

NEW YORK MORTGAGE TRUST INC

Form 10-Q

November 14, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

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

**For the quarterly period ended September 30, 2005.  
OR**

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

**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-32216**

**NEW YORK MORTGAGE TRUST, INC.**

**(Exact name of registrant as specified in its charter)**

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

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

**1301 Avenue of the Americas, New York, New York 10019**

**(Address of principal executive office) (Zip Code)**

**(212) 634-9400**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes R No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes ☐ No R

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

Yes ☐ No R

The number of shares of the registrant's common stock, par value \$.01 per share, outstanding on November 1, 2005 was 18,219,302.

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**NEW YORK MORTGAGE TRUST, INC.  
FORM 10-Q**

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**PART I: FINANCIAL INFORMATION**  
**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

|                                                                     | <b>September 30,<br/>2005<br/>(unaudited)</b> | <b>December 31,<br/>2004</b> |
|---------------------------------------------------------------------|-----------------------------------------------|------------------------------|
| <b>ASSETS</b>                                                       |                                               |                              |
| Cash and cash equivalents                                           | \$ 11,302,458                                 | \$ 7,613,106                 |
| Restricted cash                                                     | 445,635                                       | 2,341,712                    |
| Investment securities available for sale                            | 797,079,293                                   | 1,204,744,714                |
| Due from loan purchasers                                            | 143,620,835                                   | 79,904,315                   |
| Escrow deposits pending loan closings                               | 11,932,354                                    | 16,235,638                   |
| Accounts and accrued interest receivable                            | 16,027,466                                    | 15,554,201                   |
| Mortgage loans held for sale                                        | 116,533,155                                   | 85,384,927                   |
| Mortgage loans held in securitization trusts                        | 589,354,405                                   |                              |
| Mortgage loans held for investment                                  | 140,411,907                                   | 190,153,103                  |
| Deferred tax and other assets                                       | 12,537,424                                    | 4,351,869                    |
| Derivative assets                                                   | 9,298,248                                     | 3,677,572                    |
| Property and equipment, net                                         | 6,456,230                                     | 4,801,302                    |
| <b>TOTAL ASSETS</b>                                                 | <b>\$ 1,854,999,410</b>                       | <b>\$ 1,614,762,459</b>      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                         |                                               |                              |
| <b>LIABILITIES:</b>                                                 |                                               |                              |
| Financing arrangements, portfolio investments                       | \$ 1,282,723,167                              | \$ 1,115,809,285             |
| Financing arrangements, loans held for sale/for investment          | 398,907,025                                   | 359,202,980                  |
| Due to loan purchasers                                              | 1,607,750                                     | 350,884                      |
| Accounts payable and accrued expenses                               | 18,380,787                                    | 19,485,241                   |
| Subordinated debentures                                             | 45,000,000                                    |                              |
| Derivative liabilities                                              | 1,076,310                                     | 164,816                      |
| Other liabilities                                                   | 250,726                                       | 267,034                      |
| <b>Total liabilities</b>                                            | <b>1,747,945,765</b>                          | <b>1,495,280,240</b>         |
| <b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>                      |                                               |                              |
| <b>STOCKHOLDERS' EQUITY :</b>                                       |                                               |                              |
| Common stock, \$0.01 par value, 400,000,000 shares authorized       |                                               |                              |
| 18,219,302 shares issued and outstanding at September 30, 2005 and  |                                               |                              |
| 18,114,445 shares issued and 17,797,375 outstanding at December 31, |                                               |                              |
| 2004                                                                | 182,193                                       | 180,621                      |
| Additional paid-in capital                                          | 111,359,871                                   | 119,045,450                  |
| Accumulated other comprehensive (loss) income                       | (4,488,419)                                   | 256,148                      |
| <b>Total stockholders' equity</b>                                   | <b>107,053,645</b>                            | <b>119,482,219</b>           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                   | <b>\$ 1,854,999,410</b>                       | <b>\$ 1,614,762,459</b>      |

See notes to consolidated financial statements.



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**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(unaudited)**

|                                                                 | <b>For the Nine Months Ended<br/>September 30,</b> |                                     | <b>For the Three Months<br/>Ended<br/>September 30,</b> |                     |
|-----------------------------------------------------------------|----------------------------------------------------|-------------------------------------|---------------------------------------------------------|---------------------|
|                                                                 | <b>2005</b>                                        | <b>2004<br/>As restated<br/>(1)</b> | <b>2005</b>                                             | <b>2004</b>         |
| <b>REVENUE:</b>                                                 |                                                    |                                     |                                                         |                     |
| Gain on sales of mortgage loans                                 | \$ 21,633,961                                      | \$ 14,933,433                       | \$ 8,985,293                                            | \$ 4,482,262        |
| Interest income:                                                |                                                    |                                     |                                                         |                     |
| Loans held for sale                                             | 10,573,325                                         | 5,777,240                           | 4,473,157                                               | 2,633,442           |
| Investment securities and mortgage loans<br>held for investment | 34,035,558                                         | 7,659,748                           | 9,208,733                                               | 7,656,699           |
| Loans held in the securitization trusts                         | 11,875,521                                         |                                     | 6,016,479                                               |                     |
| Brokered loan fees                                              | 7,180,484                                          | 4,398,137                           | 2,646,683                                               | 1,437,664           |
| Gain on sale of securities and related hedges                   | 2,207,433                                          | 732,812                             | 1,286,031                                               | 125,837             |
| Miscellaneous income                                            | 194,683                                            | 95,597                              | 91,043                                                  | 49,620              |
| <b>Total revenue</b>                                            | <b>87,700,965</b>                                  | <b>33,596,967</b>                   | <b>32,707,419</b>                                       | <b>16,385,524</b>   |
| <b>EXPENSES:</b>                                                |                                                    |                                     |                                                         |                     |
| Salaries, commissions and benefits                              | 23,874,659                                         | 11,394,409                          | 7,302,398                                               | 4,503,571           |
| Interest expense:                                               |                                                    |                                     |                                                         |                     |
| Loans held for sale/for investment                              | 11,194,956                                         | 2,960,294                           | 4,807,623                                               | 1,227,997           |
| Portfolio investments                                           | 30,089,833                                         | 4,237,195                           | 10,749,583                                              | 4,237,195           |
| Subordinated debentures                                         | 1,095,300                                          |                                     | 601,722                                                 |                     |
| Brokered loan expenses                                          | 5,688,931                                          | 3,136,452                           | 1,483,323                                               | 1,016,930           |
| Occupancy and equipment                                         | 4,981,098                                          | 2,426,188                           | 1,264,643                                               | 888,671             |
| Marketing and promotion                                         | 3,900,043                                          | 1,973,922                           | 1,310,316                                               | 677,531             |
| Data processing and communications                              | 1,807,406                                          | 1,136,470                           | 617,824                                                 | 515,234             |
| Office supplies and expenses                                    | 1,908,839                                          | 1,017,243                           | 651,279                                                 | 370,003             |
| Professional fees                                               | 2,812,478                                          | 1,087,735                           | 965,945                                                 | 433,981             |
| Travel and entertainment                                        | 706,904                                            | 393,872                             | 261,293                                                 | 88,597              |
| Depreciation and amortization                                   | 1,068,906                                          | 308,859                             | 301,705                                                 | 102,953             |
| Other                                                           | 1,083,537                                          | 795,716                             | 530,214                                                 | 102,645             |
| <b>Total expenses</b>                                           | <b>90,212,890</b>                                  | <b>30,868,355</b>                   | <b>30,847,868</b>                                       | <b>14,165,308</b>   |
| <b>(LOSS) INCOME BEFORE INCOME<br/>TAXES</b>                    | <b>(2,511,925)</b>                                 | <b>2,728,612</b>                    | <b>1,859,551</b>                                        | <b>2,220,216</b>    |
| Income tax benefit                                              | 5,880,000                                          | 221,653                             | 1,000,000                                               | 231,653             |
| <b>NET INCOME</b>                                               | <b>\$ 3,368,075</b>                                | <b>\$ 2,950,265</b>                 | <b>\$ 2,859,551</b>                                     | <b>\$ 2,451,869</b> |
| Basic income per share                                          | \$ 0.19                                            | \$ 0.17                             | \$ 0.16                                                 | \$ 0.14             |

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|                                             |    |            |    |            |    |            |    |            |
|---------------------------------------------|----|------------|----|------------|----|------------|----|------------|
| Diluted income per share                    | \$ | 0.19       | \$ | 0.17       | \$ | 0.16       | \$ | 0.14       |
| Weighted average shares outstanding basic   |    | 17,854,850 |    | 17,797,375 |    | 17,958,175 |    | 17,797,375 |
| Weighted average shares outstanding diluted |    | 18,121,074 |    | 17,800,024 |    | 18,242,373 |    | 17,800,547 |

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(1) See note 18 for details regarding the restatement.

See notes to consolidated financial statements.

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**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

|                                                                               | <b>For the Nine Months Ended<br/>September 30,</b> |                                 |
|-------------------------------------------------------------------------------|----------------------------------------------------|---------------------------------|
|                                                                               | <b>2005</b>                                        | <b>2004<br/>As restated (1)</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                                                    |                                 |
| Net income                                                                    | \$ 3,368,075                                       | \$ 2,950,265                    |
| Adjustments to reconcile net income to net cash used in operating activities: |                                                    |                                 |
| Depreciation and amortization                                                 | 1,068,906                                          | 308,859                         |
| Amortization of premium on investment securities and mortgage loans           | 4,880,406                                          | 358,835                         |
| Gain on sale of securities and related hedges                                 | (2,207,433)                                        | (732,812)                       |
| Origination of mortgage loans held for sale                                   | (2,179,945,226)                                    | (954,882,602)                   |
| Proceeds from sales of mortgage loans                                         | 1,689,574,271                                      | 949,391,144                     |
| Restricted stock compensation expense                                         | 1,823,199                                          | 1,326,375                       |
| Stock option grants compensation expense                                      | 33,758                                             |                                 |
| Deferred tax benefit                                                          | (5,880,000)                                        | (221,653)                       |
| Change in value of derivatives                                                | (1,348,991)                                        | (692,019)                       |
| (Increase) decrease in operating assets:                                      |                                                    |                                 |
| Due from loan purchasers                                                      | (63,716,520)                                       | 7,960,875                       |
| Escrow deposits pending loan closings                                         | 4,303,284                                          | (28,569,060)                    |
| Accounts and accrued interest receivable                                      | (473,265)                                          | (8,401,518)                     |
| Deferred tax and other assets                                                 | (792,829)                                          | (1,336,174)                     |
| Increase (decrease) in operating liabilities:                                 |                                                    |                                 |
| Due to loan purchasers                                                        | 1,256,866                                          | (519,548)                       |
| Accounts payable and accrued expenses                                         | (583,040)                                          | 6,546,317                       |
| Other liabilities                                                             | (16,308)                                           | 139,966                         |
| Net cash used in operating activities                                         | (548,654,847)                                      | (26,372,750)                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                  |                                                    |                                 |
| Restricted cash                                                               | 1,896,077                                          | (2,761,205)                     |
| Sale of investment securities                                                 | 223,812,777                                        | 21,398,981                      |
| Purchase of investment securities                                             | (148,150,185)                                      | (1,216,359,998)                 |
| Purchase of mortgage loans held in the securitization trusts                  | (167,873,446)                                      |                                 |
| Principal repayments received on loans held in the securitization trust       | 77,720,402                                         |                                 |
| Proceeds from sale of marketable securities                                   |                                                    | 2,320,414                       |
| Principal paydown on investment securities                                    | 320,539,626                                        | 30,563,700                      |
| Payments received on loans held for investment                                | 8,935,308                                          | (25,715,056)                    |
| Purchases of property and equipment                                           | (2,723,834)                                        | (1,189,528)                     |
| Net cash provided by (used in) investing activities                           | 314,156,725                                        | (1,191,742,692)                 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                  |                                                    |                                 |
| Proceeds from issuance of common stock                                        |                                                    | 123,116,740                     |
| Cash distributions to members                                                 |                                                    | (3,295,448)                     |



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|                                                    |               |               |
|----------------------------------------------------|---------------|---------------|
| Payments on subordinated notes due to members      |               | (13,706,902)  |
| Increase in financing arrangements, net            | 206,617,927   | 1,120,776,691 |
| Dividends paid                                     | (13,430,453)  |               |
| Issuance of subordinated debentures                | 45,000,000    |               |
| Net cash provided by financing activities          | 238,187,474   | 1,226,891,081 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS          | 3,689,352     | 8,775,639     |
| CASH AND CASH EQUIVALENTS Beginning of period      | 7,613,106     | 4,357,069     |
| CASH AND CASH EQUIVALENTS End of period            | \$ 11,302,458 | \$ 13,132,708 |
| SUPPLEMENTAL DISCLOSURE                            |               |               |
| Cash paid for interest                             | \$ 25,282,759 | \$ 932,830    |
| NON CASH ACTIVITIES                                |               |               |
| Reduction of subordinated notes due members        | \$            | \$ 1,000,000  |
| Grant of common stock                              | 31,035        | 3,709,125     |
| Dividends declared to be paid in subsequent period | \$ 3,826,053  | \$ 2,905,939  |

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(1) See note 18 for details regarding the restatement.

See notes to consolidated financial statements.

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**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2005 (Unaudited)**

**1. Summary of Significant Accounting Policies**

*Organization* New York Mortgage Trust, Inc. ( NYMT or the Company ) is a fully-integrated, self-advised, residential mortgage finance company formed as a Maryland corporation in September 2003. The Company earns net interest income from residential mortgage-backed securities and fixed-rate and adjustable-rate mortgage loans and securities originated through its wholly-owned subsidiary, The New York Mortgage Company, LLC ( NYMC ). The Company also earns net interest income from its investment in and the securitization of certain self-originated adjustable rate mortgage loans that meet the Company's investment criteria. Licensed, or exempt from licensing, in 42 states and the District of Columbia and through a network of 27 full-service loan origination locations and 39 satellite loan origination locations, NYMC originates a wide range of mortgage loans, with a primary focus on prime, residential mortgage loans.

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

On January 9, 2004, the Company capitalized New York Mortgage Funding, LLC ( NYMF ) as a wholly-owned subsidiary of the Company. NYMF is a qualified REIT subsidiary, or QRS, in which the Company accumulates mortgage loans that the Company intends to securitize. In June 2004, the Company sold 15 million shares of its common stock in an initial public offering ( IPO ) at a price to the public of \$9.00 per share, for net proceeds of \$122.0 million after deducting the underwriters' discount and other offering expenses. Concurrent with the Company's IPO, the Company issued 2,750,000 shares of common stock in exchange for the contribution to the Company of 100% of the equity interests of NYMC. Subsequent to the IPO and the contribution of NYMC, the Company had 18,114,445 shares of common stock issued and 17,797,375 shares outstanding. Prior to the IPO, NYMT did not have recurring business operations.

On February 25, 2005, the Company completed its first loan securitization of high-credit quality, first-lien, adjustable rate mortgage ( ARM ) loans, by contributing loans into New York Mortgage Trust 2005-1 ( NYMT 05-1 Trust ). NYMT 05-1 Trust is a wholly-owned subsidiary of NYMT. The securitization was structured as a secured borrowing, with the line-of-credit financing used to purchase and originate the mortgage loans and refinanced through repurchase agreements upon securitization. On March 15, 2005, the Company closed a private placement of \$25.0 million of trust preferred securities issued by NYM Preferred Trust I. NYM Preferred Trust I is a wholly-owned subsidiary of NYMC. On July 28, 2005 the Company completed its second loan securitization of \$239.5 million of high-credit quality, first-lien, ARM loans, by contributing loans to New York Mortgage Trust 2005-2 ( NYMT 05-2 Trust ). NYMT 05-2 Trust is a wholly-owned subsidiary of NYMT. The securitization was structured as a secured borrowing, with the line-of-credit financing used to purchase and originate the mortgage loans and refinanced through repurchase agreements upon securitization. On September 1, 2005, the Company closed a private placement of \$20.0 million of preferred securities issued by NYM Preferred Trust II. NYM Preferred Trust II is a wholly-owned subsidiary of NYMC.

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

*Basis of Presentation* The consolidated financial statements include the accounts of the Company subsequent to the IPO and also include the accounts of NYMC and NYMF prior to the IPO. As a result, our historical financial results reflect the financial operations of this prior business strategy of selling virtually all of the loans originated by NYMC to third parties. All intercompany accounts and transactions are eliminated in consolidation. Certain prior period amounts have been reclassified to conform to current period classifications.

The unaudited condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. The condensed consolidated financial statements reflect all adjustments (consisting

only of normal recurring adjustments) that are, in the opinion of management, necessary for the fair statement of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year.

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The combination of the Company and NYMC was accounted for as a transfer of assets between entities under common control. Accordingly, the Company has recorded assets and liabilities transferred from NYMC at their carrying amounts in the accounts of NYMC at the date of transfer.

Upon the closing of the Company's IPO, of the 2,750,000 shares exchanged for the equity interests of NYMC, 100,000 shares were held in escrow through December 31, 2004 and were available to satisfy any indemnification claims the Company may have had against the contributors of NYMC for losses incurred as a result of defaults on any residential mortgage loans originated by NYMC and closed prior to the completion of the IPO. As of December 31, 2004, the amount of escrowed shares was reduced by 47,680 shares, representing \$492,536 for estimated losses on loans closed prior to the Company's IPO. Furthermore, the contributors of NYMC entered into a new escrow agreement which extended the escrow period to December 31, 2005 for the remaining 52,320 shares. There have been no additional losses with respect to the escrow agreement booked during the nine month period ended September 30, 2005.

*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's estimates and assumptions primarily arise from risks and uncertainties associated with interest rate volatility, prepayment volatility, 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 conditions may occur which could cause actual results to differ materially.

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

*Restricted Cash* Restricted cash is held by counterparties as collateral for hedging instruments and two letters of credit related to the Company's lease of the corporate headquarters.

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

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

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

to be used to close loans within the next one to three business days.

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

***Mortgage Loans Held in the Securitization Trusts*** Mortgage loans held in the securitization trusts are certain ARM mortgage loans transferred to the NYMT 05-1 Trust and to the NYMT 05-2 Trust which have been securitized into sequentially rated classes of beneficial interests. Currently the Company has retained 100% interest in the securitized loans and the transfer has been accounted for as a secured borrowing with a pledge of collateral. Mortgage loans held in the securitization trusts are recorded at amortized cost, using the same accounting principles as that used for mortgage loans held for investment, as described below.

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

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

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

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

The Company seeks to limit its exposure to credit losses on its portfolio of residential adjustable-rate mortgage loans held for investment (including mortgage loans held in the securitization trusts) by originating and investing in loans primarily to borrowers with strong credit profiles, which are evaluated by analyzing the borrower's credit score (FICO is a credit score, ranging from 300 to 850, with 850 being the best score, based upon the credit evaluation methodology developed by Fair, Isaac and Company, a consulting firm specializing in creating credit evaluation models), employment, income and assets and related documentation, the amount of equity in and the value of the property securing the borrower's loan, debt to income ratio, credit history, funds available for closing and post-closing liquidity.

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

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

*Property and Equipment, Net* Property and equipment have lives ranging from three to ten years, and are stated at cost less accumulated depreciation and amortization. Depreciation is determined in amounts sufficient to charge the cost of depreciable assets

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to operations over their estimated service lives using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or service lives of the improvements using the straight-line method.

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

All derivative financial instruments are reported as either assets or liabilities in the consolidated balance sheet at fair value. The gains and losses associated with changes in the fair value of derivatives not designated as hedges are reported in current earnings. If the derivative is designated as a fair value hedge and is highly effective in achieving offsetting changes in the fair value of the asset or liability hedged, the recorded value of the hedged item is adjusted by its change in fair value attributable to the hedged risk. If the derivative is designated as a cash flow hedge, the effective portion of change in the fair value of the derivative is recorded in OCI and is recognized in the income statement when the hedged item affects earnings. The Company calculates the effectiveness of these hedges on an ongoing basis, and, to date, has calculated effectiveness of approximately 100%. Ineffective portions, if any, of changes in the fair value or cash flow hedges, are recognized in earnings. (See Note 13).

In accordance with a Securities and Exchange Commission ( SEC ) Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments ( SAB 105 ) issued on March 9, 2004, beginning in the second quarter of 2004, the fair value of interest rate lock commitments ( IRLCs ) excludes future cash flows related to servicing rights, if such rights are retained upon the sale of originated mortgage loans. Since the Company sells all of its originated loans with servicing released, SAB 105 had no effect on the value of its IRLCs.

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

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

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

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks, investment banks and certain private investors who meet established credit and capital



guidelines. Management does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any loss due to counterparty default. These commitments and option contracts are considered in conjunction with the Company's lower of cost or market valuation of its mortgage loans held for sale.

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

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

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

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

To qualify for cash flow hedge accounting, interest rate swaps and caps must meet certain criteria, including:  
the items to be hedged expose the Company to interest rate risk; and

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

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

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

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

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

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

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



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

***Loan Origination Fees and Direct Origination Cost*** The Company records loan fees, discount points and certain incremental direct origination costs as an adjustment of the cost of the loan and such amounts are included in gain on sales of loans when the loan is sold. Accordingly, salaries, compensation, benefits and commission costs have been reduced by \$32.2 million and \$13.6 million for the nine-month periods ended September 30, 2005 and 2004, respectively, because such amounts are considered incremental direct loan origination costs.

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

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

***Employee Benefits Plans*** The Company sponsors a defined contribution plan (the Plan) for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Plan, participating employees may defer up to 25% of their pre-tax earnings, subject to the annual Internal Revenue Code contribution limit. The Company matches contributions up to a maximum of 25% of the first 5% of salary. Employees vest immediately in their contribution and vest in the Company's contribution at a rate of 25% after two full years and then an incremental 25% per full year of service until fully vested at 100% after five full years of service. The Company's total contributions to the Plan were \$0.3 million and \$0.1 million for the nine months ended September 30, 2005 and 2004, respectively.

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

In December, 2004 the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, Share-Based payment, (SFAS No. 123R) which will require all companies to measure compensation costs for all share-based payments, including employee stock options, at fair value. This statement will be effective for the Company with the quarter beginning January 1, 2006. The adoption of SFAS No. 123R will not have a material impact on the Company's financial statements.

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

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

NYMC changed its tax status upon completion of the IPO from a non-taxable limited liability company to a taxable REIT subsidiary and therefore subsequent to the IPO, is subject to corporate Federal income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base upon the change in

tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected

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to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

**2. Investment Securities Available For Sale**

Investment securities available for sale consist of the following as of September 30, 2005 and December 31, 2004:

|                         | <b>September 30,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|-------------------------|-------------------------------|------------------------------|
| Amortized cost          | \$ 808,154,513                | \$ 1,207,715,175             |
| Gross unrealized gains  |                               | 150,682                      |
| Gross unrealized losses | (11,075,220)                  | (3,121,143)                  |
| Fair value              | \$ 797,079,293                | \$ 1,204,744,714             |

None of the securities with unrealized losses have been in a loss position for more than one year. The Company has the intent and believes it has the ability to hold such investment securities until recovery of their amortized cost. Substantially all of the Company's investment securities available for sale are pledged as collateral for borrowings under financing arrangements (Note 8).

**3. Mortgage Loans Held For Sale**

Mortgage loans held for sale consist of the following as of September 30, 2005 and December 31, 2004:

|                                 | <b>September 30<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---------------------------------|------------------------------|------------------------------|
| Mortgage loans principal amount | \$ 116,424,009               | \$ 85,105,027                |
| Deferred origination costs net  | 109,146                      | 279,900                      |
| Mortgage loans held for sale    | \$ 116,533,155               | \$ 85,384,927                |

Substantially all of the Company's mortgage loans held for sale are pledged as collateral for borrowings under financing arrangements (Note 9).

**4. Mortgage Loans Held in the Securitization Trusts**

Mortgage loans held in the securitization trusts consist of the following at September 30, 2005:

|                                                        |                |
|--------------------------------------------------------|----------------|
| Mortgage loans principal amount                        | \$ 584,145,551 |
| Deferred origination costs net                         | 5,208,854      |
| Total mortgage loans held in the securitization trusts | \$ 589,354,405 |

Substantially all of the Company's mortgage loans held in the securitization trusts are pledged as collateral for borrowings under financing arrangements (Note 8).

**5. Mortgage Loans Held For Investment**

Mortgage loans held for investment consist of the following at September 30, 2005 and December 31, 2004:

| <b>September 30,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|-------------------------------|------------------------------|
|-------------------------------|------------------------------|

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|                                          |    |             |    |             |
|------------------------------------------|----|-------------|----|-------------|
| Mortgage loans principal amount          | \$ | 139,656,332 | \$ | 188,858,607 |
| Deferred origination costs net           |    | 755,575     |    | 1,294,496   |
| Total mortgage loans held for investment | \$ | 140,411,907 | \$ | 190,153,103 |

Substantially all of the Company's mortgage loans held for investment are pledged as collateral for borrowings under financing arrangements (Note 9).

**Table of Contents****6. Property and Equipment Net**

Property and equipment consist of the following as of September 30, 2005 and December 31, 2004:

|                                                 | <b>September 30,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|-------------------------------------------------|-------------------------------|------------------------------|
| Office and computer equipment                   | \$ 5,465,439                  | \$ 3,191,096                 |
| Furniture and fixtures                          | 2,193,569                     | 2,031,778                    |
| Leasehold improvements                          | 1,329,772                     | 1,138,467                    |
| <br>Total premises and equipment                | <br>8,988,780                 | <br>6,361,341                |
| Less: accumulated depreciation and amortization | (2,532,550)                   | (1,560,039)                  |
| <br>Property and equipment net                  | <br>\$ 6,456,230              | <br>\$ 4,801,302             |

**7. Derivative Instruments and Hedging Activities**

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

The following table summarizes the estimated fair value of derivative assets and liabilities as of September 30, 2005 and December 31, 2004:

|                                                             | <b>September 30,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|-------------------------------------------------------------|-------------------------------|------------------------------|
| <b>Derivative Assets:</b>                                   |                               |                              |
| Interest rate caps                                          | \$ 2,025,300                  | \$ 411,248                   |
| Interest rate swaps                                         | 6,466,183                     | 3,228,457                    |
| Interest rate lock commitments loan commitments             |                               | 5,270                        |
| Interest rate lock commitments mortgage loans held for sale |                               | 32,597                       |
| Forward loan sale contracts loan commitments                | 225,480                       |                              |
| Forward loan sale contracts mortgage loans held for sale    | 207,264                       |                              |
| Forward loan sale contracts TBA securities                  | 374,021                       |                              |
| <br>Total derivative assets                                 | <br>\$ 9,298,248              | <br>\$ 3,677,572             |
| <br><b>Derivative Liabilities:</b>                          |                               |                              |
| Forward loan sale contracts loan commitments                |                               | (23,557)                     |
| Forward loan sale contracts mortgage loans held for sale    |                               | (1,846)                      |
| Forward loan sale contracts TBA securities                  |                               | (139,413)                    |
| Interest rate lock commitments loan commitments             | (606,980)                     |                              |
| Interest rate lock commitments mortgage loans held for sale | (469,330)                     |                              |
| <br>Total derivative liabilities                            | <br>\$ (1,076,310)            | <br>\$ (164,816)             |

The notional amounts of the Company's interest rate swaps, interest rate caps and forward loan sales contracts as of September 30, 2005 were \$670.0 million, \$1.5 billion and \$77.2 million, respectively.



The notional amounts of the Company's interest rate swaps, interest rate caps and forward loan sales contracts as of December 31, 2004 were \$670.0 million, \$250.0 million and \$97.1 million, respectively

The Company estimates that over the next twelve months, approximately \$5,314,444 of the net unrealized gains on the interest rate swaps will be reclassified from accumulated OCI into earnings.

#### **8. Financing Arrangements, Portfolio Investments**

The Company has entered into repurchase agreements with third party financial institutions to finance its residential mortgage-backed securities and mortgage loans held in the securitization trusts. The repurchase agreements are short-term borrowings that bear interest rates based on a spread to LIBOR, and are secured by the residential mortgage-backed securities and mortgage loans held in

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the securitization trusts which they finance. At September 30, 2005, the Company had repurchase agreements with an outstanding balance of \$1.3 billion and a weighted average interest rate of 3.80%. As of December 31, 2004, the Company had repurchase agreements with an outstanding balance of \$1.1 billion and a weighted average interest rate of 2.35%. At September 30, 2005 securities and mortgage loans pledged as collateral for repurchase agreements had estimated fair values of \$1.3 billion. As of December 31, 2004 securities pledged as collateral for repurchase agreements had estimated fair values of \$1.2 billion. As of September 30, 2005 all of the repurchase agreements will mature within 25 days, with a weighted average days to maturity equal to 20 days. The Company has available to it \$5.6 billion in commitments to provide financings through such arrangements with 23 different counterparties. Counterparties providing repurchase commitments to the Company as of September 30, 2005 are: Banc of America Securities LLC, Barclays Capital, Inc., Bear, Stearns & Co. Inc., Cantor Fitzgerald Securities, Citigroup Global Markets Inc., Countrywide Securities Corporation, Credit Suisse First Boston LLC, Daiwa Securities America, Inc., Deutsche Bank Securities, Inc., Goldman, Sachs & Co., Greenwich Capital Markets, Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities, Inc., Lehman Brothers Inc., Merrill Lynch Government Securities, Inc., Morgan Keegan & Company, Morgan Stanley & Co. Incorporated, Nomura Securities International, Inc., RBC Capital Markets Corporation, UBS Securities LLC, Wachovia Capital Markets LLC, WaMu Capital Corp., and WestLB AG.

**9. Financing Arrangements, Mortgage Loans Held for Sale or Investment**

Financing arrangements consist of the following as of September 30, 2005, and December 31, 2004:

|                                                                                                                                                                                                                                                                                                                  | September 30,<br>2005 | December 31,<br>2004 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| \$250 million master repurchase agreement with Greenwich Capital expiring on December 5, 2005 bearing interest at one-month LIBOR plus 0.75% (4.544% at September 30, 2005 and 3.16% at December 31, 2004). Principal repayments are required 120 days from the funding date(a)                                  | \$ 204,908,241        | \$ 215,611,800       |
| \$200 million revolving line of credit agreement with CSFB expiring on March 31, 2006 bearing interest at daily LIBOR plus spreads from 1.125% to 2.000% depending on collateral (4.796% at September 30, 2005 and 3.599% at December 31, 2004). Principal repayments are required 90 days from the funding date | 159,730,022           | 73,751,874           |
| \$150 million revolving line of credit agreement with HSBC expiring on September 30, 2005 bearing interest at one-month LIBOR plus 1.00% (4.702 at September 30, 2005 and 3.29% at December 31, 2004) (b)                                                                                                        | 34,268,762            | 69,839,306           |
|                                                                                                                                                                                                                                                                                                                  | \$ 398,907,025        | \$ 359,202,980       |

- (a) This credit facility, with Greenwich Capital Financial Products, Inc., requires the Company to transfer specific collateral to the lender under repurchase agreements; however, due to the rate of turnover of the collateral by the Company, the counterparty has not taken title to or recorded their interest in any of the collateral transferred. Interest is paid to the counterparty based on the amount of outstanding borrowings and on the terms provided.
- (b) The HSBC credit facility was terminated by mutual agreement effective September 30, 2005; therefore, effective October 1, 2005, no new loans can be funded under this warehouse facility. The agreement requires repayment in full no later than December 31, 2005. The Company expects to replace this facility with a new counterparty during the fourth quarter of 2005.

The lines of credit are secured by all of the mortgage loans held by the Company, except for the loans held in the securitization trusts. The lines contain various covenants pertaining to, among other things, maintenance of certain amounts of net worth, periodic income thresholds and working capital. As of September 30, 2005, the Company was in compliance with all covenants. As these annual agreements are negotiated for renewal, these covenants may be

further modified. The agreements are each renewable annually, but are not committed, meaning that the counterparties to the agreements may withdraw access to the credit facilities at any time.

**10. Commitments and Contingencies**

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

*Loans Funding and Delivery Commitments* At September 30, 2005 and December 31, 2004 the Company had commitments to fund loans with agreed-upon rates totaling \$182.2 million and \$156.1 million, respectively. The Company hedges the interest rate risk of such commitments and the recorded mortgage loans held for sale balances primarily with FSLCs, which totaled \$77.2 million and

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\$97.1 million at September 30, 2005 and December 31, 2004, respectively. The remaining commitments to fund loans with agreed-upon rates are anticipated to be sold through optional delivery contract investor programs. The Company does not anticipate any material losses from such sales.

*Net Worth Requirements* NYMC is required to maintain certain specified levels of minimum net worth to maintain its approved status with FannieMae, Freddie Mac, HUD and other investors. As of September 30, 2005 NYMC is in compliance with all minimum net worth requirements.

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

*Leases* The Company leases its corporate offices and certain retail facilities and equipment under short-term lease agreements expiring at various dates through 2010. All such leases are accounted for as operating leases. Total rental expense for property and equipment amounted to \$3.9 million and \$2.3 million for the nine months ended September 30, 2005 and 2004, respectively. On February 11, 2005, the Company signed a letter of intent to enter into a sub-lease for its former headquarters space at 304 Park Avenue in New York. The Company's remaining contractual obligation to the landlord on this lease is \$1.8 million. The sub-lease tenant will have a contractual rent obligation to the Company under the sub-lease of \$1.0 million. This transaction was completed in late March 2005. Accordingly, during the first quarter of 2005, the Company recognized a charge of \$0.8 million to earnings.

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

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

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

## **11. Related Party Transactions**

Upon completion of the Company's IPO and acquisition of NYMC, Steven B. Schnall and Joseph V. Fierro, the former owners of NYMC, were entitled to a distribution of NYMC's retained earnings through the close of the Company's IPO on June 29, 2004, not to exceed \$4.5 million. As a result, a distribution of \$2.4 million (\$0.4 million of retained earnings as of March 31, 2004 plus an estimate of \$2.0 million for NYMC's earnings through June 29, 2004) was made to the former owners upon the close of the IPO. The subsequent earnings and elimination of distributions and unrealized gains and losses attributable to NYMC for the period prior to June 29, 2004 equated to a distribution overpayment of \$1.3 million, for which Messrs. Schnall and Fierro reimbursed the Company immediately upon the finalization of the overpayment calculation in July 2004.

Steven B. Schnall owns a 48% membership interest and Joseph V. Fierro owns a 12% membership interest in Centurion Abstract, LLC (Centurion), which provides title insurance brokerage services for certain title insurance providers. From time to time, NYMC refers its mortgage loan borrowers to Centurion for assistance in obtaining title insurance in connection with their mortgage loans, although the borrowers have no obligation to utilize Centurion's services. When NYMC's borrowers elect to utilize Centurion's services to obtain title insurance, Centurion collects various fees and a portion of the title insurance premium paid by the borrower for its title insurance. Centurion received \$0.5 million in fees and other amounts from NYMC borrowers for the nine months ended September 30, 2005. NYMC does not economically benefit from such referrals.



**Table of Contents****12. Concentrations of Credit Risk**

The Company has originated loans predominantly in the eastern United States. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers with similar characteristics, which would cause their ability to meet contractual obligations to be similarly impacted by economic or other conditions. At September 30, 2005 and December 31, 2004, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within mortgage loans held for sale as follows:

|               | <b>September<br/>30,<br/>2005</b> | <b>December<br/>31,<br/>2004</b> |
|---------------|-----------------------------------|----------------------------------|
| New York      | 32.7%                             | 70.2%                            |
| Massachusetts | 23.1%                             | 6.6%                             |
| Connecticut   | 8.1%                              | 5.0%                             |
| Maryland      | 7.0%                              | 1.6%                             |

At September 30, 2005 and December 31, 2004, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within mortgage loans held in the securitization trusts and mortgage loans held for investment as follows:

|               | <b>September<br/>30,<br/>2005</b> | <b>December<br/>31,<br/>2004</b> |
|---------------|-----------------------------------|----------------------------------|
| New York      | 25.5%                             | 30.7%                            |
| California    | 16.9%                             | 51.3%                            |
| Massachusetts | 10.2%                             | 1.4%                             |
| New Jersey    | 4.2%                              | 5.5%                             |

**13. Fair Value of Financial Instruments**

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

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

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

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

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

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

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

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

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

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

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

The following tables set forth information about financial instruments, except for those noted above for which the carrying amount approximates fair value:

|                                                  | <b>September 30, 2005</b>  |                            |                                 |
|--------------------------------------------------|----------------------------|----------------------------|---------------------------------|
|                                                  | <b>Notional<br/>Amount</b> | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
| Investment securities available for sale         | \$ 798,856,029             | \$ 797,079,293             | \$ 797,079,293                  |
| Mortgage loans held for investment               | 139,656,332                | 140,411,907                | 141,601,330                     |
| Mortgage loans held in the securitization trusts | 584,145,552                | 589,354,405                | 585,864,852                     |
| Mortgage loans held for sale                     | 116,424,009                | 116,533,155                | 117,305,323                     |
| Commitments and contingencies:                   |                            |                            |                                 |
| Interest rate lock commitments                   | 182,207,949                | (1,076,310)                | (1,076,310)                     |
| Forward loan sales contracts                     | 77,157,666                 | 806,765                    | 806,765                         |
| Interest rate swaps                              | 670,000,000                | 6,466,183                  | 6,466,183                       |
| Interest rate caps                               | 1,464,425,100              | 2,025,300                  | 2,025,300                       |

|                                          | <b>December 31, 2004</b>   |                            |                                 |
|------------------------------------------|----------------------------|----------------------------|---------------------------------|
|                                          | <b>Notional<br/>Amount</b> | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
| Investment securities available for sale | \$ 1,194,055,340           | \$ 1,204,744,714           | \$ 1,204,744,714                |
| Mortgage loans held for investment       | 188,858,607                | 190,153,103                | 190,608,241                     |
| Mortgage loans held for sale             | 85,105,027                 | 85,384,927                 | 86,097,867                      |
| Commitments and contingencies:           |                            |                            |                                 |
| Interest rate lock commitments           | 156,110,472                | 37,867                     | 37,867                          |
| Forward loan sales contracts             | 97,080,482                 | (164,816)                  | (164,816)                       |
| Interest rate swaps                      | 670,000,000                | 3,228,457                  | 3,228,457                       |
| Interest rate caps                       | 250,000,000                | 411,248                    | 411,248                         |

**14. Segment Reporting**

The Company operates two segments:

*Mortgage Portfolio Management* long-term investment in high-quality, adjustable-rate mortgage loans and residential mortgage-backed securities; and



*Mortgage Lending* mortgage loan originations as conducted by NYMC.

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Our mortgage portfolio management segment primarily invests in adjustable-rate FNMA, FHLMC, GNMA and AAA rated residential mortgage-backed securities and high-quality mortgages that are originated by our mortgage operations or that may be acquired from third parties. The Company's equity capital and borrowed funds are used to invest in residential mortgage-backed securities, thereby producing net interest income. Certain mortgage loans originated by our mortgage lending operations or loans purchased from third parties are securitized from time to time to improve liquidity such loans are included in the mortgage portfolio management segment. The Company's first securitization was completed on February 25, 2005 and a second securitization was completed on July 28, 2005.

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

Nine Months Ended September 30, 2005

|                                                              | Nine Months Ended September 30, 2005           |                                |               |
|--------------------------------------------------------------|------------------------------------------------|--------------------------------|---------------|
|                                                              | Mortgage<br>Portfolio<br>Management<br>Segment | Mortgage<br>Lending<br>Segment | Total         |
| REVENUE:                                                     |                                                |                                |               |
| Gain on sales of mortgage loans                              | \$                                             | \$ 21,633,961                  | \$ 21,633,961 |
| Interest income:                                             |                                                |                                |               |
| Loans held for sale                                          |                                                | 10,573,325                     | 10,573,325    |
| Investment securities and mortgage loans held for investment | 34,035,558                                     |                                | 34,035,558    |
| Loans held in the securitization trusts                      | 11,875,521                                     |                                | 11,875,521    |
| Brokered loan fees                                           |                                                | 7,180,484                      | 7,180,484     |
| Gain on sale of securities and related hedges                | 2,207,433                                      |                                | 2,207,433     |
| Miscellaneous income                                         | 610                                            | 194,073                        | 194,683       |
| Total revenue                                                | 48,119,122                                     | 39,581,843                     | 87,700,965    |
| EXPENSES:                                                    |                                                |                                |               |
| Salaries, commissions and benefits                           | 1,649,285                                      | 22,225,374                     | 23,874,659    |
| Interest expense:                                            |                                                |                                |               |
| Loans held for sale/for investment                           | 3,911,253                                      | 7,283,703                      | 11,194,956    |
| Portfolio investments                                        | 30,089,833                                     |                                | 30,089,833    |
| Subordinated debentures                                      |                                                | 1,095,300                      | 1,095,300     |
| Brokered loan expenses                                       |                                                | 5,688,931                      | 5,688,931     |
| Occupancy and equipment                                      | 18,271                                         | 4,962,827                      | 4,981,098     |
| Marketing and promotion                                      | 109,201                                        | 3,790,842                      | 3,900,043     |
| Data processing and communication                            | 102,543                                        | 1,704,863                      | 1,807,406     |
| Office supplies and expenses                                 | 7,130                                          | 1,901,709                      | 1,908,839     |
| Professional fees                                            | 360,423                                        | 2,452,055                      | 2,812,478     |
| Travel and entertainment                                     | 5,803                                          | 701,101                        | 706,904       |
| Depreciation and amortization                                | 5,280                                          | 1,063,626                      | 1,068,906     |
| Other                                                        | 268,602                                        | 814,935                        | 1,083,537     |
| Total expenses                                               | 36,527,624                                     | 53,685,266                     | 90,212,890    |

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|                                 |                  |                |                  |
|---------------------------------|------------------|----------------|------------------|
| INCOME (LOSS) BEFORE INCOME TAX |                  |                |                  |
| BENEFIT                         | 11,591,498       | (14,103,423)   | (2,511,925)      |
| Income tax benefit              |                  | 5,880,000      | 5,880,000        |
| NET INCOME (LOSS)               | \$ 11,591,498    | \$ (8,223,423) | \$ 3,368,075     |
| Segment assets                  | \$ 1,553,311,169 | \$ 301,688,241 | \$ 1,854,999,410 |
| Segment equity                  | \$ 101,622,220   | \$ 5,431,425   | \$ 107,053,645   |
|                                 | 18               |                |                  |

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Nine Months Ended September 30, 2004

| <b>Nine Months Ended September 30, 2004</b>   |                                                          |                                         |                     |
|-----------------------------------------------|----------------------------------------------------------|-----------------------------------------|---------------------|
|                                               | <b>Mortgage<br/>Portfolio<br/>Management<br/>Segment</b> | <b>Mortgage<br/>Lending<br/>Segment</b> | <b>Total</b>        |
| <b>REVENUE:</b>                               |                                                          |                                         |                     |
| Gain on sales of mortgage loans               | \$                                                       | \$ 14,933,433                           | \$ 14,933,433       |
| Interest income:                              |                                                          |                                         |                     |
| Loans held for sale                           |                                                          | 5,777,240                               | 5,777,240           |
| Investment securities and loans               | 7,659,748                                                |                                         | 7,659,748           |
| Brokered loan fees                            |                                                          | 4,398,137                               | 4,398,137           |
| Gain on sale of securities and related hedges | 125,837                                                  | 606,975                                 | 732,812             |
| Miscellaneous income                          |                                                          | 95,597                                  | 95,597              |
| Total revenue                                 | 7,785,585                                                | 25,811,382                              | 33,596,967          |
| <b>EXPENSES:</b>                              |                                                          |                                         |                     |
| Salaries, commissions and benefits            | 294,706                                                  | 11,099,703                              | 11,394,409          |
| Interest expense:                             |                                                          |                                         |                     |
| Loans held for sale                           |                                                          | 2,960,294                               | 2,960,294           |
| Investment securities and loans               | 4,237,195                                                |                                         | 4,237,195           |
| Brokered loan expenses                        |                                                          | 3,136,452                               | 3,136,452           |
| Occupancy and equipment                       | 9,040                                                    | 2,417,148                               | 2,426,188           |
| Marketing and promotion                       | 2,875                                                    | 1,971,047                               | 1,973,922           |
| Data processing and communication             | 162,162                                                  | 974,308                                 | 1,136,470           |
| Office supplies and expenses                  | 3,564                                                    | 1,013,679                               | 1,017,243           |
| Professional fees                             | 15,461                                                   | 1,072,274                               | 1,087,735           |
| Travel and entertainment                      | 589                                                      | 393,283                                 | 393,872             |
| Depreciation and amortization                 | 1,845                                                    | 307,014                                 | 308,859             |
| Other                                         | 9,574                                                    | 786,142                                 | 795,716             |
| Total expenses                                | 4,737,011                                                | 26,131,344                              | 30,868,355          |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>        |                                                          |                                         |                     |
| BENEFIT                                       | 3,048,574                                                | (319,962)                               | 2,728,612           |
| Income tax benefit                            |                                                          | 221,653                                 | 221,653             |
| <b>NET INCOME (LOSS)</b>                      | <b>\$ 3,048,574</b>                                      | <b>\$ (98,309)</b>                      | <b>\$ 2,950,265</b> |
| Segment assets                                | \$ 1,213,919,152                                         | \$ 137,249,484                          | \$ 1,351,168,636    |
| Segment equity                                | \$ 106,305,132                                           | \$ 14,515,828                           | \$ 120,820,960      |

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Three Months Ended September 30, 2005

|                                                              | <b>Three Months Ended September 30, 2005</b>             |                                         |                  |
|--------------------------------------------------------------|----------------------------------------------------------|-----------------------------------------|------------------|
|                                                              | <b>Mortgage<br/>Portfolio<br/>Management<br/>Segment</b> | <b>Mortgage<br/>Lending<br/>Segment</b> | <b>Total</b>     |
| REVENUE:                                                     |                                                          |                                         |                  |
| Gain on sales of mortgage loans                              | \$                                                       | \$ 8,985,293                            | \$ 8,985,293     |
| Interest income:                                             |                                                          |                                         |                  |
| Loans held for sale                                          |                                                          | 4,473,157                               | 4,473,157        |
| Investment securities and mortgage loans held for investment | 9,208,733                                                |                                         | 9,208,733        |
| Loans held in the securitization trusts                      | 6,016,479                                                |                                         | 6,016,479        |
| Brokered loan fees                                           |                                                          | 2,646,683                               | 2,646,683        |
| Gain on sale of securities and related hedges                | 1,286,031                                                |                                         | 1,286,031        |
| Miscellaneous income                                         |                                                          | 91,043                                  | 91,043           |
| Total revenue                                                | 16,511,243                                               | 16,196,176                              | 32,707,419       |
| EXPENSES:                                                    |                                                          |                                         |                  |
| Salaries, commissions and benefits                           | 170,428                                                  | 7,131,970                               | 7,302,398        |
| Interest expense:                                            |                                                          |                                         |                  |
| Loans held for sale/for investment                           | 1,366,630                                                | 3,440,993                               | 4,807,623        |
| Portfolio investments                                        | 10,749,583                                               |                                         | 10,749,583       |
| Subordinated debentures                                      |                                                          | 601,722                                 | 601,722          |
| Brokered loan expenses                                       |                                                          | 1,483,323                               | 1,483,323        |
| Occupancy and equipment                                      | 9,501                                                    | 1,255,142                               | 1,264,643        |
| Marketing and promotion                                      | 24,196                                                   | 1,286,120                               | 1,310,316        |
| Data processing and communication                            | 38,283                                                   | 579,541                                 | 617,824          |
| Office supplies and expenses                                 | 4,242                                                    | 647,037                                 | 651,279          |
| Professional fees                                            | 215,294                                                  | 750,651                                 | 965,945          |
| Travel and entertainment                                     | 2,260                                                    | 259,033                                 | 261,293          |
| Depreciation and amortization                                | 1,836                                                    | 299,869                                 | 301,705          |
| Other                                                        | 132,480                                                  | 397,734                                 | 530,214          |
| Total expenses                                               | 12,714,733                                               | 18,133,135                              | 30,847,868       |
| INCOME (LOSS) BEFORE INCOME TAX BENEFIT                      | 3,796,510                                                | (1,936,959)                             | 1,859,551        |
| Income tax benefit                                           |                                                          | 1,000,000                               | 1,000,000        |
| NET INCOME (LOSS)                                            | \$ 3,796,510                                             | \$ (936,959)                            | \$ 2,859,551     |
| Segment assets                                               | \$ 1,553,311,169                                         | \$ 301,688,241                          | \$ 1,854,999,410 |
| Segment equity                                               | \$ 101,622,220                                           | \$ 5,431,425                            | \$ 107,053,645   |

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Three Months Ended September 30, 2004

|                                               | <b>Three Months Ended September 30, 2004</b>             |                                         |                  |
|-----------------------------------------------|----------------------------------------------------------|-----------------------------------------|------------------|
|                                               | <b>Mortgage<br/>Portfolio<br/>Management<br/>Segment</b> | <b>Mortgage<br/>Lending<br/>Segment</b> | <b>Total</b>     |
| REVENUE:                                      |                                                          |                                         |                  |
| Gain on sales of mortgage loans               | \$                                                       | \$ 4,482,262                            | \$ 4,482,262     |
| Interest income:                              |                                                          |                                         |                  |
| Loans held for sale                           |                                                          | 2,633,442                               | 2,633,442        |
| Investment securities and loans               | 7,656,699                                                |                                         | 7,656,699        |
| Brokered loan fees                            |                                                          | 1,437,664                               | 1,437,664        |
| Gain on sale of securities and related hedges | 125,837                                                  |                                         | 125,837          |
| Miscellaneous income                          |                                                          | 49,620                                  | 49,620           |
| Total revenue                                 | 7,782,536                                                | 8,602,988                               | 16,385,524       |
| EXPENSES:                                     |                                                          |                                         |                  |
| Salaries, commissions and benefits            | 294,706                                                  | 4,208,865                               | 4,503,571        |
| Interest expense:                             |                                                          |                                         |                  |
| Loans held for sale                           |                                                          | 1,227,997                               | 1,227,997        |
| Investment securities and loans               | 4,237,195                                                |                                         | 4,237,195        |
| Brokered loan expenses                        |                                                          | 1,016,930                               | 1,016,930        |
| Occupancy and equipment                       | 9,040                                                    | 879,631                                 | 888,671          |
| Marketing and promotion                       | 2,875                                                    | 674,656                                 | 677,531          |
| Data processing and communication             | 162,162                                                  | 353,072                                 | 515,234          |
| Office supplies and expenses                  | 3,564                                                    | 366,439                                 | 370,003          |
| Professional fees                             | 15,461                                                   | 418,520                                 | 433,981          |
| Travel and entertainment                      | 589                                                      | 88,008                                  | 88,597           |
| Depreciation and amortization                 | 1,845                                                    | 101,108                                 | 102,953          |
| Other                                         | 9,573                                                    | 93,072                                  | 102,645          |
| Total expenses                                | 4,737,010                                                | 9,428,298                               | 14,165,308       |
| INCOME (LOSS) BEFORE INCOME TAX<br>BENEFIT    | 3,045,526                                                | (825,310)                               | 2,220,216        |
| Income tax benefit                            |                                                          | 231,653                                 | 231,653          |
| NET INCOME (LOSS)                             | \$ 3,045,526                                             | \$ (593,657)                            | \$ 2,451,869     |
| Segment assets                                | \$ 1,213,919,152                                         | \$ 137,249,484                          | \$ 1,351,168,636 |
| Segment equity                                | \$ 106,305,132                                           | \$ 14,515,828                           | \$ 120,820,960   |

**15. Stock Incentive Plan**

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

maximum number of restricted stock awards that may be granted under the 2004 Plan is 794,250.

***2005 Stock Incentive Plan***

At the Annual Meeting of Stockholders held on May 31, 2005, the Company's stockholders approved the adoption of the Company's 2005 Stock Incentive Plan (the 2005 Plan). The 2005 Plan replaces the 2004 Plan, which was terminated on the same date. The 2005 Plan provides that up to 936,111 shares of the Company's common stock may be issued thereunder. That number of shares represents 711,895 shares of common stock, or (4% of the 17,797,375 shares of common stock outstanding at March 10, 2005), plus 224,216 shares of common stock remaining from the 2004 Plan. The number of shares available for issuance under the 2005 Plan will be increased by (a) 6% of the number of additional shares of the Company's common stock issued between March 10, 2005 and May 31, 2006 (other than shares issued under the 2004 Plan or 2005 Plan) and (b) the number of shares covered by 2004 Plan awards that are forfeited or terminated after March 10, 2005.

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### ***Options***

The 2004 Plan provides for the exercise price of options to be determined by the Compensation Committee of the Board of Directors ( Compensation Committee ) but not to be less than the fair market value on the date the option is granted. Options expire ten years after the grant date. As of September 30, 2005, 591,500 options have been granted pursuant to the 2004 Plan with a vesting period of two years.

The Company accounts for the fair value of its grants in accordance with SFAS No. 123. The compensation cost charged against income during the nine months ended September 30, 2005 was approximately \$34,000.

### ***Restricted Stock***

As of September 30, 2005, the Company has awarded 530,178 shares of restricted stock under the 2004 Plan, of which 335,198 shares have fully vested. As of September 30, 2005 the remaining shares of restricted stock awarded under the 2004 Plan are subject to vesting periods between 8 and 27 months. During the nine months ended September 30, 2005, the Company recognized non-cash compensation expense of \$1.4 million relating to the vested portion of restricted stock grants. Dividends are paid on all restricted stock issued, whether those shares are vested or not. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

### ***Performance Based Stock Awards***

In November 2004, the Company acquired 15 full-service and 26 satellite retail mortgage banking offices located in the Northeast and Mid-Atlantic states from General Residential Lending, Inc. ( GRL ). Pursuant to that transaction, the Company has committed to award 206,256 shares of the Company's stock to certain employees of those branches upon attainment of predetermined production levels. As of September 30, 2005, the awards range in vesting periods from 2 to 21 months with a share price set at the December 2, 2004 grant date market value of \$9.83 per share. During the nine months ended September 30, 2005, the Company recognized non-cash compensation expense of \$1.3 million relating to performance based stock awards. Unvested issued performance share awards have no voting rights and do not earn dividends.

## **16. Subordinated Debentures**

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

On March 15, 2005 the Company closed a private placement of \$25.0 million of trust preferred securities to Taberna Preferred Funding I, Ltd., a pooled investment vehicle. The securities were issued by NYM Preferred Trust I and are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities have a floating interest rate equal to three-month LIBOR plus 3.75%, resetting quarterly (7.24% at September 30, 2005). The securities mature on March 15, 2035 and may be called at par by the Company any time after March 15, 2010. NYMC entered into an interest rate cap agreement to limit the maximum interest rate cost of the trust preferred securities to 7.5%. The term of the interest rate cap agreement is five years and resets quarterly in conjunction with the reset periods of the trust preferred securities. The interest rate cap agreement is accounted for as a cash flow hedge transaction in accordance with SFAS No.133. In accordance with the guidelines of SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, the issued preferred stock of NYM Preferred Trust I has been classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

## **17. Income Taxes**

NYMT and its taxable subsidiary, NYMC, were S corporations prior to June 29, 2004 pursuant to the Internal Revenue Code of 1986, as amended, and as such did not incur any federal income tax expense.





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On June 29, 2004, NYMC became a C corporation for federal and state income tax purposes and as such is subject to federal and state income tax on its taxable income for periods after June 29, 2004.

A reconciliation of the statutory income tax provision (benefit) to the effective income tax provision for the nine months ended September 30, 2005 is as follows.

|                                                     | <b>Tax provision</b>  |
|-----------------------------------------------------|-----------------------|
| Tax at statutory rate (35%)                         | \$ (879,174)          |
| Non-taxable REIT income                             | (3,993,861)           |
| Transfer pricing of loans sold to nontaxable parent | 605,282               |
| State and local taxes                               | (1,173,809)           |
| Change in tax status                                | (452,729)             |
| Miscellaneous                                       | 14,291                |
| <b>Total provision (benefit)</b>                    | <b>\$ (5,880,000)</b> |

The income tax provision (benefit) for the nine months ended September 30, 2005 is comprised of the following components:

|                                    | <b>Deferred</b>       | <b>Total</b>          |
|------------------------------------|-----------------------|-----------------------|
| Regular tax provision (benefit)    |                       |                       |
| Federal                            | \$ (4,706,191)        | \$ (4,706,191)        |
| State                              | (1,173,809)           | (1,173,809)           |
| <b>Total tax expense (benefit)</b> | <b>\$ (5,880,000)</b> | <b>\$ (5,880,000)</b> |

The deferred tax asset at September 30, 2005 includes a deferred tax asset of \$7.5 million and a deferred tax liability of \$0.3 million which represents the tax effect of differences between tax basis and financial statement carrying amounts of assets and liabilities. The major sources of temporary differences and their deferred tax effect at September 30, 2005 are as follows:

|                                                               |                     |
|---------------------------------------------------------------|---------------------|
| Deferred tax assets:                                          |                     |
| Net operating loss carryover                                  | \$ 6,379,394        |
| Restricted stock, performance shares and stock option expense | 214,968             |
| Rent expense                                                  | 755,455             |
| Management compensation                                       | 175,322             |
| <b>Total deferred tax asset</b>                               | <b>7,525,139</b>    |
| Deferred tax liabilities:                                     |                     |
| Mark to market adjustments                                    | 126,701             |
| Depreciation                                                  | 208,904             |
| <b>Total deferred tax liability</b>                           | <b>335,605</b>      |
| <b>Net deferred tax asset</b>                                 | <b>\$ 7,189,534</b> |

Although realization is not assured, management believes it is more likely than not that all the deferred tax assets will be realized. The net operating loss carryforward expires at various intervals between 2012 and 2026.

**18. Restated Quarterly Financial Information**

On March 16, 2005, the Company's management determined that the accounting for the disposition of marketable securities and certain cash flow hedges owned by NYMC was incorrect and should be restated to reflect the gain of \$0.9 million in earnings instead of as a change in other comprehensive income. As a result, the net income reported for the nine months ended September 30, 2004 as filed in the Company's Quarterly Report on Form 10-Q, was understated by \$0.9 million.

The marketable securities were disposed of in a transaction during the second quarter of 2004 prior to completion of the Company's IPO so as to avoid owning a legacy portfolio of securities which (i) did not meet the Company's new investment guidelines, (ii) are equity securities, (iii) cannot be appropriately hedged or (iv) do not generate qualifying REIT income. As a result, the impact on the sale of these assets did not impact the Company or its earnings generated during periods after completion of the IPO. However, because the Company's acquisition of NYMC is accounted for as a reverse merger for accounting and financial reporting purposes, the historical financial presentation of net income is affected.

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For financial presentation purposes, the restatement increases net income by \$0.8 million for the marketable securities and \$0.1 million for the cash flow hedges with a corresponding reduction in accumulated other comprehensive income for the periods indicated. For income statement presentation purposes, mortgage recording taxes of \$0.3 million were reclassified from income tax benefit to other expenses and for the cash flow statement presentation purposes, the change in restricted cash of \$2.8 million was reclassified from net cash used in operations to net cash used in investing activities. There was no impact on total assets, liabilities or equity on the Company's balance sheet, or to net comprehensive income for the periods presented.

A summary of the effects of the restatement is as follows (there was no impact on the three months ended September 30, 2004):

|                                   | <b>For the nine months ended<br/>September 30, 2004</b> |                    |
|-----------------------------------|---------------------------------------------------------|--------------------|
|                                   | <b>As<br/>previously<br/>reported</b>                   | <b>As restated</b> |
| <b>Statement of Income</b>        |                                                         |                    |
| (Loss) Gain on sale of securities | \$ (49,845)                                             | \$ 732,812         |
| Total Revenue                     | 32,814,310                                              | 33,596,967         |
| Interest expense                  | 3,042,637                                               | 2,960,294          |
| Other expenses                    | 520,668                                                 | 795,716            |
| Income before income taxes        | 2,138,660                                               | 2,728,612          |
| Income tax (expense) benefit      | (53,395)                                                | 221,653            |
| Net income                        | \$ 2,085,265                                            | \$ 2,950,265       |
| Basic income per share            | \$ 0.12                                                 | \$ 0.17            |
| Diluted income per share          | \$ 0.12                                                 | \$ 0.17            |

|                                              | <b>For the nine months ended<br/>September 30, 2004</b> |                    |
|----------------------------------------------|---------------------------------------------------------|--------------------|
|                                              | <b>As previously<br/>reported</b>                       | <b>As restated</b> |
| <b>Statement of Cash Flows</b>               |                                                         |                    |
| Net income                                   | \$ 2,085,265                                            | \$ 2,950,265       |
| (Loss) Gain on sale of investment securities | 49,845                                                  | (732,812)          |
| Deferred tax benefit                         |                                                         | (221,653)          |
| Accounts payable and accrued expenses        | 6,407,007                                               | 6,546,317          |
| Net cash used in operating activities        | (29,133,956)                                            | (26,372,750)       |
| Net cash used in investing activities        | \$ (1,188,981,487)                                      | \$ (1,191,742,692) |

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

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains certain forward-looking statements. Forward looking statements are those which are not historical in nature. They can often be identified by their inclusion of words such as "will," "anticipate," "estimate," "should," "expect," "believe," "intend" and similar expressions. Any projection of revenues, earnings

losses, capital expenditures, distributions, capital structure or other financial terms is a forward-looking statement. Certain statements regarding the following particularly are forward-looking in nature:

- our business strategy;

- future performance, developments, market forecasts or projected dividends;

- projected acquisitions or joint ventures; and

- projected capital expenditures.

It is important to note that the description of our business in general and our investment in mortgage loans and mortgage-backed securities holdings in particular, is a statement about our operations as of a specific point in time. It is not meant to be construed as an

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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.

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

- our limited operating history with respect to our portfolio strategy;
- our proposed portfolio strategy may be changed or modified by our management without advance notice to stockholders, and that we may suffer losses as a result of such modifications or changes;
- impacts of a change in demand for mortgage loans on our net income and cash available for distribution;
- our ability to originate prime and high-quality adjustable-rate and hybrid mortgage loans for our portfolio;
- risks associated with the use of leverage;
- interest rate mismatches between our mortgage-backed securities and our borrowings used to fund such purchases;
- changes in interest rates and mortgage prepayment rates;
- effects of interest rate caps on our adjustable-rate mortgage-backed securities;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- potential impacts of our leveraging policies on our net income and cash available for distribution;
- our board's ability to change our operating policies and strategies without notice to you or stockholder approval;
- the other important factors identified, or incorporated by reference into this report, including, but not limited to those under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk", and those described under the caption "Risk Factors" in our Annual Report on form 10-K filed March 31, 2005.

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

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

The following information set forth below in this Item 2 gives effect to the restatement as discussed in Note 18 to the Consolidated Financial Statements.

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### **General**

The following Management Discussion and Analysis gives effect to the restatement discussed in Note 18.

New York Mortgage Trust, Inc. ( NYMT, the Company, we, our and us ) is a fully-integrated, self-advised residential mortgage finance company that originates, acquires, retains and securitizes mortgage loans and mortgage-backed securities. Our wholly-owned taxable REIT subsidiary ( TRS ), The New York Mortgage Company, LLC ( NYMC ), is a residential mortgage banking company that originates of a wide range of mortgage loans, with a particular focus on prime adjustable- and fixed-rate, first lien, residential purchase mortgage loans. Prior to the simultaneous completion of our acquisition of NYMC and our initial public offering ( IPO ), NYMC sold all of the loans it originated to third parties, and also brokered loans to other mortgage lenders prior to funding. NYMC, which originates residential mortgage loans through a network of 27 full-service loan origination locations and 39 satellite loan origination locations, is presently licensed or authorized to do business in 42 states and the District of Columbia.

On June 29, 2004, we closed our IPO, selling 15 million shares of our common stock at a price to the public of \$9.00 per share and raising net proceeds of \$122.0 million after deducting the underwriters' discount and other offering expenses. We have elected to be taxed as a real estate investment trust ( REIT ) for federal income tax purposes.

Since the completion of our IPO and acquisition of NYMC, our primary business focus has been to build a leveraged portfolio of residential mortgage loans comprised largely of prime adjustable-rate mortgage loans that we originate and that meet our investment objectives and portfolio requirements, including adjustable-rate loans that have an initial fixed-rate period, which we refer to as hybrid mortgage loans. We used a substantial portion of the net proceeds from our IPO to purchase, on a leveraged basis, \$1.2 billion of residential mortgage-backed securities. Over time, we expect that these securities will be replaced by adjustable-rate and hybrid mortgage loans that we originate, although we may continue to purchase securities from third parties. We believe that our ability to originate mortgage loans as the basis for our portfolio will enable us to build a portfolio that generates a higher return than the returns realized by mortgage investors that do not have their own origination capabilities, because the cost to originate and retain such mortgage loans for securitization is generally less than the premiums paid to purchase similar assets from third parties.

Generally, we intend to continue to sell the fixed-rate loans that we originate to third parties, and to retain in our portfolio and finance selected adjustable-rate and hybrid mortgage loans that we originate. Our portfolio loans are held at the REIT level or by New York Mortgage Funding, LLC ( NYMF ), our qualified REIT subsidiary ( QRS ). We continue to sell to third parties any adjustable-rate and hybrid mortgage loans we originate that do not meet our investment criteria or portfolio requirements. We rely on our own underwriting criteria with respect to the mortgage loans we retain and rely on the underwriting criteria of the institutions to which we sell our loans with respect to the loans we sell.

From time to time, we aggregate a portfolio comprised mainly of high credit quality, adjustable-rate retained mortgage loans originated by us until the portfolio reaches a size sufficient for us to securitize such loans. Our first securitization occurred on February 25, 2005 and on July 28, 2005, we completed our second loan securitization. These securitization transactions, through which we financed the adjustable-rate and hybrid mortgage loans that we retained, were structured as financings for both tax and financial accounting purposes. Therefore, we do not expect to generate a gain or loss on sales from these activities, and, following the securitizations, the loans are classified on our consolidated balance sheet as assets with the securitization debt recorded as a liability.

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

On November 15, 2004, the Company acquired 15 full service and 26 satellite retail mortgage banking offices located in the Northeast and Mid-Atlantic states from Guaranty Residential Lending, Inc. ( GRL ). The Company acquired an existing pipeline of approximately \$300.0 million in locked and unlocked mortgage applications in conjunction with the branch acquisition. The mortgage pipeline and other assets (primarily furniture, fixtures and computer hardware and software) had a purchase price of approximately \$0.6 million and \$0.8 million, respectively.

In addition, the Company will pay a \$0.3 million contingency premium to the seller provided that the former loan officers of the seller originate, close and fund \$2.0 billion in mortgage loans during the twelve month period after the closing date of the transaction.



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

a decline in the market value of our assets due to rising interest rates;

an adverse impact on our earnings from a decrease in the demand for mortgage loans due to a period of rising interest rates;

our ability to originate prime adjustable-rate and hybrid mortgage loans for our portfolio;

increasing or decreasing levels of prepayments on the mortgages underlying our mortgage-backed securities;

our ability to obtain financing to fund and hold mortgage loans prior to their sale or securitization;

the overall leverage of our portfolio and the ability to obtain financing to leverage our equity;

the potential for increased borrowing costs and its impact on net income;

the concentration of our mortgage loans in specific geographic regions;

our ability to use hedging instruments to mitigate our interest rate and prepayment risks;

a prolonged economic slow down, a lengthy or severe recession or declining real estate values could harm our operations;

if our assets are insufficient to meet the collateral requirements of our lenders, we might be compelled to liquidate particular assets at inopportune times and at disadvantageous prices;

if we are disqualified as a REIT, we will be subject to tax as a regular corporation and face substantial tax liability; and

compliance with REIT requirements might cause us to forgo otherwise attractive opportunities.

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

## **Recent Developments**

On February 25, 2005, we completed our first loan securitization of \$419.0 million of high-credit quality, first-lien, adjustable rate mortgages and hybrid adjustable rate mortgages (collectively ARM loans) through New York Mortgage Trust 2005-1 ( Trust 1 ). The securitization resulted in the creation of \$417.0 million in mortgage-backed securities. This structured finance transaction will reduce borrowing costs and improve liquidity of the investment portfolio. This transaction has been accounted for as a secured borrowing.

On March 15, 2005, we closed a private offering of \$25.0 million of trust preferred securities to Taberna Preferred Funding I, Ltd., a pooled investment vehicle. The securities were issued by NYM Preferred Trust I, a wholly-owned subsidiary of NYMC, and are fully guaranteed by us with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities have a floating interest rate resetting quarterly equal to three-month LIBOR plus 3.75%. The securities mature on March 15, 2035 and may be called at par by us any time after March 15, 2010.

On July 28, 2005, we completed our second loan securitization of \$239.5 million of high-credit quality, first-lien ARM loans through New York Mortgage Trust 2005-2 ( Trust 2 ). The securitization resulted in the creation of

\$234.0 million in mortgage-backed securities. This structured finance transaction will reduce borrowing costs and improve liquidity of the investment portfolio. This transaction has been accounted for as a secured borrowing.

On September 1, 2005, we closed a private offering of \$20.0 million of trust preferred securities to Taberna Preferred Funding II, Ltd., a pooled investment vehicle. The securities were issued by NYM Preferred Trust II, a wholly-owned subsidiary of NYMC, and are fully guaranteed by us with respect to distributions and amounts payable upon liquidation, redemption or repayment. These

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

**Overview of Performance**

For the nine months ended September 30, 2005, we reported net income of \$3.4 million, as compared to net income of \$3.0 million for the same period of 2004. Our revenues were driven largely from interest income on investments in mortgage loans and mortgage securities and gain on sale income from loan originations sold to third parties during the period. The change in net income is attributed to an increase in gain on sale revenues and net interest income from our investment portfolio. These gains are partially offset by the execution of our core business strategy to retain selected originated loans in our portfolio (thus forgoing the gain on sale premiums we would have otherwise received when such loans are sold to third parties), one-time severance charges of \$3.0 million, and increased expenses incurred for and subsequent to the acquisition of multiple retail loan origination locations during 2004. As upfront expenses related to the acquisition and/or infrastructure enhancements of our loan origination capacity begin to result in higher production volume and lowered stabilized costs, the mortgage lending segment is expected to become a more meaningful contributor to our financial performance in the future. For the nine months ended September 30, 2005, total residential originations, including brokered loans, were \$2.6 billion as compared to \$1.2 billion for the same period of 2004. The increase in our loan origination levels for the nine months ended September 30, 2005 as compared to the same period of 2004 is the result of the addition of sales personnel and branch offices primarily in new and underserved markets. Total employees increased to 857 at September 30, 2005 from 503 at September 30, 2004. Included in the total number of employees, the number of loan officers dedicated to originating loans increased to 365 at September 30, 2005 from 200 at September 30, 2004. Full-service loan origination locations increased to 27 offices and 39 satellite loan origination locations at September 30, 2005 from an aggregate of 28 locations at September 30, 2004.

**Summary of Operations and Key Performance Measurements**

For the nine months ended September 30, 2005, our net income was dependent upon our mortgage lending operations and originations (our mortgage lending segment), which include the mortgage loan sales (mortgage banking) and mortgage brokering activities on residential mortgages sold or brokered to third parties. Subsequent to our IPO, our net income has also become dependent on self-originated and purchased investments in residential mortgage loans and securities (portfolio management segment). Our mortgage banking activities generate revenues in the form of gains on sales of mortgage loans to third parties and ancillary fee income and interest income from borrowers. Our mortgage brokering operations generate brokering fee revenues from third party buyers. Our portfolio management activities generate revenues from the return on our mortgage securities and spread income from our mortgage loan portfolio. When we retain a portion of our loan originations for our investment portfolio, we do not realize the gain on sale premiums we would have otherwise recognized had these loans been sold to third parties and such loans retained on our balance sheet at cost. As a result, revenue in our mortgage banking segment are lower and the book value of these assets on our balance sheet may differ from their fair market value.

A breakdown of our loan originations for the nine months ended September 30, 2005 follows:

| Description               | Number<br>of<br>Loans | Aggregate<br>Principal<br>Balance<br>(\$000 s) | Percentage<br>of Total<br>Principal | Weighted<br>Average<br>Interest<br>Rate | Average<br>Loan Size |
|---------------------------|-----------------------|------------------------------------------------|-------------------------------------|-----------------------------------------|----------------------|
| Purchase mortgages        | 7,188                 | \$ 1,552.4                                     | 59.4%                               | 6.22%                                   | \$ 215,980           |
| Refinancings              | 4,392                 | 1,062.0                                        | 40.6%                               | 5.88%                                   | 241,800              |
| Total                     | 11,580                | \$ 2,614.4                                     | 100.0%                              | 6.08%                                   | 225,773              |
| Adjustable rate or hybrid | 4,972                 | \$ 1,421.5                                     | 54.4%                               | 5.89%                                   | 285,911              |

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|            |        |            |        |       |         |
|------------|--------|------------|--------|-------|---------|
| Fixed rate | 6,608  | 1,192.9    | 45.6%  | 6.31% | 180,524 |
| Total      | 11,580 | \$ 2,614.4 | 100.0% | 6.08% | 225,773 |
| Bankered   | 9,908  | \$ 2,179.9 | 83.4%  | 6.16% | 220,019 |
| Brokered   | 1,672  | 434.5      | 16.6%  | 5.72% | 259,873 |
| Total      | 11,580 | \$ 2,614.4 | 100.0% | 6.08% | 225,773 |

The key performance measures for our origination activities are:

dollar volume of mortgage loans originated;

relative cost of the loans originated;

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characteristics of the loans, including but not limited to the coupon and credit quality of the loan, which will indicate their expected yield; and

return on our mortgage asset investments and the related management of interest rate risk.

The key performance measures for our portfolio management activities are:

net interest spread on the portfolio;

characteristics of the investments and the underlying pool of mortgage loans including but not limited to credit quality, coupon and prepayment rates; and

return on our mortgage asset investments and the related management of interest rate risk.

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

**Known Material Trends and Commentary**

The U.S. residential mortgage market has experienced considerable growth during the past ten years, with total outstanding U.S. mortgage debt growing from \$3.2 trillion at the end of 1993 to \$7.3 trillion as of December 31, 2003, according to The Bond Market Association and the Federal Reserve. According to the October 12, 2005 Mortgage Finance Forecast of the Mortgage Bankers Association (MBA), the MBA estimated that lenders originated \$2.6 trillion in 2004. In the October 12, 2005 forecast, the MBA projects that mortgage loan volumes will increase to \$2.9 trillion in 2005 due to a less than expected increase in mortgage rates and fall to \$2.6 trillion in 2006, primarily due to an expected continued decline in the volume of loan refinancings.

| <b>Total U.S. 1-to-4-Family Mortgage Originations</b> | <b>2004</b> | <b>2005</b>                               | <b>Forecasted<br/>Percentage<br/>Change</b> |
|-------------------------------------------------------|-------------|-------------------------------------------|---------------------------------------------|
|                                                       |             | <b>Forecast<br/>(Dollars in billions)</b> |                                             |
| Purchase mortgages                                    | \$ 1,439    | \$ 1,673                                  | 16.3%                                       |
| Refinancings                                          | 1,150       | 1,214                                     | 5.6%                                        |
| Total                                                 | \$ 2,589    | \$ 2,887                                  | 11.5%                                       |

*Source: October 12, 2005 Mortgage Finance Forecast of the MBA*

The following table summarizes the Company's loan origination volume and characteristics for the three and nine months ended September 30, 2005 relative to our prior year historical origination production and expected industry trends for total U.S. 1-to-4-family mortgage originations as forecast in the October 12, 2005 Mortgage Finance Forecast of the MBA. For the three months ended September 30, 2005, our total loan originations, aided in part by our acquisition of GRL, increased 141.3% over the comparable period for 2004. This increase contrasts favorably with the increase forecasted in the October 12, 2005 Mortgage Finance Forecast of the MBA, which estimates an industry increase for the period of 36.0% for total originations:

**Our Total Mortgage Originations**

|                         | <b>Total Mortgage<br/>Originations</b> |             | <b>Percentage Change<br/>From Prior Year</b> |                                      |
|-------------------------|----------------------------------------|-------------|----------------------------------------------|--------------------------------------|
|                         | <b>2004</b>                            | <b>2005</b> | <b>NYMC<br/>Actual</b>                       | <b>MBA<br/>Industry<br/>Forecast</b> |
|                         | <b>(Dollars in<br/>Millions)</b>       |             |                                              |                                      |
| 1 <sup>st</sup> Quarter | \$ 283.5                               | \$ 672.5    | 137.2%                                       | 6.2%                                 |

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|                         |            |         |        |        |
|-------------------------|------------|---------|--------|--------|
| 2 <sup>nd</sup> Quarter | 514.0      | 939.7   | 82.8%  | (2.9)% |
| 3 <sup>rd</sup> Quarter | 415.4      | 1,002.2 | 141.3% | 36.0%  |
| 4 <sup>th</sup> Quarter | 632.6      |         |        |        |
| Full Year               | \$ 1,845.5 |         |        |        |

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With regard to purchase mortgage originations, statistics from the MBA since 1990 indicate that the volume of purchase mortgages year-after-year steadily increases throughout various economic and interest rate cycles. While management is unable to predict borrowing habits, we believe that historical trends indicate that the purchase mortgage market is relatively stable. For the three months ended September 30, 2005, our purchase mortgage originations, aided in part by our acquisition of GRL, have increased by \$295.2 million or 107.5% over the comparable period for the prior year. This increase presently exceeds the 17.7% increase forecasted by the October 12, 2005 Mortgage Finance Forecast of the MBA for total U.S. 1-to-4-family purchase mortgage originations for the period.

**Our Total Purchase Mortgage Originations**

|                         | <b>Total Purchase<br/>Mortgage<br/>Originations</b> |             | <b>NYMC<br/>Actual</b> |
|-------------------------|-----------------------------------------------------|-------------|------------------------|
|                         | <b>2004<br/>(Dollars in Millions)</b>               | <b>2005</b> |                        |
| 1 <sup>st</sup> Quarter | \$ 169.3                                            | \$ 380.9    | 125.0%                 |
| 2 <sup>nd</sup> Quarter | 273.3                                               | 601.7       | 120.2%                 |
| 3 <sup>rd</sup> Quarter | 274.6                                               | 569.8       | 107.5%                 |
| 4 <sup>th</sup> Quarter | 366.6                                               |             |                        |
| Full Year               | \$ 1,083.8                                          |             |                        |

For the three months ended September 30, 2005, our originations of mortgage refinancings, aided in part by our acquisition of and GRL, have increased by \$291.6 million or 207.1% versus the comparable period for the prior year. This 207.1% increase in our origination of mortgage refinancings compares favorably to the 73.4% increase for total U.S. 1-to-4-family refinance mortgage originations for the period estimated in the October 12, 2005 Mortgage Finance Forecast of the MBA.

**Our Total Refinance Mortgage Originations**

|                         | <b>Total Refinance<br/>Mortgage<br/>Originations</b> |             | <b>NYMC<br/>Actual</b> |
|-------------------------|------------------------------------------------------|-------------|------------------------|
|                         | <b>2004<br/>(Dollars in Millions)</b>                | <b>2005</b> |                        |
| 1 <sup>st</sup> Quarter | \$ 114.2                                             | \$ 291.6    | 155.3%                 |
| 2 <sup>nd</sup> Quarter | 240.7                                                | 338.0       | 40.4%                  |
| 3 <sup>rd</sup> Quarter | 140.8                                                | 432.4       | 207.1%                 |
| 4 <sup>th</sup> Quarter | 266.0                                                |             |                        |
| Full Year               | \$ 761.7                                             |             |                        |

For the nine months ended September 30, 2005, NYMC's purchase loan originations represented 59.4% of NYMC's total residential mortgage loan originations as measured by principal balance, as compared to an industry-wide percentage of 57.6% for one-to-four family mortgage loans as estimated in the October 12, 2005 Mortgage Finance Forecast of the MBA. We believe that our concentration on purchase loan originations has caused our loan origination volume to be less susceptible to the industry-wide decline in origination volume that has resulted from rising interest rates. We believe that the market for mortgage loans for home purchases is less susceptible than the refinance market

to downturns during periods of increasing interest rates, because borrowers seeking to purchase a home do not generally base their decision to purchase on changes in interest rates alone, while borrowers that refinance their mortgage loans often make their decision as a direct result of changes in interest rates. Consequently, while our referral-based marketing strategy may cause our overall loan origination volume during periods of declining interest rates to lag our competitors who rely on mass marketing and advertising and who therefore capture a greater percentage of loan refinance applications during those periods, we believe this strategy enables us to sustain stronger home purchase loan origination volumes than those same competitors during periods of flat to rising interest rates. In addition, we believe that our referral-based business results in relatively higher gross margins and lower advertising costs and loan generation expenses than most other mortgage companies whose business is not referral-based.



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We depend on the capital markets to finance the mortgage loans we originate. In the short-term, we finance our mortgage loans using warehouse lines of credit and aggregation lines provided by commercial and investment banks. As we execute our business plan of securitizing self-originated mortgage loans, we will issue bonds from our loan securitizations and will own such bonds although we may sell the bonds to large, institutional investors at some point in the future. These bonds and some of our mortgage loans may be financed with repurchase agreements with well capitalized commercial and investment banks. Commercial and investment banks have provided significant liquidity to finance our operations through these various financing facilities. While management cannot predict the future liquidity environment, we are currently unaware of any material reason to prevent continued liquidity support in the capital markets for our business. See *Liquidity and Capital Resources* below for further discussion of liquidity risks and resources available to us.

The mortgage REIT industry has seen a significant increase in capital raising in the public markets. Additionally, there have been several new entrants, including ourselves, to the mortgage REIT business and other mortgage lender conversions (or proposed conversions) to REIT status. While many of these entrants focus on sub-prime and nonconforming mortgage lending, there are also entrants which will compete with our focus on the high-quality and prime mortgage marketplace. This increased activity may impact the pricing and underwriting guidelines within the high-quality and prime marketplace. We have not changed our guidelines or pricing in response to this activity nor do we have any plans to make such changes at this time.

State and local governing bodies are focused on certain practices engaged in by certain participants in the mortgage lending business relating to fees borrowers incur in obtaining a mortgage loan generally termed predatory lending within the mortgage industry. In several instances, states or local governing bodies have imposed strict laws on lenders to curb such practices. To date, these laws have had an insignificant impact on our business. We have capped fee structures consistent with those adopted by federal mortgage agencies and have implemented rigid processes to ensure that our lending practices are not predatory in nature.

## **Description of Businesses**

### ***Mortgage Lending***

Our mortgage lending operations are important to our financial results as they produce the loans that ultimately will collateralize the mortgage securities that we will hold in our portfolio. We primarily originate prime, first-lien, residential mortgage loans and, to a lesser extent second lien mortgage loans, home equity lines of credit, and bridge loans. We originate a wide range of mortgage loan products including adjustable-rate mortgages ( ARM ) which may have an initial fixed rate period, and fixed-rate mortgages. Since the completion of our IPO, we have begun to retain and aggregate our self-originated, high-quality, shorter-term ARM loans in order to pool them into mortgage securities. The fixed rate loans we originate and any ARM loans not meeting our investment criteria continue to be sold to third parties. For the nine months ended September 30, 2005 and 2004, we originated \$2.2 billion and \$954.9 million in mortgage loans for sale to third parties, respectively. We recognized gains on sales of mortgage loans totaling \$21.6 million and \$14.9 million for the nine months ended September 30, 2005 and 2004, respectively.

Subsequent to our IPO in June 2004, we began to retain high quality, adjustable-rate mortgage loans that we originate in our investment portfolio. For the nine months ended September 30, 2005, we originated and retained \$456.0 million of such loans.

We also broker loans to third party mortgage lenders for which we receive a broker fee. For the nine months ended September 30, 2005 and 2004, we originated \$434.5 million and \$258.0 million in brokered loans, respectively. We recognized net brokering income totaling \$1.5 million and \$1.3 million during the nine months ended September 30, 2005 and 2004, respectively.

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

A significant risk to our mortgage lending operations is liquidity risk the risk that we will not have financing facilities and cash available to fund and hold loans prior to their sale or securitization. We maintain lending facilities with large banking and investment institutions to reduce this risk. On a short-term basis, we finance mortgage loans using warehouse lines of credit and repurchase agreements. Details regarding available financing arrangements and amounts outstanding under those arrangements are included in *Liquidity and Capital Resources* below.



**Table of Contents*****Mortgage Portfolio Management***

Prior to the completion of our IPO on June 29, 2004, our operations were limited to the mortgage operations described in the preceding section. Beginning in July 2004, we began to implement our business plan of investing in high-quality, adjustable rate mortgage related securities and residential loans. Our mortgage portfolio, consisting primarily of residential mortgage-backed securities and mortgage loans held for investment, currently generates a substantial portion of our earnings. In managing our investment in a mortgage portfolio, we:

invest in mortgage-backed securities originated by others, including ARM securities and CMO floaters;

invest in assets generated primarily from our self-origination of high-credit quality, single-family, residential mortgage loans;

operate as a long-term portfolio investor;

finance our portfolio by entering into repurchase agreements and as we aggregate mortgage loans for investment, issuing mortgage-backed bonds from time to time; and

generate earnings from the return on our mortgage securities and spread income from our mortgage loan portfolio.

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

As of September 30, 2005, our mortgage securities portfolio consisted of 100% AAA rated or FannieMae, Freddie Mac or Ginnie Mae-guaranteed ( FNMA/FHLMC/GNMA ) mortgage securities. This allows the company to obtain excellent financing rates as well as enhanced liquidity. The loans held for securitization and loans held for investment consisted of high-credit quality prime adjustable rate mortgages with initial reset periods of no greater than 5 years. The loan portfolio has had no credit losses to date. Our portfolio strategy for ARM loan originations is to acquire only high-credit quality ARM loans for our securitization process thereby limiting any future potential losses.

***Investment Securities-Available For Sale Characteristics***

The following tables present various characteristics of our investment securities and mortgage loan portfolio as of September 30, 2005.

**Characteristics of Our Investment Securities:**

|                                | <b>Carrying<br/>Value</b> | <b>Sponsor or<br/>Rating</b> | <b>% of<br/>Portfolio</b> |
|--------------------------------|---------------------------|------------------------------|---------------------------|
| <b><i>Credit</i></b>           |                           |                              |                           |
| Agency REMIC CMO Floating Rate | \$ 23,789,008             | FNMA/FHLMC/GNMA              | 3%                        |
| FHLMC Agency ARMs              | 101,319,592               | FHLMC                        | 13%                       |
| FNMA Agency ARMs               | 328,981,170               | FNMA                         | 41%                       |
| Private Label ARMs             | 342,989,523               | AAA                          | 43%                       |
| Total                          | \$ 797,079,293            |                              | 100%                      |

| <b>Carrying</b> | <b>% of</b> | <b>Weighted<br/>Average</b> |
|-----------------|-------------|-----------------------------|
|-----------------|-------------|-----------------------------|

|                                | Value          | Portfolio | Coupon |
|--------------------------------|----------------|-----------|--------|
| <b>Interest Rate Repricing</b> |                |           |        |
| < 6 Months                     | \$ 23,789,008  | 3%        | 4.99%  |
| < 36 Months                    | 494,395,915    | 62%       | 4.30%  |
| < 60 Months                    | 278,894,370    | 35%       | 4.74%  |
| Total                          | \$ 797,079,293 | 100%      | 4.47%  |

**Table of Contents****Characteristics of Our Mortgage Loans Held for Investment and Securitization:**

|                                     | <b># of<br/>Loans</b> | <b>Par Value</b> | <b>Carrying<br/>Value</b> |
|-------------------------------------|-----------------------|------------------|---------------------------|
| <b><i>Loan Characteristics:</i></b> |                       |                  |                           |
| Loans Held for Securitization       | 1,207                 | \$ 584,145,552   | \$ 589,354,405            |
| Loans Held for Investment           | 308                   | 139,656,332      | 140,411,907               |
| Total Loans Held                    | 1,515                 | \$ 723,801,884   | \$ 729,766,312            |

|                                             | <b>Average</b> | <b>High</b>  | <b>Low</b> |
|---------------------------------------------|----------------|--------------|------------|
| <b><i>General Loan Characteristics:</i></b> |                |              |            |
| Original Loan Balance                       | \$ 479,336     | \$ 3,500,000 | \$ 25,000  |
| Coupon Rate                                 | 5.12%          | 7.75%        | 3.00%      |
| Gross Margin                                | 2.41%          | 6.50%        | 1.13%      |
| Lifetime Cap                                | 10.98%         | 13.43%       | 9.00%      |
| Original Term (Months)                      | 360            | 360          | 359        |
| Remaining Term (Months)                     | 349            | 360          | 322        |

|                                                    | <b>Percentage</b> |
|----------------------------------------------------|-------------------|
| <b><i>Arm Loan Type</i></b>                        |                   |
| Traditional ARMs                                   | 5.2%              |
| 2/1 Hybrid ARMs                                    | 4.8%              |
| 3/1 Hybrid ARMs                                    | 37.8%             |
| 5/1 Hybrid ARMs                                    | 52.2%             |
| Total                                              | 100.0%            |
| <i>Percent of ARM loans that are Interest Only</i> | 73.5%             |

|                                                 | <b>Percentage</b> |
|-------------------------------------------------|-------------------|
| <b><i>Traditional ARMs    Periodic Caps</i></b> |                   |
| None                                            | 66.7%             |
| 1%                                              | 25.2%             |
| Over 1%                                         | 8.1%              |
| Total                                           | 100.0%            |

|                                          | <b>Percentage</b> |
|------------------------------------------|-------------------|
| <b><i>Hybrid ARMs    Initial Cap</i></b> |                   |
| 3.00% or less                            | 35.0%             |
| 3.01%-4.00%                              | 10.5%             |
| 4.01%-5.00%                              | 52.7%             |
| 5.01%-6.00%                              | 1.8%              |
| Total                                    | 100.0%            |

|                           | Percentage |
|---------------------------|------------|
| <b><i>FICO Scores</i></b> |            |
| 650 or less               | 4.5%       |
| 651 to 700                | 18.3%      |
| 701 to 750                | 35.2%      |
| 751 to 800                | 38.7%      |
| 801 and over              | 3.3%       |
| Total                     | 100.0%     |
| Average FICO Score        | 734        |

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|                                   | <b>Percentage</b> |
|-----------------------------------|-------------------|
| <b><i>Loan to Value (LTV)</i></b> |                   |
| 50% or less                       | 9.2%              |
| 50.01%-60.00%                     | 10.0%             |
| 60.01%-70.00%                     | 28.8%             |
| 70.01%-80.00%                     | 49.4%             |
| 80.01% and over                   | 2.6%              |
| Total                             | 100.0%            |
| Average LTV                       | 69.2%             |

|                             | <b>Percentage</b> |
|-----------------------------|-------------------|
| <b><i>Property Type</i></b> |                   |
| Single Family               | 53.5%             |
| Condominium                 | 23.6%             |
| Cooperative                 | 9.9%              |
| Planned Unit Development    | 9.1%              |
| Two to Four Family          | 3.9%              |
| Total                       | 100.0%            |

|                                | <b>Percentage</b> |
|--------------------------------|-------------------|
| <b><i>Occupancy Status</i></b> |                   |
| Primary                        | 85.1%             |
| Secondary                      | 9.8%              |
| Investor                       | 5.1%              |
| Total                          | 100.0%            |

|                                  | <b>Percentage</b> |
|----------------------------------|-------------------|
| <b><i>Documentation Type</i></b> |                   |
| Full Documentation               | 61.0%             |
| Stated Income                    | 23.1%             |
| Stated Income/ Stated Assets     | 13.3%             |
| No Documentation                 | 1.7%              |
| No Ratio                         | 0.8%              |
| Stated Assets                    | 0.1%              |
| Total                            | 100.0%            |

|                            | <b>Percentage</b> |
|----------------------------|-------------------|
| <b><i>Loan Purpose</i></b> |                   |
| Purchase                   | 62.3%             |

|                       |        |
|-----------------------|--------|
| Cash out refinance    | 23.7%  |
| Rate & term refinance | 14.0%  |
| Total                 | 100.0% |

|                                                                    | Percentage |
|--------------------------------------------------------------------|------------|
| <b><i>Geographic Distribution: 5% or more in any one state</i></b> |            |
| NY                                                                 | 25.5%      |
| CA                                                                 | 16.9%      |
| MA                                                                 | 10.2%      |
| Other (less than 5% individually)                                  | 47.4%      |
| Total                                                              | 100.0%     |

***Delinquency Status***

As of September 30, 2005, we had 1,515 loans categorized as either Mortgage Loans Held in the Securitization Trusts or Mortgage Loans Held for Investment. The table below shows delinquencies in this \$723.8 million loan portfolio as of September 30, 2005:



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| <b>Days Late</b> | <b>Number of<br/>Delinquent Loans</b> | <b>Total Dollar<br/>Amount</b> | <b>% of Loan<br/>Portfolio</b> |
|------------------|---------------------------------------|--------------------------------|--------------------------------|
| 30-60            |                                       |                                | 0.00%                          |
| 61-90            | 2                                     | \$ 1,145,667                   | 0.16%                          |
| 90+              |                                       |                                | 0.00%                          |

As of the date of this filing, none of these loans were in non-accrual status. Losses on these loans are not probable nor reasonably estimable.

The following table presents the components of our net interest income from our investment portfolio of mortgage securities and loans for the nine months ended September 30, 2005:

|                                                  | <b>Amount</b>        | <b>Average<br/>Balance<br/>(Dollars in<br/>Millions)</b> | <b>Effective<br/>Rate</b> |
|--------------------------------------------------|----------------------|----------------------------------------------------------|---------------------------|
| <b>Net Interest Income Components</b>            |                      |                                                          |                           |
| <b>Interest Income</b>                           |                      |                                                          |                           |
| Investment securities and loans                  | \$ 38,173,875        |                                                          |                           |
| Mortgage loans held in the securitization trusts | 12,617,612           |                                                          |                           |
| Amortization of premium                          | (4,880,408)          |                                                          |                           |
| <b>Total interest income</b>                     | <b>\$ 45,911,079</b> | <b>\$ 1,510.7</b>                                        | <b>4.05%</b>              |
| <b>Interest Expense</b>                          |                      |                                                          |                           |
| Repurchase agreements                            | \$ 29,885,151        | \$ 1,282.5                                               | 3.07%                     |
| Warehouse borrowings                             | 3,911,252            | 138.6                                                    | 3.72%                     |
| Interest rate swaps and caps                     | 204,682              |                                                          | 0.02%                     |
| <b>Total interest expense</b>                    | <b>\$ 34,001,085</b> | <b>\$ 1,421.1</b>                                        | <b>3.16%</b>              |
| <b>Net Interest Income</b>                       | <b>\$ 11,909,994</b> |                                                          | <b>0.89%</b>              |

**Significance of Estimates and Critical Accounting Policies**

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America, ( GAAP ), many of which require the use of estimates, judgments and assumptions that affect reported amounts. These estimates are based, in part, on our judgment and assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. The results of these estimates affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented. The following summarizes the components of our consolidated financial statements where understanding accounting policies is critical to understanding and evaluating our reported financial results, especially given the significant estimates used in applying the policies. Changes in the estimates and assumptions could have a material effect on these financial statements. Management has discussed the development and selection of these critical accounting estimates with the audit committee of our Board of Directors and the audit committee has reviewed our disclosure.

*Investment Securities Available for Sale.* Our investments in agency and AAA rated adjustable-rate residential mortgage-backed securities are classified as available for sale securities. Available for sale securities are reported at fair value with unrealized gains and losses reported in other comprehensive income ( OCI ). Gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in gain on sale of securities. Purchase premiums or discounts on investment securities are accreted or amortized to

interest income over the estimated life of the investment securities using the interest method. Investment securities may be subject to interest rate, credit and/or prepayment risk.

The fair values of the Company's residential mortgage-backed securities are generally based on market prices provided by five to seven dealers who make markets in these financial instruments. If the fair value of a security is not reasonably available from a dealer, management estimates the fair value based on characteristics of the security that the Company receives from the issuer and on available market information.

In November 2005, the Financial Accounting Standards Board (FASB), issued Staff Position 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. When the fair value of an available for sale security is less than amortized cost, management considers whether there is an other-than-temporary impairment in the value of the security (e.g., whether the security will be sold prior

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to the recovery of fair value). If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and the unrealized loss is transferred from accumulated other comprehensive income as an immediate reduction of current earnings (i.e., as if the loss had been realized in the period of impairment). Even though no credit concerns exist with respect to an available for sale security, an other-than-temporary impairment may be evident if management determines that the Company does not have the intent and ability to hold an investment until a forecasted recovery of the value of the investment.

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

***Mortgage Loans Held in the Securitization Trusts*** Mortgage loans collateralizing debt obligations are loans the Company has securitized into sequentially rated classes, currently the Company has retained a 100% interest in the securitized loans. Mortgage loans held in the securitization trusts are recorded at amortized cost.

***Transfers of Assets.*** A transfer of mortgage loans or mortgage securities in which we surrender control over the financial assets is accounted for as a sale. Gains and losses on the assets transferred are recognized based on the carrying amount of the financial assets involved in the transfer, allocated between the assets transferred and the retained interests, if any, based on their relative fair value at the date of transfer. To determine fair value, we estimate fair value based on the present value of future expected cash flows using management's best estimate of the key assumptions, including credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. When we retain control over transferred mortgage loans or mortgage securities (such as under a repurchase agreement), the transaction is accounted for as a secured borrowing.

The following is a description of the methods we have historically used to transfer assets, including the related accounting treatment under each method.

***Whole Loan Sales.*** Whole loan sales represent loans sold on a servicing released basis wherein the servicing rights with respect to the loans are transferred to the purchaser concurrently with the sale of the loan. Gains and losses on whole loan sales are recognized in the period the sale occurs and we have determined that the criteria for sale treatment has been achieved primarily by the surrender of control over the assets transferred. We generally have an obligation to repurchase whole loans sold in circumstances in which the borrower fails to make one of the first three payments. Additionally, we are also generally required to repay all or a portion of the premium we receive on the sale of whole loans in the event that the loan prepays in its entirety within a period of one year after origination.

***Loans and Securities Sold Under Repurchase Agreements.*** Repurchase agreements represent legal sales of loans or mortgage securities and an agreement to repurchase the loans or mortgage securities at a later date. Repurchase agreements are accounted for as secured borrowings because the company has not surrendered control of the transferred assets.

***Mortgage Loans Held for Investment.*** We retain in our portfolio substantially all of the adjustable-rate mortgage loans that we originate and that meet our investment criteria and portfolio requirements. We service loans that we originate and retain in our portfolio through a servicer. Servicing is the function primarily consisting of collecting monthly payments from mortgage borrowers, and disbursing those funds to the appropriate loan investors.

We may also include in our portfolio loans acquired in bulk pools from other originators and securities dealers. Mortgage loans held for investment are recorded net of deferred loan origination fees and associated direct costs and are stated at amortized cost. Mortgage loan origination fees and associated direct mortgage loan origination costs on mortgage loans held-in-portfolio are deferred and amortized over the life of the loan as an adjustment to yield using the level yield method. This amortization includes the effect of projected prepayments; such prepayment projections

involve significant management judgments.

Interest is recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not

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collectible in the normal course of business, but in no case beyond when payment on a loan becomes 90 days delinquent. Interest collected on loans for which accrual has been discontinued is recognized as income upon receipt.

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

*Accounting for Transfers and Servicing of Financial Assets.* We may regularly securitize mortgage loans by transferring mortgage loans to independent trusts which issue securities to investors. These securities are collateralized by the mortgage loans transferred into these independent trusts. We will generally retain interests in all or some of the securities issued by the trusts. Certain of the securitization agreements may require us to repurchase loans that are found to have legal deficiencies, subsequent to the date of transfer. The accounting treatment for transfers of assets upon securitization depends on whether or not we have surrendered control over the transferred assets. We will service, through a subservicer, loans that we originate and retain in our portfolio.

We will comply with the provisions of Statement of Financial Accounting Standards No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, or SFAS No. 140, related to each securitization. Depending on the structure of the securitization, it will either be treated as a sale or secured financing for financial statement purposes. We anticipate that our securitizations will be treated as secured financings under SFAS No. 140. Our strategy of retaining on our balance sheet certain mortgage loans held for investment and included in our securitization pools will reduce the number of loans NYMC sells and, therefore, our total gains on sales of mortgage loans for financial accounting purposes will be lower than NYMC has historically recognized.

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

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

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

(1) that the items being hedged expose us to interest rate risk, and

(2) that the interest rate swaps or caps are highly effective in reducing our exposure to interest rate risk.

Correlation and effectiveness of the interest rate swaps and caps are periodically assessed based upon a comparison of the relative changes in the fair values or cash flows of the interest rate swaps and caps and the items being hedged.

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

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

Derivative financial instruments contain credit risk to the extent that the institutional counterparties may be unable to meet the terms of the agreements. We minimize this risk by using multiple counterparties and limiting our

counterparties to major financial

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institutions with good credit ratings. In addition, we regularly monitor the potential risk of loss with any one party resulting from this type of credit risk. Accordingly, we do not expect any material losses as a result of default by other parties.

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

*Accounting for Derivative Instruments and Hedging Activities*. To this end, terms of the hedges are matched closely to the terms of hedged items.

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

In the normal course of our mortgage loan origination business, we enter into contractual interest rate lock commitments, or IRLCs, to extend credit to finance residential mortgages. These commitments, which contain fixed expiration dates, become effective when eligible borrowers lock-in a specified interest rate within time frames established by our origination, credit and underwriting practices. Interest rate risk arises if interest rates change between the time of the lock-in of the rate by the borrower and the sale of the loan. The IRLCs are considered undesignated or free-standing derivatives. Accordingly, IRLCs are recorded at fair value with changes in fair value recorded to current earnings. Mark to market adjustments on IRLCs are recorded from the inception of the interest rate lock through the date the underlying loan is funded. The fair value of the IRLCs is determined by an estimate of the ultimate gain on sale of the loans net of estimated net costs to originate the loan. Beginning in the second quarter of 2004, the fair value of IRLCs are valued in accordance with SEC Staff Accounting Bulletin 105 which requires the exclusion of servicing rights cash flows prior to mortgage loans sold with servicing retained. The company currently sells all of its mortgage loans servicing released.

To mitigate the effect of the interest rate risk inherent in issuing an IRLC from the lock-in date to the funding date of a loan, we generally enter into forward sale loan contracts, or FSLCs. Since the FSLCs are committed prior to mortgage loan funding and thus there is no owned asset to hedge, the FSLCs in place prior to the funding of a loan are undesignated derivatives under SFAS No. 133 and are marked to market with changes in fair value recorded to current earnings.

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

Once a loan has been funded, our risk management objective for our mortgage loans held for sale is to protect earnings from an unexpected charge due to a decline in value of such mortgage loans. Our strategy is to engage in a risk management program involving the designation of FSLCs (the same FSLCs entered into at the time of the IRLC) to hedge most of our mortgage loans held for sale. Provided that the FSLCs have been designated as qualifying hedges for the funded loans and the notional amount of the forward delivery contracts, along with the underlying rate and critical terms of the contracts, are equivalent to the unpaid principal amount of the mortgage loans being hedged, the forward delivery contracts effectively fix the forward sales price and thereby offset interest rate and price risk to us. We evaluate this relationship quarterly and classify and account for FSLCs which are deemed effective as fair value hedges.

We employ a number of risk management monitoring procedures that are designed 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, we 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, we continue to carry the derivative instruments on our balance sheet at fair value with changes in their value recorded to current earnings.

*Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.* As previously described herein, we plan to regularly securitize our mortgage loans and retain beneficial interests created. In addition, we may purchase such beneficial interests from third parties. For certain of our purchased and retained beneficial interests in securitized financial assets we will follow the guidance in Financial Accounting Standards Board Emerging Issues Task Force Issue



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No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets, or EITF 99-20. Accordingly, on a quarterly basis, when significant changes in estimated cash flows generated from the securitized assets underlying collateral from the cash flows previously estimated occur due to actual prepayment and credit loss experience, we will calculate revised yields based on the current amortized cost of the investment (including any other-than-temporary impairments recognized to date) and the revised cash flows. The revised yields are then applied prospectively to recognize interest income. As of September 30, 2005 we do not have any securities subject to EITF 99-20.

Additionally, when significant changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, and the present value of the revised cash flows using the current expected yield is less than the present value of the previously estimated remaining cash flows (adjusted for cash receipts during the intervening period), an other-than-temporary impairment is deemed to have occurred. Accordingly, the security is written down to the fair value with the resulting change being included in income, and a new cost basis established. In both instances, the original discount or premium is written off when the new cost basis is established. After taking into account the effect of the impairment charge, income is recognized under EITF 99-20, as applicable, using the market yield for the security used in establishing the write-down. These estimates involve significant management judgment.

### **Three and Nine Months Ended September 30, 2005 Financial Highlights**

The net income for the Company's Mortgage Portfolio Management segment totaled \$3.8 million for the three months ended September 30, 2005;

Consolidated net income totaled \$2.9 million for the three months ended September 30, 2005;

Completion of our first and second loan securitizations of \$419.0 million and \$239.5 million in residential mortgage loans, respectively;

Issuance of \$45.0 million of trust preferred securities;

Total assets increased to \$1.9 billion as of September 30, 2005 from \$1.6 billion as of December 31, 2004; and

Aided in part by the GRL acquisition, 130.4% growth in loan originations of \$2.2 billion for the nine months ended September 30, 2005 as compared to \$954.9 million for the nine months ended September 30, 2004 and relative to an overall industry increase of 12.1% for the nine months ended September 30, 2005 as projected by the MBA.

During the second quarter the Company undertook cost-cutting initiatives which reduced its overall recurring annual compensation expenses by an estimated \$3.7 million;

### **Results of Operations and Financial Condition**

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

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

*The demand for new mortgage loans.* Reduced demand for mortgage loans causes closed loan origination volume to decline. Demand for new mortgage loans is directly impacted by current interest rate trends and

other economic conditions. Rising interest rates tend to reduce demand for new mortgage loans, particularly demand for loan refinancings, and falling interest rates tend to increase demand for new mortgage loans, particularly loan refinancings.

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*Loan refinancing and home purchase trends.* As discussed above, the volume of loan refinancings tends to increase following declines in interest rates and to decrease when interest rates rise. The volume of home purchases is also affected by interest rates, although to a lesser extent than refinancing volume. Home purchase trends are also affected by other economic changes such as inflation, improvements in the stock market, unemployment rates and other similar factors.

*Seasonality.* Historically, according to the MBA, loan originations during late November, December, January and February of each year are typically lower than during other months in the year due, in part, to inclement weather, fewer business days (due to holidays and the short month of February), and the fact that home buyers tend to purchase homes during the warmer months of the year. As a result, loan volumes tend to be lower in the first and fourth quarters of a year than in the second and third quarters.

*Occasional spikes in volume resulting from isolated events.* Mortgage lenders may experience spikes in loan origination volume from time to time due to non-recurring events or transactions, such as a large mass closing of a condominium project for which a bulk end-loan commitment was negotiated.

The mortgage banking industry witnessed record levels of closed loan originations beginning in mid-2002 and continuing throughout 2003, due primarily to the availability of historically low interest rates during that period. These historically low interest rates caused existing home owners to refinance their mortgages at record levels and induced many first-time home buyers to purchase homes and many existing home owners to purchase new homes. We, like most industry participants, enjoyed a record increase in our volume of closed loan originations during that period. During the first quarter of 2004, the Federal Reserve Bank of the United States signaled that moderate increases in interest rates were likely to occur during and after the second quarter of 2004 and followed up its first increase in interest rates in four years with measured, continued increases to-date.

In its October 12, 2005 Mortgage Finance Forecast, the MBA forecast that closed loan originations in the industry declined to \$2.60 trillion in 2004 and will increase to \$2.89 trillion in 2005. Our origination volumes to date have continued to trend upward, due in part to the GRL acquisition, although not forecasted, a decline in the overall volume of closed loan originations may have a negative effect on our loan origination volume and net income. We believe that our concentration on purchase loan originations has caused our loan origination volume to be less susceptible to the industry-wide decline in origination volume.

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

The cost of our production is also critical to our financial results as it is a significant factor in the gains we recognize. The following table summarizes our loan production for the first, second and third quarters of 2005 and for each quarter of fiscal years 2004 and 2003.

|                             | Number<br>of<br>Loans | Aggregate                              | Average   | Weighted |      |
|-----------------------------|-----------------------|----------------------------------------|-----------|----------|------|
|                             |                       | Principal                              | Principal | Average  |      |
| Loan Production Summary (1) |                       | Balance<br>(Dollars<br>in<br>millions) | Balance   | LTV(2)   | FICO |

**2005:***Third Quarter*

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|                    |       |    |         |            |    |     |
|--------------------|-------|----|---------|------------|----|-----|
| ARM                | 1,727 | \$ | 513.3   | \$ 297,213 | 74 | 705 |
| Fixed-rate         | 1,946 |    | 392.2   | 201,537    | 73 | 717 |
| Subtotal non-FHA   | 3,673 | \$ | 905.5   | 246,522    | 74 | 710 |
| FHA                | 704   |    | 96.7    | 137,410    | 93 | 633 |
| Total              | 4,377 | \$ | 1,002.2 | 228,973    | 75 | 703 |
| Purchase mortgages | 2,568 | \$ | 558.1   | 217,314    | 78 | 719 |
| Refinancings       | 1,105 |    | 347.4   | 314,402    | 66 | 696 |
| Subtotal non-FHA   | 3,673 | \$ | 905.5   | 246,522    | 74 | 710 |
| FHA                | 704   |    | 96.7    | 137,410    | 93 | 633 |
| Total              | 4,377 | \$ | 1,002.2 | 228,973    | 75 | 703 |

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| Loan Production Summary (1) |         | Number<br>of<br>Loans | Aggregate                                               | Average                  | Weighted<br>Average |      |
|-----------------------------|---------|-----------------------|---------------------------------------------------------|--------------------------|---------------------|------|
|                             |         |                       | Principal<br><br>Balance<br>(Dollars<br>in<br>millions) | Principal<br><br>Balance | LTV(2)              | FICO |
| <i>Second Quarter</i>       |         |                       |                                                         |                          |                     |      |
| ARM                         |         | 1,839                 | \$ 537.9                                                | 292,482                  | 73                  | 709  |
| Fixed-rate                  |         | 1,777                 | 337.1                                                   | 189,732                  | 73                  | 718  |
| Subtotal                    | non-FHA | 3,616                 | \$ 875.0                                                | 241,988                  | 73                  | 712  |
| FHA                         |         | 479                   | 64.7                                                    | 135,016                  | 93                  | 623  |
| Total                       |         | 4,095                 | \$ 939.7                                                | 229,475                  | 74                  | 706  |
| Purchase mortgages          |         | 2,652                 | \$ 587.8                                                | 221,657                  | 76                  | 720  |
| Refinancings                |         | 964                   | 287.2                                                   | 297,918                  | 65                  | 695  |
| Subtotal                    | non-FHA | 3,616                 | \$ 875.0                                                | 241,988                  | 73                  | 712  |
| FHA                         |         | 479                   | 64.7                                                    | 135,016                  | 93                  | 623  |
| Total                       |         | 4,095                 | \$ 939.7                                                | 229,475                  | 74                  | 706  |
| <i>First Quarter</i>        |         |                       |                                                         |                          |                     |      |
| ARM                         |         | 1,313                 | \$ 355.3                                                | 270,603                  | 73                  | 708  |
| Fixed-rate                  |         | 1,274                 | 247.8                                                   | 194,541                  | 71                  | 719  |
| Subtotal                    | non-FHA | 2,587                 | \$ 603.1                                                | 233,145                  | 72                  | 712  |
| FHA                         |         | 521                   | 69.4                                                    | 133,191                  | 92                  | 637  |
| Total                       |         | 3,108                 | \$ 672.5                                                | 216,390                  | 74                  | 705  |
| Purchase mortgages          |         | 1,717                 | \$ 365.8                                                | 213,081                  | 76                  | 723  |
| Refinancings                |         | 870                   | 237.3                                                   | 272,743                  | 66                  | 696  |
| Subtotal                    | non-FHA | 2,587                 | \$ 603.1                                                | 233,145                  | 72                  | 712  |
| FHA                         |         | 521                   | 69.4                                                    | 133,191                  | 92                  | 637  |
| Total                       |         | 3,108                 | \$ 672.5                                                | 216,390                  | 74                  | 705  |
| <b>2004:</b>                |         |                       |                                                         |                          |                     |      |
| <i>Fourth Quarter</i>       |         |                       |                                                         |                          |                     |      |
| ARM                         |         | 1,094                 | \$ 330.1                                                | \$ 301,765               | 71                  | 714  |
| Fixed-rate                  |         | 956                   | 206.8                                                   | 216,266                  | 72                  | 714  |
| Subtotal                    | non-FHA | 2,050                 | \$ 536.9                                                | 261,893                  | 72                  | 714  |

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|                       |       |          |         |    |     |
|-----------------------|-------|----------|---------|----|-----|
| FHA                   | 749   | 95.7     | 127,868 | 92 | 623 |
| Total                 | 2,799 | \$ 632.6 | 226,029 | 75 | 700 |
| Purchase mortgages    | 1,426 | \$ 353.3 | 247,722 | 75 | 724 |
| Refinancings          | 624   | 183.6    | 294,278 | 64 | 694 |
| Subtotal non-FHA      | 2,050 | \$ 536.9 | 261,893 | 72 | 714 |
| FHA                   | 749   | 95.7     | 127,868 | 92 | 623 |
| Total                 | 2,799 | \$ 632.6 | 226,029 | 75 | 700 |
| <i>Third Quarter</i>  |       |          |         |    |     |
| ARM                   | 692   | \$ 208.9 | 301,875 | 71 | 718 |
| Fixed-rate            | 639   | 145.7    | 228,034 | 71 | 714 |
| Subtotal non-FHA      | 1,331 | \$ 354.6 | 266,425 | 71 | 716 |
| FHA                   | 481   | 60.8     | 126,445 | 92 | 610 |
| Total                 | 1,812 | \$ 415.4 | 229,267 | 74 | 701 |
| Purchase mortgages    | 1,019 | \$ 265.9 | 260,933 | 73 | 725 |
| Refinancings          | 312   | 88.7     | 284,360 | 63 | 691 |
| Subtotal non-FHA      | 1,331 | \$ 354.6 | 266,425 | 71 | 716 |
| FHA                   | 481   | 60.8     | 126,445 | 92 | 610 |
| Total                 | 1,812 | \$ 415.4 | 229,267 | 74 | 701 |
| <i>Second Quarter</i> |       |          |         |    |     |
| ARM                   | 781   | \$ 253.4 | 324,450 | 70 | 722 |
| Fixed-rate            | 797   | 167.2    | 209,781 | 71 | 720 |
| Subtotal non-FHA      | 1,578 | \$ 420.6 | 266,534 | 70 | 721 |
| FHA                   | 793   | 93.4     | 117,751 | 92 | 655 |
| Total                 | 2,371 | \$ 514.0 | 216,772 | 74 | 709 |
| Purchase mortgages    | 1,021 | \$ 262.7 | 257,283 | 75 | 728 |
| Refinancings          | 557   | 157.9    | 283,492 | 62 | 711 |
| Subtotal non-FHA      | 1,578 | \$ 420.6 | 117,751 | 70 | 721 |
| FHA                   | 793   | 93.4     | 117,751 | 92 | 655 |
| Total                 | 2,371 | \$ 514.0 | 216,772 | 74 | 709 |
| <i>First Quarter</i>  |       |          |         |    |     |
| ARM                   | 458   | \$ 145.5 | 317,667 | 70 | 703 |
| Fixed-rate            | 613   | 138.0    | 225,057 | 71 | 704 |
| Total                 | 1,071 | \$ 283.5 | 264,661 | 71 | 703 |



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| Loan Production Summary (1) | Number<br>of<br>Loans | Aggregate                                           | Average              | Weighted |      |
|-----------------------------|-----------------------|-----------------------------------------------------|----------------------|----------|------|
|                             |                       | Principal<br>Balance<br>(Dollars<br>in<br>millions) | Principal<br>Balance | LTV(2)   | FICO |
| Purchase mortgages          | 650                   | \$ 169.3                                            | 260,469              | 75       | 711  |
| Refinancings                | 421                   | 114.2                                               | 271,132              | 64       | 692  |
| Total                       | 1,071                 | \$ 283.5                                            | \$ 264,661           | 71       | 703  |
| <b>2003:</b>                |                       |                                                     |                      |          |      |
| <i>Fourth Quarter</i>       |                       |                                                     |                      |          |      |
| ARM                         | 502                   | \$ 181.1                                            | \$ 360,691           | 69       | 708  |
| Fixed-rate                  | 705                   | 158.7                                               | 225,127              | 70       | 707  |
| Total                       | 1,207                 | \$ 339.8                                            | 281,509              | 70       | 707  |
| Purchase mortgages          | 749                   | \$ 203.2                                            | 271,209              | 75       | 712  |
| Refinancings                | 458                   | 136.6                                               | 298,353              | 61       | 699  |
| Total                       | 1,207                 | \$ 339.8                                            | 281,509              | 70       | 707  |
| <i>Third Quarter</i>        |                       |                                                     |                      |          |      |
| ARM                         | 585                   | \$ 224.1                                            | 383,018              | 68       | 714  |
| Fixed-rate                  | 1,062                 | 262.2                                               | 246,880              | 67       | 707  |
| Total                       | 1,647                 | \$ 486.3                                            | 295,235              | 67       | 711  |
| Purchase mortgages          | 772                   | \$ 218.2                                            | 282,537              | 75       | 717  |
| Refinancings                | 875                   | 268.1                                               | 306,439              | 60       | 706  |
| Total                       | 1,647                 | \$ 486.3                                            | 295,235              | 67       | 711  |
| <i>Second Quarter</i>       |                       |                                                     |                      |          |      |
| ARM                         | 452                   | \$ 158.1                                            | 349,624              | 66       | 691  |
| Fixed-rate                  | 1,051                 | 254.8                                               | 242,478              | 67       | 713  |
| Total                       | 1,503                 | \$ 412.9                                            | 274,700              | 67       | 705  |
| Purchase mortgages          | 647                   | \$ 173.7                                            | 268,487              | 74       | 691  |
| Refinancings                | 856                   | 239.2                                               | 279,397              | 61       | 715  |
| Total                       | 1,503                 | \$ 412.9                                            | 274,700              | 67       | 705  |
| <i>First Quarter</i>        |                       |                                                     |                      |          |      |



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|                    |       |    |       |            |    |     |
|--------------------|-------|----|-------|------------|----|-----|
| ARM                | 399   | \$ | 144.1 | 361,230    | 70 | 719 |
| Fixed-rate         | 948   |    | 217.3 | 229,203    | 71 | 707 |
| Total              | 1,347 | \$ | 361.4 | 268,311    | 70 | 712 |
| Purchase mortgages | 845   | \$ | 208.5 | 246,756    | 78 | 722 |
| Refinancings       | 502   |    | 152.9 | 304,590    | 60 | 699 |
| Total              | 1,347 | \$ | 361.4 | \$ 268,311 | 70 | 712 |

(1) Beginning near the end of the first quarter of 2004, our volume of FHA loans increased. Generally, FHA loans have lower average balances and FICO scores which are reflected in the statistics above. All FHA loans are currently and will be in the future sold or brokered to third parties.

(2) Loan-to-value, or LTV, calculations are on first-lien mortgage loans only.

*Cash and Cash Equivalents*

We had unrestricted cash and cash equivalents of \$11.3 million at September 30, 2005 versus \$7.6 million at December 31, 2004.

*Investment Securities Available for Sale*

The following table summarizes our residential mortgage-backed securities owned at September 30, 2005, classified by type of issuer and by ratings categories:

| Category                                | Par Value     | Coupon | Carrying Value | Portfolio |       |
|-----------------------------------------|---------------|--------|----------------|-----------|-------|
|                                         |               |        |                | Mix       | Yield |
| Agency Remic CMO floating rate security | \$ 23,767,856 | 4.99%  | \$ 23,789,008  | 3%        | 5.10% |
| FHLMC Arms                              | 101,615,120   | 4.27%  | 101,319,592    | 13%       | 4.60% |

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|           |                |       |                |      |       |
|-----------|----------------|-------|----------------|------|-------|
| FNMA Arms | 329,707,969    | 4.20% | 328,981,170    | 41%  | 4.69% |
| AAA rated | 343,765,084    | 4.76% | 342,989,523    | 43%  | 4.97% |
| Total     | \$ 798,856,029 | 4.47% | \$ 797,079,293 | 100% | 4.81% |

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**Table of Contents***Mortgage Loans Held for Sale*

Loans we have originated, but have not yet sold or securitized, are classified as held-for-sale. We had mortgage loans held for sale of \$116.5 million at September 30, 2005. Mortgage loans held for sale represent mortgage loans originated and held pending sale to interim and permanent investors and are carried at the lower of cost or market value. We use warehouse lines of credit to finance our held-for-sale loans. As such, the fluctuations in mortgage loans held-for-sale and short-term borrowings are dependent on loans we have originated during the period as well as loans we have sold outright.

*Mortgage Loans Held for Investment*

Loans we originate and that meet our investment criteria are transferred into our investment portfolio and are classified as held for investment until securitized. We had mortgage loans held for investment of \$140.4 million at September 30, 2005. Mortgage loans held for investment represent mortgage loans originated and aggregated in portfolio and which are intended to be securitized. As such, the fluctuations in mortgage loans held for investment are dependent on the amount of such loans that are securitized during the quarter that become classified as loans held in the securitization trusts.

The following table details Mortgage Loans Held for Investment:

| <b>Category</b>                    | <b>Par Value</b> | <b>Coupon</b> | <b>Carrying Value</b> | <b>Yield</b> |
|------------------------------------|------------------|---------------|-----------------------|--------------|
| Mortgage Loans Held for Investment | \$ 139,656,332   | 5.68%         | \$ 140,411,907        | 5.26%        |

*Mortgage Loans Held in the Securitization Trusts*

When we securitize loans we have originated or purchased that meet our investment criteria and the securitization is structured as a secured borrowing for accounting purposes, such loans used as underlying collateral for the securitization are classified as loans held in the securitization trusts.

We had loans held in the securitization trusts of \$589.4 million at September 30, 2005. We retained all of the resultant securities and have financed these securities with repurchase agreements.

The following table details Mortgage Loans Held in the Securitization Trusts:

| <b>Category</b>                                  | <b>Par Value</b> | <b>Coupon</b> | <b>Carrying Value</b> | <b>Yield</b> |
|--------------------------------------------------|------------------|---------------|-----------------------|--------------|
| Mortgage Loans Held in the Securitization Trusts | \$ 584,145,552   | 4.91%         | \$ 589,354,405        | 5.34%        |

*Due from Loan Purchasers and Escrow Deposits Pending Loan Closing*

We had amounts due from loan purchasers totaling \$143.6 million and escrow deposits pending loan closing of \$11.9 million as of September 30, 2005. Amounts due from loan purchasers are a receivable for the principal and premium due to us for loans that have been shipped but for which payment has not yet been received at period end. Escrow deposits pending loan closing are advance cash fundings by us to escrow agents to be used to close loans within the next one to three business days.

*Prepaid and Other Assets*

Prepaid and other assets totaled \$12.5 million as of September 30, 2005. Other assets consist primarily of a deferred tax benefit of \$7.5 million and loans held by us which are pending remedial action (such as updating loan documentation) or which do not currently meet third-party investor criteria.

*Financing Arrangements, Mortgage Loans Held for Sale/for Investment*

We had debt outstanding on our financing facilities of \$398.9 million as of September 30, 2005, the proceeds of which finance our mortgage loans held for sale. The current weighted average borrowing rate on these financing facilities is 4.34%. We use warehouse lines of credit to finance our held-for-sale loans. As such, the fluctuations in mortgage loans held-for-sale and short-term borrowings are dependent on loans we have originated during the period as well as loans we have sold outright.

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### *Financing Arrangements, Portfolio Investments*

We have arrangements to enter into repurchase agreements, a form of collateralized borrowings, with 23 different financial institutions having a total line capacity of \$5.6 billion. As of September 30, 2005, there were \$1.3 billion of repurchase borrowings outstanding. Our repurchase agreements typically have terms of less than one year. The current weighted average borrowing rate on these financing facilities is 3.8%.

### *Stockholders' Equity*

Stockholders' equity at September 30, 2005 was \$107.1 million and included \$4.5 million of unrealized loss on available for sale securities and cash flow hedges presented as accumulated other comprehensive income.

### **Comparison of the Nine and Three Months Ended September 30, 2005 to the Nine and Three Months Ended September 30, 2004.**

#### *Net Income*

For the nine and three months ended September 30, 2005, we had net income of \$3.4 million and \$2.9 million, respectively, an increase of 13% and 16% compared with net income of \$3.0 million and \$2.5 million for the respective periods of 2004.

Our primary sources of revenue are gain on sale of mortgage loans, fees from borrowers, fees earned on brokered loans, interest earned on portfolio investments and interest earned on mortgage loans held for sale during the interim period of funding a loan to a borrower and the ultimate sale of the loan to a third party. For the nine and three month periods ended September 30, 2005, total revenues increased 161% and 99% to \$87.7 million and \$32.7 million from \$33.6 million and \$16.4 million for the same periods in 2004 respectively, due in part to the GRL acquisition.

Interest income from our portfolio investment activities contributed \$34.0 million and \$9.2 million to total revenues for the nine and three month periods ended September 30, 2005, respectively, compared to \$7.7 million for each of the nine and three month periods ended September 30, 2004. Our portfolio investment strategy was initiated in the third quarter of 2004.

Loan originations for the nine month period ended September 30, 2005 increased 130.4% to \$2.2 billion from \$954.9 million for the same period of 2004. Total loan originations for the three months ended September 30, 2005 increased 141% to \$1.0 billion from \$415.4 million for the same period in 2004. The increase in loan origination volume and related revenues is due, in part, to new branches we assumed from GRL in mid-November 2004.

For the nine and three month periods ended September 30, 2005, total operating expenses increased 192% to \$90.2 million and 117% to \$30.8 million from \$30.9 million and \$14.2 million for the same periods in 2004, respectively. Interest expenses were higher for the nine and three month periods of 2005 ended September 30, 2005, relative to the same periods of 2004 as a result of the commencement of our portfolio investment strategy and the financing, through repurchase arrangements, and the hedging of \$1.5 billion in mortgage-backed securities and mortgage loans held in our portfolio. Overall general and administrative expenses were higher for the nine and three month periods ended September 30, 2005, relative to the same periods of 2004, primarily from one-time severance charges of \$3.0 million, increased occupancy and personnel costs associated with new branch offices and satellite locations and increased personnel costs associated with an expansion of NYMC's information technology, accounting, operations and marketing departments in connection with these new branches and locations. In addition, during the nine months ended September 30, 2005, a charge of \$2.0 million in compensation expense was recorded primarily for the prior issuance of performance shares and accrued bonuses issued in connection with our hiring and retainment of former GRL branch employees. As a result of our acquisition of the-GRL branches in mid-November 2004, we incurred upfront expenses, with little offsetting revenues, through the mid-point of the first quarter due to lag time in closing the new originations associated with the assumption of these branches.

Aided in part by our acquisition of the Northeast and Mid-Atlantic mortgage banking operations of GRL, our closed loan originations for the nine months ended September 30, 2005 totaled 11,580 loans, a 120% increase over the 5,254 loans that NYMC closed during the comparable period of 2004. The average size of a loan originated during the first nine months of 2005 was \$226,000, a 2% decline from the average of \$230,000 during the same period of 2004. Our closed loan originations for the three months ended September 30, 2005 totaled 4,377 loans, a 142% increase over the 1,812 loans that NYMC closed during the



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comparable period of 2004. The average size of a loan originated during the three month period ended September 30, 2005 was \$229,000, which is comparable to the same period of 2004. The increase in the number of loan originations during the nine and three month periods ended September 30, 2005 over the same periods in 2004, was due to increased loan origination personnel and branch offices, including those personnel and branch offices acquired in the GRL transaction.

*Revenues*

*Gain on Sales of Mortgage Loans.* During the nine and three months ended September 30, 2005, we had gains on sales of mortgage loans of \$21.6 million and \$9.0 million, respectively, compared to \$14.9 million and \$4.5 million for the same periods of 2004. The 45% and 100% increase for each of the nine and three month periods is attributed in part to higher loan originations in 2005 and offset by a decreasing premium spread on loans sold mainly during the first six months of 2005. During the three month period ended September 30, 2005, market conditions narrowed the average spread earned on the sale of loans to third-parties marginally by approximately 1 basis point.

Gain on sale revenues for the nine and three months ended September 30, 2005 were also impacted by the execution of our core business strategy: retaining selected adjustable rate mortgages for our investment portfolio. The execution of this strategy, which began in the third quarter of 2004 after our IPO, requires that we forgo the gain on sale premiums (revenues) we would otherwise receive when we sell these loans to third-parties. Instead, the cost basis of these loans, which is far lower than the loan and its associated third-party premium, is retained in our investment portfolio with the inherent value of the loan realized over time. For the nine and three month periods ended September 30, 2005, we originated and retained \$456.0 million and \$152.7 million respectively, of loans in our investment portfolio and estimate that the forgone gain on sale premium, net of the cost basis of these loans when retained in our investment portfolio, was \$5.7 million and \$1.5 million, respectively.

The number of mortgage loans shipped, excluding those loans retained in our investment portfolio, during the nine months ended September 30, 2005 increased 89% to 8,703 loans from 4,597 mortgage loans shipped during the comparable period in 2004. Mortgage loan volume, as measured by aggregate principal balance of mortgage loans shipped, including loans retained in our investment portfolio increased 130% to \$2.2 billion for the nine months ended September 30, 2005 from \$954.9 million for the comparable period in 2004. The number of mortgage loans shipped, excluding those loans retained in our investment portfolio, during the three months ended September 30, 2005 increased 106% to 3,291 loans from 1,600 mortgage loans sold during the comparable period in 2004. Mortgage loan volume, as measured by aggregate principal balance of mortgage loans shipped and excluding those loans retained for investment, increased 97% to \$660.2 million from \$334.9 million for the same periods in 2004. The increase in the number of mortgage loans shipped during the three and nine month periods ended September 30, 2005 is due to increased loan origination personnel and branch offices as compared to the same period of 2004.

*Interest Income Mortgage Loans Held for Sale.* During the nine and three months ended September 30, 2005, we had interest income on loans that were held for sale of \$10.6 million and \$4.5 million, an increase of 83% and 73%, respectively, compared with interest income of \$5.8 million and \$2.6 million for the same periods of 2004. This increase was due to higher average daily balances on loans held for sale during the period offset by and an increasing average yield due to higher prevailing interest rates in 2005 relative to 2004. For the nine months ended September 30, 2005, the average interest rate for mortgage loans sold increased 75 basis points to 6.57% from 5.82% for the comparable period in 2004. For the three months ended September 30, 2005, the average interest rate for mortgage loans sold increased 59 basis points to 6.65% from 6.06% for the comparable period of 2004. This increase was consistent with the increases in interest rates initiated by the Federal Reserve, but was not reflective of the total interest rate increases initiated by the Federal Reserve as we have seen the interest rate curve flatten during the intervening period.

*Interest Income Investment Securities and Mortgage Loans Held for Investment.* The following table highlights the components of net interest spread and the annualized yield on net interest-earning assets as of each applicable quarter end:

**Components of Net Interest Spread and Yield on Net Interest-Earning Assets**  
(Dollars in millions)

| <b>As of the Quarter</b> | <b>Average<br/>Interest<br/>Earning<br/>Assets</b> | <b>Historical<br/>Weighted<br/>Average<br/>Coupon</b> | <b>Yield<br/>on<br/>Interest<br/>Earning<br/>Assets</b> | <b>Cost<br/>of<br/>Funds</b> | <b>Net<br/>Interest<br/>Spread</b> |
|--------------------------|----------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------|------------------------------|------------------------------------|
| <b>Ended</b>             |                                                    |                                                       |                                                         |                              |                                    |
| Sept. 30, 2005           | \$ 1,494.0                                         | 4.69%                                                 | 4.08%                                                   | 3.38%                        | 0.70%                              |
| Jun. 30, 2005            | \$ 1,590.0                                         | 4.50%                                                 | 4.06%                                                   | 3.06%                        | 1.00%                              |
| Mar. 31, 2005            | \$ 1,447.9                                         | 4.39%                                                 | 4.01%                                                   | 2.86%                        | 1.15%                              |
| Dec. 31, 2004            | \$ 1,325.7                                         | 4.29%                                                 | 3.84%                                                   | 2.58%                        | 1.26%                              |
| Sept. 30, 2004           | \$ 776.5                                           | 4.04%                                                 | 3.86%                                                   | 2.45%                        | 1.41%                              |

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The yield on net earning assets is computed by dividing net interest income by the average daily balance of interest earning assets during the quarter. The yield reflects amortization costs of the mortgages as well as short-term investments during the portfolio accumulation period. The cost of funds includes the costs of hedging interest rate risk through interest rate swaps and caps.

*Brokered Loan Fees.* During the nine and three months ended September 30, 2005, we had revenues from brokered loans of \$7.2 million and \$2.6 million, respectively, compared to \$4.4 million and \$1.4 million for the same periods in 2004 due to increased volume of loans brokered. The number of brokered loans increased 154% to 1,672 loans for the nine months ended September 30, 2005 from 657 loans for the comparable period in 2004. The aggregate principal balance of such brokered loans increased by 68% to \$434.5 million for the nine months ended September 30, 2005 from \$258.0 million for the comparable period in 2004. For the three months ended September 30, 2005, the number of brokered loans was 580 as compared to 212 for the comparable period in 2004. The aggregate principal balance of brokered loans increased by 97% to \$158.8 million from \$80.5 million for the comparable period in 2004.

*Gain on sale of securities and related hedges.* During the nine and three month period ended September 30, 2005, the gain on the sale of securities and related hedges was \$2.2 million and \$1.3 million as compared to \$0.7 million and \$0.1 million for the nine and three month periods of 2004, an increase of 214% and 1,200%.

*Expenses*

*Salaries, Commissions and Benefits.* During the nine and three months ended September 30, 2005, salaries, commissions and associated payroll costs increased to \$23.9 million and \$7.3 million, respectively, from \$11.4 million and \$4.5 million for the same periods of 2004, an increase of 110% and 62% for the respective periods. The increase was primarily due to an increase in personnel to 857 employees at the end of September 30, 2005 from 503 employees at the end of September 30, 2004. These recently hired employees include loan officers, support staff (information technology, marketing, processing, underwriting and closing employees) and additional corporate management hired in connection with the Company's transition to a public REIT. In addition, for the nine months ended September 30, 2005, we recognized \$0.9 million in non-cash compensation expense related to restricted stock granted to our executive officers in conjunction with our IPO. During the nine months ended September 30, 2005 we incurred a one time charge related to severance benefits of approximately \$3.0 million.

*Brokered Loan Expenses.* During the nine and three months ended September 30, 2005, we had costs of brokered loans of \$5.7 million and \$1.5 million, respectively, as compared to \$3.1 million and \$1.0 million for the same periods of 2004, an increase of 84% and 50% for the respective periods. These costs correlate to the periods' increased brokered loan origination volume and revenues earned from brokered loans.

*Interest Expense - Mortgage loans Held for Sale/for Investment.* During the nine and three months ended September 30, 2005, we had interest expense on the warehouse financing lines for our mortgage loans held for sale of \$11.2 million and \$4.8 million, respectively, compared with interest expense of \$3.0 million and \$1.2 million for the same periods of 2004, an increase of 273% and 300% for the respective periods. The average daily outstanding balance of financing facilities for the nine months ended September 30, 2005 was \$364.1 million at an average interest rate of 3.91% as compared to an average daily outstanding balance of \$121.0 million at an average rate of 2.43% for the comparable period in 2004. Our financing facilities are indexed at LIBOR. The higher average rate is reflective of the current rising interest rate environment. While the rates have increased, the spread to LIBOR on these lines has been significantly decreased from the comparable period in 2004 through re-negotiation and the addition of new lines.

*Interest Expense - Portfolio Investments.* During the nine and three months ended, September 30, 2005 we had interest expense on our repurchase facilities that finance our residential mortgage backed securities portfolio of \$30.1 million and \$10.7 million respectively, compared to \$4.2 million for each of the nine and three months ended September 30, 2004. We executed our business strategy of procuring an initial-portfolio of such securities commencing with the third quarter of 2004. As a result, the increase is due to a larger average balance of interest earning assets and their related financings, from \$776.5 million as of the quarter ended September 30, 2004 to \$1.5 billion for the quarter ended September 30, 2005. In addition, the average cost of funds increased to 3.38% for the quarter ended September 30, 2005 as compared to 2.45% for the comparable prior year period.



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*Occupancy and Equipment Expense.* During the nine and three months ended September 30, 2005, we had occupancy and equipment expense of \$5.0 million and \$1.3 million, respectively, compared to \$2.4 million and \$0.9 million for the same periods of 2004, an increase of 108% and 44% for the respective periods. The increase reflects the expansion of new origination offices toward the latter part of June 2004, therefore the related expense increases are reflected in the nine month period ended September 30, 2005.

*Marketing and Promotion Expense.* During the nine and three months ended September 30, 2005, we had marketing and promotion expense of \$3.9 million and \$1.3 million, respectively, compared to \$2.0 million and \$0.7 million for the same periods of 2004, an increase of 95% and 86% for the respective periods. This increase was primarily due to increased marketing and promotion expenses incurred to promote newly-opened loan origination offices and related newly-hired loan origination personnel and the continued increased scale of operations is a result of increased sales personnel and offices.

*Data Processing and Communications Expense.* During the nine and three months ended September 30, 2005, we had data processing and communications expense of \$1.8 million and \$0.6 million respectively, compared to \$1.1 million and \$0.5 million for the same periods of 2004, an increase of 64% and 20% for the respective periods. This increase was primarily due to increased personnel and expenses related to the opening of new loan origination offices. During the second and third quarter of 2004, we incurred additional costs related to analytical and market research software and systems in order to accommodate our mortgage securities business and to upgrade our current loan accounting software.

*Office Supplies and Expense.* During the nine and three months ended September 30, 2005, we had data office supplies and expense of \$1.9 million and \$0.7 million, respectively, compared to \$1.0 million and \$0.4 million for the same periods of 2004, an increase of 90% and 75% for the respective periods. This increase was primarily a result of the increase in personnel and new origination offices, as well as the supplies needed to accommodate incremental employees between the two comparable periods.

*Professional Fees Expense.* During the nine and three months ended September 30, 2005, we had professional fees expense of \$2.8 million and \$1.0 million, respectively, compared to \$1.1 million and \$0.4 for the same periods of 2004, an increase of 155% and 150% for the respective periods. This increase was primarily due to increases in dues, licenses and permits in states where NYMC has a new presence and the increased costs of compliance with various regulatory and public company requirements.

*Travel and Entertainment Expense.* During the nine and three months ended September 30, 2005, we had travel and entertainment expense of \$0.7 million and \$0.3 million, respectively, compared to \$0.4 million and \$0.1 million for the same periods of 2004, an increase of 75% and 200% for the respective periods. This increase was primarily due to opening of new origination offices and increased personnel.

*Depreciation and Amortization Expense.* During the nine and three months ended September 30, 2005, we had depreciation and amortization expense of \$1.1 million and \$0.3 million, respectively, compared to \$0.3 million and \$0.1 million for the same periods of 2004, an increase of 267% and 200% for the respective periods. This increase was primarily due to the opening of new origination offices and increased investments in computer networks and systems.

### **Off-Balance Sheet Arrangements**

Since inception, we have not maintained any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. Accordingly, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

### **Liquidity and Capital Resources**

On September 14, 2005, the Securities and Exchange Commission declared effective our shelf registration statement on Form S-3 (File No. 333-127400) relating to the future offering of up to an aggregate of \$250.0 million of common stock, preferred stock and senior and subordinated debt securities of our Company. We believe that the shelf registration statement will provide efficient and timely access to the capital markets when appropriate. As of September 30, 2005, \$250.0 million remained available for issuance under this registration statement.

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay dividends to our stockholders and other general business needs. We recognize the need to have

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funds available for our operating businesses and our investment in mortgage loans until the settlement or sale of mortgages with us or with other investors. It is our policy to have adequate liquidity at all times to cover normal cyclical swings in funding availability and mortgage demand and to allow us to meet abnormal and unexpected funding requirements. We plan to meet liquidity through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

We believe our existing cash balances and funds available under our credit facilities and cash flows from operations will be sufficient for our liquidity requirements for at least the next 12 months. Unused borrowing capacity will vary as the market values of our securities vary. Our investments and assets will also generate liquidity on an ongoing basis through mortgage principal and interest payments, pre-payments and net earnings held prior to payment of dividends. Should our liquidity needs ever exceed these on-going or immediate sources of liquidity discussed above, we believe that our securities could be sold to raise additional cash in most circumstances. We do, however, expect to expand our mortgage origination operations and may have to arrange for additional sources of capital through the issuance of debt or equity or additional bank borrowings to fund that expansion. At September 30, 2005, we have no commitments for any additional financings, and we cannot ensure that we will be able to obtain any additional financing at the times required and on terms and conditions acceptable to us.

To finance our investment portfolio, we generally seek to borrow between eight and 12 times the amount of our equity. Our leverage ratio, defined as total financing facilities outstanding divided by total stockholders' equity, at September 30, 2005 was 16 to 1. We, and the providers of our finance facilities, generally view our \$45.0 million of subordinated trust preferred debentures outstanding at September 30, 2005 as a form of equity which would result in an adjusted leverage ratio of 11 to 1.

We have arrangements to enter into repurchase agreements, a form of collateralized short-term borrowing, with 23 different financial institutions and as of September 30, 2005 had borrowed money from eight of these firms. These agreements are secured by our mortgage-backed securities and bear interest rates that have historically moved in close relationship to LIBOR. As of September 30, 2005 the Company had \$1.3 billion in outstanding repurchase agreements.

Under these repurchase agreements the financial institutions lend money versus the market value of our mortgage-backed securities portfolio, and, accordingly, an increase in interest rates can have a negative impact on the valuation of these securities, resulting in a potential margin call from the financial institution. The Company monitors the market valuation fluctuation as well as other liquidity needs to ensure there is adequate collateral available to meet any additional margin calls or liquidity requirements.

The Company enters into interest rate swap agreements to extend the maturity of the repurchase agreements as a mechanism to reduce the interest rate risk of the securities portfolio. At September 30, 2005 the Company had \$670.0 million in interest rate swaps outstanding with six different financial institutions. The weighted average maturity of the swaps was 409 days at September 30, 2005. The impact of the interest swaps extends the maturity of the repurchase agreements to one year.

To originate a mortgage loan, we may draw against a \$200.0 million repurchase facility with Credit Suisse First Boston Mortgage Capital, LLC, or CSFB, and a \$150.0 million warehouse facility led by HSBC Bank USA, or HSBC. These facilities are secured by the mortgage loans owned by us. Advances drawn under these facilities bear interest at rates that vary depending on the type of mortgage loans securing the advances. These facilities are subject to sub-limits, advance rates and terms that vary depending on the type of mortgage loans securing these financings and the ratio of our liabilities to our tangible net worth. As of September 30, 2005, the aggregate outstanding balance under these facilities was \$194.0 million and the aggregate maximum amount available for additional borrowings was \$156.0 million. These agreements are not committed facilities and may be terminated at any time at the discretion of the counterparties.

The HSBC credit facility was terminated by mutual agreement effective September 30, 2005; therefore, effective October 1, 2005, no new loans can be funded under this warehouse facility. The agreement requires repayment in full no later than December 31, 2005. The Company expects to replace this facility with a new counterparty during the fourth quarter of 2005.

In addition to these facilities, we entered into a \$250.0 million master loan and security agreement with Greenwich Capital. Under this agreement, Greenwich Capital provides financing to us for the origination or acquisition of certain mortgage loans, which then will be sold to third parties or contributed for future securitization to one or more trusts or other entities sponsored by us or an affiliate. We will repay advances under this credit facility with a portion of the proceeds from the sale of all mortgage-backed securities issued by the trust or other entity, along with a portion of the proceeds resulting from permitted whole loan sales. Advances under this facility bear interest at a floating rate initially equal to LIBOR plus 0.75%. Advances under this facility are subject to lender approval of the mortgage loans intended for origination or acquisition, advance rates and the then ratio of our liabilities to our tangible net worth. This facility is not a committed facility and may be terminated at any time at the discretion of Greenwich Capital. As of September 30, 2005 the outstanding balance of this facility was \$204.9 million with the maximum amount available for additional borrowings of \$45.1 million.

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The documents governing these facilities contain a number of compensating balance requirements and restrictive financial and other covenants that, among other things, require us to maintain a maximum ratio of total liabilities to tangible net worth, of 20 to 1 in the case of each of the CSFB facility, 15 to 1 in the case of the HSBC facility and 20 to 1 in the case of the Greenwich Capital facility, as well as to comply with applicable regulatory and investor requirements. These facilities also contain various covenants pertaining to, among other things, the maintenance of certain periodic income thresholds and working capital. As of September 30, 2005, NYMC was in compliance with all of its leverage covenants.

The agreements also contain covenants limiting the ability of our subsidiaries to:

- transfer or sell assets;

- create liens on the collateral; or

- incur additional indebtedness, without obtaining the prior consent of the lenders, which consent may not be unreasonably withheld.

These limits may in turn restrict our ability to pay cash or stock dividends on our stock. In addition, under our warehouse facilities, we cannot continue to finance a mortgage loan that we hold through the warehouse facility if:

- the loan is rejected as unsatisfactory for purchase by the ultimate investor and has exceeded its permissible warehouse period which varies by facility;

- we fail to deliver the applicable note, mortgage 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 warehouse facility agreement).

We expect that these credit facilities will be sufficient to meet our capital and financing needs during the next twelve months. The balances of these facilities fluctuate based on the timing of our loan closings (at which point we may draw upon the facilities) and the near-term subsequent sale of these loans to third parties or the alternative financing thereof through repurchase agreements or, in the future, securitizations for mortgage loans we intend to retain (at which point these facilities are paid down). The current availability under these facilities and our current and projected levels of loan origination volume are consistent with our historic ability to manage our pipeline of mortgage loans, the subsequent sale thereof and the related pay down of the facilities.

As of September 30, 2005, our aggregate warehouse and repurchase facility borrowings under these facilities were \$398.9 million and \$1.3 billion, respectively, at an average interest rate of approximately 3.91%.

Our financing arrangements are short-term facilities secured by the underlying investment in residential mortgage loans, the value of which may move inversely with changes in interest rates. A decline in the market value of our investments in the future may limit our ability to borrow under these facilities or result in lenders requiring additional collateral or initiating margin calls under our repurchase agreements. As a result, we could be required to sell some of our investments under adverse market conditions in order to maintain liquidity. If such sales are made at prices lower than the amortized costs of such investments, we will incur losses.

Our ability to originate loans depends in large part on our ability to sell the mortgage loans we originate at cost or for a premium in the secondary market so that we may generate cash proceeds to repay borrowings under our warehouse facilities and our repurchase agreement. The value of our loans depends on a number of factors, including:

- interest rates on our loans compared to market interest rates;

- the borrower credit risk classification;

- loan-to-value ratios, loan terms, underwriting and documentation; and

general economic conditions.

We make certain representations and warranties, and are subject to various affirmative and negative financial and other covenants, under the agreements covering the sale of our mortgage loans regarding, among other things, the loans compliance with laws and

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regulations, their conformity with the ultimate investors' underwriting standards and the accuracy of information. In the event of a breach of these representations, warranties or covenants or in the event of an early payment default, we may be required to repurchase the loans and indemnify the loan purchaser 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. We have been required to repurchase loans we have sold from time to time; however, these repurchases have not had a material impact on our results of operations.

We intend to make distributions to our stockholders to comply with the various requirements to maintain our REIT status and to minimize or avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the REIT distribution requirements and to avoid corporate income tax and the nondeductible excise tax.

Certain of our assets may generate substantial mismatches between REIT taxable income and available cash. These assets could include mortgage-backed securities we hold that have been issued at a discount and require the accrual of taxable income in advance of the receipt of cash. As a result, our REIT taxable income may exceed our cash available for distribution and the requirement to distribute a substantial portion of our net taxable income could cause us to:

sell assets in adverse market conditions;

borrow on unfavorable terms; or

distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, in order to comply with the REIT distribution requirements.

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### **Inflation**

For the periods presented herein, inflation has been relatively low and we believe that inflation has not had a material effect on our results of operations. The impact of inflation is primarily reflected in the increased costs of our operations. Virtually all our assets and liabilities are financial in nature. Our consolidated financial statements and corresponding notes thereto have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. As a result, interest rates and other factors influence our performance far more than inflation. Inflation affects our operations primarily through its effect on interest rates, since interest rates typically increase during periods of high inflation and decrease during periods of low inflation. During periods of increasing interest rates, demand for mortgages and a borrower's ability to qualify for mortgage financing in a purchase transaction may be adversely affected. During periods of decreasing interest rates, borrowers may prepay their mortgages, which in turn may adversely affect our yield and subsequently the value of our portfolio of mortgage assets.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices and equity prices. Because we are invested solely in U.S.-dollar denominated instruments, primarily residential mortgage instruments, and our borrowings are also domestic and U.S. dollar denominated, we are not subject to foreign currency exchange, or commodity and equity price risk; the primary market risk that we are exposed to is interest rate risk and its related ancillary risks. Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. All of our market risk sensitive assets, liabilities and related derivative positions are for non-trading purposes only.

Management recognizes the following primary risks associated with our business and the industry in which we conduct business:

Interest rate and market (fair value) risk

Credit spread risk

Liquidity and funding risk

Prepayment risk

Credit risk

#### ***Interest Rate Risk***

Our primary interest rate exposure relates to the portfolio of adjustable-rate mortgage loans and mortgage-backed securities we acquire, as well as our variable-rate borrowings and related interest rate swaps and caps. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows, especially the speed at which prepayments occur on our residential mortgage related assets.

Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest bearing debt and liabilities. Changes in interest rates can also affect, among other things, our ability to originate and acquire loans and securities, the value of our loans, mortgage pools and mortgage-backed securities, and our ability to realize gains from the resale and settlement of such originated loans.

In our investment portfolio, our primary market risk is interest rate risk. Interest rate risk can be defined as the sensitivity of our portfolio, including future earnings potential, prepayments, valuations and overall liquidity. The Company attempts to manage interest rate risk by adjusting portfolio compositions, liability maturities and utilizing interest rate derivatives including interest rate swaps and caps. Management's goal is to maximize the earnings



potential of the portfolio while maintaining long term stable portfolio valuations.

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The Company utilizes a model based risk analysis system to assist in projecting portfolio performances over a scenario of different interest rates. The model incorporates shifts in interest rates, changes in prepayments and other factors impacting the valuations of our financial securities, including mortgage-backed securities, repurchase agreements, interest rate swaps and interest rate caps.

Based on the results of this model, as of September 30, 2005, an instantaneous shift of 100 basis points in interest rates would result in an approximate decrease in the net interest spread by 15-20 basis points as compared to our base line projections over the next year.

The following tables set forth information about financial instruments:

|                                                  | <b>September 30, 2005</b>  |                            |                                 |
|--------------------------------------------------|----------------------------|----------------------------|---------------------------------|
|                                                  | <b>Notional<br/>Amount</b> | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
| Investment securities available for sale         | \$ 798,856,029             | \$ 797,079,293             | \$ 797,079,293                  |
| Mortgage loans held for investment               | 139,656,332                | 140,411,907                | 141,601,330                     |
| Mortgage loans held in the securitization trusts | 584,145,552                | 589,354,405                | 585,864,852                     |
| Mortgage loans held for sale                     | 116,424,009                | 116,533,155                | 117,305,323                     |
| Commitments and contingencies:                   |                            |                            |                                 |
| Interest rate lock commitments                   | 182,207,949                | (1,076,310)                | (1,076,310)                     |
| Forward loan sales contracts                     | 77,157,666                 | 806,765                    | 806,765                         |
| Interest rate swaps                              | 670,000,000                | 6,466,183                  | 6,466,183                       |
| Interest rate caps                               | 1,464,425,100              | 2,025,300                  | 2,025,300                       |

|                                          | <b>December 31, 2004</b>   |                            |                                 |
|------------------------------------------|----------------------------|----------------------------|---------------------------------|
|                                          | <b>Notional<br/>Amount</b> | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
| Investment securities available for sale | \$ 1,194,055,340           | \$ 1,204,744,714           | \$ 1,204,744,714                |
| Mortgage loans held for investment       | 188,858,607                | 190,153,103                | 190,608,241                     |
| Mortgage loans held for sale             | 85,105,027                 | 85,384,927                 | 86,097,867                      |
| Commitments and contingencies:           |                            |                            |                                 |
| Interest rate lock commitments           | 156,110,472                | 37,867                     | 37,867                          |
| Forward loan sales contracts             | 97,080,482                 | (164,816)                  | (164,816)                       |
| Interest rate swaps                      | 670,000,000                | 3,228,457                  | 3,228,457                       |
| Interest rate caps                       | 250,000,000                | 411,248                    | 411,248                         |

The impact of changing interest rates may be mitigated by portfolio prepayment activity that we closely monitor and the portfolio funding strategies we employ. First, our adjustable rate borrowings may react to changes in interest rates before our adjustable rate assets because the weighted average next repricing dates on the related borrowings may have shorter time periods than that of the adjustable rate assets. Second, interest rates on adjustable rate assets may be limited to a periodic cap or an increase of typically 1% or 2% per adjustment period, while our borrowings do not have comparable limitations. Third, our adjustable rate assets typically lag changes in the applicable interest rate indices by 45 days, due to the notice period provided to adjustable rate borrowers when the interest rates on their loans are scheduled to change.

In a period of declining interest rates or nominal differences between long-term and short-term interest rates, the rate of prepayment on our mortgage assets may increase. Increased prepayments would cause us to amortize any premiums paid for our mortgage assets faster, thus resulting in a reduced net yield on our mortgage assets. Additionally, to the extent proceeds of prepayments cannot be reinvested at a rate of interest at least equal to the rate previously earned on such mortgage assets, our earnings may be adversely affected.

Conversely, if interest rates rise or if the difference between long-term and short-term interest rates increase, the rate of prepayment on our mortgage assets may decrease. Decreased prepayments would cause us to amortize the premiums paid for our ARM assets over a longer time period, thus resulting in an increased net yield on our mortgage

assets. Therefore, in rising interest rate environments where prepayments are declining, not only would the interest rate on the ARM assets portfolio increase to re-establish a spread over the higher interest rates, but the yield also would rise due to slower prepayments. The combined effect could significantly mitigate other negative effects that rising short-term interest rates might have on earnings.

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Interest rates can also affect our net return on hybrid adjustable rate ( hybrid ARM ) securities and loans net of the cost of financing hybrid ARMs. We continually monitor and estimate the duration of our hybrid ARMs and have a policy to hedge the financing of the hybrid ARMs such that the net duration of the hybrid ARMs, our borrowed funds related to such assets, and related hedging instruments are less than one year. During a declining interest rate environment, the prepayment of hybrid ARMs may accelerate (as borrowers may opt to refinance at a lower rate) causing the amount of fixed-rate financing to increase relative to the amount of hybrid ARMs, possibly resulting in a decline in our net return on hybrid ARMs as replacement hybrid ARMs may have a lower yield than those being prepaid. Conversely, during an increasing interest rate environment, hybrid ARMs may prepay slower than expected, requiring us to finance a higher amount of hybrid ARMs than originally forecast and at a time when interest rates may be higher, resulting in a decline in our net return on hybrid ARMs. Our exposure to changes in the prepayment speed of hybrid ARMs is mitigated by regular monitoring of the outstanding balance of hybrid ARMs and adjusting the amounts anticipated to be outstanding in future periods and, on a regular basis, making adjustments to the amount of our fixed-rate borrowing obligations for future periods.

Interest rate changes can also affect the availability and pricing of adjustable rate assets, which affects our origination activity and investment opportunities. During a rising interest rate environment, there may be less total loan origination activity, particularly for refinancings. At the same time, a rising interest rate environment may result in a larger percentage of adjustable rate products being originated, mitigating the impact of lower overall loan origination activity. In addition, our focus on purchase mortgages as opposed to refinancings also mitigates the volatility of our origination volume as refinancing volume is typically a function of lower interest rates, whereas, purchase mortgage volume has historically remained relatively static during interest rate cycles. Conversely, during a declining interest rate environment total loan origination activity may rise with many of the borrowers desiring fixed-rate mortgage products. Although adjustable rate product origination as a percentage of total loan origination may decline during these periods, the increased loan origination and refinancing volume in the industry may produce sufficient investment opportunities. Additionally, a flat yield curve may be an adverse environment for adjustable rate products because the incentive for a borrower to choose an adjustable rate product over a longer term fixed-rate mortgage loan is minimized and, conversely, in a steep yield curve environment, adjustable rate products may enjoy an above average advantage over longer term fixed-rate mortgage loans, increasing our investment opportunities.

As the rate environment changes, the impact on origination volume and the type of loan product that is favored is mitigated, in part, by our ability to operate in our two business segments. In periods where adjustable rate product is favored, our mortgage portfolio management segment, which invests in such mortgage loans, will benefit from a larger selection of loan product for its portfolio and the inherent lower cost basis and resultant wider net margin. Our mortgage lending segment, regardless of whether adjustable rate or fixed rate product is favored, will continue to originate such loans and will continue to sell to third parties all fixed rate product; as a result, in periods where fixed rate product is favored, our origination segment may see increased revenues as such fixed product is sold to third parties.

Interest rate changes may also impact our net book value as our securities, certain mortgage loans and related hedge derivatives are marked-to-market each quarter. Generally, as interest rates increase, the value of our fixed income investments, such as mortgage loans and mortgage-backed securities, decreases and as interest rates decrease, the value of such investments will increase. We seek to hedge to some degree changes in value attributable to changes in interest rates by entering into interest rate swaps and other derivative instruments. In general, we would expect that, over time, decreases in value of our portfolio attributable to interest rate changes will be offset to some degree by increases in value of our interest rate swaps, and vice versa. However, the relationship between spreads on securities and spreads on swaps may vary from time to time, resulting in a net aggregate book value increase or decline. However, unless there is a material impairment in value that would result in a payment not being received on a security or loan, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to make a distribution to our stockholders.

In order to minimize the negative impacts of changes in interest rates on earnings and capital, we closely monitor our asset and liability mix and utilize interest rate swaps and caps, subject to the limitations imposed by the REIT qualification tests.

Movements in interest rates can pose a major risk to us in either a rising or declining interest rate environment. We depend on substantial borrowings to conduct our business. These borrowings are all made at variable interest rate terms that will increase as short term interest rates rise. Additionally, when interest rates rise, mortgage loans held for sale and any applications in process with interest rate lock commitments, or IRLCs, decrease in value. To preserve the value of such loans or applications in process with IRLCs, we may enter into forward sale loan contracts, or FSLCs, to be settled at future dates with fixed prices.

When interest rates decline, loan applicants may withdraw their open applications on which we have issued an IRLC. In those instances, we may be required to purchase loans at current market prices to fulfill existing FSLCs, thereby incurring losses upon sale.

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We monitor our mortgage loan pipeline closely and on occasion may choose to renegotiate locked loan terms with a borrower to prevent withdrawal of open applications and mitigate the associated losses.

In the event that we do not deliver the FSLCs or exercise our 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 FSLCs and option contracts to buy securities are to be contractually settled within six months of the balance sheet date. FSLCs and options contracts for individual loans generally must be settled within 60 days.

Our hedging transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to our derivative arrangements are major financial institutions and securities dealers that are well capitalized with high credit ratings and with which we may also have other financial relationships. While we do not anticipate nonperformance by any counterparty, we are exposed to potential credit losses in the event the counterparty fails to perform. Our exposure to credit risk in the event of default by a counterparty is the difference between the value of the contract and the current market price. There can be no assurance that we will be able to adequately protect against the forgoing risks and will ultimately realize an economic benefit that exceeds the related expenses incurred in connection with engaging in such hedging strategies.

While we have not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or economic downturn, mortgage and loan defaults may increase and result in credit losses that would adversely affect our liquidity and operating results.

### ***Credit Spread Exposure***

The mortgage-backed securities we currently, and will in the future, own are also subject to spread risk. The majority of these securities will be adjustable-rate securities that are valued based on a market credit spread to U.S. Treasury security yields. In other words, their value is dependent on the yield demanded on such securities by the market based on their credit relative to U.S. Treasury securities. Excessive supply of such securities combined with reduced demand will generally cause the market to require a higher yield on such securities, resulting in the use of a higher or wider spread over the benchmark rate (usually the applicable U.S. Treasury security yield) to value such securities. Under such conditions, the value of our securities portfolio would tend to decline. Conversely, if the spread used to value such securities were to decrease or tighten, the value of our securities portfolio would tend to increase. Such changes in the market value of our portfolio may affect our net equity, net income or cash flow directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital.

Furthermore, shifts in the U.S. Treasury yield curve, which represents the market's expectations of future interest rates, would also affect the yield required on our securities and therefore their value. These shifts, or a change in spreads, would have a similar effect on our portfolio, financial position and results of operations.

### ***Market (Fair Value) Risk***

For certain of the financial instruments that we own, fair values will not be readily available since there are no active trading markets for these instruments as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values. These estimates and assumptions are indicative of the interest rate environments as of September 30, 2005 and do not take into consideration the effects of subsequent interest rate fluctuations.

We note that the values of our investments in mortgage-backed securities, and in derivative instruments, primarily interest rate hedges on our debt, will be sensitive to changes in market interest rates, interest rate spreads, credit spreads and other market factors. The value of these investments can vary and has varied materially from period to period. Historically, the values of our mortgage loan portfolio have tended to vary inversely with those of its derivative instruments.

The following describes the methods and assumptions we use in estimating fair values of our financial instruments:



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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 fair values used by us should not be compared to those of other companies.

The fair values of the Company's residential mortgage-backed securities are generally based on market prices provided by five to seven dealers who make markets in these financial instruments. If the fair value of a security is not reasonably available from a dealer, management estimates the fair value based on characteristics of the security that the Company receives from the issuer and on available market information.

The fair value of loans held for investment are determined by the loan pricing sheet which is based on internal management pricing and third party competitors in similar products and markets.

The fair value of commitments to fund with agreed upon rates are estimated using the fees and rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current market interest rates and the existing committed rates.

The fair value of commitments to deliver mortgages is estimated using current market prices for dealer or investor commitments relative to our existing positions.

The market risk management discussion and the amounts estimated from the analysis that follows are forward-looking statements that assume that certain market conditions occur. Actual results may differ materially from these projected results due to changes in our ARM portfolio and borrowings mix and due to developments in the domestic and global financial and real estate markets. Developments in the financial markets include the likelihood of changing interest rates and the relationship of various interest rates and their impact on our ARM portfolio yield, cost of funds and cash flows. The analytical methods that we use to assess and mitigate these market risks should not be considered projections of future events or operating performance.

As a financial institution that has only invested in U.S.-dollar denominated instruments, primarily residential mortgage instruments, and has only borrowed money in the domestic market, we are not subject to foreign currency exchange or commodity price risk. Rather, our market risk exposure is largely due to interest rate risk. Interest rate risk impacts our interest income, interest expense and the market value on a large portion of our assets and liabilities. The management of interest rate risk attempts to maximize earnings and to preserve capital by minimizing the negative impacts of changing market rates, asset and liability mix, and prepayment activity.

The table below presents the sensitivity of the market value of our portfolio using a discounted cash flow simulation model. Application of this method results in an estimation of the percentage change in the market value of our assets, liabilities and hedging instruments per 100 basis point ( bp ) shift in interest rates expressed in years a measure commonly referred to as duration. Positive portfolio duration indicates that the market value of the total portfolio will decline if interest rates rise and increase if interest rates decline. The closer duration is to zero, the less interest rate changes are expected to affect earnings. Included in the table is a Base Case duration calculation for an interest rate scenario that assumes future rates are those implied by the yield curve as of September 30, 2005. The other two scenarios assume interest rates are instantaneously 100 and 200 bps higher than those implied by market rates as of September 30, 2005.

The use of hedging instruments is a critical part of our interest rate risk management strategies, and the effects of these hedging instruments on the market value of the portfolio are reflected in the model's output. This analysis also takes into consideration the value of options embedded in our mortgage assets including constraints on the repricing of the interest rate of ARM assets resulting from periodic and lifetime cap features, as well as prepayment options. Assets and liabilities that are not interest rate-sensitive such as cash, payment receivables, prepaid expenses, payables and accrued expenses are excluded. The duration calculated from this model is a key measure of the effectiveness of our interest rate risk management strategies.





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Changes in assumptions including, but not limited to, volatility, mortgage and financing spreads, prepayment behavior, defaults, as well as the timing and level of interest rate changes will affect the results of the model. Therefore, actual results are likely to vary from modeled results.

**Net Portfolio Duration  
September 30, 2005**

|                               | <b>Base</b> | <b>Basis point increase<br/>+100</b> | <b>+200</b> |
|-------------------------------|-------------|--------------------------------------|-------------|
| Mortgage Portfolio            | 1.27 years  | 1.65 years                           | 1.79 years  |
| Borrowings (including hedges) | 0.43        | 0.42                                 | 0.42        |
| <b>Net</b>                    | 0.84 years  | 1.22 years                           | 1.36 years  |

It should be noted that the model is used as a tool to identify potential risk in a changing interest rate environment but does not include any changes in portfolio composition, financing strategies, market spreads or changes in overall market liquidity.

Based on the assumptions used, the model output suggests a very low degree of portfolio price change given increases in interest rates, which implies that our cash flow and earning characteristics should be relatively stable for comparable changes in interest rates.

Although market value sensitivity analysis is widely accepted in identifying interest rate risk, it does not take into consideration changes that may occur such as, but not limited to, changes in investment and financing strategies, changes in market spreads, and changes in business volumes. Accordingly, we make extensive use of an earnings simulation model to further analyze our level of interest rate risk.

There are a number of key assumptions in our earnings simulation model. These key assumptions include changes in market conditions that affect interest rates, the pricing of ARM products, the availability of ARM products, and the availability and the cost of financing for ARM products. Other key assumptions made in using the simulation model include prepayment speeds and management's investment, financing and hedging strategies, and the issuance of new equity. We typically run the simulation model under a variety of hypothetical business scenarios that may include different interest rate scenarios, different investment strategies, different prepayment possibilities and other scenarios that provide us with a range of possible earnings outcomes in order to assess potential interest rate risk. The assumptions used represent our estimate of the likely effect of changes in interest rates and do not necessarily reflect actual results. The earnings simulation model takes into account periodic and lifetime caps embedded in our ARM assets in determining the earnings at risk.

**Liquidity and Funding Risk**

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay dividends to our stockholders and other general business needs. We recognize the need to have funds available for our operating businesses and our investment in mortgage loans until the settlement or sale of mortgages with us or with other investors. It is our policy to have adequate liquidity at all times to cover normal cyclical swings in funding availability and mortgage demand and to allow us to meet abnormal and unexpected funding requirements. We plan to meet liquidity through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

Our mortgage lending operations require significant cash to fund loan originations. Our warehouse lending arrangements, including repurchase agreements, support the mortgage lending operation. Generally, our warehouse mortgage lenders allow us to borrow between 96% and 100% of the outstanding principal. Funding for the difference generally 2% of the principal must come from other cash inflows. Our operating cash inflows are predominately from cash flow from mortgage securities, principal and interest on mortgage loans, third party sales of originated loans that do not fit our portfolio investment criteria, and fee income from loan originations. Other than access to our financing facilities, proceeds from equity offerings have been used to support operations.

Loans financed with warehouse, aggregation and repurchase credit facilities are subject to changing market valuations and margin calls. The market value of our loans is dependent on a variety of economic conditions, including interest rates (and borrower demand) and end investor desire and capacity. There is no certainty that market

values will remain constant. To the extent the value of the loans declines significantly, we would be required to repay portions of the amounts we have borrowed. The derivative financial instruments we use also subject us to margin call risk based on their market values. Under our interest rate swaps, we pay a fixed rate to the

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counterparties while they pay us a floating rate. When floating rates are low, on a net basis we pay the counterparty and visa-versa. In a declining interest rate environment, we would be subject to additional exposure for cash margin calls. However, the asset side of the balance sheet should increase in value in a further declining interest rate scenario. Most of our interest rate swap agreements provide for a bi-lateral posting of margin, the effect being that on either side of the valuation for such swaps, the counterparty can call/post margin. Unlike typical unilateral posting of margin only in the direction of the swap counterparty, this provides us with additional flexibility in meeting our liquidity requirements as we can call margin on our counterparty as swap values increase.

Incoming cash on our mortgage loans and securities is a principal source of cash. The volume of cash depends on, among other things, interest rates. The volume and quality of such incoming cash flows can be impacted by severe and immediate changes in interest rates. If rates increase dramatically, our short-term funding costs will increase quickly. While many of our loans are hybrid ARMs, they typically will not reset as quickly as our funding costs creating a reduction in incoming cash flow. Our derivative financial instruments are used to mitigate the effect of interest rate volatility.

We manage liquidity to ensure that we have the continuing ability to maintain cash flows that are adequate to fund operations and meet commitments on a timely and cost-effective basis. Our principal sources of liquidity are the repurchase agreement market, the issuance of CDOs, whole loan financing facilities as well as principal and interest payments from ARM assets. We believe that our liquidity level is in excess of that necessary to satisfy our operating requirements and we expect to continue to use diverse funding sources to maintain our financial flexibility.

***Prepayment Risk***

When borrowers repay the principal on their mortgage loans before maturity or faster than their scheduled amortization, the effect is to shorten the period over which interest is earned, and therefore, reduce the cash flow and yield on our ARM assets. Furthermore, prepayment speeds exceeding or lower than our reasonable estimates for similar assets, impact the effectiveness of any hedges we have in place to mitigate financing and/or fair value risk. Generally, when market interest rates decline, borrowers have a tendency to refinance their mortgages. The higher the interest rate a borrower currently has on his or her mortgage the more incentive he or she has to refinance the mortgage when rates decline. Additionally, when a borrower has a low loan-to-value ratio, he or she is more likely to do a cash-out refinance. Each of these factors increases the chance for higher prepayment speeds during the term of the loan.

We generally do not originate loans that provide for a prepayment penalty if the loan is fully or partially paid off prior to scheduled maturity. We mitigate prepayment risk by constantly evaluating our ARM portfolio at a range of reasonable market prepayment speeds observed at the time for assets with a similar structure, quality and characteristics. Furthermore, we stress-test the portfolio as to prepayment speeds and interest rate risk in order to develop an effective hedging strategy.

For the three months ended September 30, 2005, our mortgage assets paid down at an approximate average annualized Constant Paydown Rate (CPR) of 30%, compared to 27% for the three months ended June 30, 2005, to 22% for the three months ended March 31, 2005 and 24% for the three months ended December 31, 2004. The constant prepayment rate averaged approximately 27% during the first nine months of operations ended September 30, 2005. When prepayment experience increases, we have to amortize our premiums over a shorter time period, resulting in a reduced yield to maturity on our ARM assets. Conversely, if actual prepayment experience decreases, we would amortize the premium over a longer time period, resulting in a higher yield to maturity. We monitor our prepayment experience on a monthly basis and adjust the amortization of the net premium, as appropriate.

***Credit Risk***

Credit risk is the risk that we will not fully collect the principal we have invested in mortgage loans or securities. As previously noted, we are predominately a high-quality loan originator and our underwriting guidelines are intended to evaluate the credit history of the potential borrower, the capacity and willingness of the borrower to repay the loan, and the adequacy of the collateral securing the loan.

We mitigate credit risk by directly underwriting our own loan originations and re-underwriting any loans originated through our correspondent networks. With regard to the purchased mortgage security portfolio, we rely on the guaranties of FannieMae, Freddie Mac or the AAA/Aaa rating established by the Rating Agencies.

With regard to loan originations, factors such as FICO score, LTV, debt-to-income ratio, and other borrower and collateral factors are evaluated. Credit enhancement features, such as mortgage insurance may also be factored into the credit decision. In some instances, when the borrower exhibits strong compensating factors, exceptions to the underwriting guidelines may be approved.

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Our loan originations are concentrated in geographic markets that are generally supply constrained. We believe that these markets have less exposure to sudden declines in housing values than those markets which have an oversupply of housing. In addition, in the supply constrained housing markets we focus on, housing values tend to be high and, generally, underwriting standards for higher value homes require lower LTVs and thus more owner equity further mitigating credit risk. Finally, the higher housing value/mortgage loan financing markets allow for more cost efficient origination volume in terms of dollars and units. For our mortgage securities that are purchased, we rely on the FannieMae, Freddie Mac, Ginnie Mae and AAA-rating of the securities supplemented with additional due diligence.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* We carried out an evaluation under the supervision and with the participation of our management, including our Co-Chief Executive Officers and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as amended) as of the end of the period covered by this report. Based upon that evaluation, our management, including our Co-Chief Executive Officers and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2005.

*Changes in Internal Control Over Financial Reporting.* There has been no change in our internal control over financial reporting during the quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II-OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time, we are involved in legal proceedings in the ordinary course of business. We do not believe that any of our current legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations or financial condition.

**Item 6. Exhibits**

| <b>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                             |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1        | Articles of Amendment and Restatement of the Registrant (incorporated by reference to Exhibit 3.01 to our Registration Statement on Form S-11/A filed on June 18, 2004 (Registration No. 333-111668)).                                                                                                                                         |
| 3.2        | Bylaws of the Registrant (incorporated by reference to Exhibit 3.02 to our Registration Statement on Form S-11/ A filed on June 18, 2004 (Registration No. 333-111668)).                                                                                                                                                                       |
| 4.1        | Form of Common Stock Certificate (incorporated by reference to Exhibit 4.01 to our Registration Statement on Form S-11/ A filed on June 18, 2004 (Registration No. 333-111668)).                                                                                                                                                               |
| 4.2        | Junior Subordinated Indenture between The New York Mortgage Company, LLC and JPMorgan Chase Bank, National Association, as trustee, dated September 1, 2005 (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on September 6, 2005).                                                                           |
| 4.3        | Amended and Restated Trust Agreement among The New York Mortgage Company, LLC, JPMorgan Chase Bank, National Association, Chase Bank USA, National Association and the Administrative Trustees named therein, dated September 1, 2005 (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on September 6, 2005). |
| 10.1       | New York Mortgage Trust, Inc. 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-3/ A filed on September 9, 2005 (Registration No. 333-127400)).                                                                                                                                     |
| 10.2       | Parent Guarantee Agreement between New York Mortgage Trust, Inc. and JPMorgan Chase Bank, National Association, as guarantee trustee, dated September 1, 2005 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on September 6, 2005).                                                                        |



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| <b>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.3       | Purchase Agreement among The New York Mortgage Company, LLC, New York Mortgage Trust, Inc., NYM Preferred Trust II and Taberna Preferred Funding II, Ltd., dated September 1, 2005 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on September 6, 2005).                                                                                                                                                                                                                                      |
| 31.1       | Certification of Co-Chief Executive Officer pursuant to Rule 13a - 14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                  |
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| 32.1       | Certification of Co-Chief Executive Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.). |
| 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 (This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.).     |



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SIGNATURES

Pursuant to the requirements 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.

Date: November 14, 2005

/s/ Steven B. Schnall  
Steven B. Schnall  
Chairman, President and Co-Chief Executive Officer

Date: November 14, 2005

/s/ David A. Akre  
David A. Akre  
Vice Chairman and Co-Chief Executive Officer

Date: November 14, 2005

/s/ Michael I. Wirth  
Michael I. Wirth  
Executive Vice President and Chief Financial Officer

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EXHIBIT INDEX

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| 32.2       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

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