past due and nonperforming loans, specific known risks, the value of collateral securing the loans, and current and anticipated economic and interest rate conditions. Evaluation of these factors involves subjective estimates and judgments that may change. Additions to the allowance for loan losses are provided through a charge to income and recorded within provision for loan losses in the consolidated statements of income. The allowance for loan losses is reduced by subsequent charge-offs, net of recoveries.

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 the gross MSR asset is 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 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 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 ("CDOs") to finance certain portions of its mortgage loans. The collateralized debt obligations are collateralized by adjustable-rate mortgage ("ARM") loans 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.

Trust Preferred Securities - The Company formed wholly-owned statutory business trusts (the "Trusts") for the purpose of issuing trust preferred securities. The Company does not consolidate its Trusts and results in a liability to the Trusts, which is recorded in trust preferred securities on the consolidated balance sheets. The securities begin to mature in 2035 and bear interest at rates ranging from LIBOR +265 basis points to LIBOR +300 basis points.

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 the obligation is transferred into one of the Company's warehouse facilities when the related draft is presented to a bank.

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 and have locked their terms and rates. The Company uses mortgage forward delivery contracts to economically hedge the IRLCs. The Company classifies and accounts for the IRLCs associated with loans expected to be sold as free-standing derivatives. Accordingly, IRLCs related to loans held for sale 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 MSRs, 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 MSRs for IRLCs initiated after March 31, 2004. In SAB No. 105, the SEC stated that the value of expected future cash flows related to MSRs should be excluded when determining the fair value of derivative IRLCs. Under the policy in effect as of April 1, 2004, the value of the expected future cash flows related to MSRs is not recognized until the underlying loans are sold.

Forward Delivery Commitments Used to Economically 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 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 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.

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 SFAS No. 133 basis adjustments 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 held for investment are securitized, net deferred origination costs are amortized over the life of the loan using the level-yield method and such amounts adjust 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 $157.6 million, $105.0 million and $87.1 million due to direct loan origination costs, including commission costs, incurred for the years ended December 31, 2005, 2004 and 2003, respectively.

Interest Recognition - The Company accrues interest income as it is earned and interest expense as it is incurred. 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.

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 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.

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:

(In thousands, except per share data)	Year Ended December 31, 2005	2004	2003
Net income available to common shareholders - as reported	$ 247,569	$ 70,924	$ 73,
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,227)	(1,188)	(
Net income available to common shareholders - pro forma	$ 246,342	$ 69,736	$ 73,
Earnings per share:			
Basic - as reported	$ 5.64	$ 1.89	$ 4
Basic - pro forma	$ 5.61	$ 1.85	$ 4
Diluted - as reported	$ 5.58	$ 1.86	$ 4
Diluted - pro forma	$ 5.55	$ 1.83	$ 4

In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment," which requires that the compensation cost relating to share-based payment transactions (including employee stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans) be recognized as an expense in the Company's consolidated financial statements. Under SFAS No. 123R, the related compensation cost will be measured based on the fair value of the award at the date of grant. In March 2005, the SEC released Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment," which expresses views of the SEC Staff about the application of SFAS No. 123R. SFAS No. 123 requires only that the expense relating to employee stock options be disclosed in the footnotes to the consolidated financial statements. SFAS No. 123R will replace SFAS No. 123 and supersede APB Opinion No. 25. While SFAS No. 123R was originally to have been effective for interim and annual reporting periods beginning after June 15, 2005, the SEC, in April 2005, deferred the compliance date to the first annual reporting period beginning after June 15, 2005. SFAS No. 123R and the provisions of SAB No. 107 are not expected to have a material impact on the Company's consolidated financial statements when they are adopted, under the modified prospective method, on January 1, 2006; however, the Company continues to assess the potential impact that the adoption of SFAS No. 123R will have on the classification of tax deductions for stock-based compensation in the statement of cash flows. In addition, the Company's assessment of the estimated compensation charges is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the volatility of the Company's stock price and the timing and level of stock option exercise activity.

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 -

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The EITF reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and cost method investments. In September 2004, the FASB issued Staff Position ("FSP") No. EITF 03-01-1, "Effective Date of Paragraphs 10-20 of EITF 03-01." This FSP delayed the effective date of the measurement and recognition guidance contained in paragraphs 10-20 of Issue 03-01. In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." This FSP nullifies certain requirements of Issue 03-1 and supersedes EITF Abstracts, Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value." Based on the clarification provided in FSP FAS 115-1 and FAS 124-1, the amount of any other-than-temporary impairment that needs to be recognized will continue to be dependent on market conditions, the occurrence of certain events or changes in circumstances relative to

an investee and an entity's intent and ability to hold the impaired investment at the time of the valuation. FSP FAS 115-1 and FAS 124-1 are effective for reporting periods beginning after December 15, 2005. Adoption of this FSP did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In July 2005, the FASB issued an exposure draft of a proposed Interpretation, "Accounting for Uncertain Tax Positions an Interpretation of FASB Statement No. 109" (the "Interpretation"). This proposed Interpretation would clarify the accounting for uncertain tax positions in accordance with FASB Statement No. 109, "Accounting for Income Taxes". An enterprise would be required to recognize, in its financial statements, the best estimate of the impact of a tax position, if that tax position is probable of being sustained if audited by a tax authority based solely on the technical merits of the position. Individual tax positions that fail to meet the Interpretation's recognition threshold would result in either (a) a reduction in the deferred tax asset or an increase in a deferred tax liability or (b) an increase in a liability for income taxes payable or the reduction of an income tax refund receivable. The FASB expects to issue the Interpretation, along with any amendments, in the first quarter of 2006. Management of the Company does not believe the adoption of this currently proposed Interpretation will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In August 2005, the FASB issued an Exposure Draft, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." This Exposure Draft would amend FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and would require that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, this Exposure Draft would permit the Company to choose either to report servicing assets and liabilities at fair value or at amortized cost. Under the fair value approach, servicing assets and liabilities will be recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. In November 2005, the FASB announced the effective date of the Exposure Draft had been delayed and would be effective for fiscal years beginning after September 15, 2006. The Company is currently in the process of determining which methodology to use to value recognized servicing assets and liabilities and therefore has not yet determined the potential impact of the Exposure Draft on its consolidated financial position, results of operations or cash flows.

In August 2005, the FASB issued an Exposure Draft, "Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140." This Exposure Draft would amend FASB Statement No. 140 by addressing the criteria necessary for obtaining sales accounting on the transfer of all or a portion of financial assets as well as the requirements for qualification as a Qualified Special Purpose Entity ("QSPE"). The proposed changes to the criteria for obtaining sales accounting include a requirement that all arrangements or agreements, including those entered into subsequent to the sale, made in connection with the transfer of financial assets be considered in the determination of whether the financial assets were legally isolated from the transferor and its consolidated affiliates, the establishment of additional conditions for obtaining sales treatment on the transfer of a portion of a financial asset and the requirement that a transferee maintain the right to pledge or exchange the assets it receives and no condition exists that constrains the transferee from taking advantage of its right to pledge or exchange its assets, or provides more than a trivial benefit to the transferor. The proposed changes to the requirements for qualifying as a QSPE include prohibiting a QSPE from holding equity instruments, unless the equity instruments were received as a result of the efforts to collect its financial assets, as well as a requirement to evaluate whether a combination of involvements with a QSPE provide the holder of those involvements with an opportunity to obtain a more than trivial incremental benefit relative to the benefit that would be obtained if separate parties had those same involvements. In December 2005, the FASB announced the effective date of the Exposure Draft had been delayed. The final statement is expected to be issued in the second quarter of 2006. The Company is evaluating the potential impact of the Exposure Draft on its consolidated financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments." Key provisions of SFAS No. 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips and principal-only strips from derivative accounting under paragraph 14 of FAS 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a QSPE holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. In general, these changes will reduce the operational complexity associated with bifurcating embedded derivatives, and increase the number of beneficial interests in securitization transactions, including interest-only strips and principal-only strips, required to be accounted for in accordance with FAS 133. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. Management does not believe that SFAS No. 155 will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In March 2006, the EITF Agenda Committee released "Transactions Involving the Purchase of Financial Assets and Simultaneous Repurchase of the Same Financial Assets with the Seller." This potential technical interpretation of GAAP relates to the accounting for transactions where assets are purchased from a counterparty and simultaneously financed through a repurchase agreement with that same counterparty, and whether these transactions create a derivative for the security purchase and a deposit receivable as part of the repurchase agreement, instead of the acquisition of assets with related financing recorded on the balance sheet. The Company has engaged in a limited number of transactions of this nature and currently accounts for these transactions as a purchase and subsequent financing. As of December 31, 2005, the Company had $10.6 billion of mortgage-backed securities, of which approximately $335.0 million have been acquired and financed with the same counterparty. If the Company were to change its current accounting based on this interpretation, management does not believe there would be a material impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 2 - ACCOUNTS RECEIVABLE AND SERVICING ADVANCES

The following table presents the Company's accounts receivable and servicing advances as of December 31, 2005 and 2004:

	December 31,	
(In thousands)	2005	2004
Loan sales receivables	$167,953	$ 26,367
Accrued interest on mortgage-backed securities and derivatives	77,954	46,089
Accrued interest on mortgage loans	21,480	4,106
Tax and insurance advances	19,979	8,388
Foreclosure advances	15,060	16,309
Other	26,706	15,719
Accounts receivable and servicing advances	$329,132	$116,978

NOTE 3 - MORTGAGE-BACKED SECURITIES

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

	December 31, 2005			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Val
(In thousands)				
Agency securities	$ 135,545	$ --	$ (5,225)	$ 13
Privately issued:				
Rated	7,282,916	4,562	(49,963)	7,23
Unrated	7,176	25	--	
Securities available for sale	$ 7,425,637	$ 4,587	$ (55,188)	$ 7,37

	December 31, 2004			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Val
(In thousands)				
Agency securities	$ 620,196	$ 17	$ (7,700)	$ 61
Privately issued:				
Rated	3,584,211	10,791	(12,527)	3,58
Unrated	15,952	--	--	1
Securities available for sale	$ 4,220,359	$ 10,808	$ (20,227)	$ 4,21

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

	December 31, 2005				
	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fa
(In thousands)					
Agency securities	$ --	$ --	$ 130,320	$ (5,225)	$
Privately issued:					
Rated	3,834,893	(29,230)	926,942	(20,733)	

Securities available for sale	$ 3,834,893	$ (29,230)	$ 1,057,262	$ (25,958)	$

	December 31, 2004				
	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fa
(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 Company has evaluated its mortgage-backed securities available for sale in an unrealized loss position for twelve months or more and determined there was no permanent impairment as of December 31, 2005.

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

	December 31,	
	2005	2004
	Fair Value	
(In thousands)		
Privately issued:		
Rated	$2,997,650	$1,751,335
Unrated	229,418	54,591
Trading securities	$3,227,068	$1,805,926

During the year ended December 31, 2005, the Company recorded $45.1 million in unrealized losses on trading securities that related to trading securities held at December 31, 2005.

During the year ended December 31, 2005, the Company sold $4.1 billion of mortgage-backed securities, excluding securities sold contemporaneously with the execution of securitization transactions, and realized $37.4 million in gains, net of hedges. During the year ended December 31, 2005, the Company securitized and held in its portfolio $4.4 billion of mortgage-backed securities.

The Company's mortgage-backed securities held at December 31, 2005 are primarily either agency obligations or are rated AAA or AA by Standard & Poor's.

The Company has credit exposure on $15.1 billion and $3.9 billion of loans it has securitized privately as of December 31, 2005 and 2004, respectively. The following table summarizes the loan delinquency information as of December 31, 2005 and 2004:

(Dollars in thousands)	December 31, 2005			
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio	Percentage of Total Assets
60 to 89 days	49	$ 10,194	0.07%	0.06%
90 and greater days	82	13,596	0.09%	0.08%
Foreclosure	451	119,181	0.79%	0.67%
	582	$ 142,971	0.95%	0.81%

(Dollars in thousands)	December 31, 2004			
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio	Percentage of 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 December 31, 2005 and 2004, the fair value of residual assets from securitizations reported in mortgage-backed securities was $276.0 million and $108.0 million, respectively.

The significant assumptions used in estimating the fair value of residual cash flows as of December 31, 2005 and 2004 were as follows:

	December 31, 2005	December 31, 2004
Weighted-average prepayment speed (CPR)	30.63%	27.27%
Weighted-average discount rate	16.52%	17.83%
Weighted-average annual default rate	0.54%	0.49%

The table below illustrates hypothetical fair values of the Company's residual assets as of December 31, 2005 caused by assumed immediate adverse changes to the key assumptions used by the Company to determine fair value (dollars in thousands):

Fair value of residual assets as of December 31, 2005 $ 276,016

	Fair Value	Change in Fair Value
Prepayment speed:		
Impact of adverse 10% change	$255,101	$(20,915)
Impact of adverse 20% change	240,625	(35,391)
Discount rate:		
Impact of adverse 10% change	262,345	(13,671)
Impact of adverse 20% change	253,405	(22,611)
Default rate:		
Impact of adverse 10% change	263,094	(12,922)
Impact of adverse 20% change	259,443	(16,573)

These sensitivities are hypothetical, are presented for illustrative purposes only, and should be used with caution.

NOTE 4 - MORTGAGE LOANS, NET

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

	December 31,	
(In thousands)	2005	2004
Mortgage loans held for sale	$ 2,190,062	$ 4,815,749
SFAS No. 133 basis adjustments	(2,099)	40
Deferred origination costs, net	20,786	37,605
Mortgage loans held for sale, net	$ 2,208,749	$ 4,853,394

During the year ended December 31, 2005, the Company sold non-securitized mortgage loans to third parties totaling $28.5 billion and realized $335.1 million in gains.

During the year ended December 31, 2005, the Company securitized mortgage loans totaling $16.7 billion, of which $12.3 billion were sold, and realized $194.3 million in gains.

The following table presents the Company's mortgage loans held for investment, net, as of December 31, 2005:

	December 31,
(In thousands)	2005

Mortgage loans held for investment	$ 3,438,425
Deferred origination costs, net	43,438
Allowance for loan losses	(2,142)
Mortgage loans held for investment, net	$ 3,479,721

During the year ended December 31, 2005, the Company provided a $2.1 million allowance for loan losses through a charge to provision for loan losses. There were no subsequent charge-offs, net of recoveries, to the allowance for loan losses in the year ended December 31, 2005.

The following tables summarize loan delinquency information as of December 31, 2005 for the Company's mortgage loans held for sale and mortgage loans held for investment:

(Dollars in thousands)	Mortgage Loans Held for Sale		
	December 31, 2005		
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
60 to 89 days	15	$ 2,404	0.11%
90 and greater days	51	6,530	0.30%
Foreclosure	32	4,824	0.22%
	98	$ 13,758	0.63%

(Dollars in thousands)	Mortgage Loans Held for Investment		
	December 31, 2005		
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
60 to 89 days	23	$ 2,898	0.08%
90 and greater days	26	2,489	0.07%
Foreclosure	49	8,797	0.26%
	98	$ 14,184	0.41%

NOTE 5 - DERIVATIVE ASSETS AND LIABILITIES

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

	December 31,	
(In thousands)	2005	2004

Derivative Assets		
Interest rate swaps	$ 30,508	$ 11,319
Interest rate lock commitments	14,086	12,025
Interest rate caps - free standing derivatives	--	1,459
Derivative assets	$ 44,594	$ 24,803
Derivative Liabilities		
Forward delivery contracts - loan commitments	$ 8,659	$ 896
Forward delivery contracts - loans held for sale	8,114	964
Derivative liabilities	$ 16,773	$ 1,860

As of December 31, 2005, the notional amount of forward delivery contracts and interest rate swap agreements was approximately $2.2 billion and $8.7 billion, respectively.

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

During the year ended December 31, 2005, the Company realized $13.6 million in gains on sales of interest rate swap agreements associated with its securitizations of mortgage loans. During the year ended December 31, 2004, the Company realized $3.4 million in losses on sales of interest rate swap agreements associated with its securitizations of mortgage loans. These gains are recorded in gain (loss) on sales of mortgage-backed securities and derivatives in the consolidated statements of income.

During the year ended December 31, 2004, the Company realized $6.1 million in losses on sales of interest rate swap agreements associated with its sales of mortgage-backed securities. These losses are recorded in gain on sales of mortgage-backed securities and derivatives in the consolidated statements of income.

During the year ended December 31, 2005, the Company recognized in earnings $36.6 million in unrealized gains on free standing derivatives. These gains are recorded in unrealized (loss) gain on mortgage-backed securities and derivatives in the consolidated statements of income.

The Company's 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 December 31, 2005 and 2004.

As of December 31, 2005 and 2004, the unrealized loss on interest rate swap agreements relating to cash flow hedges recorded in accumulated other comprehensive loss was a loss of $28.2 million and $29.9 million, respectively.

The following table presents the Company's estimate of amounts that will be reclassified from accumulated other comprehensive loss to interest expense:

(In thousands)	
Twelve months ended December 31, 2006	$ 11,555
Twelve months ended December 31, 2007	6,291
Twelve months ended December 31, 2008	4,786

Twelve months ended December 31, 2009	1,114
Twelve months ended December 31, 2010	105

NOTE 6 - MORTGAGE SERVICING RIGHTS, NET

The following table presents the activity in the Company's mortgage servicing rights, net, for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,		
(In thousands)	2005	2004	2003
Mortgage Servicing Rights			
Balance at beginning of period	$ 163,374	$ 121,652	$ 119,225
Additions	228,770	78,690	54,251
Amortization	(51,767)	(32,615)	(51,824)
Other than temporary impairment	--	(4,353)	--
Balance at end of period	$ 340,377	$ 163,374	$ 121,652
Impairment Allowance			
Balance at beginning of period	$ (11,938)	$ (3,868)	$ (10,202)
Impairment (provision) recovery	(8,768)	(12,423)	6,334
Other than temporary impairment	--	4,353	--
Balance at end of period	$ (20,706)	$ (11,938)	$ (3,868)
Mortgage servicing rights, net	$ 319,671	$ 151,436	$ 117,784

Aggregate Amortization Expense	
Year ended December 31, 2005	$ 51,767

Estimated Amortization Expense	
Year ended December 31, 2006	$ 64,723
Year ended December 31, 2007	56,908
Year ended December 31, 2008	44,674
Year ended December 31, 2009	34,642
Year ended December 31, 2010	25,925
Thereafter	113,505

On a quarterly basis, the Company evaluates MSRs for impairment based on risk strata. The MSRs 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 MSRs that have an amortized balance in excess of the estimated fair value for the individual risk stratification.

The estimated fair value of MSRs is determined by obtaining a market valuation from an independent MSR broker. To determine the market value of MSRs, 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 to trade similar MSRs. Market assumptions are held constant over the life of the portfolio.

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

	December 31, 2005	December 31, 2004
Weighted-average prepayment speed (PSA)	315	316
Weighted-average discount rate	11.94%	10.37%
Weighted-average default rate	2.78%	2.76%

The table below illustrates hypothetical fair values of the Company's MSRs at December 31, 2005 caused by assumed immediate adverse changes to the key assumptions used by the Company to determine fair value (dollars in thousands):

Fair value of MSRs at December 31, 2005 $ 320,827

	Fair Value	Change in Fair Value
Prepayment speed:		
Impact of adverse 10% change	$ 310,796	$ (10,031)
Impact of adverse 20% change	301,072	(19,755)
Discount rate:		
Impact of adverse 10% change	314,121	(6,706)
Impact of adverse 20% change	307,419	(13,408)
Default rate:		
Impact of adverse 10% change	320,760	(67)
Impact of adverse 20% change	320,693	(134)

These sensitivities are hypothetical, are presented for illustrative purposes only, and should be used with caution.

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

	December 31, 2005	December 31, 2004
	(Dollars in thousands)	
Loan servicing portfolio - loans sold or securitized	$ 25,044,676	$ 11,955,608
ARM loans as a percentage of total loans	73%	60%
Average loan size	$ 194	$ 156
Weighted-average servicing fee	0.330%	0.348%
Weighted-average note rate	5.79%	5.48%
Weighted-average remaining term (in months)	337	318
Weighted-average age (in months)	15	20

NOTE 7 - PREMISES AND EQUIPMENT, NET

The following table presents the Company's premises and equipment, net, as of December 31, 2005 and 2004:

(In thousands)	December 31, 2005	December 31, 2004
Office equipment	$ 42,676	$ 28,818
Buildings and land	36,300	32,712
Furniture and fixtures	18,576	10,218
Leasehold improvements	5,910	2,772
Gross premises and equipment	103,462	74,520
Accumulated depreciation and amortization	(34,680)	(22,944)
Premises and equipment, net	$ 68,782	$ 51,576

Depreciation and amortization expense for the years ended December 31, 2005, 2004 and 2003 was $11.7 million, $8.4 million and $6.0 million, respectively.

NOTE 8 - GOODWILL

The following table presents the activity in the Company's goodwill for the years ended December 31, 2005 and 2004:

(In thousands)	Loan Origination Segment	Mortgage Holdings Segment	Total
Balance at January 1, 2004	$ 58,605	$ 24,840	$
Earnouts from previous acquisitions	7,432	--	
Balance at December 31, 2004	$ 66,037	$ 24,840	$
Earnouts from previous acquisitions	8,650	--	
Balance at December 31, 2005	$ 74,687	$ 24,840	$

As of December 31, 2005, the Company completed a goodwill impairment test by comparing the fair value of goodwill with its carrying value and did not recognize impairment.

NOTE 9 - WAREHOUSE LINES OF CREDIT, REVERSE REPURCHASE AGREEMENTS AND COMMERCIAL PAPER

Warehouse Lines of Credit

To originate a mortgage loan, the Company draws against either a $3.3 billion SLN commercial paper program, a $2.0 billion pre-purchase facility with UBS Real Estate Securities Inc. ("UBS"), a facility of $1.5 billion with Bear Stearns, a $1.0 billion bank syndicated facility led by Bank of America, N.A. (which includes a $350 million term loan facility which the Company uses to finance its MSRs), a facility of $750 million with Morgan Stanley Bank ("Morgan Stanley"), a $450 million facility with IXIS Real Estate Capital, Inc. (formerly CDC Mortgage Capital Inc.) ("IXIS"), and a facility of $1.4 billion with Calyon New York Branch ("Calyon"). The Bank of America, IXIS, Morgan Stanley and Calyon facilities are committed facilities. 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 December 31, 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 December 31, 2005, borrowings under the working capital line of credit were $21.6 million.

As of December 31, 2005, the Company had $3.5 billion of warehouse lines of credit outstanding with a weighted-average borrowing rate of 4.78%. As of December 31, 2004, the Company had $735.8 million of warehouse lines of credit outstanding with a weighted-average borrowing rate of 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 December 31, 2005 had borrowed funds from nine 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 December 31, 2005, the Company had $9.8 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 4.40% and a weighted-average remaining maturity of four 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 maturity of three months.

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

	December 31,	December 31,

	2005	2004
	(In thousands)	
Within 30 days	$ 689,469	$ 3,617,325
31 to 89 days	4,817,885	2,050,529
90 to 365 days	4,298,790	1,403,314
Reverse repurchase agreements	$ 9,806,144	$ 7,071,168

The Company's average reverse repurchase agreements outstanding were $7.2 billion and $5.0 billion for the years ended December 31, 2005 and 2004, respectively.

Commercial Paper

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 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 December 31, 2005.

As of December 31, 2005, the Company had $1.1 billion of SLNs outstanding, with an average interest cost of 4.35%. The SLNs were collateralized by loans held for sale and cash with a balance of $1.2 billion as of December 31, 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.

As of December 31, 2005 and 2004, the Company's SLNs had remaining maturities within 30 days.

NOTE 10 - COLLATERALIZED DEBT OBLIGATIONS

In the fourth quarter of 2005, the Company transferred $1.2 billion of its mortgage loans held for investment to two American Home Mortgage Investment Trusts (the "2005 Trusts") in two securitization transactions. In these transactions, the Company, issued $1.1 billion of AAA and AA-rated floating-rate pass-through certificates to third-party investors and the Company retained $134.6 million of subordinated certificates, which provide credit support to the certificates issued to third parties. The Company financed these transactions by issuing $1.1 billion of CDOs, which were collateralized by loans held for investment transferred to the 2005 Trusts. The interest rates on the floating-rate pass-through certificates reset monthly and are indexed to one-month LIBOR. In the fourth quarter of 2005, the Company incurred CDO issuance costs of $5.5 million, which were deducted from the proceeds of the transactions and are being amortized over the expected life of the CDOs. These securitization transactions were accounted for as financings of the mortgage loans held for investment.

In December 2004, the Company transferred $3.5 billion of its mortgage loans held for sale to American Home Mortgage Investment Trust 2004-4 (the "2004-4 Trust") in a securitization transaction. The Company financed the transaction by issuing $2.0 billion of CDOs, which were collateralized by loans held for sale transferred to the 2004-4 Trust. This securitization transaction was accounted for as a financing of the mortgage loans held for sale. This securitization transaction qualified for sale treatment under SFAS No. 140 in the first quarter of 2005, and consequently the loans were derecognized.

As of December 31, 2005, the Company's CDOs had a balance of $1.1 billion and an effective interest cost of 4.54%. As of December 31, 2005, the CDOs were collateralized by mortgage loans held for investment of $1.1 billion.

As of December 31, 2004, the Company's CDOs had a balance of $2.0 billion and an effective interest cost of 3.16%. As of December 31, 2004, the CDOs were collateralized by mortgage loans held for sale of $2.0 billion.

NOTE 11 - NOTES PAYABLE

Notes payable primarily consist of amounts borrowed under a term loan facility with a bank syndicate led by Bank of America. Under the terms of this facility, the Company may borrow the lesser of 70% of the value of its MSRs, or $350.0 million. As of December 31, 2005, borrowings under the term loan were $206.2 million. This term loan expires on August 11, 2006. Interest is based on a spread to the LIBOR and may be adjusted for earnings on compensating balances. As of December 31, 2005, the interest rate was 6.27%.

In 2005, the Company sold $85.0 million in Mortgage Warehouse Subordinated Notes ("Subordinated Notes"). The Company received a premium, net of issuance costs, of $1.5 million related to the Subordinated Notes offering, which is being amortized to interest expense over the expected life of the Subordinated Notes. As of December 31, 2005, the balance of Subordinated Notes outstanding, net of unamortized premium and issuance costs, was $86.3 million. The Subordinated Notes mature on May 20, 2009. The interest rates on the Subordinated Notes reset monthly and are indexed to one-month LIBOR. As of December 31, 2005, the interest rate was 6.37%.

Included in notes payable is a mortgage note of $25.9 million on an office building located in Melville, New York at a rate of 5.82%, and a mortgage note of $0.9 million on an office building located in Mount Prospect, Illinois at a rate of 7.18%.

The following table presents the Company's notes payable as of December 31, 2005 and 2004:

	December 31,	
(In thousands)	2005	2004
Term loan	$ 206,188	$ 108,559
Subordinated note	86,322	--
Notes - office buildings	26,799	27,202
Notes payable	$ 319,309	$ 135,761

Maturities of notes payable are as follows:

2006	$ 207,009
2007	843
2008	1,540
2009	85,606
2010	447
Thereafter	23,864

$ 319,309
=========

NOTE 12 - COMMON STOCK AND PREFERRED STOCK

In March 2004, the Company issued an aggregate of 14,375,000 shares of its common stock, par value $0.01 per share ("Common Stock"), at a price of $25 per share, which included the exercise of the underwriters' option to purchase 1,875,000 additional shares of Common Stock to cover over-allotments. The total proceeds to the Company, including proceeds from the exercise of the over-allotment option, were $359.3 million, before underwriting discounts, commissions and other offering expenses.

In August 2005, the Company issued 9,000,000 shares of its common stock at a price of $35.50 per share. The total proceeds to the Company were $319.5 million, before underwriting discounts, commissions and other offering expenses.

In July 2004, the Company issued 2,150,000 shares of 9.75% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") at a price of $25 per share. The total number of shares of Series A Preferred Stock issued includes: 1,400,000 shares of Series A Preferred Stock issued in an underwritten public offering (the "Series A Initial Offering"), which closed on July 7, 2004; 100,000 shares of Series A Preferred Stock issued in connection with the underwriters' election to purchase a portion of the shares of Series A Preferred Stock offered to them in connection with the Series A Initial Offering to cover over-allotments, which closed on July 12, 2004; and 650,000 shares of Series A Preferred Stock issued and sold to the underwriters in connection with a subsequent public offering of Series A Preferred Stock, which closed on July 20, 2004. The total proceeds from both offerings to the Company were $53.8 million before underwriting discounts, commissions and other offering expenses. On or after July 7, 2009, the Company may, at its option, redeem the Series A Preferred Stock, in whole or part, at any time and from time to time, for cash at a price of $25 per share, plus accumulated or unpaid dividends (whether or not declared), if any, to the date of redemption.

In December 2004, the Company issued 3,450,000 shares of 9.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") at a price of $25 per share. The total number of shares of Series B Preferred Stock issued includes: 3,000,000 shares of Series B Preferred Stock issued in an underwritten public offering (the "Series B Initial Offering"), which closed on December 15, 2004; and 450,000 shares of Series B Preferred Stock issued in connection with the underwriters' election to purchase all of the shares of Series B Preferred Stock offered to them in connection with the Series B Initial Offering to cover over-allotments, which closed on December 23, 2004. The total proceeds to the Company were $86.3 million before underwriting discounts, commissions and other offering expenses. On or after December 15, 2009, the Company may, at its option, redeem the Series B Preferred Stock, in whole or part, at any time and from time to time, for cash at a price of $25 per share, plus accumulated or unpaid dividends (whether or not declared), if any, to the date of redemption.

Under the Company's charter, the Company's 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 December 31, 2005, there were 49,639,646 shares of Common Stock issued and outstanding, 2,150,000 shares of Series A Preferred Stock issued and outstanding and 3,450,000 shares of Series B Preferred Stock issued and outstanding.

During the year ended December 31, 2005, the Company declared dividends totaling $143.4 million, or $3.24 per common share, of which $45.2 million was paid on January 30, 2006. During the year ended December 31, 2004, the Company declared dividends totaling $92.3 million, or $2.43 per common share, of which $26.6 million was paid on January 25, 2005.

During the year ended December 31, 2005, the Company declared dividends totaling $5.2 million, or $2.4375 per Series A Preferred share, of which $1.3 million was paid on January 31, 2006. During the year ended December 31, 2004, the Company declared dividends totaling $3.0 million, or $1.376005 per Series A Preferred share, of which $1.3 million was paid on January 31, 2005.

During the year ended December 31, 2005, the Company declared dividends totaling $8.0 million, or $2.3125 per Series B Preferred share, of which $2.0 million was paid on January 31, 2006. During the year ended December 31, 2004, the Company declared dividends totaling $1.0 million, or $0.298387 per Series B Preferred share, all of which was paid on January 31, 2005.

NOTE 13 - OTHER NON-INTEREST INCOME AND OTHER NON-INTEREST EXPENSES

The following table summarizes the significant components of the Company's other non-interest income and other non-interest expenses for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,		
(In thousands)	2005	2004	2003
Other non-interest income:			
Reinsurance premiums	$ 4,283	$ 1,841	$ 808
Rental income	1,487	2,114	300
Title services revenue	1,235	1,002	2,158
Legal settlement	--	1,500	--
Principal fulfillment fees	--	--	1,912
Other	770	576	2,051
Other non-interest income	$ 7,775	$ 7,033	$ 7,229
Other non-interest expenses:			
Indemnification and foreclosure costs	$ 9,921	$ 7,072	$ 3,733
Tax penalties	3,240	290	759
Storage and moving	3,167	1,631	1,172
Insurance	2,103	2,684	1,936
Commitment fees	1,839	1,038	29
Licenses and permits	1,609	2,498	2,009
Outside services	731	1,485	1,081
Litigation expense	695	55	3,641
Other	8,713	5,463	7,537
Other non-interest expenses	$ 32,018	$ 22,216	$ 21,897

NOTE 14 - INCOME TAXES

AHM Investment, with the filing of its initial federal income tax return for the 2003 tax year, has elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes. In brief, if AHM Investment meets certain detailed conditions imposed by the REIT provisions of the Internal Revenue Code of 1986, as amended (the "Code") including a requirement that it invest primarily in qualifying REIT assets (which generally include real estate and mortgage loans) and a requirement that it satisfy certain income tests, it will not be taxed at the corporate level on the taxable income that it currently distributes to its stockholders. Therefore, to this extent, AHM Investment's stockholders will avoid double taxation, at the corporate level and then again at the stockholder level, when the income is distributed, that they would otherwise experience if AHM Investment failed to qualify as a REIT.

If AHM Investment does not qualify as a REIT in any given year, it would be subject to federal income tax as a corporation for the year of the disqualification and for each of the following four years. This disqualification would result in federal income tax, which would reduce the amount of the after-tax cash available for distribution to its shareholders. AHM Investment believes that it has satisfied the requirements for qualification as a REIT since the year ended December 31, 2003. AHM Investment intends at all times to continue to comply with the requirements for qualification as a REIT under the Code.

On August 14, 2003, AHM Investment formed American Home Mortgage Acceptance, Inc. ("AHM Acceptance"). AHM Acceptance is a qualified REIT subsidiary and, as such, is disregarded for federal income tax. As a disregarded entity, the taxable income of AHM Acceptance is deemed to be income of AHM Investment.

Effective December 3, 2003, as a result of a corporate reorganization, AHM Investment holds 100% of the shares of American Home Mortgage Holdings, Inc. ("AHM Holdings"). As of this date, AHM Holdings and each of its subsidiaries elected to be treated as taxable REIT subsidiaries and, as such, continue to be subject to both federal, state, and local corporate income tax.

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

	Year Ended December 31,				
	2005		2004		
	(Dollars in thousands)				
Tax provision at statutory rate	$ 85,073	35.0%	$ 17,268	35.0%	$ 42,706
Non-taxable REIT income	(101,834)	(41.9)	(39,650)	(80.4)	(1,540
State and local taxes, net of federal income tax benefit	(2,158)	(0.9)	(3,128)	(6.3)	6,428
Meals and entertainment	1,120	0.5	752	1.5	443
Other	78	0.0	(817)	(1.6)	186
Income tax (benefit) expense	$ (17,721)	(7.3%)	$ (25,575)	(51.8%)	$ 48,223

The income tax provision for the years ended December 31, 2005, 2004 and 2003 is comprised of the following components:

	Year Ended December 31, 2005	2004	2003
	(In thousands)		
Current tax provision:			
Federal	$ 3,940	$ (25,737)	$ 24,570
State	5,444	2,326	6,529
	9,384	(23,411)	31,099
Deferred tax provision:			
Federal	(18,981)	4,987	14,079
State	(8,124)	(7,151)	3,045
	(27,105)	(2,164)	17,124
Income tax (benefit) expense	$ (17,721)	$ (25,575)	$ 48,223

F-25

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

	December 31, 2005	2004
	(In thousands)	
Deferred tax liabilities:		
Capitalized cost of mortgage servicing rights	$ 150,926	$ 82,399
Loan origination costs	8,973	11,236
Depreciation	3,083	2,341
Deferred state income taxes	1,465	--
Other	11	--
Deferred tax liabilities	164,458	95,976
Deferred tax assets:		
Tax loss carryforwards	109,145	36,384
Allowance for bad debts and foreclosure reserve	2,817	2,711
Deferred state income taxes	--	353
Mark-to-market adjustments	10,721	811
AMT credit	1,745	--
Broker fees	958	528
Bonus accrual	8,399	--
Deferred compensation	3,436	--
Other	--	847

Deferred tax assets	137,221	41,634
Net deferred tax liabilities	$ 27,237	$ 54,342

American Home Mortgage Servicing, Inc. has approximately $40 million of separate company net operating loss carryforwards which begin to expire in 2008. In addition, AHM Holdings has approximately $266 million of federal and approximately $368 million of state net operating loss carryforwards which begin to expire in 2024 and 2009, respectively.

At December 31, 2005 and 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 assessments. 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.

NOTE 15 - EARNINGS PER SHARE

The following is a reconciliation of the denominators used in the computations of basic and diluted earnings per share for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,		
(Dollars in thousands, except per share amounts)	2005	2004	2003
Numerator for basic earnings per share - Net income available to common shareholders	$ 247,569	$ 70,924	$ 73,794
Denominator:			
Denominator for basic earnings per share			
Weighted average number of common shares outstanding during the period	43,896,736	37,611,757	17,727,253
Net effect of dilutive stock options	478,326	475,328	386,144
Denominator for diluted earnings per share	44,375,062	38,087,085	18,113,397
Net income per share available to common shareholders:			
Basic	$ 5.64	$ 1.89	$ 4.16

Diluted	$ 5.58	$ 1.86	$ 4.07

NOTE 16 - 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 December 31, 2005, the Company has awarded 213,728 shares of restricted stock under the Plan. During the years ended December 31, 2005, 2004 and 2003, the Company recognized compensation expense of $643 thousand, $769 thousand and $537 thousand, respectively, relating to shares of restricted stock granted under the Plan. At December 31, 2005, 187,513 shares are vested. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

F-27

The following table presents a summary of stock option activity for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,				
	2005				
	Number of Options	Exercise Price	Weighted Average Exercise Price	Number of Options	
Options outstanding, beginning of year	1,248,102	$4.75 - $34.18	$ 18.65	958,866	$4.7
Granted	442,419	26.54 - 34.88	31.98	667,634	21.
Exercised	(166,275)	4.75 - 26.02	13.51	(299,396)	4.
Canceled	(22,862)	10.06 - 33.12	22.72	(79,002)	5.
Options outstanding, end of year	1,501,384	$4.75 - $34.88	$ 23.09	1,248,102	$4.7
Options exercisable, end of year	486,609			385,233	

Year Ended December 31,

	2003		
	Number of Options	Exercise Price	Weighted Average Exercise Price
Options outstanding, beginning of year	1,000,258	$4.75 - $19.61	$ 8.17
Granted	324,376	10.06 - 19.36	14.58
Exercised	(331,041)	4.75 - 10.25	5.95
Canceled	(34,727)	5.50 - 10.93	6.77
Options outstanding, end of year	958,866	$4.75 - $19.61	$ 11.11
Options exercisable, end of year	349,559		

The following table summarizes stock options outstanding as of December 31, 2005:

	December 31, 2005				
	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Number Outstanding	Weighte Average Exercis Price
$4.75 - $6.44	116,051	$ 5.93	4.5	116,051	$
7.13 - 10.95	121,380	10.24	6.7	108,505	
11.19 - 16.05	116,929	13.02	6.6	114,429	
16.15 - 19.61	140,248	17.08	7.0	95,124	
21.06 - 23.85	143,100	21.95	8.1	35,000	
24.05 - 26.31	212,813	24.53	8.4	17,500	
26.54 - 28.45	142,500	27.21	9.0	--	
28.94 - 32.15	130,000	30.97	9.2	--	
32.17 - 32.95	260,863	32.88	9.2	--	
33.12 - 34.88	117,500	33.86	9.1	--	
	1,501,384	$ 23.09	8.0	486,609	$

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 years ended December 31, 2005, 2004 and 2003.

The weighted-average fair value per share of options granted during 2005, 2004 and 2003 was $3.88, $4.60 and $4.81, 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:

	Year Ended December 31,		
	2005	2004	2003
Dividend yield	9.2 %	8.5 %	3.0 %
Expected volatility	30.3 %	40.2 %	51.0 %
Risk-free interest rate	5.0 %	5.0 %	5.0 %
Expected life	3 years	3 years	3 years

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Loans Sold to Investors - Generally, the Company is not exposed to significant credit risk on its loans sold to investors. In the normal course of business, the Company is obligated to repurchase loans which are subsequently unable to be sold through normal investor channels. Management believes this is a rare occurrence and that the Company can usually sell the loans directly to a permanent investor.

Loan Funding and Delivery Commitments - At December 31, 2005 and 2004, the Company had commitments to fund loans approximating $9.2 billion and $6.2 billion, respectively. At December 31, 2005 and 2004, the Company had commitments to fund loans with agreed upon rates approximating $3.8 billion and $1.9 billion, respectively. The Company hedges the interest rate risk of such commitments primarily with mandatory delivery commitments, which totaled $1.1 billion and $379.9 million at December 31, 2005 and 2004, respectively. The remaining commitments to fund loans with agreed-upon rates are anticipated to be sold through "best-efforts" and investor programs. The Company has an early purchase program facility with Countrywide Home Loans, Inc. ("Countrywide") and a gestation facility with Greenwich Capital Financial Products, Inc. ("Greenwich"). The Company does not anticipate any material losses from such sales.

Net Worth Requirements - The Company's subsidiaries are required to maintain certain specified levels of minimum net worth to maintain their approved status with Fannie Mae, the Federal Home Loan Mortgage Corporation, the U.S. Department of Housing and Urban Development and other investors. At December 31, 2005, the highest minimum net worth requirement applicable to each subsidiary was $1.0 million.

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

Mortgage Reinsurance - One of the Company's captive reinsurance subsidiaries, Melville Reinsurance Corp. ("MRC"), has entered into mortgage reinsurance agreements with a primary mortgage insurance company. Under this agreement, MRC absorbs mortgage insurance losses in excess of a specified percentage of loss retained by the primary mortgage insurer in exchange for a portion of the primary mortgage insurer's insurance premium. Approximately $830.6 million of the Company's conventional servicing portfolio is covered by this mortgage reinsurance agreement. Each annual book of business has a maximum life of ten years and the maximum exposure is the amount of assets held in the trust on behalf of MRC. At December 31, 2005, those assets totaled $2.6 million. No reserve has been recorded and management believes no reserve is required based upon loss experience.

The Company's other captive reinsurance subsidiary, CNI Reinsurance, Ltd. ("CNIRE"), has entered into mortgage reinsurance agreements with four primary mortgage insurance companies. Under these agreements, CNIRE absorbs mortgage insurance losses in excess of a specified percentage of the principal balance of a pool of loans, subject to a cap, in exchange for a portion of the pool's mortgage insurance premium. Approximately $361.7 million of the conventional servicing portfolio is covered by such mortgage reinsurance agreements. Each annual book of business has a maximum life of ten years and the maximum exposure is the amount of assets held in the trust on behalf of CNIRE. At December 31, 2005, those assets totaled $7.1 million. No reserve has been recorded and management believes no reserve is required based upon loss experience.

NOTE 18 - OPERATING LEASES

Certain of the Company's facilities and equipment are leased under short-term lease agreements expiring at various dates through December 2014. All such leases are accounted for as operating leases. Total rental expense for premises and equipment, which is included in occupancy and equipment expense within the consolidated financial statements, amounted to $37.8 million, $24.7 million and $18.5 million for the years ended December 31, 2005, 2004 and 2003, respectively.

The Company's obligations under noncancelable operating leases which have an initial term of more than one year as of December 31, 2005 are as follows (in thousands):

2006	$ 55,779
2007	52,984
2008	37,543
2009	9,964
2010	4,432
Thereafter	285
Total	$160,987

NOTE 19 - CONCENTRATIONS OF CREDIT RISK

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers with similar characteristics, which would cause their ability to meet contractual obligations to be similarly impacted by economic or other conditions. The Company invests in negative amortization ARM, interest-only ARM, HELOC and certain other types of loans described in FSP SOP 94-6-1, "Terms of Loan Products that May Give Rise to a Concentration of Credit Risk." The Company, however, generally has purchased supplemental credit insurance for the loans of these types retained in the Company's portfolio if such loans have an initial loan-to-value ratio between 75% and 80%. In addition, the Company generally is the beneficiary of a borrower paid insurance policy on these types of loans if the initial loan-to-value ratio is greater than 80%. A substantial portion of the Company's mortgage loans held for investment at

December 31, 2005 are the types of loans described in FSP SOP 94-6-1.

The Company had originations of loans during the year ended December 31, 2005, exceeding 5% of total originations in the following states:

California	23.1%
Illinois	9.0
Florida	8.0
Arizona	5.5
Virginia	5.5
Maryland	5.1

In 2005, the three institutions that bought the most loans from the Company accounted for 51% of the Company's total loan sales.

F-30

NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The carrying values of the following assets and liabilities all approximate their fair values due to their short-term nature, terms of repayment or interest rate associated with the asset or liability:

- Cash and cash equivalents;
- Accounts receivable and servicing advances;
- Warehouse lines of credit;
- Commercial paper;
- Drafts payable; and
- Payable for mortgage-backed securities purchased.

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

a. Mortgage-Backed Securities - Fair value is based on published market valuations or price quotations provided by securities dealers.

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

c. Mortgage Loans Held for Investment, net - The fair values of loans are estimated using discounted cash flow analyses and using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality and risk. The fair value of nonaccrual loans and the allowance for losses on loans are approximated by their book values.

d. Mortgage Servicing Rights, net - The estimated fair value of MSRs is determined by obtaining a market valuation from one of the primary MSR brokers. To determine the market value of MSRs, the MSR broker uses a valuation model which incorporates assumptions relating to the estimate of the cost of servicing per 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 servicing rights.

e. Derivative Assets - Derivative assets includes IRLCs and interest rate swaps. Fair value of IRLCs is estimated using the fees and rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties, and includes the value of MSRs. Fair value also considers the difference between current levels of interest rates and the committed rates.

f. Notes Payable - Fair market value is estimated based on the maturity and interest rate of the related debt instruments. Carrying amount estimates fair market value.

g. Reverse Repurchase Agreements - Fair market value is estimated based on the maturity and interest rate of the related debt instruments.

h. CDOs - Fair market value is estimated based on the maturity and interest rate of the related debt instruments. Carrying amount estimates fair market value.

i. Derivative Liabilities - Derivative liabilities includes forward delivery commitments. The fair value is estimated using current market prices from dealers or brokers.

j. Trust Preferred Securities - Fair market value is estimated based on the maturity and interest rate of the related debt instruments. Carrying amount estimates fair market value.

The following table presents information about financial instruments and other selected assets:

	December 31, 2005		December 31, 2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estima Fair V
	(In thousands)		(In thousands)	

Assets:				
Cash and cash equivalents	$ 575,650	$ 575,650	$ 192,821	$ 19
Accounts receivable and servicing advances	329,132	329,132	116,978	11
Mortgage-backed securities	10,602,104	10,602,104	6,016,866	6,01
Mortgage loans held for sale, net	2,208,749	2,224,234	4,853,394	4,93
Mortgage loans held for investment, net	3,479,721	3,529,844	--	
Mortgage servicing rights, net	319,671	320,827	151,436	15
Derivative assets	44,594	96,176	24,803	3
Liabilities:				
Warehouse lines of credit	$ 3,474,191	$ 3,474,191	$ 735,783	$ 73
Commercial paper	1,079,179	1,079,179	529,790	52
Notes payable	319,309	319,309	135,761	13
Drafts payable	20,754	20,754	26,200	2
Reverse repurchase agreements	9,806,144	9,805,640	7,071,168	7,06
Collateralized debt obligations	1,057,906	1,057,906	2,022,218	2,02
Payable for securities purchased	261,539	261,539	--	
Derivative liabilities	16,773	16,773	1,860	
Trust preferred securities	203,688	203,688	--	

NOTE 21 - CONDENSED FINANCIAL INFORMATION OF AMERICAN HOME MORTGAGE INVESTMENT CORP.

The following tables provide condensed financial information for the financial position, results of operations and cash flows of AHM Investment as of December 31, 2005 and 2004:

Condensed Balance Sheets
(In thousands)

	December 31, 2005	December 31, 2004
Assets:		
Cash	$ 25,660	$ 30,143
Accounts receivable	89,542	42,127
Mortgage-backed securities	10,581,116	7,601,793
Goodwill	24,841	24,841
Derivative assets	30,506	11,319
Investment in subsidiaries	513,687	289,719
Other assets	131,868	13,515
Total assets	$11,397,220	$ 8,013,457
Liabilities and Stockholders' Equity:		
Liabilities:		
Reverse repurchase agreements	$ 9,742,154	$ 7,000,335
Payable for securities purchased	261,539	--
Accrued expenses and other liabilities	186,511	186,860
Total liabilities	10,190,204	7,187,195

Stockholders' equity:		
Total stockholders' equity	1,207,016	826,262
Total liabilities and stockholders' equity	$11,397,220	$ 8,013,457

Condensed Income Statements

	Year Ended December 31,		
	2005	2004	2003
		(In thousands)	
Net interest income:			
Interest income	$ 361,779	$ 197,991	$ 3,108
Interest expense	(233,265)	(127,125)	(2,302)
Total net interest income	128,514	70,866	806
Non-interest income:			
Loss on sale of mortgage loans	(25)	(385)	--
(Loss) gain on securities and derivatives	(56,719)	8,039	5,631
Loan servicing fees	4,021	--	--
Equity in earnings of subsidiaries	224,721	24,949	67,512
Total non-interest income	171,998	32,603	73,143
Total non-interest expenses	39,726	28,557	155
Net income	$ 260,786	$ 74,912	$ 73,794
Dividends on preferred stock	13,217	3,988	--
Net income available to common shareholders	$ 247,569	$ 70,924	$ 73,794

Condensed Statements of Cash Flows

	Year Ended December 31,	
	2005	2004

	(In thousands)		
Cash flows from operating activities:			
Net income	$ 260,786	$ 74,912	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Investment in earnings of subsidiaries	(224,721)	(24,949)	
Accretion and amortization of mortgage-backed securities, net	2,362	27,315	
Deferred cash flow hedge gain (loss), net of amortization	20,133	(4,218)	
Unrealized gain on free standing derivatives	(37,307)	(41,077)	
(Increase) decrease in operating assets			
Accounts receivable	(47,415)	(39,727)	
Other assets	(118,353)	(9,534)	
Increase (decrease) in accrued expenses and other liabilities	(15,152)	161,128	
Decrease (increase) in trading securities	163,785	(2,911,040)	
Net cash provided by (used in) operating activities	4,118	(2,767,190)	
Cash flows from investing activities:			
Increase in securities available for sale	(3,181,147)	(2,968,250)	
Acquisition of businesses, net of cash acquired	--	--	
Investment in subsidiaries	--	(35,738)	
Net cash used in investing activities	(3,181,147)	(3,003,988)	
Cash flows from financing activities:			
Increase in reverse repurchase agreements	2,741,819	5,656,008	1
Increase (decrease) in payable for securities purchased	261,539	(259,701)	
Proceeds from issuance of stock	306,277	478,895	
Dividends paid	(137,089)	(81,282)	
Dividends received from subsidiary	--	--	
Net cash provided by financing activities	3,172,546	5,793,920	1
Net (decrease) increase in cash and cash equivalents	(4,483)	22,742	
Cash and cash equivalents - beginning of year	30,143	7,401	
Cash and cash equivalents - end of year	$ 25,660	$ 30,143	$

NOTE 22 - ACQUISITIONS

Acquisition of Certain Home Loan Centers of Washington Mutual, Inc.

On August 2, 2004, the Company acquired certain residential mortgage home loan centers and associated satellite offices that Washington Mutual, Inc. and its subsidiaries (collectively, "Washington Mutual") previously slated for closure in 18 states. The Company hired 498 employees who support these home loan centers and associated satellite offices with the vast majority being sales professionals focused on retail loan originations. The purchase price was insignificant to the Company's consolidated financial statements.

Under the terms of the acquisition, the Company assumed Washington Mutual's lease obligations and purchased certain fixed assets in the acquired offices. The acquisition was funded from current cash reserves.

Apex Mortgage Capital, Inc.

On December 3, 2003, AHM Investment completed its merger with Apex Mortgage Capital, Inc. ("Apex"), a Maryland corporation that operated and elected to be treated as a REIT for federal income tax purposes. Immediately prior to the merger, under the terms of the reorganization agreement between AHM Holdings and AHM Investment, AHM Holdings reorganized through a reverse triangular merger that caused AHM Investment to become AHM Holdings' parent. AHM Investment issued 7,691,682 shares to former Apex stockholders in the merger valued at $177.3 million.

The following table summarizes the fair value of the assets acquired and liabilities assumed as of the date of the acquisition:

(In thousands)	December 3, 2003
Cash	$ 6,454
Securities - trading	5,182
Securities - available for sale	511,827
Accounts receivable	3,694
Other assets	20
Total assets acquired	527,177
Reverse repurchase agreements	329,650
Payable for securities purchased	40,250
Other liabilities	4,792
Total liabilities assumed	374,692
Net assets acquired	152,485
Shares issued	177,325
Goodwill	$ 24,840

The goodwill which resulted from the acquisition of Apex is not deductible for tax purposes.

The following table summarizes the required disclosures of the pro forma combined entity, as if the acquisition occurred on January 1, 2003:

(In thousands, except per share amounts)	Year Ended December 31, 2003
Revenue	$ 347,047
Income before income taxes and minority interest	24,789
Net income before cumulative effect of change in accounting principle	(24,401)
Earnings per share - basic	$ (0.96)
Earnings per share - diluted	$ (0.95)

Valley Bancorp, Inc.

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 23 - SEGMENTS AND RELATED INFORMATION

The Company has three segments, the Mortgage Holdings segment, the Loan Origination segment and the Loan Servicing segment. The Mortgage Holdings segment uses the Company's equity capital and borrowed funds to invest in mortgage-backed securities and mortgage loans held for investment, thereby producing net interest income. The Loan Origination segment originates mortgage loans through the Company's retail and wholesale loan production offices and its correspondent channel, as well as its direct-to-consumer channel supported by its call center. The Loan Servicing segment includes investments in MSRs as well as servicing operations primarily for other financial institutions. The Company's segments are presented on a consolidated basis and do not include the effects of separately recording intercompany transactions.

The Mortgage 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.

	Year Ended	
	(In	
	Mortgage Holdings Segment	Loan Originatio Segment
Net interest income:		
Interest income	$ 357,920	$ 369,7
Interest expense	(262,403)	(257,0

Net interest income	95,517	112,7
Provision for loan losses	(947)	(1,1
Net interest income after provision for loan losses	94,570	111,5
Non-interest income:		
Gain on sales of mortgage loans	--	335,0
Gain on sales of current period securitized mortgage loans	--	194,2
Gain on sales of mortgage-backed securities and derivatives	37,383	13,5
Unrealized (loss) gain on mortgage-backed securities and derivatives	(85,778)	77,2
Loan servicing fees	--	
Amortization of mortgage servicing rights	--	
Impairment provision of mortgage servicing rights	--	
Net loan servicing fees	--	
Other non-interest income	--	5,2
Total non-interest income	(48,395)	625,3
Non-interest expenses:		
Salaries, commissions and benefits, net	7,576	340,4
Occupancy and equipment	6	57,6
Data processing and communications	114	24,1
Office supplies and expenses	5	18,1
Marketing and promotion	2	20,2
Travel and entertainment	5	20,5
Professional fees	3,050	10,3
Other	(1,854)	26,4
Total non-interest expenses	8,904	517,9
Net income before income tax benefit	37,271	218,8
Income tax benefit	--	(12,4
Net income	$ 37,271	$ 231,3
Dividends on preferred stock	13,217	
Net income available to common shareholders	$ 24,054	$ 231,3
	Dece	
Segment assets	$ 11,960,608	$ 5,338,3

	Year Ended Dec	
	(In tho	
	Mortgage Holdings Segment	Loan Origination Segment
Net interest income:		
Interest income	$ 191,563	$ 122,743
Interest expense	(124,397)	(73,071)
Net interest income	67,166	49,672
Non- interest income:		
Gain on sales of mortgage loans	--	134,099
Gain on sales of current period securitized mortgage loans	--	40,120
Gain (loss) on sales of mortgage-backed securities and derivatives	3,459	(3,396)
Unrealized gain on mortgage-backed securities and derivatives	7,679	67,781
Loan servicing fees	--	--
Amortization of mortgage servicing rights	--	--
Impairment provision of mortgage servicing rights	--	--
Net loan servicing loss	--	--
Other non-interest income	--	7,030
Total non-interest income	11,138	245,634
Non-interest expenses:		
Salaries, commissions and benefits, net	229	184,163
Occupancy and equipment	7	37,110
Data processing and communications	15	15,877
Office supplies and expenses	--	12,685
Marketing and promotion	2	10,398
Travel and entertainment	3	14,042
Professional fees	3,653	7,855
Other	24,900	(5,767)
Total non-interest expenses	28,809	276,363
Net income before income tax benefit	49,495	18,943
Income tax benefit	--	(16,941)
Net income	$ 49,495	$ 35,884
Dividends on preferred stock	3,988	--
Net income available to common shareholders	$ 45,507	$ 35,884

	December	
Segment assets	$ 6,136,642	$ 5,194,387

	Year Ended Decembe		
	(In thousand		
	Mortgage Holdings Segment	Loan Origination Segment	Se S
Net interest income:			
Interest income	$ 3,108	$ 102,921	$
Interest expense	(2,302)	(54,869)	
Total net interest income	806	48,052	
Gain on sales of mortgage loans	--	376,605	
Gain on sales of current period securitized mortgage loans	--	149	
Gain on sales of mortgage-backed securities and derivatives	2,210	--	
Unrealized gain on mortgage-backed securities and derivatives	381	2,891	
Loan servicing fees	--	--	
Amortization of mortgage servicing rights	--	--	
Impairment recovery of mortgage servicing rights	--	--	
Net loan servicing loss	--	--	
Other non-interest income	--	7,229	
Total non-interest income	2,591	386,874	
Non-interest expenses:			
Salaries, commissions and benefits, net	--	201,454	
Occupancy and equipment	--	26,609	
Data processing and communications	--	13,102	
Office supplies and expenses	--	12,082	
Marketing and promotion	--	12,225	
Travel and entertainment	--	9,926	
Professional fees	--	6,693	
Other	--	19,881	
Total non-interest expenses	--	301,972	
Net income before income tax expense (benefit)	3,397	132,954	

Income tax expense (benefit)	--	54,100	
Net income	$ 3,397	$ 78,854	$
Dividends on preferred stock	--	--	
Net income available to common shareholders	$ 3,397	$ 78,854	$
	December 31, 2		
Segment assets	$ 1,865,414	$ 1,375,276	$

NOTE 24 - SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

Selected quarterly financial data are presented below by quarter for the years ended December 31, 2005 and 2004:

	Qua	
	December 31, 2005	September 2005
	(In thousands,	
Net interest income	$ 50,378	$ 46,8
Provision for loan losses	(2,142)	
Gain on sales of mortgage loans	98,777	123,6
Gain on sales of current period securitized mortgage loans	--	19,9
Gain on sales of mortgage-backed securities and derivatives	38,068	6,1
Unrealized (loss) gain on mortgage-backed securities and derivatives	(44,778)	(10,9
Net loan servicing fees (loss)	7,970	17,6
Non-interest expenses	150,175	149,0
Net income before income tax (benefit) expense	279	55,7
Income tax (benefit) expense	(16,419)	2,5
Net income	16,698	53,2
Net income available to common shareholders	13,394	49,9
Per share data:		
Basic	$ 0.27	$ 1.
Diluted	$ 0.27	$ 1.

	Qua	
	December 31,	September

	2004	2004
		(In thousands,
Net interest income	$ 47,182	$ 32,8
Gain on sales of mortgage loans	36,004	28,3
Gain on sales of current period securitized mortgage loans	--	30,4
Gain (loss) on sales of mortgage-backed securities and derivatives	2,873	(8,1
Unrealized gain (loss) on mortgage-backed securities and derivatives	(6,581)	27,0
Net loan servicing (loss) fees	(333)	(2,7
Non-interest expenses	102,606	78,3
Net income before income tax expense (benefit)	(21,981)	32,9
Income tax expense (benefit)	755	(9,9
Net income	(22,736)	42,9
Net income available to common shareholders	(25,076)	41,2
Per share data:		
Basic	$ (0.62)	$ 1.
Diluted	$ (0.62)	$ 1.

NOTE 25 - SUBSEQUENT EVENT

On January 12, 2006, American Home Mortgage Corp. ("AHM"), a wholly-owned subsidiary of the Company, entered into a Stock and Mortgage Loan Purchase Agreement with Union Federal Bank of Indianapolis ("Union Federal") and Waterfield Financial Corporation ("WFC"), pursuant to which AHM has agreed to purchase from Union Federal 100% of the outstanding capital stock of WFC and certain mortgage loans held by Union Federal, comprised of warehouse loans held for sale by Union Federal as of December 31, 2005 (the "Warehouse Loans"), construction loans held by Union Federal as of the closing (the "Construction Loans") and certain other loans held by Union Federal as of the closing, for a cash purchase price equal to the net book value of such assets, as modified by certain agreed upon adjustments, as of the respective closing dates (or, in the case of the Warehouse Loans, as of January 12, 2006). The aggregate net book value of such assets (without giving effect to the agreed-upon adjustments) as of December 31, 2005 was approximately $449.5 million.

INDEX TO EXHIBITS

Exhibit No.		Description
2.1	--	Agreement and Plan of Merger, dated as of December 29, 1999, by and among American Home Mortgage Holdings, Inc., American Home Mortgage Sub I, Inc., Marina Mortgage Company, Inc. ("Marina") and the Stockholders of Marina listed on the signature pages thereto (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of American Home Mortgage Holdings, Inc. (File No. 000-27081) filed with the SEC on January 12, 2000).

2.2	--	Agreement and Plan of Merger, dated as of January 17, 2000, by and among American Home Mortgage Holdings, Inc., American Home Mortgage Sub II, Inc., First Home Mortgage Corp., Inc. ("First Home") and the Stockholders of First Home listed on the signature pages thereto (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of American Home Mortgage Holdings, Inc. (File No. 000-27081) filed with the SEC on February 1, 2000).
2.3	--	Stock Purchase Agreement, dated as of June 13, 2002, among Columbia National Holdings, Inc., Columbia National, Incorporated and American Home Mortgage Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of American Home Mortgage Holdings, Inc. (File No. 000-27081) filed with the SEC on June 14, 2002).
2.4	--	Agreement and Plan of Merger, dated as of July 12, 2003, by and among American Home Mortgage Holdings, Inc., American Home Mortgage Investment Corp. (formerly named AHM New Holdco, Inc.) and Apex Mortgage Capital, Inc. (incorporated by reference to Annex A to Amendment No. 3 to the Registration Statement on Form S-4 of American Home Mortgage Investment Corp. (File No. 333-107545) filed with the SEC on October 24, 2003).
2.5	--	Agreement and Plan of Reorganization, dated as of September 11, 2003, by and among American Home Mortgage Holdings, Inc., American Home Mortgage Investment Corp. (formerly named AHM New Holdco, Inc.) and AHM Merger Sub, Inc. (incorporated by reference to Annex B to Amendment No. 3 to the Registration Statement on Form S-4 of American Home Mortgage Investment Corp. (File No. 333-107545) filed with the SEC on October 24, 2003).
2.6	--	Stock and Mortgage Loan Purchase Agreement, dated as of January 12, 2006, by and among American Home Mortgage Corp., Waterfield Financial Corporation and Union Federal Bank of Indianapolis (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on January 17, 2006).
3.1	--	Articles of Amendment and Restatement of American Home Mortgage Investment Corp. (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on March 15, 2004).
3.2.1	--	Articles Supplementary of American Home Mortgage Investment Corp. establishing and fixing the rights and preferences of its 9.75% Series A Cumulative Redeemable Preferred Stock, which American Home Mortgage Investment Corp. filed with the State Department of Assessments and Taxation of Maryland on July 6, 2004 (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on August 9, 2004).
3.2.2	--	Articles Supplementary of American Home Mortgage Investment Corp. establishing and fixing the rights and

		preferences of 747,500 additional shares of its 9.75% Series A Cumulative Redeemable Preferred Stock, which American Home Mortgage Investment Corp. filed with the State Department of Assessments and Taxation of Maryland on July 19, 2004 (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on August 9, 2004).
3.3	--	Articles Supplementary of American Home Mortgage Investment Corp. establishing and fixing the rights and preferences of its 9.25% Series B Cumulative Redeemable Preferred Stock, which American Home Mortgage Investment Corp. filed with the State Department of Assessments and Taxation of Maryland on December 14, 2004 (incorporated by reference to Exhibit 3.3 to the Annual Report on Form 10-K/A of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on April 22, 2005).
3.4	--	Amended and Restated Bylaws of American Home Mortgage Investment Corp. (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on March 15, 2004).
4.1	--	Reference is hereby made to Exhibits 3.1 through 3.4 above.
4.2.1	--	Specimen Certificate for the Common Stock of American Home Mortgage Investment Corp. (incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on March 15, 2004).
4.2.2	--	Specimen Certificate for the 9.75% Series A Cumulative Redeemable Preferred Stock of American Home Mortgage Investment Corp. (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 8-A of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on June 30, 2004).
4.2.3	--	Specimen Certificate for the 9.25% Series B Cumulative Redeemable Preferred Stock of American Home Mortgage Investment Corp. (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 8-A of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on December 10, 2004).
4.3.1	--	Amended and Restated Trust Agreement, dated May 13, 2005, among Chase Bank USA, National Association, JPMorgan Chase Bank, National Association, American Home Mortgage Investment Corp., the administrative trustees named therein and the holders from time to time (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 20, 2005).
4.3.2	--	Junior Subordinated Indenture, dated as of May 13, 2005, by and between American Home Mortgage Investment Corp. and JPMorgan Chase Bank, National Association (incorporated by reference to Exhibit 4.2 to the Current

		Report on Form 8-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 20, 2005).
10.1	--	1999 Omnibus Stock Incentive Plan (filed herewith).
10.2	--	Amended and Restated 1997 Stock Option Plan of Apex Mortgage Capital, Inc. (incorporated by reference to Annex J to Amendment No. 3 to the Registration Statement on Form S-4 of American Home Mortgage Investment Corp. (File No. 333-107545) filed with the SEC on October 24, 2003).
10.3.1	--	Employment Agreement, dated as of August 26, 1999, by and between American Home Mortgage Holdings, Inc. and Michael Strauss (incorporated by reference to Exhibit 10.1 to Amendment No. 3 to the Registration Statement on Form S-1 of American Home Mortgage Holdings, Inc. (File No. 333-82409) filed with the SEC on August 31, 1999).
10.3.2	--	Amendment to Employment Agreement, dated as of April 1, 2000, by and between American Home Mortgage Holdings, Inc. and Michael Strauss (incorporated by reference to Exhibit 10.1.2 to Amendment No. 2 to the Registration Statement on Form S-3 on Form S-1 of American Home Mortgage Holdings, Inc. (File No. 333-60050) filed with the SEC on June 7, 2001).
10.4	--	Amended and Restated Employment Agreement, dated as of April 27, 2004, by and between American Home Mortgage Holdings, Inc. and John A. Johnston (incorporated by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 10, 2004).
10.5	--	Employment Agreement, dated as of March 1, 2003, by and between American Home Mortgage Holdings, Inc. and Stephen Hozie (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on March 15, 2004).
10.6	--	Employment Agreement, dated as of December 23, 2002, by and between American Home Mortgage Corp. and Alan Horn (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K of American Home Mortgage Holdings, Inc. (File No. 000-27081) filed with the SEC on March 31, 2003).
10.7	--	Employment Agreement, dated as of June 19, 2003, by and between American Home Mortgage Corp. and Tom McDonagh (incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on March 15, 2004).
10.8	--	Employment Agreement, dated as of January 11, 2001, by and between American Home Mortgage Holdings, Inc. and Donald Henig (incorporated by reference to Exhibit 10.36 to the Annual Report on Form 10-K of American Home Mortgage Holdings, Inc. (File No. 000-27081) filed with

		the SEC on April 1, 2002).
10.9	--	Employment Agreement, dated as of October 1, 2004, by and between American Home Mortgage Holdings, Inc. and Dena Kwaschyn (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K/A of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on April 22, 2005).
10.10	--	Employment Agreement, dated as of September 1, 2003, by and between American Home Mortgage Corp. and Ronald Rosenblatt, Ph.D. (incorporated by reference to Exhibit 10.10 to the Annual Report on Form 10-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on March 15, 2004).
10.11	--	Amended and Restated Employment Agreement, dated as of December 30, 2004, by and between American Home Mortgage Holdings, Inc. and Thomas J. Fiddler (incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K/A of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on April 22, 2005).
10.12	--	Employment Agreement, dated as of January 1, 2005, by and between American Home Mortgage Holdings, Inc. and Richard Loeffler (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 6, 2005).
10.13	--	Amended and Restated Employment Agreement, dated as of December 14, 2004, by and between American Home Mortgage Holdings, Inc. and John A. Manglardi (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 6, 2005).
10.14.1	--	Amended and Restated Mortgage Loan Purchase Agreement, dated as of February 6, 2004, by and among UBS Real Estate Securities Inc., the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 10, 2004).
10.14.2	--	Amended and Restated Mortgage Loan Repurchase Agreement, dated as of February 6, 2004, by and among UBS Real Estate Securities Inc., American Home Mortgage Investment Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 10, 2004).
10.14.3	--	Amended and Restated Mortgage Loan Custodial Agreement, dated as of February 6, 2004, by and among UBS Real Estate Securities Inc., Deutsche Bank National Trust

		Company, American Home Mortgage Investment Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 10, 2004).
10.14.4	--	Amended and Restated Mortgage Loan Participation Agreement, dated as of February 6, 2004, by and among UBS Real Estate Securities Inc., American Home Mortgage Investment Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 10, 2004).
10.14.5	--	Amended and Restated Custodial Agreement, dated as of February 6, 2004, by and among UBS Real Estate Securities Inc., Deutsche Bank National Trust Company, American Home Mortgage Investment Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 10, 2004).
10.15	--	Master Repurchase Agreement, dated as of December 14, 2005, among Greenwich Capital Financial Products, Inc., American Home Mortgage Corp., American Home Mortgage Acceptance, Inc., and American Home Mortgage Investment Corp. (filed herewith).
10.16.1	--	Amended and Restated Addendum to Master Repurchase Agreement, dated as of November 22, 2005, by and among American Home Mortgage Corp., American Home Mortgage Servicing, Inc. and AHM SPV I, LLC (filed herewith).
10.16.2	--	Amended and Restated Loan Agreement, dated as of November 22, 2005, by and among AHM SPV I, LLC, La Fayette Asset Securitization LLC, Amsterdam Funding Corporation, Barton Capital LLC, Park Avenue Receivables Company, Calyon New York Branch, Lloyds TSB Bank PLC, ABN Amro Bank N.V., Societe Generale, JPMorgan Chase Bank, N.A. and American Home Mortgage Servicing, Inc. (filed herewith).
10.16.3	--	Amended and Restated Collateral Agency Agreement, dated as of November 22, 2005, by and among AHM SPV I, LLC, American Home Mortgage Servicing, Inc., Calyon New York Branch, and Deutsche Bank National Trust Company (filed herewith).
10.16.4	--	Confirmation of Performance Guarantees, dated as of November 22, 2005, by American Home Mortgage Holdings, Inc. and American Home Mortgage Investment Corp. (filed herewith).

10.16.5	--	Amended and Restated Originator Performance Guaranty, dated as of December 10, 2004, by American Home Mortgage Holdings, Inc. and American Home Mortgage Investment Corp. in favor of AHM SPV I, LLC (incorporated by reference to Exhibit 10.3.2 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 6, 2005).
10.16.6	--	Amended and Restated Servicer Performance Guaranty, dated as of December 10, 2004, by American Home Mortgage Holdings, Inc. and American Home Mortgage Investment Corp. in favor of Calyon New York Branch (incorporated by reference to Exhibit 10.3.3 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 6, 2005).
10.17.1	--	Master Repurchase Agreement, dated as of January 27, 2006, by and among American Home Mortgage Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Investment Corp., American Home Mortgage Holdings, Inc., American Home Mortgage Servicing, Inc., Morgan Stanley Mortgage Capital, Inc. and Morgan Stanley Bank (filed herewith).
10.17.2	--	Custodial Agreement, dated as of January 27, 2006, by and among American Home Mortgage Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Investment Corp., American Home Mortgage Holdings, Inc., American Home Mortgage Servicing, Inc., Morgan Stanley Bank and Deutsche Bank National Trust Company (filed herewith).
10.18.1	--	Letter Agreement, dated as of March 10, 2006, between Barclays Bank PLC and American Home Mortgage Acceptance, Inc. (filed herewith).
10.18.2	--	Custodial Agreement, dated as of March 10, 2006, by and among Barclays Bank PLC, American Home Mortgage Acceptance, Inc. and Deutsche Bank National Trust Company (filed herewith).
10.18.3	--	Guaranty, dated as of March 10, 2006, by American Home Mortgage Investment Corp. in favor of Barclays Bank PLC (filed herewith).
10.19.1	--	Third Amended and Restated Master Repurchase Agreement, dated as of July 15, 2005, by and among IXIS Real Estate Capital Inc. (formerly known as CDC Mortgage 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. (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on July 29, 2005).
10.19.2	--	Second Amended and Restated Custodial and Disbursement Agreement, dated as of June 1, 2004, by and among American Home Mortgage Investment Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage

		Holdings, Inc., American Home Mortgage Corp., Columbia National, Incorporated, CDC Mortgage Capital Inc., and Deutsche Bank National Trust Company (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on August 9, 2004).
10.20	--	Amended and Restated Credit Agreement, dated as of August 12, 2005, by and among American Home Mortgage Investment Corp., American Home Mortgage Servicing, Inc., American Home Mortgage Corp., American Home Mortgage Acceptance, Inc., the Lenders from time to time party thereto, and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on November 9, 2005).
10.21	--	Purchase Agreement, dated May 13, 2005, among American Home Mortgage Investment Corp., Baylis Trust I and Merrill Lynch International (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 20, 2005).
10.22.1	--	Mortgage Loan Purchase and Sale Agreement, dated as of January 1, 2004, by and among Greenwich Capital Financial Products, Inc., American Home Mortgage Corp., and American Home Mortgage Servicing, Inc. f/k/a Columbia National, Incorporated (incorporated by reference to Exhibit 10.5.1 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 6, 2005).
10.22.2	--	First Amendment, dated as of September 1, 2004, to the Mortgage Loan Purchase and Sale Agreement, dated as of January 1, 2004, by and among Greenwich Capital Financial Products, Inc., American Home Mortgage Corp., and American Home Mortgage Servicing, Inc. (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on November 9, 2004).
10.22.3	--	Second Amendment, dated as of September 28, 2005, to the Mortgage Loan Purchase and Sale Agreement, dated as of January 1, 2004, by and among Greenwich Capital Financial Products, Inc., American Home Mortgage Corp., and American Home Mortgage Servicing, Inc. (filed herewith).
10.22.4	--	Custodial Agreement, dated as of January 1, 2004, by and among Greenwich Capital Financial Products, Inc., Deutsche Bank National Trust Company, American Home Mortgage Corp., and American Home Mortgage Servicing, Inc. f/k/a Columbia National, Incorporated (incorporated by reference to Exhibit 10.5.2 to the Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on May 6, 2005).
10.23	--	Agreement of Lease, dated October 20, 1995, between

		Reckson Operating Partnership, L.P., as Landlord, Choicecare Long Island, Inc., as Assignor, and American Home Mortgage Corp., as Assignee, as amended on September 30, 1999 (incorporated by reference to Exhibit 10.35 to the Annual Report on Form 10-K of American Home Mortgage Holdings, Inc. (File No. 000-27081) filed with the SEC on March 30, 2000).
10.24	--	Agreement of Lease, dated as of November 24, 2003, between AHM SPV II, LLC, and American Home Mortgage Corp. (incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on March 15, 2004).
10.25	--	Lease Agreement, dated as of November 1, 2003, between Suffolk County Development Agency (Suffolk County, New York) and AHM SPV II, LLC (incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K of American Home Mortgage Investment Corp. (File No. 001-31916) filed with the SEC on March 15, 2004).
21.1	--	Subsidiaries of American Home Mortgage Investment Corp. (filed herewith).
23.1	--	Consent of Deloitte & Touche LLP (filed herewith).
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 (filed herewith).
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 (filed herewith).
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 (filed herewith).
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 (filed herewith).