AMERICAN HOME MORTGAGE INVESTMENT CORP
Form 10-Q
August 09, 2006

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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006.

OR

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

For the transition period from ___________ to ___________.

Commission File Number: 001-31916

AMERICAN HOME MORTGAGE INVESTMENT CORP.

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Maryland | 20-0103914 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| 538 Broadhollow Road, Melville, New York | 11747 |
| (Address of Principal Executive Offices) | (Zip Code) |

(516) 949-3900

(Registrant's telephone number, including area code)

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

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

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

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

As of August 4, 2006, there were 50,141,464 shares of the registrant's common stock, par value $0.01 per share, outstanding.

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

| | June 30, 2006 |
|---|---|
| Assets: | |
| Cash and cash equivalents | $ 304,2 |
| Accounts receivable and servicing advances | 342,2 |
| Mortgage-backed securities (including securities pledged of $8,982,953 as of June 30, 2006 and $10,063,621 as of December 31, 2005) | 9,299,2 |
| Mortgage loans held for sale, net | 1,243,7 |
| Mortgage loans held for investment, net of allowance of $6,885 as of June 30, 2006 and $2,142 as of December 31, 2005 | 5,337,1 |
| Derivative assets | 139,3 |
| Mortgage servicing rights | 434,1 |
| Premises and equipment, net | 80,2 |
| Goodwill | 110,7 |
| Other assets | 34,3 |
| Total assets | $ 17,325,5 |
| Liabilities and Stockholders' Equity: | |
| Liabilities: | |
| Warehouse lines of credit | $ 1,476,9 |
| Drafts payable | 12,3 |
| Commercial paper | 888,4 |
| Reverse repurchase agreements | 8,939,7 |
| Collateralized debt obligations | 3,724,8 |
| Payable for securities purchased | |
| Derivative liabilities | 3,2 |
| Trust preferred securities | 252,7 |
| Accrued expenses and other liabilities | 355,0 |
| Notes payable | 337,7 |
| Income taxes payable | 80,5 |
| Total liabilities | 16,071,7 |
| Commitments and contingencies | |
| Stockholders' Equity: | |
| Preferred Stock, par value $0.01 per share, 10,000,000 shares authorized: | |
| 9.75% Series A Cumulative Redeemable, 2,150,000 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively | 50,8 |
| 9.25% Series B Cumulative Redeemable, 3,450,000 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively | 83,1 |
| Common Stock, par value $0.01 per share, 100,000,000 shares authorized, 50,107,214 and 49,639,646 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively | 5 |
| Additional paid-in capital | 960,9 |
| Retained earnings | 227,4 |
| Accumulated other comprehensive loss | (69,1 |
| Total stockholders' equity | 1,253,8 |
| Total liabilities and stockholders' equity | $ 17,325,5 |

See notes to consolidated financial statements (unaudited).

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Net interest income: | | |
| Interest income | $ 330,196 | $ 135,318 |
| Interest expense | (279,992) | (90,336 |
| Total net interest income | 50,204 | 44,982 |
| Provision for loan losses | (3,979) | - |
| Total net interest income after provision for loan losses | 46,225 | 44,982 |
| Non-interest income: | | |
| Gain on sales of mortgage loans | 224,594 | 77,377 |
| Gain on sales of current period securitized mortgage loans | - | 104,377 |
| (Loss) gain on sales of mortgage-backed securities and derivatives | (47) | 620 |
| Unrealized (loss) gain on mortgage-backed securities and derivatives | (7,730) | (10,292 |
| Loan servicing fees | 30,417 | 16,970 |
| Amortization and impairment of mortgage servicing rights | - | (33,230 |
| Change in fair value of mortgage servicing rights | (18,830) | - |
| Net loan servicing fees (loss) | 11,587 | (16,260 |
| Other non-interest income | 2,125 | 2,543 |
| Total non-interest income | 230,529 | 158,365 |
| Non-interest expenses: | | |
| Salaries, commissions and benefits, net | 103,157 | 94,859 |
| Occupancy and equipment | 19,763 | 14,397 |
| Data processing and communications | 6,733 | 5,957 |
| Office supplies and expenses | 5,145 | 5,657 |
| Marketing and promotion | 6,383 | 5,126 |
| Travel and entertainment | 7,793 | 5,427 |
| Professional fees | 5,013 | 3,432 |
| Other | 17,192 | 6,843 |
| Total non-interest expenses | 171,179 | 141,698 |
| Net income before income tax expense (benefit) | 105,575 | 61,649 |

| | | |
|---|---|---|
| Income tax expense (benefit) | 33,224 | (3,851 |
| Net income | $ 72,351 | $ 65,500 |
| Dividends on preferred stock | 3,304 | 3,304 |
| Net income available to common shareholders | $ 69,047 | $ 62,196 |
| Per share data: | | |
| Basic | $ 1.38 | $ 1.54 |
| Diluted | $ 1.37 | $ 1.52 |
| Weighted average number of shares - basic | 50,056 | 40,384 |
| Weighted average number of shares - diluted | 50,487 | 40,886 |

See notes to consolidated financial statements (unaudited).



AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In thousands)

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings |
|---|---|---|---|---|
| Balance at January 1, 2005 | $134,040 | $ 403 | $631,530 | $ 99,628 |
| Comprehensive income: | | | | |
| Net income | - | - | - | 190,880 |
| Net change in unrealized loss on mortgage-backed securities available for sale | - | - | - | - |
| Net change in unrealized gain on cash flow hedges, net of amortization | - | - | - | - |
| Comprehensive income | | | | |
| Issuance of common stock - earnouts | - | 2 | 5,851 | - |
| Issuance of common stock - 1999 Omnibus Stock Incentive Plan | - | - | 1,214 | - |
| Dividends declared on Series A Preferred Stock | - | - | - | (2,620 |
| Dividends declared on Series B Preferred Stock | - | - | - | (3,990 |
| Dividends declared on Common Stock | - | - | - | (59,456 |
| Balance at June 30, 2005 | $134,040 | $ 405 | $638,595 | $ 224,442 |
| Balance at January 1, 2006 | $134,040 | $ 496 | $947,512 | $ 203,778 |
| Comprehensive income: | | | | |
| Net income | - | - | - | 126,810 |

| | | | | |
|---|---|---|---|---|
| Net change in unrealized loss on mortgage-backed securities available for sale | - | - | - | - |
| Net change in unrealized gain on cash flow hedges, net of amortization | - | - | - | - |
| Comprehensive income | | | | |
| Cumulative effect adjustment as of beginning of year | - | - | - | (2,917 |
| Issuance of common stock - earnouts | - | 3 | 9,555 | - |
| Issuance of common stock - 1999 Omnibus Stock Incentive Plan | - | 2 | 1,947 | - |
| Stock-based employee compensation expense | - | - | 783 | - |
| Tax benefit for stock options exercised | - | - | 1,198 | - |
| Dividends declared on Series A Preferred Stock | - | - | - | (2,620 |
| Dividends declared on Series B Preferred Stock | - | - | - | (3,990 |
| Dividends declared on Common Stock | - | - | - | (93,611 |
| Balance at June 30, 2006 | $134,040 | $ 501 | $960,995 | $ 227,450 |

See notes to consolidated financial statements (unaudited).



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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income | $ 72,351 | $ 65,50 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 5,014 | 2,73 |
| Provision for loan losses | 3,979 | |
| Change in fair value of mortgage servicing rights | 18,830 | |
| Amortization and impairment of mortgage servicing rights | - | 33,23 |
| Accretion and amortization of mortgage-backed securities, net | 2,006 | (1,16 |
| Deferred cash flow hedge gain, net of amortization | 10,509 | 1,73 |
| Loss on sales of mortgage-backed securities and derivatives | - | 44 |
| Unrealized loss (gain) on mortgage-backed securities | 14,591 | (4,53 |
| Unrealized (gain) loss on free standing derivatives | (1,038) | 25,90 |
| (Decrease) increase in forward delivery contracts | (6,036) | 13,93 |
| Capitalized mortgage servicing rights on securitized loans | - | (62,62 |
| Capitalized mortgage servicing rights on sold loans | (81,029) | (4,02 |
| (Increase) decrease in interest rate lock commitments | (4,447) | (6,26 |
| (Increase) decrease in mortgage loan basis adjustments | (2,156) | (10,58 |
| Excess tax benefits from share-based payment arrangements | (1,198) | |
| Other | (633) | (2,15 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (13,506) | (14,40 |
| Servicing advances | (1,152) | 86 |
| Income taxes receivable | - | 25,79 |
| Other assets | (3,582) | 2,35 |

| | | |
|---|---|---|
| Increase (decrease) in operating liabilities: | | |
| Accrued expenses and other liabilities | (32,977) | (1,26 |
| Income taxes payable | 30,711 | (6,49 |
| Origination of mortgage loans held for sale | (14,371,439) | (10,647,02 |
| Principal received from sales of mortgage loans held for sale | 14,013,921 | 4,457,51 |
| Proceeds from securitizations of mortgage loans held for sale | - | 5,855,91 |
| Additions to mortgage-backed securities and derivatives | - | (466,52 |
| Principal proceeds from sales of self-originated mortgage-backed securities | 99,086 | 1,104,22 |
| Cash received from residual assets in securitizations | 20,947 | 23,53 |
| Principal repayments of mortgage-backed securities | 60,485 | 172,17 |
| Net cash (used in) provided by operating activities | (166,763) | 558,78 |
| Cash flows from investing activities: | | |
| Purchases of premises and equipment | (9,716) | (8,19 |
| Origination of mortgage loans held for investment | (560,003) | (133,75 |
| Proceeds from repayments of mortgage loans held for investment | 240,403 | |
| Purchases of mortgage-backed securities | (461,125) | (933,92 |
| Principal proceeds from sales of purchased mortgage-backed securities | - | 20,96 |
| Principal repayments of purchased mortgage-backed securities | 501,239 | 361,04 |
| Net increase in investment in Federal Home Loan Bank stock, at cost | (108) | |
| Acquisition of business | - | |
| Net cash (used in) provided by investing activities | (289,310) | (693,86 |
| Cash flows from financing activities: | | |
| (Decrease) increase in warehouse lines of credit, net | (277,623) | 7,01 |
| Increase (decrease) in reverse repurchase agreements, net | 40,736 | (382,53 |
| Increase (decrease) in collateralized debt obligations | 819,679 | |
| Decrease in payable for securities purchased | (215,114) | |
| (Decrease) increase in commercial paper, net | (185,154) | 433,30 |
| (Decrease) increase in drafts payable, net | (4,028) | (1,85 |
| Increase in trust preferred securities | 48,762 | 48,41 |
| Increase in notes payable, net | 6,986 | 96,72 |
| Proceeds from issuance of Common Stock | 1,127 | 58 |
| Excess tax benefits from share-based payment arrangements | 1,198 | |
| Dividends paid | (48,819) | (31,95 |
| Net cash provided by (used in) financing activities | 187,750 | 169,69 |
| Net (decrease) increase in cash and cash equivalents | (268,323) | 34,61 |
| Cash and cash equivalents, beginning of period | 572,591 | 162,76 |
| Cash and cash equivalents, end of period | $ 304,268 | $ 197,37 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $ 340,142 | $ 120,86 |
| Income taxes paid | 2,506 | 67 |
| Supplemental disclosure of non-cash investing information: | | |
| Net transfer of loans held for sale to loans held for investment | $ 699,519 | $ |

See notes to consolidated financial statements (unaudited).

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Cash and Cash Equivalents - Cash and cash equivalents are demand deposits and short-term investments with a maturity of 90 days or less. The carrying amount of cash and cash equivalents approximates its fair value.

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

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

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

Mortgage Loans Held for Investment - Mortgage loans held for investment represent loans securitized through transactions structured as financings, or pending securitization through transactions that are expected to be structured as financings. Mortgage loans held for investment are carried at the aggregate of their remaining unpaid principal balances, including the capitalized value of the prior IRLCs related to the mortgage loans, plus net deferred origination costs, less any related charge-offs and allowance for loan losses. Loan fees and direct origination costs are deferred and amortized into interest income over the contractual life of the loan using the level-yield method.

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



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

Mortgage Servicing Rights - In March 2006, the Financial Accounting Standards Board ("FASB") released Statement of Financial Accounting Standards ("SFAS") No. 156, "Accounting for Servicing Financial Assets, an amendment of SFAS No. 140" ("SFAS No. 156"). SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and liabilities be initially measured at fair value, if practical. The effective date of this statement is as of the beginning of the entity's first fiscal year that begins after September 15, 2006; however, early adoption is permitted as of the beginning of any fiscal year, provided the entity has not issued financial statements for the interim period. The initial recognition and measurement of servicing assets and servicing liabilities are required to be applied prospectively to transactions occurring after the effective date. The Company elected to early adopt SFAS No. 156 as of January 1, 2006, and has recorded its mortgage servicing rights ("MSRs") at fair value. The Company's election increased MSRs by $1.2 million. Prior to January 1, 2006, MSRs were carried at the lower of cost or fair value, based on defined interest rate risk strata, and the gross MSR asset was amortized in proportion to and over the period of estimated net servicing income. The Company estimates the fair value of its MSRs by obtaining market information from one of the market's primary independent MSR brokers.

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

Goodwill - Goodwill represents the excess purchase price over the fair value of net assets acquired from business acquisitions. The Company tests for impairment at least annually and will test for impairment more frequently if events or circumstances indicate that an asset may be impaired. The Company tests for impairment by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. The discounted cash flow calculation related to the Company's loan origination segment includes a forecast of the expected future loan originations and the related revenues and expenses. The discounted cash flow calculation related to the Company's mortgage holdings segment includes a forecast of the expected future net interest income, gain on mortgage-backed securities and the related revenues and expenses. These cash flows are discounted using a rate that is estimated to be a weighted-average cost of capital for similar companies. We further test to ensure that the fair value of all of our business units does not exceed our total market capitalization.

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

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

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

Trust Preferred Securities - The Company formed wholly owned statutory business trusts ("Trusts") for the purpose of issuing trust preferred securities. The Company does not consolidate its Trusts and results in a liability to the Trusts, which is recorded in trust preferred securities on the consolidated balance sheet. The securities begin to mature in 2035 and bear interest at rates ranging from LIBOR +255 basis points to LIBOR +300 basis points.

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

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



Interest Rate Lock Commitments ("IRLCs"). The Company's mortgage committed pipeline includes IRLCs that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria and have locked their terms and rates. The Company uses mortgage forward delivery contracts to economically hedge the IRLCs. The Company classifies and accounts for the IRLCs associated with loans expected to be sold as free-standing derivatives. Accordingly, IRLCs related to loans held for sale are recorded at fair value with changes in fair value recorded to current earnings.

Forward Delivery Commitments Used to Economically Hedge IRLCs. The Company uses mortgage forward delivery contracts to economically hedge the IRLCs, which are also classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

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

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

Termination of Hedging Relationships. The Company employs a number of risk management monitoring procedures to ensure that the designated hedging relationships are demonstrating, and are expected to continue to demonstrate, a high level of effectiveness. Hedge accounting is discontinued on a prospective basis if it is determined that the hedging relationship is no longer highly effective or expected to be highly effective in offsetting changes in fair value of the hedged item. Additionally, the Company may elect to de-designate a hedge relationship during an interim period and re-designate upon the rebalancing of a hedge profile and the corresponding hedge relationship. When hedge accounting is discontinued, the Company continues to carry the derivative instruments at fair value with changes in their value recorded in earnings.

Gain on Sale of Loans - The Company recognizes gain on sale of loans for the difference between the sales price and the adjusted book value of the loans at the time of sale. The adjusted book value of the loans includes the original principal amount plus SFAS No. 133 basis adjustments plus deferrals of fees and points received and direct loan origination costs.

Loan Origination Fees and Direct Origination Costs - The Company records loan fees, discount points and certain direct origination costs as an adjustment of the cost of the loan or security and such amounts are included in revenues when the loan or security is sold. When loans held for investment are securitized, net deferred origination costs are amortized over the life of the loan using the level-yield method and



such amounts adjust interest income. When loans are securitized and held as trading securities, net deferred origination costs are an adjustment to the cost of the security and such amounts affect the amount recorded as unrealized gain on mortgage-backed securities and derivatives.

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

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

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

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

Income Taxes - The Company accounts for income taxes in conformity with SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for accounting and reporting of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences ("temporary differences") attributable to the differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. A valuation allowance is provided for deferred tax assets where realization is not considered "more likely than not." The Company recognizes the effect of changes in tax laws or rates on deferred tax assets and liabilities in the period that includes the enactment date.

Stock Option Plans - In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). Prior to January 1, 2006, the Company accounted for the Plan using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"), and provided pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value based method, as required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS No. 148"), had been applied. Prior to January 1, 2006, in accordance with APB Opinion No. 25, no stock-based compensation cost was reflected in the Company's net income for grants of stock options to employees because the Company granted stock options with an exercise price equal to the market value of the stock on the date of grant. Had the Company used the fair value based accounting method for stock compensation expense prescribed by SFAS Nos. 123 and 148 for the three and six months ended June 30, 2005, the Company's consolidated net income and earnings per share would have been reduced to the pro-forma amounts presented in the following table:



| (In thousands, except per share data) | Three Months Ended June 30, 2005 | Six J |
|---|---|---|
| Net income available to common shareholders - as reported | $ 62,196 | $ |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (342) | |
| Net income available to common shareholders - pro forma | $ 61,854 | $ |

| | | | |
|---|---|---|---|
| Earnings per share: | | | |
| Basic - as reported | $ | 1.54 | $ |
| Basic - pro forma | $ | 1.53 | $ |
| Diluted - as reported | $ | 1.52 | $ |
| Diluted - pro forma | $ | 1.51 | $ |

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), which requires that the compensation cost relating to share-based payment transactions (including employee stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans) be recognized as an expense in the Company's consolidated financial statements. Under SFAS No. 123R, the related compensation cost is measured based on the fair value of the award at the date of grant. In March 2005, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment," which expresses views of the SEC Staff about the application of SFAS No. 123R. SFAS No. 123 requires only that the expense relating to employee stock options be disclosed in the footnotes to the consolidated financial statements. SFAS No. 123R replaced SFAS No. 123 and superseded APB Opinion No. 25. While SFAS No. 123R was originally to have been effective for interim and annual reporting periods beginning after June 15, 2005, the SEC, in April 2005, deferred the compliance date to the first annual reporting period beginning after June 15, 2005.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective method. Under this method, compensation cost in the six months ended June 30, 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated using a binomial lattice-based option valuation model. Results of prior periods do not reflect any restated amounts and the Company had no cumulative effect adjustment upon adoption of SFAS No. 123R under the modified prospective method. The Company's policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. Additionally, the Company's policy is to issue authorized but unissued shares of common stock to satisfy stock option exercises.

During the three months ended June 30, 2006, the Company's adoption of SFAS No. 123R decreased income before income taxes by $373 thousand, decreased net income by $299 thousand, decreased basic net income per share by $.01 per share and decreased diluted net income per share by less than $.01 per share. The income tax benefit recognized in income for the three months ended June 30, 2006 for stock options was $74 thousand. During the six months ended June 30, 2006, the Company's adoption of SFAS No. 123R decreased income before income taxes by $783 thousand, decreased net income by $608 thousand and decreased basic and diluted net income per share by $.01 per share. The income tax benefit recognized in income for the six months ended June 30, 2006 for stock options was $175 thousand. The expense, before income tax effect, is included in salaries, commissions and benefits expense.

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

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



Recently Issued Accounting Standards - In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of SFAS No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the potential impact of FIN 48 on its consolidated financial position, results of operations and cash flows.

NOTE 2 - MORTGAGE-BACKED SECURITIES

The following tables present the Company's mortgage-backed securities available for sale as of June 30, 2006 and December 31, 2005:

| | June 30, 2006 | | | |
|---|---|---|---|---|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| (In thousands) | | | | |
| Agency securities | $ 119,329 | $ - | $ (5,983) | $ 113,346 |
| Privately issued: | | | | |
| Rated | 8,171,168 | 110 | (125,312) | 8,045,966 |
| Unrated | 5,974 | 309 | - | 6,283 |
| Securities available for sale | $8,296,471 | $ 419 | $ (131,295) | $8,165,595 |

| | December 31, 2005 | | | |
|---|---|---|---|---|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| (In thousands) | | | | |
| Agency securities | $ 135,545 | $ - | $ (5,225) | $ 130,320 |
| Privately issued: | | | | |
| Rated | 7,282,916 | 4,562 | (49,963) | 7,237,515 |
| Unrated | 7,176 | 25 | - | 7,201 |
| Securities available for sale | $7,425,637 | $ 4,587 | $ (55,188) | $7,375,036 |

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The following tables present the Company's mortgage-backed securities available for sale in an unrealized loss position as of June 30, 2006 and December 31, 2005:

| | June 30, 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | G Un L |
| (In thousands) | | | | | | |
| Agency securities | $ - | $ - | $ 113,346 | $ (5,983) | $ 113,346 | $ |
| Privately issued: | | | | | | |
| Rated | 6,545,229 | (87,312) | 1,428,855 | (38,000) | 7,974,084 | ( |
| Securities available for sale | $6,545,229 | $(87,312) | $1,542,201 | $(43,983) | $8,087,430 | $( |

| | December 31, 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | G Un L |
| (In thousands) | | | | | | |
| Agency securities | $ - | $ - | $ 130,320 | $ (5,225) | $ 130,320 | $ |
| Privately issued: | | | | | | |
| Rated | 3,834,893 | (29,230) | 926,942 | (20,733) | 4,761,835 | |
| Securities available for sale | $3,834,893 | $(29,230) | $1,057,262 | $(25,958) | $4,892,155 | $ |

The Company has evaluated its mortgage-backed securities available for sale in an unrealized loss position for twelve months or more and determined there was no other-than-temporary impairment as of June 30, 2006. The Company has the ability and intent to hold its mortgage-backed securities available for sale in an unrealized loss position until a market price recovery or maturity.

The following table presents the Company's mortgage-backed trading securities as of June 30, 2006 and December 31, 2005:

June 30, December 31,

| (In thousands) | 2006 | 2005 |
| --- | --- | --- |
| | Fair Value | |
| Privately issued: | | |
| Rated | $ 917,607 | $2,997,650 |
| Unrated | 216,022 | 229,418 |
| Trading securities | $1,133,629 | $3,227,068 |

During the three months ended June 30, 2006, the Company recorded $14.6 million in unrealized losses on trading securities that related to trading securities held at June 30, 2006. During the three months ended June 30, 2005, the Company recorded $21.5 million in unrealized gains on trading securities that related to trading securities held at June 30, 2005.

During the six months ended June 30, 2006, the Company recorded $13.6 million in unrealized losses on trading securities that related to trading securities held at June 30, 2006. During the six months ended June 30, 2005, the Company recorded $44.8 million in unrealized gains on trading securities that related to trading securities held at June 30, 2005.



During the three months ended June 30, 2006, the Company sold $99.1 million of mortgage-backed securities and realized $47 thousand in losses, net of hedges. The $99.1 million of mortgage-backed securities sold were self-originated.

During the three months ended June 30, 2005, the Company sold $1.1 billion of mortgage-backed securities, excluding securities sold contemporaneously with the execution of securitization transactions, and realized $4.2 million in gains, net of hedges. The $1.1 billion of mortgage-backed securities sold were primarily self-originated. During the three months ended June 30, 2005, the Company securitized and held in its portfolio $463 million of mortgage-backed securities.

During the six months ended June 30, 2006, the Company sold $1.9 billion of mortgage-backed securities and realized $0.9 million in losses, net of hedges. The $1.9 billion of mortgage-backed securities sold were self-originated.

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

The Company's mortgage-backed securities held at June 30, 2006 were primarily either agency obligations or were rated AAA or AA by Standard & Poor's.

The Company has credit exposure on $12.7 billion and $15.1 billion of loans it has securitized privately as of June 30, 2006 and December 31, 2005, respectively. The following tables summarize the loan delinquency information as of June 30, 2006 and December 31, 2005:

June 30, 2006

(Dollars in thousands)

| Delinquency Status | Loan Count | Loan Balance | Percentage of Total Portfolio | Percentage of Total Assets |
|---|---|---|---|---|
| 60 to 89 days | 45 | $ 5,780 | 0.05% | 0.03% |
| 90 and greater days | 71 | 14,652 | 0.12% | 0.08% |
| Pending foreclosure | 837 | 201,584 | 1.58% | 1.17% |
| Loans 60 days and greater delinquent | 953 | $222,016 | 1.75% | 1.28% |

December 31, 2005

(Dollars in thousands)

| Delinquency Status | Loan Count | Loan Balance | Percentage of Total Portfolio | Percentage of Total Assets |
|---|---|---|---|---|
| 60 to 89 days | 49 | $ 10,194 | 0.07% | 0.06% |
| 90 and greater days | 82 | 13,596 | 0.09% | 0.08% |
| Pending foreclosure | 451 | 119,181 | 0.79% | 0.67% |
| Loans 60 days and greater delinquent | 582 | $142,971 | 0.95% | 0.81% |

As of June 30, 2006 and December 31, 2005, the fair value of residual assets from securitizations reported in mortgage-backed securities was $234.8 million and $276.0 million, respectively.

The significant assumptions used in estimating the fair value of residual cash flows as of June 30, 2006 and December 31, 2005 were as follows:

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Weighted-average prepayment speed (CPR) | 29.93% | 30.63% |
| Weighted-average discount rate | 16.44% | 16.52% |
| Weighted-average annual default rate | 0.54% | 0.54% |

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NOTE 3 - MORTGAGE LOANS, NET

Mortgage Loans Held For Sale, Net

The following table presents the Company's mortgage loans held for sale, net, as of June 30, 2006 and December 31, 2005:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Mortgage loans held for sale | $ 1,237,841 | $ 2,190,062 |
| SFAS No. 133 basis adjustments | (4,911) | (2,099) |
| Deferred origination costs, net | 10,772 | 20,786 |

| | | |
|---|---|---|
| Mortgage loans held for sale, net | $ 1,243,702 | $ 2,208,749 |

During the three months ended June 30, 2006, the Company sold mortgage loans to third parties totaling $13.9 billion and realized $224.6 million in gains.

During the six months ended June 30, 2006, the Company sold mortgage loans to third parties totaling $27.4 billion and realized $396.5 million in gains.

During the three and six months ended June 30, 2006, the Company deferred $161.8 million and $289.7 million, respectively, of loan origination costs as an adjustment to the cost basis for additions to mortgage loans held for sale. The Company's gain on sale of loans was reduced by $164.9 million and $299.7 million of deferred origination costs associated with mortgage loans sold during the three and six months ended June 30, 2006, respectively.

The following tables summarize delinquency information as of June 30, 2006 and December 31, 2005 for the Company's mortgage loans held for sale:

| (Dollars in thousands) | June 30, 2006 | | |
|---|---|---|---|
| Delinquency Status | Loan Count | Loan Balance | Percentage of Total Portfolio |
| 60 to 89 days | 16 | $ 1,734 | 0.14% |
| 90 and greater days | 85 | 10,821 | 0.88% |
| Pending foreclosure | 112 | 14,452 | 1.17% |
| Loans 60 days and greater delinquent | 213 | $27,007 | 2.19% |

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



Mortgage Loans Held For Investment, Net

The following table presents the Company's mortgage loans held for investment, net, as of June 30, 2006 and December 31, 2005:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Mortgage loans held for investment | $ 5,290,334 | $ 3,438,425 |

| | | |
|---|---|---|
| SFAS No. 133 basis adjustments | (3,832) | - |
| Deferred origination costs, net | 57,521 | 43,438 |
| Allowance for loan losses | (6,885) | (2,142) |
| Mortgage loans held for investment, net | $ 5,337,138 | $ 3,479,721 |

In June 2006, the Company transferred $964.9 million of its mortgage loans held for investment to American Home Mortgage Investment Trust 2006-2 (the "2006-2 Trust") in a securitization transaction accounted for as a financing of the loans held for investment.

In March 2006, the Company transferred $2.0 billion of its mortgage loans held for investment to American Home Mortgage Investment Trust 2006-1 (the "2006-1 Trust") in a securitization transaction accounted for as a financing of the loans held for investment.

During the three and six months ended June 30, 2006, the Company deferred $12.0 million and $20.4 million, respectively, of loan origination costs as an adjustment to the cost basis for mortgage loans added to its held for investment portfolio. The Company's interest income was reduced by $3.6 million and $6.3 million of deferred origination cost amortization on mortgage loans held for investment during the three and six months ended June 30, 2006, respectively.

The following table presents the activity in the Company's allowance for loan losses for the three and six months ended June 30, 2006:

| | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2006 |
|---|---|---|
| | (In thousands) | |
| Balance at beginning of period | $ 3,453 | $ 2,142 |
| Provision for loan losses | 3,979 | 5,290 |
| Charge-offs | (547) | (547) |
| Balance at end of period | $ 6,885 | $ 6,885 |



The following tables summarize delinquency information as of June 30, 2006 and December 31, 2005 for the Company's mortgage loans held for investment:

| (Dollars in thousands) | June 30, 2006 | | |
|---|---|---|---|
| Delinquency Status | Loan Count | Loan Balance | Percentage of Total Portfolio |
| 60 to 89 days | 20 | $ 2,094 | 0.04% |
| 90 and greater days | 37 | 4,780 | 0.09% |
| Pending foreclosure | 200 | 36,042 | 0.68% |
| Loans 60 days and greater delinquent | 257 | $42,916 | 0.81% |

(Dollars in thousands)

| | December 31, 2005 | | |
|---|---|---|---|
| Delinquency Status | Loan Count | Loan Balance | Percentage of Total Portfolio |
| 60 to 89 days | 23 | $ 2,898 | 0.08% |
| 90 and greater days | 26 | 2,489 | 0.07% |
| Pending foreclosure | 49 | 8,797 | 0.26% |
| Loans 60 days and greater delinquent | 98 | $14,184 | 0.41% |

NOTE 4 - DERIVATIVE ASSETS AND LIABILITIES

The following table presents the Company's derivative assets and liabilities as of June 30, 2006 and December 31, 2005:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Derivative Assets | | |
| Interest rate swaps | $ 111,113 | $ 30,508 |
| Interest rate lock commitments | 14,682 | 14,086 |
| Forward delivery contracts - loan commitments | 7,480 | -- |
| Forward delivery contracts - loans held for sale | 5,824 | -- |
| Interest rate caps | 298 | -- |
| Derivative assets | $ 139,397 | $ 44,594 |
| Derivative Liabilities | | |
| Interest rate lock commitments | $ 3,280 | $ -- |
| Forward delivery contracts - loan commitments | -- | 8,659 |
| Forward delivery contracts - loans held for sale | -- | 8,114 |
| Derivative liabilities | $ 3,280 | $ 16,773 |

As of June 30, 2006, the notional amount of forward delivery contracts and interest rate swap agreements was approximately $2.9 billion and $10.9 billion, respectively.

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



During the three months ended June 30, 2006, the Company recognized in earnings $6.8 million in unrealized gains on free standing derivatives. During the three months ended June 30, 2005, the Company recognized in earnings $31.8 million in unrealized losses on free standing derivatives.

During the six months ended June 30, 2006, the Company recognized in earnings $15.2 million in unrealized gains on free standing derivatives. During the six months ended June 30, 2005, the Company recognized in earnings $2.4 million in unrealized gains on free standing derivatives. These gains are recorded in unrealized gain on mortgage-backed securities and derivatives in the consolidated statements of income.

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

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

The Company's forward delivery contracts have a high correlation to the price movement of the loans being hedged. The ineffectiveness in hedging loans held for sale recorded on the consolidated balance sheets was insignificant as of June 30, 2006 and December 31, 2005.

As of June 30, 2006, the unrealized gain on interest rate swap agreements relating to cash flow hedges recorded in accumulated other comprehensive loss was $61.7 million. As of December 31, 2005, the unrealized loss on interest rate swap agreements relating to cash flow hedges recorded in accumulated other comprehensive loss was $28.2 million.

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

| (In thousands) | |
|---|---|
| Twelve months ended June 30, 2007 | $ 12,355 |
| Twelve months ended June 30, 2008 | 3,423 |
| Twelve months ended June 30, 2009 | 1,790 |
| Twelve months ended June 30, 2010 | (130) |

NOTE 5 - MORTGAGE SERVICING RIGHTS

The Company elected to early adopt SFAS No. 156 as of January 1, 2006, and has recorded its MSRs at fair value. The Company's adoption of SFAS No. 156 resulted in a cumulative-effect adjustment as of January 1, 2006, which increased MSRs by $1.2 million.

Prior to January 1, 2006, MSRs were carried at the lower of cost or fair value, based on defined interest rate risk strata, and the gross MSR asset was amortized in proportion to and over the period of estimated net servicing income. Prior to the Company's adoption of SFAS No. 156, the Company evaluated MSRs for impairment based on risk strata and a valuation allowance was recognized for MSRs that had an amortized balance in excess of the estimated fair value for the individual risk stratification.



The following table presents the activity in the Company's MSRs for the three and six months ended June 30, 2006 and 2005:

| | Three Months Ended June 30, | | Six Month |
|---|---|---|---|
| (In thousands) | 2006 | 2005 | 2006 |

| | | | |
|---|---|---|---|
| Balance at beginning of period | $ 371,974 | $ 236,931 | $ 340,37 |
| Cumulative-effect adjustment as of beginning of year | -- | -- | 1,15 |
| Fair value measurement method adjustment | -- | -- | (20,70 |
| Additions | 81,029 | 66,657 | 150,79 |
| Amortization | -- | (12,832) | - |
| Changes in fair value resulting from: | | | |
| Changes in valuation inputs or assumptions | 10,783 | -- | 22,09 |
| Other changes in fair value (1) | (29,613) | -- | (59,54 |
| Balance at end of period | $ 434,173 | $ 290,756 | $ 434,17 |
| Impairment allowance: | | | |
| Balance at beginning of period | $ -- | $ (8,519) | $ (20,70 |
| Fair value measurement method adjustment | -- | -- | 20,70 |
| Impairment provision | -- | (20,398) | - |
| Balance at end of period | $ -- | $ (28,917) | $ - |
| Mortgage servicing rights | $ 434,173 | $ 261,839 | $ 434,17 |

(1) Includes changes due to servicing runoff totaling $26.3 million and $45.1 million for the three and six months ended June 30, 2006

The amount of contractually specified servicing fees earned by the Company during the three months ended June 30, 2006 and 2005 were $19.7 million and $15.4 million, respectively.

The amount of contractually specified servicing fees earned by the Company during the six months ended June 30, 2006 and 2005 were $40.1 million and $25.5 million, respectively. The Company reports contractually specified servicing fees in loan servicing fees in the consolidated statements of income.

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

The significant assumptions used in estimating the fair value of MSRs at June 30, 2006 and December 31, 2005 were as follows:

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Weighted-average prepayment speed (PSA) | 375 | 315 |
| Weighted-average discount rate | 11.66% | 11.94% |
| Weighted-average default rate | 2.11% | 2.78% |

The following table presents certain information regarding the Company's servicing portfolio of loans serviced for others at June 30, 2006 and December 31, 2005:

| | June 30, 2006 | December 31, 20 |
|---|---|---|
| | (Dollars in thousands) | |
| Loan servicing portfolio - loans sold or securitized | $32,624,889 | $25,044,676 |
| ARM loans as a percentage of total loans | 73% | 73% |
| Average loan size | $ 212 | $ 194 |
| Weighted-average servicing fee | 0.336% | 0.330% |
| Weighted-average note rate | 6.38% | 5.79% |
| Weighted-average remaining term (in months) | 353 | 337 |
| Weighted-average age (in months) | 14 | 15 |

NOTE 6 - GOODWILL

The following table presents the activity in the Company's goodwill for the six months ended June 30, 2006 and 2005:

| (In thousands) | Loan Origination Segment | Mortgage Holdings Segment | Total |
|---|---|---|---|
| Balance at January 1, 2005 | $ 66,037 | $ 24,840 | $ 90,877 |
| Earnouts from previous acquisitions | 7,949 | - | 7,949 |
| Balance at June 30, 2005 | $ 73,986 | $ 24,840 | $ 98,826 |
| Balance at January 1, 2006 | $ 74,687 | $ 24,840 | $ 99,527 |
| Acquisitions | 899 | - | 899 |
| Earnouts from previous acquisitions | 10,333 | - | 10,333 |
| Balance at June 30, 2006 | $ 85,919 | $ 24,840 | $110,759 |

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

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

Warehouse Lines of Credit

To originate a mortgage loan, the Company draws against either a $3.3 billion SLN commercial paper program, a $2.0 billion pre-purchase facility with UBS Real Estate Securities Inc., a facility of $2.0 billion with Bear Stearns, a $1.0 billion bank syndicated facility led by Bank of America, N.A. (which includes a

$350 million term loan facility which the Company uses to finance its MSRs), a facility of $750 million with Morgan Stanley Bank ("Morgan Stanley"), a facility of $125 million with J.P. Morgan Chase, a $450 million facility with IXIS Real Estate Capital, Inc. (formerly CDC Mortgage Capital Inc.) ("IXIS"), and a $1.4 billion syndicated facility led by Calyon New York Branch ("Calyon"). The Bank of America, IXIS, Morgan Stanley and Calyon facilities are committed facilities. The interest rate on outstanding balances fluctuates daily based on a spread to the LIBOR and interest is paid monthly.

The facilities are secured by mortgage loans and other assets of the Company. The facilities contain various covenants pertaining to maintenance of net worth, working capital and maximum leverage. At June 30, 2006, the Company was in compliance with respect to the loan covenants.



Included within the Bank of America line of credit, the Company has a working capital sub-limit that allows for borrowings up to $50 million at a rate based on a spread to the LIBOR that may be adjusted for earnings on compensating balances on deposit at creditors' banks. As of June 30, 2006, borrowings under the working capital line of credit were $29.7 million.

As of June 30, 2006, the Company had $1.5 billion of warehouse lines of credit outstanding with a weighted-average borrowing rate of 5.57%. As of December 31, 2005, the Company had $3.5 billion of warehouse lines of credit outstanding with a weighted-average borrowing rate of 4.78%.

Reverse Repurchase Agreements

The Company has arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with seventeen different financial institutions and on June 30, 2006 had borrowed funds from eleven of these firms. Because the Company borrows money under these agreements based on the fair value of its mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, the Company's borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of the Company's mortgage-backed securities declines for other reasons.

As of June 30, 2006, the Company had $8.9 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 5.29% and a weighted-average remaining maturity of six months. As of December 31, 2005, the Company had $9.8 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 4.40% and a weighted-average remaining maturity of four months.

As of June 30, 2006 and December 31, 2005, the Company's reverse repurchase agreements had the following remaining maturities:

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| | (In thousands) | |
| Within 30 days | $1,349,228 | $ 689,469 |
| 31 to 89 days | 4,572,249 | 4,817,885 |
| 90 to 365 days | 713,540 | 4,298,790 |
| Greater than 1 year | 2,304,769 | - |
| Reverse repurchase agreements | $8,939,786 | $9,806,144 |

The Company's average reverse repurchase agreements outstanding were $9.0 billion and $6.3 billion for the three months ended June 30, 2006 and 2005, respectively.

The Company's average reverse repurchase agreements outstanding were $9.1 billion and $6.6 billion for the six months ended June 30, 2006 and 2005, respectively.

Commercial Paper

The Company maintains a wholly owned special purpose entity for the purpose of issuing commercial paper in the form of short-term SLNs to finance certain portions of the Company's mortgage loans. The special purpose entity allows for issuance of short-term notes with maturities of up to 180 days, extendable up to 300 days. The SLNs bear interest at prevailing money market rates approximating the LIBOR. The SLN program capacity, based on aggregate commitments of underlying credit enhancers, was $3.3 billion at June 30, 2006.

As of June 30, 2006, the Company had $888.5 million of SLNs outstanding, with an average interest cost of 5.14%. The SLNs were collateralized by mortgage loans held for sale, mortgage loans held for investment and cash with a balance of $1.0 billion as of June 30, 2006. As of December 31, 2005, the Company had $1.1 billion of SLNs outstanding, with an average interest cost of 4.35%. The SLNs were collateralized by mortgage loans held for sale, mortgage loans held for investment and cash with a balance of $1.2 billion as of December 31, 2005.

As of June 30, 2006 and December 31, 2005, the Company's SLNs had remaining maturities within 30 days.

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NOTE 8 - COLLATERALIZED DEBT OBLIGATIONS

In June 2006, the Company transferred $964.9 million of its mortgage loans held for investment to the 2006-2 Trust in a securitization transaction. In this transaction, the Company issued $944.7 million of CDOs in the form of AAA and AA-rated floating-rate pass-through certificates to third-party investors and the Company retained $20.2 million of subordinated certificates, which provide credit support to the certificates issued to third parties. The Company's CDOs are collateralized by loans held for investment transferred to the 2006-2 Trust. The interest rates on the floating-rate pass-through certificates reset monthly and are indexed to one-month LIBOR. In the second quarter of 2006, the Company incurred CDO issuance costs of $2.1 million, which were deducted from the proceeds of the transactions and are being amortized over the expected life of the CDOs. This securitization transaction was accounted for as a financing of the mortgage loans held for investment.

In March 2006, the Company transferred $2.0 billion of its mortgage loans held for investment to the 2006-1 Trust in a securitization transaction. In this transaction, the Company issued $1.9 billion of CDOs in the form of AAA and AA-rated floating-rate pass-through certificates to third-party investors and the Company retained $61.3 million of subordinated certificates, which provide credit support to the certificates issued to third parties. The Company's CDOs are collateralized by loans held for investment transferred to the 2006-1 Trust. The interest rates on the floating-rate pass-through certificates reset monthly and are indexed to one-month LIBOR. In the first quarter of 2006, the Company incurred CDO issuance costs of $4.0 million, which were deducted from the proceeds of the transactions and are being amortized over the expected life of the CDOs. This securitization transaction was accounted for as a financing of the mortgage loans held for investment.

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

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

As of June 30, 2006, the Company's CDOs had a balance of $3.7 billion and an effective interest cost of 5.54%. As of June 30, 2006, the CDOs were collateralized by mortgage loans held for investment of $3.7 billion.

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

As of June 30, 2006 and December 31, 2005, the Company's CDOs had the following remaining maturities:

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| | (In thousands) | |
| 15 to 20 years | $ 47,923 | $ 68,214 |
| 20 to 25 years | 199,029 | 177,016 |
| 25 to 30 years | 817,698 | 34,316 |
| Greater than 30 years | 2,660,228 | 778,360 |
| Collateralized debt obligations | $3,724,878 | $1,057,906 |



NOTE 9 - NOTES PAYABLE

Notes payable primarily consist of amounts borrowed under a term loan facility with a bank syndicate led by Bank of America. Under the terms of this facility, the Company may borrow the lesser of 70% of the value of its MSRs, or $350.0 million. As of June 30, 2006, borrowings under the term loan were $221.3 million. This term loan expires on August 11, 2006, but the Company has an option to extend the term for twelve additional months at a higher interest rate. Interest is based on a spread to the LIBOR and may be adjusted for earnings on compensating balances. As of June 30, 2006, the interest rate was 6.15%.

In 2005, the Company sold $85.0 million in Mortgage Warehouse Subordinated Notes ("Subordinated Notes"). The Company received a premium, net of issuance costs, of $1.5 million related to the Subordinated Notes offering, which is being amortized to interest expense over the expected life of the Subordinated Notes. As of June 30, 2006, the balance of Subordinated Notes outstanding, net of unamortized premium and issuance costs, was $86.1 million. The Subordinated Notes mature on May 20, 2009. The interest rates on the Subordinated Notes reset monthly and are indexed to one-month LIBOR. As of June 30, 2006, the interest rate was 7.27%.

As of June 30, 2006, included in notes payable is a mortgage note of $25.7 million on an office building located in Melville, New York at a rate of 5.82%, and a mortgage note of $1.0 million on an office building located in Mount Prospect, Illinois at a rate of 7.18%.

As of June 30, 2006, the Company had $3.6 million of Federal Home Loan Bank ("FHLB") advances with an interest rate of 5.60% and with remaining maturities within 30 days. Advances from the FHLB are collateralized by pledges of one-to-four family first mortgage loans with an aggregate principal balance of $7.3 million.

The following table presents the Company's notes payable as of June 30, 2006 and December 31, 2005:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Term loan | $ 221,345 | $ 206,188 |
| Subordinated note | 86,102 | 86,322 |
| Notes - office buildings | 26,653 | 26,799 |
| FHLB advances | 3,600 | - |
| Notes payable | $ 337,700 | $ 319,309 |

The following table presents the maturities of the Company's notes payable as of June 30, 2006 and December 31, 2005:

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| | (In thousands) | |
| Within 1 year | $ 225,802 | $ 207,009 |
| 1 to 2 years | 1,223 | 843 |
| 2 to 3 years | 43,577 | 1,540 |
| 3 to 4 years | 43,010 | 85,606 |
| 4 to 5 years | 461 | 447 |
| Greater than 5 years | 23,627 | 23,864 |
| Notes payable | $ 337,700 | $ 319,309 |



NOTE 10 - COMMON STOCK AND PREFERRED STOCK

In August 2005, the Company issued 9,000,000 shares of its common stock, par value $0.01 per share ("Common Stock") at a price of $35.50 per share. The total proceeds to the Company were $319.5 million, before underwriting discounts, commissions and other offering expenses.

Under the Company's charter, the Company's Board of Directors is authorized to issue 110,000,000 shares of stock, of which up to 100,000,000 shares may be Common Stock and up to 10,000,000 shares may be Preferred Stock. As of June 30, 2006, there were 50,107,214 shares of Common Stock issued and outstanding, 2,150,000 shares of 9.75% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") issued and outstanding and 3,450,000 shares of 9.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") issued and outstanding. On or after July 7, 2009, the Company may, at its option, redeem the Series A Preferred Stock, in whole or part, at any time and from time to time, for cash at a price of $25 per share, plus accumulated or unpaid dividends (whether or not declared), if any, to the date of redemption. On or after December 15, 2009, the Company may, at its option, redeem the Series B Preferred Stock, in whole or part, at any time and from time to time, for cash at a price of $25 per share, plus accumulated or unpaid dividends (whether or not declared), if any, to the date of redemption.

During the three months ended June 30, 2006, the Company declared dividends totaling $48.1 million, or $0.96 per share of Common Stock, which were paid on July 27, 2006. During the three months ended June 30, 2005, the Company declared dividends totaling $30.8 million, or $0.76 per share of Common Stock, which were paid on July 27, 2005.

During the six months ended June 30, 2006, the Company declared dividends totaling $93.6 million, or $1.87 per share of Common Stock. During the six months ended June 30, 2005, the Company declared dividends totaling $59.5 million, or $1.47 per share of Common Stock.

During the three months ended June 30, 2006, the Company declared dividends totaling $1.3 million, or $0.609375 per share of Series A Preferred Stock, which were paid on July 31, 2006. During the three months ended June 30, 2005, the Company declared dividends totaling $1.3 million, or $0.609375 per share of Series A Preferred Stock, which were paid on August 1, 2005.

During the six months ended June 30, 2006, the Company declared dividends totaling $2.6 million, or $1.21875 per share of Series A Preferred Stock. During the six months ended June 30, 2005, the Company declared dividends totaling $2.6 million, or $1.21875 per share of Series A Preferred Stock.

During the three months ended June 30, 2006, the Company declared dividends totaling $2.0 million, or $0.578125 per share of Series B Preferred Stock, which were paid on July 31, 2006. During the three months ended June 30, 2005, the Company declared dividends totaling $2.0 million, or $0.578125 per share of Series B Preferred Stock, which were paid on August 1, 2005.

During the six months ended June 30, 2006, the Company declared dividends totaling $4.0 million, or $1.15625 per share of Series B Preferred Stock. During the six months ended June 30, 2005, the Company declared dividends totaling $4.0 million, or $1.15625 per share of Series B Preferred Stock.

NOTE 11 - INCOME TAXES

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

| | Three Months Ended June 30, | | | | Six |
|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2006 |
| | | | (Dollars in thousands) | | |
| Tax provision at statutory rate | $ 36,950 | 35.0% | $ 21,579 | 35.0% | $ 61,681 |
| Non-taxable REIT income | (9,130) | (8.6) | (26,050) | (42.2) | (20,119) |
| State and local taxes, net of federal income tax benefit | 5,081 | 4.8 | (28) | - | 7,078 |
| Meals and entertainment | 406 | 0.4 | 316 | 0.5 | 867 |
| Other | (83) | (0.1) | 332 | 0.5 | (83) |
| Income tax expense (benefit) | $ 33,224 | 31.5% | $ (3,851) | (6.2)% | $ 49,424 |



The major sources of temporary differences and their deferred tax effect at June 30, 2006 and December 31, 2005 are as follows:

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| | (In thousands) | |
| Deferred income tax liabilities: | | |
| Capitalized cost of mortgage servicing rights | $ 193,244 | $ 150,926 |
| Loan origination costs | 20,424 | 8,973 |
| Depreciation | 3,083 | 3,083 |
| Deferred state income taxes | - | 1,465 |
| Other | 360 | 11 |
| Deferred income tax liabilities | 217,111 | 164,458 |
| Deferred income tax assets: | | |
| Tax loss carryforwards | 120,051 | 109,145 |
| Allowance for bad debts and foreclosure reserve | 5,351 | 2,817 |
| Deferred state income taxes | 1,446 | - |
| Mark-to-market adjustments | 4,589 | 10,721 |
| AMT credit | 1,745 | 1,745 |
| Broker fees | 282 | 958 |
| Bonus accrual | 347 | 8,399 |
| Deferred compensation | 5,419 | 3,436 |
| Deferred income tax assets | 139,230 | 137,221 |
| Net deferred income tax liabilities | $ 77,881 | $ 27,237 |

American Home Mortgage Servicing, Inc. has approximately $40 million of separate company federal net operating loss carryforwards which begin to expire in 2008. In addition, American Home Mortgage Holdings, Inc. has approximately $359 million of federal and approximately $420 million of state net operating loss carryforwards which begin to expire in 2024 and 2009, respectively. The weighted average of the expiration of the state net operating loss carryforwards is approximately sixteen years.

At June 30, 2006 and December 31, 2005, no valuation allowance has been established against deferred tax assets since it is more likely than not that the deferred tax assets will be realized.

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



NOTE 12 - EARNINGS PER SHARE

The following is a reconciliation of the denominators used in the computations of basic and diluted earnings per share for the three and six months ended June 30, 2006 and 2005:

| | Three Months Ended June 30, | | Six Mont |
|---|---|---|---|
| (Dollars in thousands, except per share amounts) | 2006 | 2005 | 2006 |
| Numerator for basic earnings per share - Net income available to common shareholders | $ 69,047 | $ 62,196 | $ 120,2 |
| Denominator: | | | |
| Denominator for basic earnings per share | | | |
| Weighted average number of common shares outstanding during the period | 50,056,479 | 40,383,799 | 49,886,5 |
| Net effect of dilutive stock options | 430,033 | 502,464 | 383,7 |
| Denominator for diluted earnings per share | 50,486,512 | 40,886,263 | 50,270,2 |
| Net income per share available to common shareholders: | | | |
| Basic | $ 1.38 | $ 1.54 | $ 2. |
| Diluted | $ 1.37 | $ 1.52 | $ 2. |

NOTE 13 - STOCK INCENTIVE PLAN

Pursuant to the Plan, eligible employees, officers and directors may be offered the opportunity to acquire the Company's Common Stock through the grant of options and the award of restricted stock under the Plan. The total number of shares that may be optioned or awarded under the Plan is 4,000,000 shares of

Common Stock. The Plan provides for the granting of options at the fair market value on the date of grant. The options issued primarily vest 50% on the two-year anniversary of the grant date and 50% on the three-year anniversary of the grant date, and expire ten years from the grant date.

Effective January 1, 2006, the Company adopted SFAS No. 123R, which requires that the compensation cost relating to share-based payment transactions (including employee stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans) be recognized as an expense in the Company's consolidated financial statements. Under SFAS No. 123R, the related compensation cost is measured based on the fair value of the award at the date of grant. The Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective method. Under this method, compensation cost in the six months ended June 30, 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated using a binomial lattice-based option valuation model.

During the three and six months ended June 30, 2006, the Company recognized compensation expense of $373 thousand and $783 thousand, respectively, relating to stock options granted under the Plan. The expense, before income tax effect, is included in salaries, commissions and benefits expense. The income tax benefit recognized in income for the three and six months ended June 30, 2006 for stock options was $74 thousand and $175 thousand, respectively. No compensation cost was recognized for the six months ended June 30, 2005.

During the six months ended June 30, 2006, the fair value of the options granted was estimated using the binomial lattice option-pricing model. Under the binomial lattice option-pricing model, the fair value of each option award is estimated, with the assistance of an outside consulting service, on the date of grant, which incorporates ranges of assumptions for inputs as shown in the following table. The assumptions are as follows:

Dividend yield range: The expected dividend yield assumption is based on the Company's current dividend yield as the best estimate of projected dividend yield for periods within the contractual life of the option.



Expected volatility: The expected volatility assumption is a blend of implied volatility based on market-traded options on the Company's Common Stock and historical volatility of the Company's Common Stock over the contractual life of the options.

Risk-free interest rate range: The risk-free interest rate assumption is based on the U.S. Treasury yield curve in effect at the time of grant for periods within the contractual life of the option.

Expected term range: The Company uses historical data to estimate option exercise and employee termination behavior within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected life of options granted is derived from the output of the option valuation model and represents the period of time the options are expected to be outstanding.

The weighted-average fair value per share of options granted during the three and six months ended June 30, 2006 was $4.94 and $4.65, respectively. The fair value of the options granted during the three and six months ended June 30, 2006 was estimated using the binomial lattice option-pricing model with the following assumptions used for the grants:

| | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2006 |
|---|---|---|
| Dividend yield range | 11.9 % | 11.9% - 13.1% |
| Expected volatility | 36.0 % | 39.1 % |
| Risk-free interest rate range | 4.8% - 5.0% | 4.3% - 5.0% |
| Expected term range (in years) | 7.9 | 7.0 - 7.9 |

Prior to adoption of SFAS No. 123R as of January 1, 2006, the Company's pro forma disclosures reflected the fair value of each option grant estimated on the date of grant using the Black-Scholes option-pricing model. Under the Black-Scholes option-pricing model, the Company estimated volatility using only its historical share price performance over the expected life of the option.

The weighted-average fair value per share of options granted during the three and six months ended June 30, 2005 was $3.83 and $3.75, respectively. The fair value of the options granted during the three and six months ended June 30, 2005 was estimated using the Black-Scholes option-pricing model with the following assumptions used for the grants:

| | Three Months Ended June 30, 2005 | Six Months Ended June 30, 2005 |
|---|---|---|
| Dividend yield | 8.9 % | 9.1 % |
| Expected volatility | 29.4 % | 28.7 % |
| Risk-free interest rate | 5.0 % | 5.0 % |
| Expected term (in years) | 3.0 | 3.0 |



The following table presents a summary of the Company's stock option activity for the three and six months ended June 30, 2006 and 2005:

| | Three Months Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2006 | | 2005 | | 200 |
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price | Number of Options |
| Options outstanding - beginning of period | 1,749,192 | $24.52 | 1,499,638 | $21.39 | 1,501,384 |
| Granted | 100,000 | 30.72 | 90,000 | 31.74 | 452,159 |
| Exercised | (96,259) | 11.70 | (45,504) | 12.93 | (147,610) |
| Canceled | (5,500) | 31.41 | (8,813) | 15.67 | (58,500) |
| Options outstanding - end of period | 1,747,433 | $25.56 | 1,535,321 | $22.28 | 1,747,433 |
| Options exercisable - end of period | 440,755 | $15.82 | | | 440,755 |

========== ==========

The intrinsic value of an option is defined as the difference between an option's current market value and the grant price. The intrinsic value of options exercised during the three and six months ended June 30, 2006 was $2.1 million and $3.0 million, respectively.

As of June 30, 2006, the intrinsic value and weighted-average remaining life of the Company's options outstanding were $19.8 million and 8.3 years, respectively.

As of June 30, 2006, the intrinsic value of the Company's exercisable options outstanding was $9.3 million.

As of June 30, 2006, the total remaining unrecognized compensation expense related to the Company's unvested stock options was $2.8 million. This unrecognized compensation expense is expected to be recognized over a weighted-average period of 2.4 years.

As of June 30, 2006, the Company has awarded 221,934 shares of restricted stock under the Plan. During the three months ended June 30, 2006 and 2005, the Company recognized compensation expense of $123 thousand and $174 thousand, respectively, relating to shares of restricted stock granted under the Plan. During the six months ended June 30, 2006 and 2005, the Company recognized compensation expense of $170 thousand and $315 thousand, respectively, relating to shares of restricted stock granted under the Plan. As of June 30, 2006, 192,560 shares are vested. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

NOTE 14 - CONCENTRATIONS OF CREDIT RISK

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers with similar characteristics, which would cause their ability to meet contractual obligations to be similarly impacted by economic or other conditions. The Company invests in negative amortization ARM, interest-only ARM, HELOC and certain other types of loans described in FSP SOP 94-6-1, "Terms of Loan Products that May Give Rise to a Concentration of Credit Risk." The Company, however, generally has purchased supplemental credit insurance for the loans of these types retained in the Company's portfolio if such loans have an initial loan-to-value ratio between 75% and 80%. In addition, the Company generally is the beneficiary of a borrower paid insurance policy on these types of loans if the initial loan-to-value ratio is greater than 80%. A substantial portion of the Company's mortgage loans held for investment at June 30, 2006 are the types of loans described in FSP SOP 94-6-1.

The Company had originations of loans during the six months ended June 30, 2006 exceeding 5% of total originations in the following states:

| | Six Months Ended June 30, 2006 |
|---|---|
| California | 25.1% |
| Florida | 11.7 |
| Illinois | 7.0 |
| Virginia | 5.1 |



During the six months ended June 30, 2006, the three institutions that bought the most loans from the Company accounted for 37% of the Company's total loan sales.

NOTE 15 - ACQUISITIONS

Waterfield Financial Corporation

On January 12, 2006, American Home Mortgage Corp. ("AHM"), a wholly-owned subsidiary of the Company, entered into a Stock and Mortgage Loan Purchase Agreement with Union Federal Bank of Indianapolis ("Union Federal") and Waterfield Financial Corporation ("WFC"), pursuant to which AHM agreed to purchase from Union Federal 100% of the outstanding capital stock of WFC and certain mortgage loans held by Union Federal, comprised of warehouse loans held for sale by Union Federal as of December 31, 2005 (the "Warehouse Loans"), construction loans held by Union Federal as of the closing (the "Construction Loans") and certain other loans held by Union Federal as of the closing, for a cash purchase price equal to the net book value of such assets, as modified by certain agreed upon adjustments, as of the respective closing dates (or, in the case of the Warehouse Loans, as of January 12, 2006).

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

| (In thousands) | |
|---|---|
| Mortgage loans held for sale, net | $559,340 |
| Accounts receivable | 2,002 |
| Other assets | 2,442 |
| Total assets acquired | 563,784 |
| Other liabilities | 13,707 |
| Total liabilities assumed | 13,707 |
| Net assets acquired | 550,077 |
| Cash paid | 550,077 |
| Goodwill | $ - |

NOTE 16 - SEGMENTS AND RELATED INFORMATION

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

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

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



| | Three Months Ended | |
|---|---|---|
| | (In thousand | |
| | Mortgage Holdings Segment | Loan Origination Segment |
| Net interest income: | | |
| Interest income | $ 181,266 | $ 148,930 |
| Interest expense | (153,197) | (122,989) |
| Net interest income | 28,069 | 25,941 |
| Provision for loan losses | (2,389) | (1,590) |
| Net interest income after provision for loan losses | 25,680 | 24,351 |
| Non-interest income: | | |
| Gain on sales of mortgage loans | - | 224,594 |
| Loss on sales of mortgage-backed securities and derivatives | (47) | - |
| Unrealized loss on mortgage-backed securities and derivatives | (7,730) | - |
| Loan servicing fees | - | - |
| Change in fair value of mortgage servicing rights | - | - |
| Net loan servicing fees | - | - |
| Other non-interest income | - | 1,668 |
| Total non-interest income | (7,777) | 226,262 |
| Non-interest expenses: | | |
| Salaries, commissions and benefits, net | 2,585 | 96,683 |
| Occupancy and equipment | 1 | 19,472 |
| Data processing and communications | 44 | 6,689 |
| Office supplies and expenses | 13 | 5,027 |
| Marketing and promotion | 3 | 6,141 |
| Travel and entertainment | 2 | 7,762 |
| Professional fees | 924 | 4,077 |
| Other | 320 | 14,319 |
| Total non-interest expenses | 3,892 | 160,170 |
| Net income before income tax expense | 14,011 | 90,443 |
| Income tax expense | - | 33,079 |

| | | | |
|---|---|---|---|
| Net income | $ 14,011 | $ 57,364 | $ |
| Dividends on preferred stock | 3,304 | - | |
| Net income available to common shareholders | $ 10,707 | $ 57,364 | $ |
| | | June 30, 20 | |
| Segment assets | $ 13,154,573 | $ 3,577,819 | $ |

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| | Three Months | |
|---|---|---|
| | (In t | |
| | Mortgage Holdings Segment | Loan Orig Segm |
| Net interest income: | | |
| Interest income | $ 77,041 | $ 58,2 |
| Interest expense | (52,238) | (36,1 |
| Total net interest income | 24,803 | 22,1 |
| Non-interest income: | | |
| Gain on sales of mortgage loans | - | 77,3 |
| Gain on sales of current period securitized mortgage loans | - | 104,3 |
| Gain (loss) on sales of mortgage-backed securities and derivatives | 4,246 | (3,6 |
| Unrealized (loss) gain on mortgage-backed securities and derivatives | (14,755) | 4,4 |
| Loan servicing fees | - | |
| Amortization and impairment of mortgage servicing rights | - | |
| Net loan servicing loss | - | |
| Other non-interest income | - | 1,9 |
| Total non-interest income | (10,509) | 184,5 |
| Non-interest expenses: | | |
| Salaries, commissions and benefits, net | 3,493 | 87,8 |
| Occupancy and equipment | 1 | 14,1 |
| Data processing and communications | 20 | 5,7 |
| Office supplies and expenses | - | 5,2 |
| Marketing and promotion | - | 5,0 |

| | | |
|---|---|---|
| Travel and entertainment | 5 | 5,1 |
| Professional fees | 1,049 | 2,0 |
| Other | 2,043 | 3,8 |
| Total non-interest expenses | 6,611 | 129,1 |
| Net income before income tax expense (benefit) | 7,683 | 77,5 |
| Income tax expense (benefit) | - | 4,9 |
| Net income | $ 7,683 | $ 72,5 |
| Dividends on preferred stock | 3,304 | |
| Net income available to common shareholders | $ 4,379 | $ 72,5 |
| | June | |
| Segment assets | $ 7,018,101 | $ 2,460,2 |



| | Six Months Ended Ju | | |
|---|---|---|---|
| | (In thousand | | |
| | Mortgage Holdings Segment | Loan Origination Segment | |
| Net interest income: | | | |
| Interest income | $ 336,212 | $ 294,597 | $ |
| Interest expense | (281,752) | (245,316) | |
| Net interest income | 54,460 | 49,281 | |
| Provision for loan losses | (4,896) | (394) | |
| Net interest income after provision for loan losses | 49,564 | 48,887 | |
| Non-interest income: | | | |
| Gain on sales of mortgage loans | - | 396,501 | |
| Loss on sales of mortgage-backed securities and derivatives | (897) | - | |
| Unrealized gain on mortgage-backed securities and derivatives | 1,310 | 275 | |
| Loan servicing fees | - | - | |
| Change in fair value of mortgage servicing rights | - | - | |

| | | | |
|---|---|---|---|
| Net loan servicing fees | - | - | |
| Other non-interest income | - | 2,450 | |
| Total non-interest income | 413 | 399,226 | |
| Non-interest expenses: | | | |
| Salaries, commissions and benefits, net | 7,610 | 187,020 | |
| Occupancy and equipment | 3 | 37,122 | |
| Data processing and communications | 60 | 13,638 | |
| Office supplies and expenses | 13 | 9,305 | |
| Marketing and promotion | 7 | 11,932 | |
| Travel and entertainment | 2 | 14,463 | |
| Professional fees | 2,378 | 7,954 | |
| Other | 2,323 | 19,335 | |
| Total non-interest expenses | 12,396 | 300,769 | |
| Net income before income tax expense (benefit) | 37,581 | 147,344 | |
| Income tax expense (benefit) | - | 52,939 | |
| Net income | $ 37,581 | $ 94,405 | $ |
| Dividends on preferred stock | 6,609 | - | |
| Net income available to common shareholders | $ 30,972 | $ 94,405 | $ |
| | June 30, 20 | | |
| Segment assets | $ 13,154,573 | $ 3,577,819 | $ |



| | Six Months Ended Ju | | |
|---|---|---|---|
| | (In thousand | | |
| | Mortgage Holdings Segment | Loan Origination Segment | |
| Net interest income: | | | |
| Interest income | $ 135,346 | $ 146,866 | $ |
| Interest expense | (91,223) | (83,862) | |
| Total net interest income | 44,123 | 63,004 | |

| | | | |
|---|---|---|---|
| Non-interest income: | | | |
| Gain on sales of mortgage loans | - | 112,630 | |
| Gain on sales of current period securitized mortgage loans | - | 174,296 | |
| Gain on sales of mortgage-backed securities and derivatives | 909 | 5,843 | |
| Unrealized gain on mortgage-backed securities and derivatives | 2,085 | 45,122 | |
| Loan servicing fees | - | - | |
| Amortization and impairment of mortgage servicing rights | - | - | |
| Net loan servicing loss | - | - | |
| Other non-interest income | - | 2,608 | |
| Total non-interest income | 2,994 | 340,499 | |
| Non-interest expenses: | | | |
| Salaries, commissions and benefits, net | 4,569 | 153,441 | |
| Occupancy and equipment | 3 | 26,660 | |
| Data processing and communications | 42 | 11,580 | |
| Office supplies and expenses | 1 | 9,339 | |
| Marketing and promotion | 2 | 9,193 | |
| Travel and entertainment | 5 | 9,001 | |
| Professional fees | 2,022 | 4,307 | |
| Other | 4,605 | 6,316 | |
| Total non-interest expenses | 11,249 | 229,837 | |
| Net income before income tax expense (benefit) | 35,868 | 173,666 | |
| Income tax expense (benefit) | - | 4,998 | |
| Net income | $ 35,868 | $ 168,668 | $ |
| Dividends on preferred stock | 6,609 | - | |
| Net income available to common shareholders | $ 29,259 | $ 168,668 | $ |
| | | June 30, | |
| Segment assets | $ 7,018,101 | $ 2,460,260 | $ |



ITEM 2.

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

SPECIAL NOTES OF CAUTION

Cautionary Note Regarding Forward-Looking Statements

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

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

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

The forward-looking statements in this report are based on our management's beliefs, assumptions and expectations of our future economic performance, taking into account the information currently available to it. These statements are not statements of historical fact and are not guarantees of future performance, events or results. Forward-looking statements are subject to a number of factors, risks and uncertainties, some of which are not currently known to us, that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial position. These factors include, without limitation, those factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005, entitled "Risk Factors," as well as general economic, political, market, financial or legal conditions and any other factors, risks and uncertainties discussed in filings we make with the Securities and Exchange Commission ("SEC").

In light of these risks, uncertainties and assumptions, any forward-looking events discussed in this report might not occur, and we qualify any and all of our forward-looking statements entirely by these cautionary factors. You are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements are inherently uncertain, and you must recognize that actual results may differ from expectations. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies and Estimates

Our accounting policies are described in Note 1 to the Consolidated Financial Statements. We have identified the following accounting policies that are critical to the presentation of our financial statements and that require critical accounting estimates by management.

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

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

Mortgage Loans Held for Investment - Mortgage loans held for investment are carried at the aggregate of their remaining unpaid principal balances, plus net deferred origination costs, less any related charge-offs and allowance for loan losses. Our periodic evaluation of the adequacy of the allowance for loan losses is based on our past loan loss experience, known and inherent risks in the loan portfolio, adverse



circumstances which may affect the borrowers' ability to repay, the estimated value of the underlying real estate collateral and current market conditions within the geographic areas surrounding the underlying real estate. The allowance for loan losses is increased by provision to loan losses charged to income and reduced by charge-offs, net of recoveries.

Mortgage Servicing Rights ("MSRs") - When we acquire servicing assets through either purchase or origination of loans and sell or securitize those loans with servicing assets retained, the fair value attributable to the servicing assets is capitalized as MSRs on the consolidated balance sheets. We estimate the fair value of the servicing assets by obtaining market information from one of the market's primary independent MSR brokers.

Derivative Assets and Derivative Liabilities - Our mortgage-committed pipeline includes interest rate lock commitments ("IRLCs") that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria and have locked their terms and rates. IRLCs associated with loans expected to be sold are recorded at fair value with changes in fair value recorded to current earnings.

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

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

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

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



Financial Condition

The following table presents the Company's consolidated balance sheets as of June 30, 2006 and December 31, 2005:

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

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 304,268 | $ 575,650 |
| Accounts receivable and servicing advances | 342,244 | 329,132 |
| Mortgage-backed securities | 9,299,224 | 10,602,104 |
| Mortgage loans held for sale, net | 1,243,702 | 2,208,749 |
| Mortgage loans held for investment, net | 5,337,138 | 3,479,721 |
| Derivative assets | 139,397 | 44,594 |
| Mortgage servicing rights | 434,173 | 319,671 |
| Premises and equipment, net | 80,296 | 68,782 |
| Goodwill | 110,759 | 99,527 |
| Other assets | 34,398 | 26,815 |
| Total assets | $ 17,325,599 | $ 17,754,745 |

Liabilities and Stockholders' Equity:
Liabilities:

| | | |
|---|---|---|
| Warehouse lines of credit | $ 1,476,958 | $ 3,474,191 |
| Drafts payable | 12,349 | 20,754 |
| Commercial paper | 888,476 | 1,079,179 |
| Reverse repurchase agreements | 8,939,786 | 9,806,144 |
| Collateralized debt obligations | 3,724,878 | 1,057,906 |
| Payable for securities purchased | - | 261,539 |
| Derivative liabilities | 3,280 | 16,773 |
| Trust preferred securities | 252,780 | 203,688 |
| Accrued expenses and other liabilities | 355,009 | 277,476 |
| Notes payable | 337,700 | 319,309 |
| Income taxes payable | 80,529 | 30,770 |
| Total liabilities | 16,071,745 | 16,547,729 |
| Stockholders' Equity: | | |
| Preferred Stock | 134,040 | 134,040 |
| Common Stock | 501 | 496 |
| Additional paid-in capital | 960,995 | 947,512 |
| Retained earnings | 227,450 | 203,778 |
| Accumulated other comprehensive loss | (69,132) | (78,810) |
| Total stockholders' equity | 1,253,854 | 1,207,016 |
| Total liabilities and stockholders' equity | $ 17,325,599 | $ 17,754,745 |

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Total assets at June 30, 2006 were $17.3 billion, a $429.1 million decrease from $17.8 billion at December 31, 2005. The decrease in total assets primarily reflects a decrease in mortgage-backed securities of $1.3 billion and a decrease in mortgage loans held for sale of $1.0 billion, partly offset by an increase in mortgage loans held for investment of $1.9 billion. At June 30, 2006, 53.7% of our total assets were mortgage-backed securities, 30.8% were mortgage loans held for investment and 7.2% were mortgage loans held for sale, compared to 59.7%, 19.6% and 12.4%, respectively, at December 31, 2005.

The following tables summarize our mortgage-backed securities owned at June 30, 2006 and December 31, 2005, classified by type of issuer and by ratings categories:

| | June 30, 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Trading Securities | | Securities Available for Sale | | Total | |
| | Carrying Value | Portfolio Mix | Carrying Value | Portfolio Mix | Carrying Value | Portfolio M |
| | (Dollars in thousands) | | | | | |
| Agency securities | $ - | -% | $ 113,346 | 1.4% | $ 113,346 | 1.2 |
| Privately issued: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| AAA | 563,436 | 49.7 | 8,029,798 | 98.3 | 8,593,234 | 92.6 |
| AA | 47,596 | 4.2 | 8,485 | 0.1 | 56,081 | 0.6 |
| A | 166,610 | 14.7 | 5,398 | 0.1 | 172,008 | 1.8 |
| BB | 4,587 | 0.4 | - | - | 4,587 | 0.0 |
| BBB | 135,378 | 11.9 | 2,285 | 0.0 | 137,663 | 1.4 |
| Unrated | 216,022 | 19.1 | 6,283 | 0.1 | 222,305 | 2.4 |
| Total | $1,133,629 | 100.0% | $8,165,595 | 100.0% | $9,299,224 | 100.0 |

December 31, 2005

| | Trading Securities | | Securities Available for Sale | | Total | |
|---|---|---|---|---|---|---|
| | Carrying Value | Portfolio Mix | Carrying Value | Portfolio Mix | Carrying Value | Portfolio M |
| | (Dollars in thousands) | | | | | |
| Agency securities | $ - | -% | $ 130,320 | 1.8% | $ 130,320 | 1.2 |
| Privately issued: | | | | | | |
| AAA | 2,619,546 | 81.1 | 7,216,527 | 97.9 | 9,836,073 | 92.8 |
| AA | 47,253 | 1.5 | 9,989 | 0.1 | 57,242 | 0.5 |
| A | 166,507 | 5.2 | 7,558 | 0.1 | 174,065 | 1.6 |
| BBB | 164,344 | 5.1 | 3,441 | 0.0 | 167,785 | 1.7 |
| Unrated | 229,418 | 7.1 | 7,201 | 0.1 | 236,619 | 2.2 |
| Total | $3,227,068 | 100.0% | $7,375,036 | 100.0% | $10,602,104 | 100.0 |

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The following tables classify our mortgage-backed securities portfolio by type of interest rate index at June 30, 2006 and December 31, 2005:

June 30, 2006

| | Trading Securities | | Securities Available for Sale | | |
|---|---|---|---|---|---|
| | Carrying Value | Portfolio Mix | Carrying Value | Portfolio Mix | Carry Value |
| | (Dollars in thousands) | | | | |
| Index: | | | | | |
| One-month LIBOR | $ 386,683 | 34.1% | $ 88,827 | 1.1% | $ 47 |
| Six-month LIBOR | 470,992 | 41.6 | 4,733,291 | 57.9 | 5,20 |
| One-year LIBOR | 221,602 | 19.5 | 2,871,629 | 35.2 | 3,09 |
| One-year constant maturity treasury | 446 | 0.0 | 471,848 | 5.8 | 47 |
| One-year monthly treasury average | 53,906 | 4.8 | - | - | 5 |
| Total | $1,133,629 | 100.0% | $8,165,595 | 100.0% | $9,29 |

| | December 31, 2005 | | | | |
|---|---|---|---|---|---|
| | Trading Securities | | Securities Available for Sale | | |
| | Carrying Value | Portfolio Mix | Carrying Value | Portfolio Mix | Carry Value |
| | (Dollars in thousands) | | | | |
| Index: | | | | | |
| One-month LIBOR | $ 402,311 | 12.5% | $ 10,836 | 0.1% | $ 4 |
| Six-month LIBOR | 2,538,016 | 78.6 | 4,838,532 | 65.6 | 7,3 |
| One-year LIBOR | 218,530 | 6.8 | 2,128,376 | 28.9 | 2,3 |
| One-year constant maturity treasury | 2,054 | 0.1 | 397,292 | 5.4 | 3 |
| One-year monthly treasury average | 66,157 | 2.0 | - | - | |
| Total | $3,227,068 | 100.0% | $7,375,036 | 100.0% | $10,6 |



The following tables classify our mortgage loans held for investment and mortgage-backed securities portfolio by product type at June 30, 2006 and December 31, 2005:

| | June 30, 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Trading Securities | | Securities Available for Sale | | Loans Held for Investment | |
| | Carrying Value | Portfolio Mix | Carrying Value | Portfolio Mix | Carrying Value | Portfoli |
| | (Dollars in thousands) | | | | | |
| Product: | | | | | | |
| ARMs less than 3 years | $ 650,509 | 57.4% | $ 327,400 | 4.0% | $2,938,906 | |
| 3/1 Hybrid ARM | 167,427 | 14.8 | 196,930 | 2.4 | 6,919 | |
| 5/1 Hybrid ARM | 315,693 | 27.8 | 7,641,265 | 93.6 | 321,073 | |
| Home equity/Second | - | - | - | - | 237,502 | |
| Other ARM | - | - | - | - | 251,032 | |
| Fixed rate | - | - | - | - | 1,581,706 | |
| Total | $1,133,629 | 100.0% | $8,165,595 | 100.0% | $5,337,138 | |

| | December 31, 2005 | | |
|---|---|---|---|
| | Trading Securities | Securities Available for Sale | Loans Held for Investment |

| | Carrying Value | Portfolio Mix | Carrying Value | Portfolio Mix | Carrying Value | Portfoli |
|---|---|---|---|---|---|---|
| | | | | (Dollars in thousands) | | |
| Product: | | | | | | |
| ARMs less than 3 years | $ 700,164 | 21.7% | $ 487,122 | 6.6% | $2,628,977 | |
| 3/1 Hybrid ARM | 194,313 | 6.0 | 262,598 | 3.6 | 11,563 | |
| 5/1 Hybrid ARM | 2,332,591 | 72.3 | 6,625,316 | 89.8 | 121,227 | |
| Home equity/Second | - | - | - | - | 611,370 | |
| Other ARM | - | - | - | - | 31,862 | |
| Fixed rate | - | - | - | - | 74,722 | |
| Total | $3,227,068 | 100.0% | $7,375,036 | 100.0% | $3,479,721 | |

During the three and six months ended June 30, 2006, we purchased $461.1 million and $1.9 billion of mortgage-backed securities, respectively.

During the three and six months ended June 30, 2006, we sold $99.1 million and $1.9 billion of mortgage-backed securities, respectively.

During the three and six months ended June 30, 2006, we added $1.0 billion and $1.9 billion of loans held for investment to our portfolio, respectively.

Loan Delinquency and Reserves

We are exposed to credit losses due to defaults on the loans underlying our residual assets, and from our loans held for investment and loans held for sale. As of June 30, 2006, credit losses have been nominal, primarily due to our loans held for investment and loans underlying our residual assets being originated within the past 30 months and, consequently, have not yet seasoned to the point in time where losses are expected to occur. We expect losses to increase as our loans season.

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We hold reserves and allowances for expected losses, as well as other credit related expenses, including losses due to loan repurchases. Reserves and allowances include embedded loss assumptions, which reduce the projected future cash flows and carrying value of our residual assets, in addition to specific reserves. The following table presents our total reserves and allowances compared to our loans that are 60 or more days delinquent:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Loans 60 days and greater delinquent: | | |
| Loans underlying residual assets | $ 222,016 | $ 142,971 |
| Loans held for investment | 42,916 | 14,184 |
| Loans held for sale | 27,007 | 13,758 |
| Loans 60 days and greater delinquent | $ 291,939 | $ 170,913 |

Credit impairment reserves and allowances
including forecasted losses included in

| | | |
|---|---|---|
| carrying value of residual assets | $ 88,415 | $ 72,743 |
| Credit impairment reserves and allowances as a percentage of loans 60 days or greater delinquent | 30.29% | 42.56% |

We generally target our reserves to equal our expected losses from our delinquent loans. Currently, our expected losses are approximately 22% of our loans that are 60 days or greater delinquent, but this expected loss percentage is expected to decline because we began purchasing supplemental credit insurance on a greater percentage of loans beginning in the second half of 2005.



Results of Operations

The following tables present our consolidated and segment statements of income:

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

| | Th | |
|---|---|---|
| | June 30, 2006 | March 31, 2006 |
| Net interest income: | | |
| Interest income | $ 330,196 | $ 300,613 |
| Interest expense | (279,992) | (254,035) |
| Net interest income | 50,204 | 46,578 |
| Provision for loan losses | (3,979) | (1,311) |
| Net interest income after provision for loan losses | 46,225 | 45,267 |
| Non-interest income: | | |
| Gain on sales of mortgage loans | 224,594 | 171,907 |
| Gain on sales of current period securitized mortgage loans | - | - |
| (Loss) gain on sales of mortgage-backed securities and derivatives | (47) | (850) |
| Unrealized (loss) gain on mortgage-backed securities and derivatives | (7,730) | 9,315 |
| Loan servicing fees | 30,417 | 24,333 |
| Amortization and impairment of mortgage servicing rights | - | - |
| Change in fair value of mortgage servicing rights | (18,830) | (18,621) |
| Net loan servicing fees (loss) | 11,587 | 5,712 |
| Other non-interest income | 2,125 | 1,769 |
| Non-interest income | 230,529 | 187,853 |

| | | |
|---|---|---|
| Non-interest expenses: | | |
| Salaries, commissions and benefits, net | 103,157 | 99,267 |
| Occupancy and equipment | 19,763 | 17,970 |
| Data processing and communications | 6,733 | 7,126 |
| Office supplies and expenses | 5,145 | 4,332 |
| Marketing and promotion | 6,383 | 5,800 |
| Travel and entertainment | 7,793 | 6,753 |
| Professional fees | 5,013 | 5,331 |
| Other | 17,192 | 15,882 |
| Non-interest expenses | 171,179 | 162,461 |
| Net income before income tax expense (benefit) | 105,575 | 70,659 |
| Income tax expense (benefit) | 33,224 | 16,200 |
| Net income | $ 72,351 | $ 54,459 |
| Dividends on preferred stock | 3,304 | 3,305 |
| Net income available to common shareholders | $ 69,047 | $ 51,154 |
| Per share data: | | |
| Basic | $ 1.38 | $ 1.03 |
| Diluted | $ 1.37 | $ 1.02 |
| Weighted average number of shares - basic | 50,056 | 49,715 |
| Weighted average number of shares - diluted | 50,487 | 50,070 |



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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Net interest income: | | |
| Interest income | $ 630,809 | $ 282,212 |
| Interest expense | (534,027) | (178,427) |
| Total net interest income | 96,782 | 103,785 |
| Provision for loan losses | (5,290) | - |
| Total net interest income after provision for loan losses | 91,492 | 103,785 |

| | | |
|---|---|---|
| Non-interest income: | | |
| Gain on sales of mortgage loans | 396,501 | 112,630 |
| Gain on sales of current period securitized mortgage loans | - | 174,296 |
| (Loss) gain on sales of mortgage-backed securities and derivatives | (897) | 6,752 |
| Unrealized gain on mortgage-backed securities and derivatives | 1,585 | 47,207 |
| Loan servicing fees | 54,750 | 28,282 |
| Amortization and impairment of mortgage servicing rights | - | (38,312) |
| Change in fair value of mortgage servicing rights | (37,451) | - |
| Net loan servicing fees (loss) | 17,299 | (10,030) |
| Other non-interest income | 3,894 | 4,009 |
| Total non-interest income | 418,382 | 334,864 |
| Non-interest expenses: | | |
| Salaries, commissions and benefits, net | 202,424 | 163,334 |
| Occupancy and equipment | 37,733 | 27,068 |
| Data processing and communications | 13,859 | 11,907 |
| Office supplies and expenses | 9,477 | 10,086 |
| Marketing and promotion | 12,183 | 9,256 |
| Travel and entertainment | 14,546 | 9,355 |
| Professional fees | 10,344 | 6,902 |
| Other | 33,074 | 13,712 |
| Total non-interest expenses | 333,640 | 251,620 |
| Net income before income tax expense (benefit) | 176,234 | 187,029 |
| Income tax expense (benefit) | 49,424 | (3,851) |
| Net income | $ 126,810 | $ 190,880 |
| Dividends on preferred stock | 6,609 | 6,609 |
| Net income available to common shareholders | $ 120,201 | $ 184,271 |
| Per share data: | | |
| Basic | $ 2.41 | $ 4.57 |
| Diluted | $ 2.39 | $ 4.51 |
| Weighted average number of shares - basic | 49,887 | 40,346 |
| Weighted average number of shares - diluted | 50,270 | 40,849 |

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

| | Six Months Ended June 30, 2006 | Six Months Ended June 30, 2005 |
|---|---|---|
| Net interest income: | | |
| Interest income | $ 336,212 | $ 135,346 |
| Interest expense | (281,752) | (91,223) |
| Net interest income | 54,460 | 44,123 |
| Provision for loan losses | (4,896) | - |
| Net interest income after provision for loan losses | 49,564 | 44,123 |
| Non-interest income: | | |
| (Loss) gain on sales of mortgage-backed securities and derivatives | (897) | 909 |
| Unrealized gain on mortgage-backed securities and derivatives | 1,310 | 2,085 |
| Non-interest income | 413 | 2,994 |
| Non-interest expenses: | | |
| Salaries, commissions and benefits, net | 7,610 | 4,569 |
| Occupancy and equipment | 3 | 3 |
| Data processing and communications | 60 | 42 |
| Office supplies and expenses | 13 | 1 |
| Marketing and promotion | 7 | 2 |
| Travel and entertainment | 2 | 5 |
| Professional fees | 2,378 | 2,022 |
| Other | 2,323 | 4,605 |
| Non-interest expenses | 12,396 | 11,249 |
| Net income before income tax expense | 37,581 | 35,868 |
| Income tax expense | - | - |
| Net income | $ 37,581 | $ 35,868 |
| Dividends on preferred stock | 6,609 | 6,609 |
| Net income available to common shareholders | $ 30,972 | $ 29,259 |

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Net interest income: | | |
| Interest income | $ 294,597 | $ 146,866 |
| Interest expense | (245,316) | (83,862) |
| Net interest income | 49,281 | 63,004 |
| Provision for loan losses | (394) | - |
| Net interest income after provision for loan losses | 48,887 | 63,004 |
| Non-interest income: | | |
| Gain on sales of mortgage loans | 396,501 | 112,630 |
| Gain on sales of current period securitized mortgage loans | - | 174,296 |
| Gain on sales of mortgage-backed securities and derivatives | - | 5,843 |
| Unrealized gain on mortgage-backed securities and derivatives | 275 | 45,122 |
| Other non-interest income | 2,450 | 2,608 |
| Non-interest income | 399,226 | 340,499 |
| Non-interest expenses: | | |
| Salaries, commissions and benefits, net | 187,020 | 153,441 |
| Occupancy and equipment | 37,122 | 26,660 |
| Data processing and communications | 13,638 | 11,580 |
| Office supplies and expenses | 9,305 | 9,339 |
| Marketing and promotion | 11,932 | 9,193 |
| Travel and entertainment | 14,463 | 9,001 |
| Professional fees | 7,954 | 4,307 |
| Other | 19,335 | 6,316 |
| Non-interest expenses | 300,769 | 229,837 |
| Net income before income tax expense | 147,344 | 173,666 |
| Income tax expense | 52,939 | 4,998 |
| Net income | $ 94,405 | $ 168,668 |
| Dividends on preferred stock | - | - |
| Net income available to common shareholders | $ 94,405 | $ 168,668 |

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Net interest income: | | |
| Interest income | $ - | $ - |
| Interest expense | (6,959) | (3,342) |
| Net interest income | (6,959) | (3,342) |
| Non-interest income: | | |
| Loan servicing fees | 54,750 | 28,282 |
| Amortization and impairment of mortgage servicing rights | - | (38,312) |
| Change in fair value of mortgage servicing rights | (37,451) | - |
| Net loan servicing fees (loss) | 17,299 | (10,030) |
| Other non-interest income | 1,444 | 1,401 |
| Non-interest income | 18,743 | (8,629) |
| Non-interest expenses: | | |
| Salaries, commissions and benefits, net | 7,794 | 5,324 |
| Occupancy and equipment | 608 | 405 |
| Data processing and communications | 161 | 285 |
| Office supplies and expenses | 159 | 746 |
| Marketing and promotion | 244 | 61 |
| Travel and entertainment | 81 | 349 |
| Professional fees | 12 | 573 |
| Other | 11,416 | 2,791 |
| Non-interest expenses | 20,475 | 10,534 |
| Net income before income tax benefit | (8,691) | (22,505) |
| Income tax benefit | (3,515) | (8,849) |
| Net income | $ (5,176) | $(13,656) |
| Dividends on preferred stock | - | - |
| Net income available to common shareholders | $ (5,176) | $(13,656) |

Comparison of the Three Months Ended June 30, 2006 and 2005

Overview

Net income for the three months ended June 30, 2006 was $72.4 million compared to $65.5 million for the three months ended June 30, 2005, an increase of $6.9 million, or 10.5%. The increase in net income was the result of a $72.2 million increase in non-interest income and a $5.2 million increase in net interest income, partly offset by a $37.0 million increase in income tax expense, a $29.5 million increase in non-interest expenses and a $4.0 million increase in provision for loan losses. The $72.2 million increase in non-interest income consists of a $147.2 million increase in gain on sales of mortgage loans, a $27.9 million increase in net loan servicing fees and a $1.9 million increase in realized and unrealized gains on mortgage-backed securities and derivatives, partly offset by a $104.4 million decrease in gain on sales of current period securitized mortgage loans and a $0.4 million decrease in other non-interest income in the three months ended June 30, 2006 versus the three months ended June 30, 2005.

Net Interest Income

The following table presents the average balances for our interest-earning assets, interest-bearing liabilities, corresponding annualized effective rates of interest and the related interest income or expense for the three months ended June 30, 2006 compared to the three months ended June 30, 2005:

| (Dollars in thousands) | Three Months Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2006 | | | 2005 | |
| | Average Balance | Interest | Average Yield/Cost | Average Balance | Inte |
| Interest earning assets: | | | | | |
| Mortgage-backed securities, net (1) | $ 9,503,262 | $130,498 | 5.49% | $ 6,804,436 | $ 7 |
| Mortgage loans held for sale | 7,577,871 | 127,084 | 6.71% | 3,861,999 | 5 |
| Mortgage loans held for investment | 4,172,288 | 72,614 | 6.96% | - | |
| | 21,253,421 | 330,196 | 6.21% | 10,666,435 | 13 |
| Interest bearing liabilities: | | | | | |
| Warehouse lines of credit (2) | 6,140,929 | 85,990 | 5.60% | 1,790,318 | 2 |
| Commercial paper (3) | 2,410,639 | 29,751 | 4.94% | 1,845,695 | 1 |
| Reverse repurchase agreements (4) | 8,950,889 | 114,497 | 5.12% | 6,296,377 | 5 |
| Collateralized debt obligations (5) | 2,902,206 | 39,281 | 5.41% | - | |
| Trust preferred securities | 245,165 | 5,270 | 8.60% | 26,923 | |
| Notes payable | 358,066 | 5,203 | 5.81% | 189,313 | |
| | 21,007,894 | 279,992 | 5.33% | 10,148,626 | 9 |
| Net interest income | | $ 50,204 | | | $ 4 |
| Interest rate spread | | | 0.88% | | |

| | |
|---|---|
| Net interest margin | 0.94% |

(1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.
(2) Includes $103 thousand of net interest expense on interest rate swap agreements for the 2005 period.
(3) Includes $258 thousand of net interest income on interest rate swap agreements for the 2006 period.
(4) Includes $1.0 million and $4.5 million of net interest expense on interest rate swap agreements for the 2006 and 2005 periods, respectively.
(5) Includes $407 thousand of net interest expense on interest rate swap agreements for the 2006 period.



The following table presents the effects of changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities on our interest income and interest expense for the three months ended June 30, 2006 compared to the three months ended June 30, 2005:

| (In thousands) | Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005 | | |
|---|---|---|---|
| | Average Rate | Average Volume | Total |
| Mortgage-backed securities, net | $ 18,615 | $ 34,841 | $ 53,456 |
| Mortgage loans held for sale | 7,113 | 61,695 | 68,808 |
| Mortgage loans held for investment | - | 72,614 | 72,614 |
| Interest income | 25,728 | 169,150 | 194,878 |
| Warehouse lines of credit | 5,678 | 59,725 | 65,403 |
| Commercial paper | 9,702 | 5,289 | 14,991 |
| Reverse repurchase agreements | 35,519 | 26,741 | 62,260 |
| Collateralized debt obligations | - | 39,281 | 39,281 |
| Trust preferred securities | 420 | 4,368 | 4,788 |
| Notes payable | 591 | 2,342 | 2,933 |
| Interest expense | 51,910 | 137,746 | 189,656 |
| Net interest income | $(26,182) | $ 31,404 | $ 5,222 |

Interest Income: Interest income on mortgage-backed securities for the three months ended June 30, 2006 was $130.5 million, compared to $77.0 million for the three months ended June 30, 2005, a $53.5 million, or 69.4%, increase. This increase reflects primarily the growth of our mortgage-backed securities portfolio and higher interest rates in the second quarter of 2006 versus the second quarter of 2005.

Interest income on our mortgage loans held for sale for the three months ended

June 30, 2006 was $127.1 million, compared to $58.3 million for the three months ended June 30, 2005, an increase of $68.8 million, or 118.1%. The increase in interest income on mortgage loans held for sale was primarily the result of an increase in average volume in 2006 versus 2005 due to higher mortgage origination volume, and higher interest rates in the second quarter of 2006 versus the second quarter of 2005.

For the three months ended June 30, 2006, we recognized $72.6 million of interest income on loans held for investment, related to our strategy of holding certain loans in our investment portfolio beginning in June 2005.

Interest Expense: As of June 30, 2006, we have entered into reverse repurchase agreements, a form of collateralized short-term borrowing, with seventeen different financial institutions and had borrowed funds from eleven of these counterparties. We borrow funds under these arrangements based on the fair value of our mortgage-backed securities and loans held for investment. Total interest expense on reverse repurchase agreements for the three months ended June 30, 2006 was $114.5 million, compared to interest expense for the three months ended June 30, 2005 of $52.2 million, a $62.3 million increase. The increase in reverse repurchase agreements interest expense in 2006 versus 2005 was primarily the result of an increase in average rate due to generally higher short-term interest rates in the second quarter of 2006 versus the second quarter of 2005, and an increase in borrowings used to fund the growth of our mortgage-backed securities and loans held for investment portfolio.

We fund our loan inventory primarily through borrowing facilities with several mortgage warehouse lenders and through a $3.3 billion commercial paper, or secured liquidity note ("SLN"), program. Interest expense on warehouse lines of credit for the three months ended June 30, 2006 was $86.0 million, compared to interest expense for the three months ended June 30, 2005 of $20.6 million, a $65.4 million increase. The increase in warehouse lines of credit interest expense was primarily the result of an increase in average volume due to higher



mortgage origination volume and an increase in average rate due to generally higher short-term interest rates in the second quarter of 2006 versus the second quarter of 2005.

In May 2004, we formed a wholly-owned special purpose entity for the purpose of issuing commercial paper in the form of SLNs to finance certain portions of our mortgage loans. Interest expense on commercial paper for the three months ended June 30, 2006 was $29.8 million, versus $14.8 million for the three months ended June 30, 2005, a $15.0 million increase. The increase in commercial paper interest expense was the result of an increase in average interest rates in the second quarter of 2006 versus the second quarter of 2005 and an increase in average volume. The increase in average volume in the second quarter of 2006 versus the second quarter of 2005 related to higher borrowings used to fund our loan inventory. By funding a portion of our loan inventory through the commercial paper program, we were able to reduce our average funding cost versus borrowing exclusively through warehouse lenders.

For the three months ended June 30, 2006, we recognized $39.3 million of interest expense on collateralized debt obligations, related to borrowings used to fund our securitizations which were accounted for as financings.

Gain on Mortgage Loans, Mortgage-Backed Securities and Derivatives

Gain on Sales and Securitizations of Mortgage Loans: During the three months ended June 30, 2006, gain on sales and securitizations of mortgage loans in our Loan Origination segment totaled $224.6 million, or 1.62%, of mortgage loans sold or securitized compared to $182.6 million, or 1.78%, of mortgage loans sold or securitized during the three months ended June 30, 2005. The increase primarily reflects a $3.5 billion increase in mortgage loans sold or securitized to $13.8 billion in the second quarter of 2006 from $10.3 billion in the second quarter of 2005.

The following table presents the components of gain on sales and securitizations of mortgage loans in our Loan Origination segment during the three months ended June 30, 2006 and 2005:

Gains on Sales and Securitizations of Mortgage Loans

| | Three Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| (Dollars in thousands) | | |
| Gain on sales of mortgage loans | $ 224,594 | $ 77,377 |
| Gain on sales of current period securitized mortgage loans | - | 104,377 |
| Loss on sales of free standing derivatives | - | (3,626) |
| Unrealized gain on self-originated mortgage-backed securities retained in period | - | 8,493 |
| Unrealized loss on free standing derivatives | - | (4,030) |
| Total gain on sales and securitizations of mortgage loans | $ 224,594 | $ 182,591 |
| Total mortgage loans sold or securitized | $13,828,120 | $ 10,273,356 |
| Total gain on sales and securitizations of mortgage loans as a % of total mortgage loans sold or securitized | 1.62% | 1.78% |

Portfolio Gains and Losses: During the three months ended June 30, 2006, portfolio gains and losses in our Mortgage Holdings segment were a portfolio loss of $7.8 million compared to a portfolio loss of $10.5 million during the three months ended June 30, 2005. The decrease in portfolio losses in the second quarter of 2006 compared to the second quarter of 2005 was the result of a $7.0 million net decrease in unrealized loss on mortgage-backed securities and free standing derivatives partly offset by a $4.3 million decrease in gain on sales of mortgage-backed securities.

The following table presents the components of portfolio gains and losses in our Mortgage Holdings segment during the three months ended June 30, 2006 and 2005:



Portfolio Gains and Losses

| | Three Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| (In thousands) | | |
| (Loss) gain on sales of mortgage-backed securities | $ (47) | $ 4,246 |

| | | |
|---|---|---|
| Unrealized (loss) gain on mortgage-backed securities | (14,571) | 13,031 |
| Unrealized gain (loss) on free standing derivatives | 6,841 | (27,786) |
| Net unrealized loss on mortgage-backed securities and free standing derivatives | (7,730) | (14,755) |
| Total portfolio loss | $ (7,777) | $(10,509) |

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

Components of (Loss) Gain on Sales of Mortgage-backed Securities and Derivatives

| | Three Months Ended Jun | |
|---|---|---|
| | 2006 | 2005 |
| (In thousands) | | |
| (Loss) gain on sales of mortgage-backed securities | $ (47) | $ 4,24 |
| Loss on sales of free standing derivatives | - | (3,62 |
| (Loss) gain on sales of mortgage-backed securities and derivatives | $ (47) | $ 62 |

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

Components of Unrealized Loss on Mortgage-backed Securities and Derivatives

| | Three Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| (In thousands) | | |
| Unrealized gain on self-originated mortgage-backed securities retained in period | $ - | $ 8,493 |
| Unrealized (loss) gain on mortgage-backed securities | (14,571) | 13,031 |
| Unrealized gain (loss) on free standing derivatives | 6,841 | (31,816) |
| Unrealized loss on mortgage-backed securities and derivatives | $ (7,730) | $(10,292) |

Net Loan Servicing Fees

Net loan servicing fees were $11.6 million for the three months ended June 30, 2006 compared to a loss of $16.3 million for the three months ended June 30, 2005.

Loan Servicing Fees: Loan servicing fees increased to $30.4 million for the three months ended June 30, 2006 from $17.0 million for the three months ended June 30, 2005, an increase of $13.4 million, or 79.2%. The increase in loan servicing fees in the second quarter of 2006 versus the second quarter of 2005 was primarily the result of an increase in loans serviced for others. At June 30, 2006, the principal amount of loans serviced for others, including loans held for sale and loans held for investment, was $39.1 billion, compared to $24.7 billion at June 30, 2005.

Change in Fair Value of MSRs: Effective at the beginning of the first quarter of 2006, we adopted Statement of Financial Accounting Standards No. 156 "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140" ("SFAS 156"), and elected the fair value option to subsequently measure our MSRs. Under the fair value option, all changes in the fair value of MSRs are reported in the consolidated statements of income. For the three months ended June 30, 2006, the change in fair value of MSRs was $18.8 million. The



change in fair value of MSRs in the second quarter of 2006 includes $10.8 million of gain due to changes in valuation inputs or assumptions, and $29.6 million of other changes in fair value, which primarily includes a $26.3 million reduction in fair value due to servicing runoff.

Amortization and Impairment of MSRs: Amortization and impairment of MSRs includes amortization of MSRs of $12.8 million and a temporary impairment provision of $20.4 million for the three months ended June 30, 2005. Effective at the beginning of the first quarter of 2006, we adopted the SFAS 156 fair value option and did not recognize amortization and impairment of MSRs during the second quarter of 2006.

The following table presents the components of net loan servicing fees (loss) for the three months ended June 30, 2006 and 2005:

| | Three Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| (In thousands) | | |
| Loan servicing fees | $ 30,417 | $ 16,970 |
| Amortization and impairment of mortgage servicing rights | - | (33,230) |
| Change in fair value of mortgage servicing rights | (18,830) | - |
| Net loan servicing fees (loss) | $ 11,587 | $(16,260) |

Other Non-Interest Income

Other non-interest income totaled $2.1 million for the three months ended June 30, 2006 compared to $2.5 million for the three months ended June 30, 2005. For the three months ended June 30, 2006, other non-interest income primarily includes reinsurance premiums earned totaling approximately $1.3 million, rental income of $0.3 million and revenue from title services of $0.2 million. For the three months ended June 30, 2005, other non-interest income primarily includes reinsurance premiums earned totaling approximately $1.5 million, rental income of $0.4 million and revenue from title services of $0.3 million.

Non-Interest Expenses

Our non-interest expenses for the three months ended June 30, 2006 were $171.2 million compared to $141.7 million for the three months ended June 30, 2005, an increase of $29.5 million, or 20.8%. The increase primarily reflects a $31.1 million rise in our Loan Origination segment non-interest expenses to $160.2 million, or 1.07% of total loan originations in the second quarter of 2006, from $129.1 million, or 1.20% of total loan originations in the second quarter of 2005.

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

Salaries, Commissions and Benefits, net: Salaries, commissions and benefits, net, for the three months ended June 30, 2006 were $103.2 million, compared to $94.9 million for the three months ended June 30, 2005, an increase of $8.3 million, or 8.7%. The increase in expenses reflects higher origination volume and a resulting higher commission expense and higher salaries due to an increase in employees to 7,221 at June 30, 2006 from 6,075 at June 30, 2005.

Other Operating Expenses: Operating expenses, excluding salaries, commissions and benefits, were $68.0 million for the three months ended June 30, 2006, compared to $46.8 million for the three months ended June 30, 2005, an increase of $21.2 million, or 45.2%. The increase in operating expenses in the second quarter of 2006 versus the second quarter of 2005 includes a $10.3 million increase in other non-interest expense and a $5.4 million increase in occupancy and equipment expense. The increase in other non-interest expenses in the second quarter of 2006 versus the second quarter of 2005 was primarily due to a $3.0 million increase in reserves associated with our servicing assets, a $3.0 million increase in lender paid private mortgage insurance and the remainder was primarily associated with our acquisition of Waterfield Financial Corporation in January 2006. The increase in occupancy and equipment expense was due to higher lease obligations and certain fixed asset expenses relating to the increased number of branches in the 2006 period.

We recognized $33.2 million of income tax expense for the three months ended June 30, 2006, compared to a $3.9 million income tax benefit for the three months ended June 30, 2005. The increase in income tax expense in the second quarter of 2006 versus the second quarter of 2005 reflects an increase in income before income taxes relating to our taxable REIT subsidiary ("TRS").



Loan Originations

We originate and sell or securitize one-to-four family residential mortgage loans. Total loan originations for the three months ended June 30, 2006 were $14.9 billion compared to $10.8 billion for the three months ended June 30, 2005, a 38.5% increase. Mortgage brokers, through our wholesale loan production offices, accounted for 56% of our loan originations in the three months ended June 30, 2006 compared to 52% of our originations in the three months ended June 30, 2005. Originations conducted through our retail loan production offices and internet call center were 38% of our loan originations in the three months ended June 30, 2006 compared to 48% of our originations in the three months ended June 30, 2005. During the three months ended June 30, 2006, 6% of our loan originations were purchased from correspondents.



Comparison of the Six Months Ended June 30, 2006 and 2005

Overview

Net income for the six months ended June 30, 2006 was $126.8 million compared to $190.9 million for the six months ended June 30, 2005, a decrease of $64.1 million, or 33.6%. Through the third quarter of 2005, we securitized a substantial portion of our mortgage loans held for sale each quarter and had intended for each of these transactions to qualify as a sale under Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). Our December 2004 securitization ("Q4-04 Securitization") did not qualify as a sale at December 31, 2004 and was accounted for as a financing in accordance with SFAS 140 because we retained a small amount of securities which were benefited by derivative contracts embedded in the securitization trust. These securities were sold during the first quarter of 2005, qualifying the Q4-04 Securitization as a sale at March 31, 2005 in accordance with SFAS 140. Net income for the six months ended June 30, 2005 includes approximately $71.4 million of revenues related to the delay in recognizing the Q4-04 Securitization as a sale into the first quarter of 2005. The decrease in net income was the result of an $82.0 million increase in non-interest expenses, a $53.3 million increase in income tax expense, a $7.0 million decrease in net interest income and a $5.3 million increase in provision for loan losses, partly offset by an $83.5 million increase in non-interest income. The $83.5 million increase in non-interest income consists of a $283.9 million increase in gain on sales of mortgage loans and a $27.3 million increase in net loan servicing fees, partly offset by a $174.3 million decrease in gain on sales of current period securitized mortgage loans, a $53.3 million decrease in realized and unrealized gains on mortgage-backed securities and derivatives and a $0.1 million decrease in other non-interest income in the six months ended June 30, 2006 versus the six months ended June 30, 2005.

Net Interest Income

The following table presents the average balances for our interest-earning assets, interest-bearing liabilities, corresponding annualized effective rates of interest and the related interest income or expense for the six months ended June 30, 2006 compared to the six months ended June 30, 2005:

| (Dollars in thousands) | Six Months Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2006 | | | 2005 | |
| | Average Balance | Interest | Average Yield/Cost | Average Balance | Inte |
| Interest earning assets: | | | | | |
| Mortgage-backed securities, net (1) | $ 9,707,642 | $265,591 | 5.47% | $ 6,331,504 | $13 |
| Mortgage loans held for sale | 7,273,487 | 229,455 | 6.31% | 5,044,356 | 14 |
| Mortgage loans held for investment | 3,979,999 | 135,763 | 6.82% | - | |
| | 20,961,128 | 630,809 | 6.02% | 11,375,860 | 28 |

| | | | | | |
|---|---|---|---|---|---|
| Interest bearing liabilities: | | | | | |
| Warehouse lines of credit (2) | 6,425,396 | 171,213 | 5.33% | 1,623,620 | 3 |
| Commercial paper (3) | 2,537,945 | 60,798 | 4.79% | 1,520,347 | 2 |
| Reverse repurchase agreements (4) | 9,129,085 | 230,002 | 5.04% | 6,595,756 | 9 |
| Collateralized debt obligations (5) | 2,009,414 | 52,861 | 5.26% | 988,053 | 1 |
| Trust preferred securities | 227,680 | 9,515 | 8.36% | 13,536 | |
| Notes payable | 338,139 | 9,638 | 5.70% | 169,816 | |
| | 20,667,659 | 534,027 | 5.17% | 10,911,128 | 17 |
| Net interest income | | $ 96,782 | | | $10 |
| Interest rate spread | | | 0.85% | | |
| Net interest margin | | | 0.92% | | |

(1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.
(2) Includes $2.8 million of net interest expense on interest rate swap agreements for the 2005 period.
(3) Includes $258 thousand of net interest income on interest rate swap agreements for the 2006 period.
(4) Includes $9.4 million and $10.5 million of net interest expense on interest rate swap agreements for the 2006 and 2005 periods, respectively.
(5) Includes $407 thousand of net interest expense on interest rate swap agreements for the 2006 period.



The following table presents the effects of changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities on our interest income and interest expense for the six months ended June 30, 2006 compared to the six months ended June 30, 2005:

| (In thousands) | Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005 | | |
|---|---|---|---|
| | Average Rate | Average Volume | Total |
| Mortgage-backed securities, net | $ 44,637 | $ 85,607 | $ 130,244 |
| Mortgage loans held for sale | 13,217 | 69,373 | 82,590 |
| Mortgage loans held for investment | - | 135,763 | 135,763 |
| Interest income | 57,854 | 290,743 | 348,597 |
| Warehouse lines of credit | 6,817 | 126,853 | 133,670 |
| Commercial paper | 21,242 | 18,738 | 39,980 |
| Reverse repurchase agreements | 83,886 | 47,155 | 131,041 |
| Collateralized debt obligations | 12,661 | 23,434 | 36,095 |
| Trust preferred securities | 354 | 8,679 | 9,033 |
| Notes payable | 1,208 | 4,573 | 5,781 |

| | | | |
|---|---|---|---|
| Interest expense | 126,168 | 229,432 | 355,600 |
| Net interest income | $ (68,314) | $ 61,311 | $ (7,003) |

Interest Income: Interest income on mortgage-backed securities for the six months ended June 30, 2006 was $265.6 million, compared to $135.4 million for the six months ended June 30, 2005, a $130.2 million, or 96.2%, increase. This increase reflects primarily the growth of our mortgage-backed securities portfolio and higher interest rates in 2006 versus 2005.

Interest income on our mortgage loans held for sale for the six months ended June 30, 2006 was $229.5 million, compared to $146.9 million for the six months ended June 30, 2005, an increase of $82.6 million, or 56.2%. The increase in interest income on mortgage loans held for sale was primarily the result of an increase in average volume in 2006 versus 2005 due to higher mortgage origination volume, and higher interest rates in 2006 versus 2005.

For the six months ended June 30, 2006, we recognized $135.8 million of interest income on loans held for investment, related to our strategy of holding certain loans in our investment portfolio beginning in June 2005.

Interest Expense: As of June 30, 2006, we have entered into reverse repurchase agreements, a form of collateralized short-term borrowing, with seventeen different financial institutions and had borrowed funds from eleven of these counterparties. We borrow funds under these arrangements based on the fair value of our mortgage-backed securities and loans held for investment. Total interest expense on reverse repurchase agreements for the six months ended June 30, 2006 was $230.0 million, compared to interest expense for the six months ended June 30, 2005 of $99.0 million, a $131.0 million increase. The increase in reverse repurchase agreements interest expense in 2006 versus 2005 was primarily the result of an increase in average rate due to generally higher short-term interest rates in 2006 versus 2005, and an increase in borrowings used to fund the growth of our mortgage-backed securities and loans held for investment portfolio.

We fund our loan inventory primarily through borrowing facilities with several mortgage warehouse lenders and through a $3.3 billion commercial paper, or secured liquidity note ("SLN"), program. Interest expense on warehouse lines of credit for the six months ended June 30, 2006 was $171.2 million, compared to interest expense for the six months ended June 30, 2005 of $37.5 million, a $133.7 million increase. The increase in warehouse lines of credit interest expense was primarily the result of an increase in average volume due to higher mortgage origination volume and an increase in average rate due to generally higher short-term interest rates in 2006 versus 2005.



In May 2004, we formed a wholly-owned special purpose entity for the purpose of issuing commercial paper in the form of SLNs to finance certain portions of our mortgage loans. Interest expense on commercial paper for the six months ended June 30, 2006 was $60.8 million, versus $20.8 million for the six months ended June 30, 2005, a $40.0 million increase. The increase in commercial paper interest expense was the result of an increase in average interest rates in 2006 versus 2005 and an increase in average volume. The increase in average volume in 2006 versus 2005 related to higher borrowings used to fund our loan inventory. By funding a portion of our loan inventory through the commercial paper program, we were able to reduce our average funding cost versus borrowing exclusively through warehouse lenders.

Interest expense on collateralized debt obligations for the six months ended June 30, 2006 was $52.9 million, compared to interest expense for the six months ended June 30, 2005 of $16.8 million, a $36.1 million increase. The increase in collateralized debt obligation interest expense was the result of an increase in average volume and an increase in average interest rates in 2006 versus 2005. The increase in average volume in 2006 versus 2005 related to higher borrowings used to fund our securitizations which were accounted for as financings.

Gain on Mortgage Loans, Mortgage-Backed Securities and Derivatives

Gain on Sales and Securitizations of Mortgage Loans: During the six months ended June 30, 2006, gain on sales and securitizations of mortgage loans in our Loan Origination segment totaled $396.8 million, or 1.45%, of mortgage loans sold or securitized compared to $337.9 million, or 1.63%, of mortgage loans sold or securitized during the six months ended June 30, 2005. The increase primarily reflects a $6.7 billion increase in mortgage loans sold or securitized to $27.4 billion in the first six months of 2006 from $20.7 billion in the first six months of 2005. The 2005 period includes $43.4 million recognized in connection with the Q4-04 Securitization.

The following table presents the components of gain on sales and securitizations of mortgage loans in our Loan Origination segment during the six months ended June 30, 2006 and 2005:

Gains on Sales and Securitizations of Mortgage Loans

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| (Dollars in thousands) | | |
| Gain on sales of mortgage loans | $ 396,501 | $ 112,630 |
| Gain on sales of current period securitized mortgage loans | - | 174,296 |
| Gain on sales of free standing derivatives | - | 5,843 |
| Unrealized gain on self-originated mortgage-backed securities retained in period | - | 50,202 |
| Unrealized gain (loss) on free standing derivatives | 275 | (5,080 |
| Total gain on sales and securitizations of mortgage loans | $ 396,776 | $ 337,891 |
| Total mortgage loans sold or securitized | $ 27,361,709 | $ 20,703,986 |
| Total gain on sales and securitizations of mortgage loans as a % of total mortgage loans sold or securitized | 1.45% | 1.63 |

Portfolio Gains and Losses: During the six months ended June 30, 2006, portfolio gains and losses in our Mortgage Holdings segment were a portfolio gain of $0.4 million compared to a portfolio gain of $3.0 million during the six months ended June 30, 2005. The decrease in portfolio gains in the first six months of 2006 compared to the first six months of 2005 was the result of a $1.8 million decrease in gain on sales of mortgage-backed securities, and a $0.8 million net decrease in unrealized gain on mortgage-backed securities and free standing derivatives.

The following table presents the components of portfolio gains and losses in our Mortgage Holdings segment during the six months ended June 30, 2006 and 2005:

Portfolio Gains and Losses

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| (In thousands) | | |
| (Loss) gain on sales of mortgage-backed securities | $ (897) | $ 909 |
| Unrealized loss on mortgage-backed securities | (13,597) | (5,429) |
| Unrealized gain on free standing derivatives | 14,907 | 7,514 |
| Net unrealized gain on mortgage-backed securities and free standing derivatives | 1,310 | 2,085 |
| Total portfolio gain | $ 413 | $ 2,994 |

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

Components of (Loss) Gain on Sales of Mortgage-backed Securities and Derivatives

| | Six Months Ended Ju | |
|---|---|---|
| | 2006 | 200 |
| (In thousands) | | |
| (Loss) gain on sales of mortgage-backed securities | $ (897) | $ |
| Gain on sales of free standing derivatives | - | 5, |
| (Loss) gain on sales of mortgage-backed securities and derivatives | $ (897) | $ 6, |

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

Components of Unrealized Gain on Mortgage-backed Securities and Derivatives

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| (In thousands) | | |

| | | |
|---|---|---|
| Unrealized gain on self-originated mortgage-backed securities retained in period | $ - | $ 50,202 |
| Unrealized loss on mortgage-backed securities | (13,597) | (5,429) |
| Unrealized gain on free standing derivatives | 15,182 | 2,434 |
| Unrealized gain on mortgage-backed securities and derivatives | $ 1,585 | $ 47,207 |

Net Loan Servicing Fees

Net loan servicing fees were $17.3 million for the six months ended June 30, 2006 compared to a loss of $10.0 million for the six months ended June 30, 2005.

Loan Servicing Fees: Loan servicing fees increased to $54.8 million for the six months ended June 30, 2006 from $28.3 million for the six months ended June 30, 2005, an increase of $26.5 million, or 93.6%. The increase in loan servicing fees in the first six months of 2006 versus the first six months of 2005 was primarily the result of an increase in loans serviced for others. At June 30, 2006, the principal amount of loans serviced for others, including loans held for sale and loans held for investment, was $39.1 billion, compared to $24.7 billion at June 30, 2005.

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Change in Fair Value of MSRs: Effective at the beginning of the first quarter of 2006, we adopted Statement of Financial Accounting Standards No. 156 "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140" ("SFAS 156"), and elected the fair value option to subsequently measure our MSRs. Under the fair value option, all changes in the fair value of MSRs are reported in the consolidated statements of income. For the six months ended June 30, 2006, the change in fair value of MSRs was $37.5 million. The change in fair value of MSRs in the first six months of 2006 includes $22.1 million of gain due to changes in valuation inputs or assumptions, and $59.6 million of other changes in fair value, which primarily includes a $45.1 million reduction in fair value due to servicing runoff.

Amortization and Impairment of MSRs: Amortization and impairment of MSRs includes amortization of MSRs of $21.3 million and a temporary impairment provision of $17.0 million for the six months ended June 30, 2005. Effective at the beginning of the first quarter of 2006, we adopted the SFAS 156 fair value option and did not recognize amortization and impairment of MSRs during the first six months of 2006.

The following table presents the components of net loan servicing fees (loss) for the six months ended June 30, 2006 and 2005:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| (In thousands) | | |
| Loan servicing fees | $ 54,750 | $ 28,282 |
| Amortization and impairment of mortgage servicing rights | - | (38,312) |
| Change in fair value of mortgage servicing rights | (37,451) | - |
| Net loan servicing fees (loss) | $ 17,299 | $(10,030) |

Other Non-Interest Income

Other non-interest income totaled $3.9 million for the six months ended June 30, 2006 compared to $4.0 million for the six months ended June 30, 2005. For the six months ended June 30, 2006, other non-interest income primarily includes reinsurance premiums earned totaling approximately $2.0 million, rental income of $0.6 million, other fee income of $0.4 million and revenue from title services of $0.3 million. For the six months ended June 30, 2005, other non-interest income primarily includes reinsurance premiums earned totaling approximately $2.4 million, rental income of $0.8 million and revenue from title services of $0.5 million.

Non-Interest Expenses

Our non-interest expenses for the six months ended June 30, 2006 were $333.6 million compared to $251.6 million for the six months ended June 30, 2005, an increase of $82.0 million, or 32.6%. The increase primarily reflects a $70.9 million rise in our Loan Origination segment non-interest expenses to $300.7 million, or 1.07% of total loan originations in the first six months of 2006, from $229.8 million, or 1.27% of total loan originations in the first six months of 2005.

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

Salaries, Commissions and Benefits, net: Salaries, commissions and benefits, net, for the six months ended June 30, 2006 were $202.4 million, compared to $163.3 million for the six months ended June 30, 2005, an increase of $39.1 million, or 23.9%. The increase in expenses reflects higher origination volume and a resulting higher commission expense and higher salaries due to an increase in employees to 7,221 at June 30, 2006 from 6,075 at June 30, 2005.

Other Operating Expenses: Operating expenses, excluding salaries, commissions and benefits, were $131.2 million for the six months ended June 30, 2006, compared to $88.3 million for the six months ended June 30, 2005, an increase of $42.9 million, or 48.6%. The increase in operating expenses in the first six months of 2006 versus the first six months of 2005 includes a $19.4 million increase in other non-interest expense and a $10.7 million increase in occupancy and equipment expense. The increase in other non-interest expenses in the first six months of 2006 versus the first six months of 2005 was primarily due to an $8.0 million increase in reserves associated with our servicing assets, a $4.1 million increase in lender paid private mortgage insurance and the remainder was primarily associated with our acquisition of Waterfield Financial Corporation in January 2006. The increase in occupancy and equipment expense was due to higher lease obligations and certain fixed asset expenses relating to the increased number of branches in the 2006 period.



We recognized $49.4 million of income tax expense for the six months ended June 30, 2006, compared to a $3.9 million income tax benefit for the six months ended June 30, 2005. The increase in income tax expense in the first six months of 2006 versus the first six months of 2005 reflects an increase in income before income taxes relating to our taxable REIT subsidiary ("TRS").

Loan Originations

We originate and sell or securitize one-to-four family residential mortgage loans. Total loan originations for the six months ended June 30, 2006 were $28.1 billion compared to $18.0 billion for the six months ended June 30, 2005, an 55.8% increase. Mortgage brokers, through our wholesale loan production offices, accounted for 55% of our loan originations in the six months ended June 30, 2006 compared to 51% of our originations in the six months ended June 30, 2005. Originations conducted through our retail loan production offices and internet call center were 39% of our loan originations in the six months ended June 30, 2006 compared to 49% of our originations in the six months ended June 30, 2005. During the six months ended June 30, 2006, 6% of our loan originations were purchased from correspondents.

Liquidity and Capital Resources

As of June 30, 2006, we had arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with seventeen different financial institutions and had borrowed funds from eleven of these counterparties. Because we borrow money under these agreements based on the fair value of our mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, our borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of our mortgage-backed securities declines for other reasons.

As of June 30, 2006, we had $8.9 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 5.29% before the impact of interest rate swaps and a weighted-average remaining maturity of six months.

To originate a mortgage loan, we draw against either a $3.3 billion SLN commercial paper program, a $2.0 billion pre-purchase facility with UBS Real Estate Securities Inc. ("UBS"), a facility of $2.0 billion with Bear Stearns, a $1.0 billion bank syndicated facility led by Bank of America, N.A. (which includes a $350 million term loan facility which we use to finance our MSRs), a facility of $750 million with Morgan Stanley Bank ("Morgan Stanley"), a facility of $125 million with J.P. Morgan Chase, a $450 million facility with IXIS Real Estate Capital, Inc. (formerly CDC Mortgage Capital Inc.) ("IXIS"), an early purchase program facility with Countrywide Home Loans, Inc. ("Countrywide") and a $1.4 billion syndicated facility led by Calyon New York Branch ("Calyon"). The Bank of America, IXIS, Morgan Stanley and Calyon facilities are committed facilities. In addition, we have gestation facilities with Greenwich Capital Financial Products, Inc. ("Greenwich") and Deutsche Bank ("Deutsche"). These facilities are secured by the mortgages owned by us and by certain of our other assets. Advances drawn under these facilities bear interest at rates that vary depending on the type of mortgages securing the advances. These loans are subject to sublimits, advance rates and terms that vary depending on the type of securing mortgages and the ratio of our liabilities to our tangible net worth. At August 4, 2006, the aggregate outstanding balance under the commercial paper program was $2.6 billion, the aggregate outstanding balance under the warehouse facilities was $3.6 billion, the aggregate outstanding balance in drafts payable was $18.3 million and the aggregate maximum amount available for additional borrowings was $4.6 billion.

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

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

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

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

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

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

As of June 30, 2006, our aggregate warehouse facility borrowings were $1.5 billion (including $29.7 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were $12.3 million, compared to $3.5 billion in aggregate warehouse facility borrowings



(including $21.6 million of borrowings under a working capital sub-limit) and outstanding drafts payable of $20.8 million as of December 31, 2005. As of June 30, 2006, our loans held for investment were $5.3 billion and our loans held for sale were $1.2 billion compared to loans held for investment of $3.5 billion and loans held for sale of $2.2 billion as of December 31, 2005.

In addition to the warehouse facilities, we have purchase and sale agreements with UBS, Greenwich, Deutsche and Countrywide. These agreements allow us to accelerate the sale of our mortgage loan inventory, resulting in a more effective use of the warehouse facility. Aggregate amounts sold and being held under these agreements as of June 30, 2006 and December 31, 2005 were $4.5 billion and $3.2 billion, respectively. Aggregate amounts so held under these agreements at August 4, 2006 were $1.6 billion. These agreements are not committed facilities and may be terminated at the discretion of the counterparties.

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

We also have a $350.0 million term loan facility with a bank syndicate led by Bank of America which we use to finance our MSRs. The term loan facility expires on August 11, 2006, but we have an option to extend the term for twelve additional months at a higher interest rate. We expect to renew the term loan facility at similar or better terms prior to the expiration date. Interest is based on a spread to the LIBOR and may be adjusted for earnings on escrow balances. At June 30, 2006 and December 31, 2005, borrowings under our term loan facility were $221.3 million and $206.2 million, respectively.

Cash and cash equivalents decreased to $304.3 million as of June 30, 2006 from $575.7 million as of December 31, 2005.

Our primary sources of cash and cash equivalents during the six months ended June 30, 2006 were as follows:

- $27.4 billion of proceeds from principal received from sales of mortgage loans held for sale;

- $2.7 billion increase in collateralized debt obligations;

- $1.9 billion of principal proceeds from sales of mortgage-backed securities; and

- $1.1 billion of principal repayments of mortgage-backed securities.

Our primary uses of cash and cash equivalents during the six months ended June 30, 2006 were as follows:

- $28.1 billion of origination of mortgage loans;

- $2.0 billion decrease in warehouse lines of credit, net;

- $1.9 billion of purchases of mortgage-backed securities; and

- $866.4 million decrease in reverse repurchase agreements, net.



Commitments

The Company had the following commitments (excluding derivative financial instruments) at June 30, 2006:

| | Total | Less than 1 Year | 1 - 3 Years | 3 - 5 Years | After |
|---|---|---|---|---|---|
| (In thousands) | | | | | |
| Warehouse liabilities | $1,476,958 | $1,476,958 | $ - | $ - | $ |
| Commercial paper | 888,476 | 888,476 | - | - | |
| Reverse repurchase agreements | 8,939,786 | 6,635,017 | 2,304,769 | - | |
| Collateralized debt obligations | 3,724,878 | 429,966 | 2,244,820 | 839,022 | 211 |
| Trust preferred securities | 252,780 | - | - | - | 252 |
| Notes payable | 337,700 | 225,802 | 44,800 | 43,471 | 23 |
| Operating leases | 135,562 | 37,929 | 55,357 | 30,605 | 11 |



ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

When interest rates decline, fallout may occur as a result of customers withdrawing their applications. In those instances, the Company may be required to purchase loans at current market prices to fulfill existing mandatory loan sale agreements, thereby incurring losses upon sale. Additionally, when interest rates decline, the interest income we receive from our mortgage loans held for investment as well as mortgage loans held for sale will decrease. The Company uses an interest rate hedging program to manage these risks. Through this program, mortgage-backed securities are purchased and sold forward and options are acquired on treasury futures contracts.

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

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

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

The Company enters into interest rate swap agreements ("Swap Agreements") to manage its interest rate exposure when financing its ARM loans and its mortgage-backed securities. The Company generally borrows money based on short-term interest rates by entering into borrowings with maturity terms of less than one year, and frequently nine to twelve months. The Company's ARM loans and mortgage-backed securities financing vehicles generally have an interest rate that reprices based on frequency terms of one to twelve months. The Company's mortgage-backed securities have an initial fixed interest rate period of three to five years. When the Company enters into a swap agreement, it generally agrees to pay a fixed rate of interest and to receive a variable interest rate, generally based on LIBOR. These swap agreements have the effect of converting the Company's variable-rate debt into fixed-rate debt over the life of the swap agreements. These instruments are used as a cost-effective way to lengthen the average repricing period of the Company's variable-rate and short-term borrowings such that the average repricing of the borrowings more closely matches the average repricing of the Company's mortgage-backed securities. The Company's duration gap was approximately one month on June 30, 2006.



The following tables summarize the Company's interest rate sensitive instruments as of June 30, 2006 and December 31, 2005:

| | June 30, 2006 | |
|---|---|---|
| | Carrying Amount | Estimated Fair Value |
| Assets: | | |
| Mortgage-backed securities | $ 9,299,224 | $ 9,299,224 |
| Derivative assets (1) | 139,397 | 192,948 |
| Mortgage loans held for sale, net | 1,243,702 | 1,252,099 |
| Mortgage loans held for investment, net | 5,337,138 | 5,414,804 |
| Mortgage servicing rights | 434,173 | 434,173 |
| Liabilities: | | |
| Reverse repurchase agreements | $ 8,939,786 | $ 8,938,826 |
| Collateralized debt obligations | 3,724,878 | 3,725,364 |
| Derivative liabilities | 3,280 | 3,280 |

| | December 31, 2005 | |
|---|---|---|
| | Carrying Amount | Estimated Fair Value |
| Assets: | | |
| Mortgage-backed securities | $10,602,104 | $10,602,104 |
| Derivative assets (1) | 44,594 | 96,176 |
| Mortgage loans held for sale, net | 2,208,749 | 2,224,234 |
| Mortgage loans held for investment, net | 3,479,721 | 3,529,844 |
| Mortgage servicing rights | 319,671 | 320,827 |
| Liabilities: | | |
| Reverse repurchase agreements | $ 9,806,144 | $ 9,805,640 |
| Collateralized debt obligations | 1,057,906 | 1,057,906 |
| Derivative liabilities | 16,773 | 16,773 |

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



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

| (In thousands) | June 30, 2006 -100 Basis Points | -50 Basis Points | +50 Basi Point |
|---|---|---|---|
| Changes in fair value of mortgage-backed securities, net of the related financing and hedges | $(22,864) | $ (2,514) | $(12,2 |
| Changes in fair value of mortgage loans held for sale and interest rate lock commitments, net of the related financing and hedges | (24,108) | (9,610) | (3,2 |
| Changes in fair value of mortgage loans held for investment, net of the related financing and hedges | 4,177 | 2,357 | (4,2 |
| Changes in fair value of mortgage servicing rights, net of the related financing | (36,581) | (14,411) | 6,2 |
| Net change | $(79,376) | $(24,178) | $(13,4 |

## ITEM 4.

## CONTROLS AND PROCEDURES

Controls and Procedures

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this quarterly report. The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to determine whether any changes occurred during the second quarter of 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the second quarter of 2006.

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# PART II-OTHER INFORMATION

## ITEM 1.

## LEGAL PROCEEDINGS

In the ordinary course of its business, the Company is from time to time subject to various legal proceedings. The Company does not believe that any of its current legal proceedings, individually or in the aggregate, will have a material adverse effect on its operations or financial condition.

Columbia National, Incorporated

As previously reported in our periodic reports filed with the SEC, in June 2002, the Company acquired Columbia National, Incorporated, a Maryland corporation ("Columbia"), which is currently a subsidiary of the Company, and which changed its name in July 2004 to "American Home Mortgage Servicing, Inc." Prior to the Company's acquisition of Columbia, Columbia discovered fraudulent loan activity at its Bensalem, Pennsylvania, office and notified the U.S. Department of Housing and Urban Development ("HUD"). HUD then instituted an investigation into the loan originations of the Bensalem office. Shortly thereafter, several years before Columbia was acquired by the Company, Columbia closed the Bensalem office and terminated the employees involved in the alleged fraudulent activity. In 2000, Columbia settled with HUD, paying a fine to HUD in the amount of $24,000 and agreeing to indemnify HUD for certain losses. Columbia, as loan servicer for institutional investors, subsequently made FHA insurance claims with respect to approximately 60 loans that were originated by the Bensalem office between 1997 and 1999. The federal government had sought to recover insurance proceeds paid in connection with certain of those claims, along with applicable fines and penalties. In May 2006, the Company paid $845,000 to settle this claim. In the settlement agreement, the Company specifically denied that it had knowledge of any wrongdoing that was alleged to have occurred at Columbia's Bensalem, Pennsylvania office prior to the Company's acquisition of Columbia.

## ITEM 1A.

## RISK FACTORS

There have been no material changes during the quarter ended June 30, 2006 to the risk factors previously disclosed in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

## ITEM 2.

## UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended June 30, 2006, the Company did not issue any securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act").

## ITEM 3.

## DEFAULTS UPON SENIOR SECURITIES

None.



## ITEM 4.

## SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's 2006 Annual Meeting of Stockholders held on June 20, 2006, the following actions were voted upon by the Company's common stockholders of record as of May 16, 2006 (on which date there were 50,059,235 shares of the Company's common stock issued and outstanding), which are described in greater detail in the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on May 1, 2006:

| Proposal | Votes For | Votes Against | Votes |
|---|---|---|---|

| | | | Abstained |
|---|---|---|---|
| To elect each of C. Cathleen Raffaeli and Kristian R. Salovaara to the Board of Directors of the Company, each, to serve as a Class I director for a term of approximately three years expiring at the 2009 Annual Meeting of Stockholders, and in each case until their respective successors are duly elected and qualify. | | | |
| C. Cathleen Raffaeli | 46,922,128 | -- | 161,733 |
| Kristian R. Salovaara | 46,915,799 | -- | 168,062 |
| To ratify Deloitte & Touche LLP as the Company's independent auditors for the year ending December 31, 2006. | 46,803,371 | 248,196 | 32,292 |

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

ITEM 5.

OTHER INFORMATION

None.



ITEM 6.

EXHIBITS

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

| Exhibit No. | Description |
|---|---|
| 10.1 | -- Whole Loan Purchase and Sale Agreement, dated as of June 26, 2006, by and among American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Servicing, Inc., Aspen Funding Corp., Gemini Securitization Corp., LLC and Newport Funding Corp. |
| 10.1.2 | -- Whole Loan Custodial Agreement, dated as of June 26, 2006, by and among American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Servicing, Inc., Aspen Funding Corp., Gemini Securitization Corp., LLC, Newport Funding Corp. and Deutsche Bank National Trust Company. |
| 31.1 | -- Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |

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



SIGNATURES

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

AMERICAN HOME MORTGAGE INVESTMENT CORP.

(Registrant)

Date: August 9, 2006

By: /s/ Michael Strauss

Michael Strauss
Chairman, Chief Executive Officer
and President

Date: August 9, 2006

By: /s/ Stephen A. Hozie

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



INDEX TO EXHIBITS

| Exhibit No. | | Description |
|---|---|---|
| 10.1 | -- | Whole Loan Purchase and Sale Agreement, dated as of June 26, 2006, by and among American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Servicing, Inc., Aspen Funding Corp., Gemini Securitization Corp., LLC and Newport Funding Corp. |
| 10.1.2 | -- | Whole Loan Custodial Agreement, dated as of June 26, 2006, by and among American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Servicing, Inc., Aspen Funding Corp., Gemini Securitization Corp., LLC, Newport Funding Corp. and Deutsche Bank National Trust Company. |

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|---|---|
| 31.1 | -- Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
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