NEW YORK MORTGAGE TRUST INC
Form 10-K
March 16, 2006
Back to Table of Contents
Index to Financial Statements

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2005

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

For the Transition Period From to

Commission File Number 001-32216

NEW YORK MORTGAGE TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland	**47-0934168**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1301 Avenue of the Americas, New York, New York 10019
(Address of principal executive office) (Zip Code)

(Registrant's telephone number, including area code)
(212) 634-9400

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes £ No R

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

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

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

Large Accelerated Filer £ Accelerated Filer R 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 R

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2005 was approximately $133.5 million based on the closing price on such date of the registrant's common stock as reported by the New York Stock Exchange Composite Transactions.

The number of shares of the Registrant's Common Stock outstanding on March 1, 2006 was 18,258,221.

DOCUMENTS INCORPORATED BY REFERENCE

Document	**Where Incorporated**
1. Proxy Statement for Annual Meeting of Stockholders to be held on June 14, 2006, to be filed with the Securities and Exchange Commission	**Part III**

Back to Table of Contents
Index to Financial Statements

NEW YORK MORTGAGE TRUST, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2005

TABLE OF CONTENTS

Back to Table of Contents
Index to Financial Statements

PART I

Item 1. *BUSINESS*

General

New York Mortgage Trust, Inc. together with its consolidated subsidiaries ("NYMT", the "Company", "we", "our", and "us") a self-advised residential mortgage finance company that originates, acquires and invests in adjustable and variable rate mortgage ("ARM") assets. We earn net interest income from residential mortgage-backed securities and adjustable-rate mortgage loans and securities. We also earn gain on sale income and net interest income by originating a variety of residential mortgage loan products through our wholly-owned subsidiary, The New York Mortgage Company, LLC ("NYMC"). NYMC also originates residential mortgage loans as a broker for other mortgage bankers for the purpose of obtaining broker fee income. NYMC, which originates residential mortgage loans through a network of 28 full-service loan origination locations and 26 satellite loan origination locations, is presently licensed or authorized to do business in 43 states and the District of Columbia.

Our residential mortgage investments are comprised of ARM loans, ARM securities and floating rate collateralized mortgage obligations ("CMO Floaters"). The ARM loans and securities have interest rates that reset in a year or less and "hybrid" ARM loans and securities have a fixed interest rate for an initial period of two to seven years before converting to ARM loans and securities whose rates will reset each year or such shorter period for their remaining terms to maturity. ARM securities represent interests in pools of whole ARM loans. The ARM securities are rated by at least one of two nationally recognized rating agencies, Standard & Poor's, Inc. or Moody's Investors Service, Inc. (the "Rating Agencies"), or issued by Freddie Mac ("FHLMC"), Fannie Mae ("FNMA") or Ginnie Mae ("GNMA"). The securitizations result in a series of rated mortgage securities backed by the ARM loans. The CMO Floaters are mortgage securities backed by a pool of FNMA, FHLMC or GNMA fixed rate mortgage loans which have interest rates that adjust monthly. As an investor in residential mortgage assets, our net income is generated primarily from the difference between the interest income we earn on our mortgage assets and the cost of our borrowings (net of hedging expenses), commonly referred as the "Net Spread.". Our goal is to maximize the long-term sustainable difference between the yield on our investments and the cost of financing these assets through the following strategies:

- focusing on originating high credit quality residential mortgage loans through NYMC that we believe can either be retained in our portfolio or sold at a profit;
- focusing on maximizing our lending to home buyers rather than to home owners seeking to refinance their mortgage loans, which we believe makes our business less vulnerable to declines in loan origination volume resulting from increases in interest rates;
- leveraging our portfolio to increase its size with the intent to enhance our returns while at the same time managing the increased risk of loss associated with this leverage;
- utilizing hedging strategies that we consider appropriate to minimize exposure to interest rate changes; and
- expanding our retail and wholesale mortgage banking business through the hiring of additional loan officers, the opening of new retail branch offices in new markets and selectively pursuing strategic acquisitions in the mortgage banking industry.

In order to be a full service provider to our customers, we originate mortgage loans through NYMC. Licensed or exempt from licensing in 43 states and the District of Columbia and through a network of 28 full service branch loan origination locations and 26 satellite loan origination locations, NYMC offers a broad range of residential mortgage products, with a primary focus on prime, or high credit quality, residential mortgage loans. We either sell the fixed-rate loans that we originate to third parties and retain and finance in our portfolio selected adjustable-rate and hybrid mortgage loans that we originate or we sell them to third parties. Our portfolio of loans is held at the real estate investment trust (“REIT”) level or by a qualified REIT subsidiary (“QRS”). We rely on our own underwriting criteria with respect to the mortgage loans we retain and rely on the underwriting criteria of the institutions to which we sell our loans with respect to the loans we intend to sell. In either case, we directly perform the underwriting of such loans with our own experienced underwriters.

Upon completion of our initial public offering (“IPO”) in June 2004, we purchased or invested, on a leveraged basis, residential mortgage-backed securities guaranteed by FNMA or FHLMC or rated investment grade-AAA. Over time, as these securities amortize and pay-off, they will be replaced by adjustable-rate and hybrid mortgage loans that we originate or other qualifying loans or securities. We may also supplement our portfolio with loans originated through our correspondent network or purchased from third parties. We believe that our return is enhanced by retaining loans that we originate as the basis for our portfolio. We believe that mortgage investors that do not have their own origination capabilities (a “passive portfolio investor”) must purchase their mortgage loans from third parties at higher premiums than our cost of originating the mortgage loans that we retain.

Back to Table of Contents
Index to Financial Statements

We finance the purchases and originations of our ARM loans, ARM securities and CMO Floaters (collectively "ARM Assets") with equity capital, unsecured debt and short-term borrowings such as repurchase agreements, securitizations resulting in floating-rate long-term collateralized debt obligations ("CDOs") and other collateralized financings. We enter into swap agreements whereby we receive floating rate payments in exchange for fixed rate payments, effectively converting the borrowings to a fixed rate. We believe our exposure and risks related to changes in interest rates can be prudently managed through holding ARM Assets and attempting to match the duration of our liabilities with the duration of our ARM Assets. From a credit risk perspective, we retain high quality assets and follow strict credit underwriting standards.

Unlike banks, savings and loans or most mortgage originators, we are structured as a REIT for federal income tax purposes. We have elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code (IRC) of 1986, as amended, commencing with our taxable year ended December 31, 2004, and we operate so as to qualify as a real estate investment trust ("REIT") for federal income tax purposes. We hold our investment in ARM Assets directly or in a QRS. Accordingly, the net interest income we earn on our ARM Assets is generally not subject to federal income tax as long as we distribute at least 90% of our REIT taxable income in the form of a dividend to our stockholders each year and comply with various other requirements. Failure to qualify as a REIT would subject the Company to federal income tax (including any applicable minimum tax) on its taxable income at regular corporate rates and distributions to its shareholders in any such year would not be deductible by the Company.

Our mortgage banking operations are performed at NYMC, a taxable REIT subsidiary ("TRS"). The activities we conduct through NYMC, including sourcing and selling mortgage loans sold to third parties, are subject to federal and state corporate income tax. We may elect to retain any after tax income generated by NYMC, and, as a result, may increase our consolidated capital and grow our business through retained earnings or distribute all or a portion of our after-tax NYMC earnings to our stockholders.

Access to our Periodic SEC Reports and Other Corporate Information

Our internet website address is www.nymtrust.com. We make available free of charge, through our internet website, our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments thereto that we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC"). Our Corporate Governance Guidelines and Code of Business Conduct and Ethics and the charters of our Audit, Compensation and Nominating and Corporate Governance Committees are also available on our website and are available in print to any stockholder upon request in writing to New York Mortgage Trust, Inc., c/o Chief Financial Officer and Secretary, 1301 Avenue of the Americas, 7th floor, New York, New York 10019. Information on our website is neither part of nor incorporated into this annual report on Form 10-K.

Corporate Governance

We operate our business with a focus on high standards in business practices and professional conduct. The following are some of the highlights relating to our corporate governance:

- Our board of directors is composed of a super-majority of independent directors. As per guidelines established by the SEC and NYSE, the Audit, Nominating/Governance and Compensation Committees are composed exclusively of independent directors.

- We have adopted a Code of Business Conduct and Ethics and Corporate Governance Guidelines that apply to all officers, directors and employees (as well as a supplemental Code of Ethics for Senior Financial Officers) to promote the highest standard of conduct and ethics in our dealings with our customers, stockholders, vendors, the public and our employees.

- Our Insider Trading Policy prohibits any of the directors, officers or employees of the Company from buying or selling our stock on the basis of material nonpublic information, and in conjunction with our Regulation FD policy, prohibits communicating material nonpublic information to others. Trading of our securities by directors, officers or employees is allowed only during a discreet narrow open period after our quarterly report on Form 10-Q or annual report on Form 10-K is filed with the SEC.

- Generally, we will "early adopt" new accounting standards promulgated by the Financial Accounting Standards Board ("FASB"), the SEC or other standard setting accounting body.

- We have established a formal internal audit function to monitor and test the efficiency of our internal controls and procedures as well as the implementation of Section 404 of the Sarbanes-Oxley Act of 2002.

- We have made publicly available, through our website www.nymtrust.com, the charters of the independent committees of our Board of Directors (Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee) and other corporate governance materials, including our Code of Business Conduct and Ethics, our Corporate Governance Guidelines, our Insider Trading Policy, and other corporate governance policies.

Back to Table of Contents
Index to Financial Statements

Company History

We were formed as a Maryland corporation in September 2003. On January 9, 2004, we capitalized New York Mortgage Funding, LLC ("NYMF") as a wholly-owned subsidiary of our company. NYMF is a qualified REIT subsidiary, or QRS, in which we accumulate mortgage loans that the Company intends to securitize. In June 2004, we sold 15 million shares of our common stock in an IPO at a price to the public of $9.00 per share, for net proceeds of approximately $122 million after deducting the underwriters' discount and other offering expenses. Concurrent with our IPO, we issued 2,750,000 shares of common stock in exchange for the contribution to us of 100% of the equity interests of NYMC. Prior to the IPO, we did not have recurring business operations.

Prior to being acquired by us, NYMC's business strategy was to sell or broker all of the loans it originated to third parties and the largest component of NYMC's net income was generated by the gain on sale of such loans. For accounting purposes and reporting purposes, the combination of our company and NYMC is accounted for as a reverse merger and the related transfer of loans originated by NYMC to us is accounted for as a transfer of assets between entities under common control. Accordingly, we have recorded assets and liabilities transferred from NYMC at their carrying amounts in the accounts of NYMC at the date of transfer. The consolidated financial statements include the accounts of our company subsequent to the IPO and also include the accounts of NYMC and NYMF prior to the IPO. As a result, our historical financial results prior to the IPO reflect the financial operations of this prior business strategy of selling virtually all of the loans originated by NYMC to third parties. Furthermore, the ARM loans we originated and securitized in the securitizations completed in 2005 were recorded at cost with no gain on sale recognized, as would be the case if sold to third parties. Since our IPO, our business strategy has been to invest in ARM loans and securitize them to generate net interest income. As a result, our historic operations prior to the IPO and current financial operations are not necessarily comparable.

Our Industry

Generally, the residential mortgage industry is segmented by the size of the mortgage loans and credit characteristics of the borrowers. Mortgage loans that conform to the guidelines of entities such as FHLMC, FNMA or GNMA, for both size and credit characteristics are often referred to as "conforming" mortgage loans. All other mortgage loans are often referred to as non-conforming loans either because the size of the loan exceeds the guideline limit or the credit profiles of the borrowers do not meet the guideline requirements. Our strategy focuses on adjustable- and fixed-rate and hybrid first lien mortgage loans to borrowers with strong credit profiles, which we refer to as prime mortgage loans. We believe the adjustable-rate and hybrid segment of the prime residential mortgage loan industry and our ability to originate such loans provides us the opportunity to build a portfolio of our high quality self-originated prime adjustable-rate and hybrid loans with the goal of generating higher risk-adjusted returns on investment than would be available from a portfolio based either on purchased loans or on fixed-rate or non-prime loans. We believe that our experience as a mortgage loan originator with a comprehensive and sophisticated process for credit evaluation, risk-based pricing and loss mitigation will, over time, provide us with a significant advantage over other portfolio investors who do not have comparable origination capabilities.

We believe changes are continuing to occur in the U.S. mortgage industry, resulting in the shifting of investment capital and mortgage assets out of traditional lending and savings institutions and into new forms of mortgage banking and mortgage investment firms, including those that qualify as REITs under the Internal Revenue Code. We believe that, while traditional mortgage investment companies, such as banks, thrifts and insurance companies, generally have greater diversification in their investments than we have as a REIT, they provide less attractive investment structures for investing in mortgage assets because of the costs associated with regulation, infrastructure and corporate level taxation. As a REIT, we are generally able to pass through our REIT earnings to our stockholders without incurring entity-level federal income tax, thereby allowing us to make relatively larger distributions than institutions with similar investments because they are subject to federal income tax on their earnings.

Back to Table of Contents
Index to Financial Statements

Additionally, with the development of highly competitive national mortgage markets (which we believe is partly due to the operations of FHLMC, FNMA or GNMA), local and regional mortgage originators have lost market share to more efficient mortgage originators who compete nationally. The growth of the secondary mortgage market, including new securitization techniques, has also resulted in financing structures that can be utilized efficiently to fund leveraged mortgage portfolios and better manage interest rate risk.

Operating Policies, Strategies and Business Segments

The Company operates two segments:

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

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

Our mortgage portfolio management operations primarily invest in adjustable-rate agency and “AAA”— rated residential mortgage-backed securities and high-quality mortgages that are originated by our mortgage operations or that may be acquired from third parties. Our equity capital and borrowed funds are used to invest in residential mortgage-backed securities and loans held for subsequent securitization, thereby producing net interest income.

Our mortgage lending segment originates residential mortgage loans through our taxable REIT subsidiary, NYMC. Loans are originated through NYMC’s retail and internet branches as well as from independent mortgage brokers and generate gain on sale revenue when the loans are sold to third parties or revenue from brokered loans when the loans are brokered to third parties.

Mortgage Portfolio Management

Prior to the completion of our IPO on June 29, 2004, our operations were limited to the mortgage operations described in the section below entitled “Mortgage Lending.” Beginning in July 2004, we began to implement our business plan of investing in high quality, adjustable rate mortgage loan securities. Our portfolio management strategy is to originate and acquire ARM Assets to hold in our portfolio, fund them using equity capital and borrowings and to generate net interest income from the difference, or net spread, between the yield on these assets and our cost of financing. In order to accomplish this, our:

- Proceeds from equity raising efforts are promptly invested in acquired ARM Assets in order to generate returns on the equity investment.

- Acquired ARM Assets are replaced with high-quality, higher-yielding, lower cost ARM loans self-originated through NYMC retail channels or otherwise acquired.

- Mortgage portfolio management operates with a long-term investment outlook.

- Short-term financing of ARM loans to be securitized is provided by secured warehouse and aggregation lines.

- Ultimate financing for ARM loans is provided by either issuing collateralized debt obligations or by repurchase financing facilities.

We believe we benefit from a cost advantage from self-originating loans and holding these loans in securitized form in the REIT or our QRS:

- through self-origination, we avoid the intermediation costs associated with purchasing mortgage assets in the capital markets; and

- the net interest income generated in the REIT or our QRS generally will not be subject to tax, whereas, had we sold our loans in the capital markets through our TRS, we would have been subject to tax on the gain on sale of loans.

We believe, this strategy, together with prudent leverage to produce the mortgage-backed securities we hold, will produce a greater return for our stockholders in the long term relative to a purchased securities portfolio. This greater return is accomplished by a combination of the recognition of the incremental lower cost to originate such loans and/or the ability to better afford appropriate interest rate hedging strategies in order to provide a similar return to a purchased securities portfolio but with a lower risk profile.

Back to Table of Contents
Index to Financial Statements

We seek to have a portfolio consisting of high quality mortgage-backed securities and loans. We believe that retaining high quality assets in our portfolio helps us mitigate risks associated with market disruptions. Our investment guidelines define the following classifications for securities we own:

- Category I investments are mortgage-backed securities that are either rated within one of the two highest rating categories by at least one of the Rating Agencies, or have their repayment guaranteed by FHLMC, FNMA or GNMA.

- Category II investments are mortgage-backed securities with an investment grade rating of BBB/Baa or better by at least one of the Rating Agencies.

- Category III investments are mortgage-backed securities that have no rating from, or are rated below investment grade by at least one of the Rating Agencies.

We retain on our balance sheet a majority of the residential first lien adjustable-rate and hybrid mortgage loans originated by NYMC that we believe have a low risk of default and resulting loss and are of the following types:

- 1 month adjustable-rate (various total terms);
- 6 month adjustable-rate (various total terms);
- 1 year adjustable-rate (various total terms);
- 2 year fixed-rate, adjustable-rate hybrid (various total terms);
- 3 year fixed-rate, adjustable-rate hybrid (various total terms);
- 5 year fixed-rate, adjustable-rate hybrid (various total terms): and
- 7 year fixed-rate, adjustable-rate hybrid (various total terms).

The investment policy adopted by our Board of Directors provides, among other things, that:

- no investment shall be made which would cause us to fail to qualify as a REIT;
- no investment shall be made which would cause us to be regulated as an investment company;
- at least 70% of our assets will be Category I investments or loans that back or will back such investments; and
- no more than 7.5% of our assets will be Category III investments.

Our Board of Directors may amend or waive compliance with this investment policy at any time without the consent of our stockholders.

We seek to avoid many of the risks typically associated with companies that purchase mortgage-backed securities in the capital markets.

- For our self-originated loan portfolio, we perform our own underwriting rather than rely on the underwriting of others.

- We attempt to maintain a net duration, or duration gap, of one year or less on our ARM portfolio, related borrowings and hedging instruments.

- We structure our liabilities to mitigate potential negative effects of changes in the relationship between short- and longer-term interest rates.

- We may purchase or structure credit enhancements to mitigate potential losses from borrower defaults.

- Substantially all of the Company's securities are backed by ARM loans. Because we are focused on holding ARM loans rather than fixed-rate loans, we believe we will be adversely affected to a lesser extent by early repayments due to falling interest rates or a reduction in our net interest income due to rising interest rates.

Back to Table of Contents
Index to Financial Statements

Our Board of Directors has also established an investment and leverage committee for the purpose of approving certain investment transactions and the incurrence of indebtedness. This committee is comprised of our co-chief executive officers, our chief investment officer and chief operating officer, and our chief financial officer. The committee has the authority to approve, without the need of further approval of our board of directors, the following transactions from time to time, any of which may be entered into by us or any of our subsidiaries:

- the purchase and sale of agency and private label mortgage-backed securities, subject to the limitations described above;
- securitizations of our mortgage loan portfolio;
- the purchase and sale of agency debt;
- the purchase and sale of U.S. Treasury securities;
- the purchase and sale of overnight investments;
- the purchase and sale of money market funds;
- hedging arrangements using:
- interest rate swaps and Eurodollar contracts;
- caps, floors and collars;
- financial futures; and
- options on any of the above; and
- the incurrence of indebtedness using:
- repurchase agreements;
- bank loans, up to an aggregate of $100 million; and
- term repurchase agreements.

Initially, the loans held for investment are funded through warehouse facilities and repurchase agreements. We ultimately finance the loans that we retain in our portfolio through securitization transactions. Upon securitization, we expect that a vast majority of the resulting mortgage-backed securities will become eligible for inclusion in Category I.

The only subordinate classes of mortgage-backed securities that we will hold (Category III investments) are subordinate classes that result from securitizations of the mortgage loans in our portfolio. We do not seek to acquire subordinated mortgage-backed securities as investments but instead acquire them only in connection with our mortgage loan securitizations or in order to help us meet our asset tests as a REIT.

We generally maintain an overall debt-to-equity ratio ranging from 8:1 to 12:1 on the financing of our portfolio ARM Assets. Our liabilities are primarily termed repurchase agreements with maturities ranging from one to twelve months. A significant risk to our operations, relating to our portfolio management, is the risk that interest rates on our assets will not adjust at the same times or amounts that rates on our liabilities adjust. Even though we retain and invest in ARM loans, many of the hybrid ARM loans in our portfolio have fixed rates of interest for a period of time ranging from two to seven years. Our funding costs are generally not constant or fixed. As a result, we use interest rate swaps to extend the duration of our liabilities to attempt to match the duration of our assets and we use termed repurchase agreements with laddered maturities to reduce the risk of a disruption in the repurchase market. Since we hold primarily ARM Assets rated AAA and agency securities (FHLMC or FNMA), we believe we are less susceptible to a disruption in the repurchase market as these types of securities have typically been eligible for repurchase market financing even when repurchase financing was not available for other classes of mortgage assets or asset backed bonds.

Back to Table of Contents
Index to Financial Statements

Mortgage Lending

The origination of mortgage loans through NYMC is significant to our financial results in that it:

- originates many of the high quality mortgage loans that we retain and ultimately collateralize as mortgage securities that we hold in portfolio or issue as collateralized debt obligations;

- allows us to be competitive by offering a broad range of residential mortgage loan products; and

- generates gain on sale income at the TRS with the ability to sell to third parties any fixed-rate and ARM loans that are not eligible for retention and investment in the our portfolio.

Furthermore, we believe our ability to originate ARM loans for securitization benefits us by providing:

- the ability to originate ARM loans at lower cost, so that the amount of premium (net cost over par) to be amortized will be reduced in the event of prepayment;

- generally higher yielding investments as our cost basis is lower; providing the ability to generate a higher return to shareholders and/or the ability to absorb the cost of additional interest rate hedges and thus reduce the inherent interest rate risk in our portfolio;

- greater control over the quality and types of ARM loans in our portfolio as we directly perform our own underwriting of such loans and can encourage our loan officers to focus on certain types of ARM products.

Through NYMC, our loan origination business originates primarily first mortgages on one-to-four family dwellings through our retail loan production offices and is supplemented by our wholesale division and internet channel (www.MortgageLine.com).

We believe that the substantial growth of NYMC's mortgage banking business since its inception has resulted from its commitment to providing exemplary service to its customers and its concentration on retail, referral-based, mortgage banking to borrowers with strong credit profiles. Based on our past experience and our knowledge of the mortgage industry, we believe that referrals from realtors, attorneys, accountants and other professionals and business from repeat customers tend to generate a higher percentage of purchase mortgage loan applications than refinance applications as compared to the loan applications generated by advertising and other mass marketing efforts. For the year ended December 31, 2005, our residential purchase loan originations represented 57.8% of NYMC's total residential mortgage loan originations as measured by principal balance, as compared to an industry-wide percentage of 53.5% for one-to-four family mortgage loans, according to the February 7, 2006 report of the Mortgage Bankers Association, or MBA.

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

Back to Table of Contents
Index to Financial Statements

The following table details the payment stream, loan purpose and documentation type of our mortgage loan originations for the year ended December 31, 2005:

MORTGAGE LOAN ORIGINATION SUMMARY
For the fiscal year ended December 31, 2005

(Dollar amounts in thousands)	Number of Loans		Dollar Value	% of Total
Payment Stream				
Fixed Rate				
FHA/VA	1,805	$	242,258	7.0%
Conventional Conforming	6,031		967,922	28.2%
Conventional Jumbo	581		351,971	10.2%
Total Fixed Rate	8,417	$	1,562,151	45.4%
ARMs				
FHA/VA	94	$	15,244	0.5%
Conventional	6,202		1,859,976	54.1%
Total ARMs	6,296		1,875,220	54.6%
Annual Total	14,713	$	3,437,371	100.0%
Loan Purpose				
Conventional	12,814	$	3,179,869	92.5%
FHA/VA	1,899		257,502	7.5%
Total	14,713	$	3,437,371	100.0%
Documentation Type				
Full Documentation	9,238	$	2,100,239	61.1%
Stated Income	2,489		696,789	20.3%
Stated Income/Stated Assets	1,346		320,624	9.3%
No Documentation	609		145,845	4.2%
No Ratio	437		83,013	2.4%
Stated Assets	13		2,315	0.1%
Other	581		88,546	2.6%
Total	14,713	$	3,437,371	100.00%

Retail Loan Origination

Our loan origination strategy is predominantly retail, referral-based, mortgage banking. Our loan officers rely primarily on the various relationships they have established with their clientele, realtors, attorneys and others who routinely interact with those who may need mortgage financing. Retail loan origination allows us to provide a variety of attractive and innovative mortgage products at competitive rates. Unlike many banks and financial institutions which focus solely on loan products to retain in their portfolios, we offer a wide range of products — products that we can retain in portfolio and products that we will sell to third parties if such loans do not meet our investment parameters.

Because we are predominately referral-based, our cost of sourcing potential retail clients is less than an organization that relies heavily on concentrated broadcast, print or internet media advertising. In order to remain compliant with the Real Estate Settlement Procedures Act ("RESPA"), we do not pay referral fees or enter into above market co-branding, co-marketing or shared facilities relationships. By eliminating intermediaries between the borrower and us, we can both originate high quality mortgage loans for retention in our portfolio at attractive yields or offer loans that may be sold to third parties, while at the same time offering our customers a variety of mortgage products at competitive rates and fees.

Wholesale Loan Origination

Our wholesale lending strategy has historically been a small component of our loan origination operations. We have a network of non-affiliated wholesale loan brokers and mortgage lenders who submit loans to us. We maintain relationships with these wholesale brokers and, as with retail loan originations, will underwrite, process, and fund wholesale loans through our centralized facilities and processing systems. In order to further diversify our origination network, during 2005, we began to expand our wholesale loan origination capacity with the creation of a division specifically for wholesale loan originations.

Back to Table of Contents
Index to Financial Statements

Correspondent Lending

Through our correspondent lending channels, we may acquire mortgage loans from Company-approved correspondent lenders. We review our correspondents for the soundness of their in-house mortgage lending procedures and their ability to fulfill their representations and warranties to us. Generally, loans acquired from correspondents are originated to our approved specifications including our internally developed loan products, credit and property guidelines, and underwriting criteria. In addition, correspondents may sell their own loan products to us that are originated according to the correspondents' product specifications and underwriting guidelines that we have approved and accepted.

To verify product quality and compliance with our underwriting and investment guidelines, we perform a full review of all of the loans generated by the correspondent prior to the purchase thereof. A full underwriting review of each loan file, including all credit and appraisal information, is performed as well as documentation sufficiency and compliance. Similar to loans originated through our retail and wholesale channels, these loans are also subjected to our quality control reviews.

Underwriting

Historically, NYMC's underwriting philosophy has been to underwrite loans according to the guidelines established by the available purchasers of its loans. However, the Company underwrites to its own guidelines select ARM loans it retains for its investment portfolio. We believe that proper underwriting for such loans is critical to managing the credit risk inherent in a loan portfolio.

Typically, mortgage underwriting guidelines provide a framework for determining whether a proposed mortgage loan to a potential borrower will be approved. The key points in this framework are the borrower's credit scores and other indicia of the borrower's ability and willingness to repay the loan, such as the borrower's employment and income, the amount of the borrower's equity in and the value of the borrower's property securing the loan, the borrower's debt to income and other debt ratios, the loan to value ("LTV") of the loan, the amount of funds available to the borrower for closing and the borrower's post-closing liquidity.

We continue to follow the underwriting guidelines established by available purchasers with respect to the loans we intend to sell. Furthermore, for mortgage loans we intend to retain, we follow a specific underwriting methodology based on the following philosophy — first evaluate the borrower's ability and willingness to repay the loan, and then evaluate the value of the property securing the loan. We seek only to retain mortgage loans that we believe have low risk of default and resultant loss. As underwriting basically seeks to predict future borrower payment patterns and ability based on the borrower's history and current financial information and the lender's ability to be made whole in the future through foreclosure in the event a default does occur, no assurance can be made that every loan originated or purchased will perform as anticipated.

The key aspects of our underwriting guidelines are as follows:

Borrower— In evaluating the borrower's ability and willingness to repay a loan, we review and analyze the following aspects of the borrower: credit score, income and its source, employment history, debt levels in revolving, installment and other mortgage loans, credit history and use of credit in the past, and finally the ability and/or willingness to provide verification for the above. Credit scores, credit history, use of credit in the past and information as to debt levels can be typically obtained from a third party credit report through a credit repository. Those sources are used in all cases, as available. In certain cases, borrowers have little or no credit history that can be tracked by one of the primary credit repositories. In these cases, the reason for the lack of history is considered and taken into account. In our experience, more than 95% of prospective borrowers have accessible credit histories.

Property— In evaluating a potential property to be used as collateral for a mortgage loan, we consider all of the following aspects of the property: the loan balance versus the property value, or LTV, the property type, how the property will be occupied (a primary residence, second home or investment property), if the property's apparent value is supported by recent sales of similar properties in the same or a nearby area, any unique characteristics of the property and our confidence in the above data and their sources.

Other Considerations— Other considerations that impact our decision regarding a borrower's loan application include the borrower's purpose in requesting the loan (purchase of a home as opposed to cashing equity out of the home through a refinancing for example), the loan type (adjustable-rate, including adjustment periods and loan life rate caps, or fixed-rate), and any items unique to a loan that we believe could affect credit performance.

Back to Table of Contents
Index to Financial Statements

In addition, we work with nationally recognized providers of appraisal, credit, and title insurance. We oversee the activities of these service providers through on-site visits, report monitoring, customer service surveys, post-closing quality control, and periodic direct participation and conversations with our customers. A significant amount of our settlement services are performed by in-house professionals. We have an extensive quality control review process that is contracted with a third party in order to verify that selected loans were properly underwritten, executed and documented. All loans retained in portfolio and a selection of other loans sold to third parties also are quality control reviewed internally as well.

Our Loan Origination Financing Strategy

We finance our loan originations utilizing warehouse agreements as well as other similar financing arrangements. The agreements are each renewable annually, but are not committed, meaning that the counterparties to the agreements may withdraw access to the credit facilities at any time.

Warehouse Facilities— Non-depository mortgage lenders, such as NYMC, typically rely on credit facilities for capital needed to fund new mortgage loans. These facilities are typically lines of credit or master repurchase agreements from other financial institutions that the mortgage banker can draw from in order to fund new mortgage loans. These facilities are referred to as warehouse lines or warehouse facilities.

Warehouse lines are typically collateralized loans made to mortgage bankers that in turn pledge the resulting loans to the warehouse lender. Third-party mortgage custodians, usually large banks, typically hold the mortgage loans, including the notes, mortgages and other important loan documentation, for the benefit of the mortgage lender who is deemed to own the loan and, if there is a default under the warehouse line, for the benefit of the warehouse lender.

We currently have a $250 million warehouse facility with Greenwich Capital Financial Products, Inc. and a $200 million warehouse facility with Credit Suisse First Boston Mortgage Capital, LLC. On December 13, 2005 we entered into a master repurchase agreement with Deutsche Bank Structured Products, Inc. under which we can enter into up to $300 million in loan repurchase arrangements. This facility became operational in January 2006.

Loan Servicing

Loan servicing is the administration function of a mortgage loan whereby an entity collects monthly payments from a mortgage borrower and disburses those funds to the appropriate parties. The servicer has to account for all payments, maintain balances in certain accounts for each loan, maintain escrow accounts for real estate taxes and insurance, remit the correct amount of principal and interest monthly to the holder of the loan and handle foreclosures as required.

Any loans that we originate and retain for our portfolio have their servicing handled by Cenlar Federal Savings Bank (“Cenlar”), a wholesale bank specializing in mortgage sub-servicing nationwide. Under this arrangement, Cenlar acts as an intermediary between us and the borrower. It collects payments from borrowers, handles accounting and remittance of the payments, handles escrow accounts and does certain tax reporting. As our retained loans are securitized, Cenlar continues to service those loans and reports to the securities trustee or master servicer, as appropriate.

For a loan originated and sold to third parties, the servicing rights are sold upon the sale of the loan. We may choose to own, for periods usually not more than 90 days, certain loans designated as held for sale to third parties in order to increase earnings. In these cases, we believe there is a large enough spread between the mortgage loan interest rate and the interest rate paid on the applicable warehouse line to make any additional risk in carrying those loans on our balance sheet worthwhile. In these cases, and during the interim period between the time we fund (and subsequently own) a loan and sell the loan to a third party, we service loans through Cenlar as well.

Loan servicing provided by Cenlar is provided on a private label basis, meaning that Cenlar employees will identify themselves as being our representatives and correspondence regarding loans is on our letterhead. The benefit to us of this arrangement is that we pay for loan services as we use them, without a significant investment in personnel, systems and equipment. In addition, since Cenlar sub-services on our behalf and reports directly to us, we are quickly made aware of any customer wishing for an early payoff of their loan through refinancing or sale of their home. As a result, we can quickly respond to customer needs and make immediate efforts reestablishing customer contact in order to capture the potential payoff of a customer’s loan with another loan product (potential refinancing, modification or new purchase mortgage) that suits their needs.

Back to Table of Contents
Index to Financial Statements

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements. Forward looking statements are those which are not historical in nature. They can often be identified by their inclusion of words such as "will," "anticipate," "estimate," "should," "expect," "believe," "intend" and similar expressions. Any projection of revenues, earnings or loss capital expenditures, distributions, capital structure or other financial terms is a forward-looking statement. Certain statements regarding the following particularly are forward-looking in nature:

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

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

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

- our limited operating history with respect to our portfolio strategy;
- our proposed portfolio strategy may be changed or modified by our management without advance notice to stockholders, and that we may suffer losses as a result of such modifications or changes;
- impacts of a change in demand for mortgage loans on our net income and cash available for distribution;
- our ability to originate prime and high-quality adjustable-rate and hybrid mortgage loans for our portfolio or for sale to third parties;
- risks associated with the use of leverage;
- interest rate mismatches between our mortgage-backed securities and our borrowings used to fund such purchases;
- changes in interest rates and mortgage prepayment rates;
- effects of interest rate caps on our adjustable-rate mortgage-backed securities;

- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- potential impacts of our leveraging policies on our net income and cash available for distribution;
- our board's ability to change our operating policies and strategies without notice to you or stockholder approval;
- the other important factors described in this Annual Report on Form 10-K, including those under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors," and "Quantitative and Qualitative Disclosures about Market Risk."

Back to Table of Contents
Index to Financial Statements

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events described by our forward-looking events might not occur. We qualify any and all of our forward-looking statements by these cautionary factors. In addition, you should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Company's registration statement on Form S-11 (File No. 333-111668).

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

Seasonality

Loan originations and payoffs are typically at their lowest levels during the first and fourth quarters of the year due to a reduced level of home buying activity during the colder months and while schools are in session. Loan originations and payoffs generally increase during the warmer months, beginning in March and continuing through October. The Company typically experiences higher earnings in the second and third quarters and lower earnings in the first and fourth quarters from its loan origination segment.

Competition

We face intense competition from finance and mortgage banking companies, other mortgage REITs, internet-based lending companies where entry barriers are relatively low, and, to a growing extent, from traditional bank and thrift lenders that have increased their participation in the mortgage industry. As we expand our loan origination business further and build a portfolio of mortgage loans and mortgage-backed securities, we face a significant number of additional competitors, many of whom will be well established in the markets we seek to operate. Some of our competitors are much larger than we are, have better name recognition than we do and have far greater financial and other resources than we do.

We anticipate that the majority of our competition will be in the mortgage industry. In addition to mortgage banking companies, internet-based lending companies, traditional banks and thrift lenders, the government sponsored entities Fannie Mae and Freddie Mac are also expanding their participation in the mortgage industry. While the government sponsored entities presently do not have the legal authority to originate mortgage loans, they do have the authority to buy loans. If as a result of their purchasing practices, these government sponsored entities experience significantly higher-than-expected losses, the experience could adversely affect overall investor perception of the mortgage industry.

Competition in the industry can take many forms, including lower interest rates and fees, less stringent underwriting standards, convenience in obtaining a loan, customer service, amount and term of a loan and marketing and distribution channels. The need to maintain mortgage loan volume in this competitive environment creates a risk of price and quality competition in the mortgage industry. Price competition could cause us to lower the interest rates that we charge borrowers, which could lower the value of our loans we sell or retain in our portfolio. If our competitors adopt less stringent underwriting standards, we will be pressured to do so as well. If we do not relax underwriting standards in response to our competitors, we may lose market share. If we relax our underwriting standards in response to price competition, we may be exposed to higher credit risk without receiving higher pricing to compensate for the higher risk. Any increase in these pricing and underwriting pressures could reduce the volume of our loan originations and sales and significantly harm our business, financial condition, liquidity and results of operations.

Personnel

The Company recruits, hires and retains individuals with the specific skills that complement its corporate growth and business strategies. As of December 31, 2005, we employed 802 people. Of this number, 329 were loan officers dedicated to originating loans. The number of employees at December 31, 2004 was 782, of which 344 were loan officers dedicated to originating loans.

Certain Federal Income Tax Considerations and Our Status as a REIT

We have elected to be taxed as a REIT under the federal income tax laws. As such, we operate in such a manner as to qualify for taxation as a REIT under the federal income tax laws, and we intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to qualify or remain qualified as a REIT.

As a REIT, we generally will not be subject to federal income tax on the REIT taxable income that we distribute to our stockholders, but taxable income generated by NYMC, our taxable REIT subsidiary, is subject to regular corporate income tax. The benefit of REIT tax status is a tax treatment that avoids "double taxation," or taxation at both the corporate and stockholder levels, that generally applies to distributions by a corporation to its stockholders.

Back to Table of Contents
Index to Financial Statements

Summary Requirements for Qualification

Organizational Requirements

A REIT is a corporation, trust, or association that meets each of the following requirements:

1) It is managed by one or more trustees or directors.

2) Its beneficial ownership is evidenced by transferable shares, or by transferable certificates of beneficial interest.

3) It would be taxable as a domestic corporation, but for the REIT provisions of the federal income tax laws.

4) It is neither a financial institution nor an insurance company subject to special provisions of the federal income tax laws.

5) At least 100 persons are beneficial owners of its shares or ownership certificates.

6) Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the federal income tax laws define to include certain entities, during the last half of any taxable year.

7) It elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status.

8) It meets certain other qualification tests, described below, regarding the nature of its income and assets.

We must meet requirements 1 through 4 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

Qualified REIT Subsidiaries. A corporation that is a “qualified REIT subsidiary” is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a “qualified REIT subsidiary” are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A “qualified REIT subsidiary” is a corporation, all of the capital stock of which is owned by the REIT. Thus, in applying the requirements described herein, any “qualified REIT subsidiary” that we own will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit.

Taxable REIT Subsidiaries. A REIT is permitted to own up to 100% of the stock of one or more “taxable REIT subsidiaries,” or TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, no more than 20% of the value of a REIT’s assets may consist of stock or securities of one or more TRSs.

A TRS will pay income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. We have elected for NYMC to be treated as a TRS. NYMC is subject to corporate income tax on its taxable income, which is its net income from loan originations and sales.

Qualified REIT Assets

On the last day of each calendar quarter, at least 75% of the value of our assets (which includes any assets held through a qualified REIT subsidiary) must consist of qualified REIT assets — primarily, real estate, mortgage loans secured by real estate, and certain mortgage-backed securities ("Qualified REIT Assets"), government securities, cash, and cash items. We believe that substantially all of our assets are and will continue to be Qualified REIT Assets. On the last day of each calendar quarter, of the assets not included in the foregoing 75% asset test, the value of securities that we hold issued by any one issuer may not exceed 5% in value of our total assets and we may not own more than 10% of the voting power or value of any one issuer's outstanding securities (with an exception for securities of a qualified REIT subsidiary or of a taxable REIT subsidiary). In addition, the aggregate value of our securities in taxable REIT subsidiaries cannot exceed 20% of our total assets. We monitor the purchase and holding of our assets for purposes of the above asset tests and seek to manage our portfolio to comply at all times with such tests.

Back to Table of Contents
Index to Financial Statements

We intend to limit substantially all of the assets that we acquire to Qualified REIT Assets. Our strategy to maintain REIT status may limit the type of assets, including hedging contracts and other assets that we otherwise might acquire.

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

Gross Income Tests

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

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

2. The 95% Test. At least 95% of our gross income for the taxable year must be derived from the sources that are qualifying for purposes of the 75% test, and from dividends, interest or gains from the sale or disposition of stock or other assets that are not dealer property.

Distributions

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

Item 1A. *RISK FACTORS*

An investment in our securities involves various risks. You should carefully consider the following risk factors before making an investment decision involving our securities. The risks discussed herein can adversely affect our business, liquidity, operating results, prospects, and financial condition. This could cause the market price of our securities to decline and could cause you to lose all or part of your investment. The risk factors described below are not the only risks that may affect us. Additional risks and uncertainties not presently known to us also may adversely affect our business, liquidity, operating results, prospects, and financial condition.

Our business strategy partially depends on our ability to originate prime adjustable-rate and hybrid mortgage loans for our portfolio.

Our portfolio of prime adjustable-rate and hybrid mortgage loans will, over time, be comprised primarily of mortgage loans that we originate through NYMC. If NYMC is not able to originate prime adjustable-rate and hybrid mortgage loans that meet our investment criteria at the volumes we expect, the time required for, and the cost associated with, building our portfolio may be greater than expected, which could have an adverse effect on our results of operations and our ability to make distributions to our stockholders.

We may experience a decline in the market value of our assets

The market value of the interest-bearing assets that we have acquired and intend to continue to acquire, most notably mortgage-backed securities and originated or purchased residential mortgage loans and any related hedging instruments, may move inversely with changes in interest rates. We anticipate that increases in interest rates will tend to decrease our net income. A decline in the market value of our investments may limit our ability to borrow or result in lenders requiring additional collateral or initiating margin calls under our repurchase agreements. As a result, we could be required to sell some of our investments under adverse market conditions in order to maintain liquidity. If such sales are made at prices lower than the amortized costs of such investments, we will incur losses. A default under our repurchase agreements could also result in the liquidation of the underlying investments used as collateral and result in a loss equal to the difference between the value of the collateral and the amount owed under our repurchase agreements.

Back to Table of Contents
Index to Financial Statements

Our success will depend on our ability to obtain financing to leverage our equity.

If we are limited in our ability to leverage our assets, the returns on our portfolio may be harmed. A key element of our strategy is our use of leverage to increase the size of our portfolio in an attempt to enhance our returns. As of December 31, 2005, our leverage ratio, defined as total financing facilities less subordinated debentures outstanding divided by total stockholders' equity plus subordinated debentures at December 31, 2005 was 11 to 1. Our repurchase agreements are not currently committed facilities, meaning that the counterparties to these agreements may at any time choose to restrict or eliminate our future access to the facilities and we have no other committed credit facilities through which we may leverage our equity. If we are unable to leverage our equity to the extent we currently anticipate, the returns on our portfolio could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.

Interest rate fluctuations may cause losses.

We believe our primary interest rate exposure relates to our mortgage loans, mortgage-backed securities and variable-rate debt, as well as the interest rate swaps and caps that we utilize for risk management purposes. Changes in interest rates may affect our net interest income, which is the difference between the interest income we earn on our interest-earning assets and the interest expense we incur in financing these assets. Changes in the level of interest rates also can affect our ability to originate or acquire mortgage loans or mortgage-backed securities, the value of our assets and our ability to realize gains from the sale of such assets. In a period of rising interest rates, our interest expense could increase while the interest we earn on our assets would not change as rapidly. This would adversely affect our profitability.

Our operating results depend in large part on differences between income received from our assets, net of credit losses, and our financing costs. We anticipate that in most cases, for any period during which our assets are not match-funded, the income from such assets will adjust more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence our net income. We anticipate that increases in interest rates will tend to decrease our net income. Interest rate fluctuations resulting in our interest expense exceeding our interest income would result in operating losses for us and may limit or eliminate our ability to make distributions to our stockholders.

Our mortgage loan originations historically have been concentrated in specific geographic regions and any adverse market or economic conditions in those regions may have a disproportionately adverse effect on the ability of our customers to make their loan payments.

Our mortgage loan originations have been and may in the future be concentrated in specific geographic regions — predominantly in the mid-Atlantic, Northeast and New England regions of the United States. Adverse market or economic conditions in a particular region may disproportionately increase the risk that borrowers in that region will be unable to make their mortgage payments. In addition, the market value of the real estate securing those mortgage loans could be adversely affected by adverse market and economic conditions in that region. Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in that geographic region could adversely affect both our net interest income from loans in our portfolio as well as our ability to originate, sell and securitize loans, which would significantly harm our revenues, results of operations, financial condition, and business prospects.

A prolonged economic slowdown, a lengthy or severe recession or declining real estate values could harm our operations.

We believe the risks associated with our business will be more acute during periods of economic slowdown or recession if these periods are accompanied by declining real estate values. Declining real estate values will likely reduce our level of new mortgage loan originations, since borrowers often use increases in the value of their existing home to support the refinancing of their existing mortgage loans or the purchase of new homes at higher levels of borrowings. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loans in the event of default. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as well as our ability to originate, sell and securitize loans, which would significantly harm our revenues, results of operations, financial condition, and business prospects.

Our past operating results have occurred during a period of rapid growth for the residential mortgage industry and may not be indicative of our future operating results.

The growth rate of our origination platform has benefited from low interest rates, a long period of economic growth and strategic acquisitions of mortgage origination platforms. NYMC's loan originations for the year ending December 31, 2005 increased 86% over the prior period, aided in large part to our acquisition of Guaranty Residential Lending, Inc., while according to the MBA's February 7, 2006 Mortgage Finance Forecast, lender origination volume for 2005 was flat versus the prior year. The MBA further projected that overall loan originations will decline in 2006. These projected declines in overall volume of closed loan originations are likely to have a negative effect on our loan origination volume and net income. Accordingly, our historical performance may not be indicative of future results, and our results of operations may be materially adversely affected as interest rates rise. In addition, NYMC's recent and rapid growth may distort some of its ratios and financial statistics and our change in business strategy to include the development of a portfolio of mortgage loans and mortgage-backed securities makes period-to-period comparisons difficult. In light of this growth and change in business strategy, our historical performance and operating and origination data may be of little relevance in predicting our future performance.

Back to Table of Contents
Index to Financial Statements

Excessive supply of or reduced demand for mortgage-backed securities in the market for these securities may cause the market to require a higher yield on our mortgage-backed securities and thereby cause a decline in the value of our portfolio.

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

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

Loan prepayment rates may increase, adversely affecting yields on our planned investments.

The value of the assets we have acquired and intend to continue to acquire may be affected by prepayment rates on mortgage loans. Prepayment rates on mortgage loans are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond our control, and consequently, such prepayment rates cannot be predicted with certainty. In periods of declining mortgage loan interest rates, prepayments on mortgage loans generally increase. If general interest rates decline as well, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets with lower yields than the yields on the assets that were prepaid. In addition, the market value of any mortgage assets may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates. Conversely, in periods of rising interest rates, prepayments on mortgage loans generally decrease, in which case we would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios, we may fail to recoup fully our cost of acquisition of certain investments.

Our hedging transactions may limit our gains or result in losses.

We use derivatives, primarily interest rate swaps and caps, to hedge our liabilities and this has certain risks, including the risk that losses on a hedging transaction will reduce the amount of cash available for distribution to our stockholders and that such losses may exceed the amount invested in such instruments. Our board of directors has adopted a general policy with respect to the use of derivatives, and which generally allows us to use derivatives when we deem appropriate for risk management purposes, but does not set forth specific guidelines. To the extent consistent with maintaining our status as a REIT, we may use derivatives, including interest rate swaps and caps, options, term repurchase contracts, forward contracts and futures contracts, in our risk management strategy to limit the effects of changes in interest rates on our operations. However, a hedge may not be effective in eliminating the risks inherent in any particular position. Our profitability may be adversely affected during any period as a result of the use of derivatives in a hedging transaction.

The mortgage loans we typically invest in and the mortgage loans underlying the mortgage-backed securities we typically invest in are subject to risks of delinquency, foreclosure and loss, which could result in losses to us.

Residential mortgage loans are secured by residential properties and are subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay a loan secured by residential property typically is dependent primarily upon the income or assets of the borrower, but also may be affected by property location and condition, competition and demand for comparable properties, changes in zoning laws, environmental contamination, changes in national, regional or local economic conditions, declines in regional or local real estate values, increases in interest rates, real estate tax rates, changes in governmental rules and regulations and acts of God, terrorism, social unrest and civil disturbances.

In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral that we can realize upon foreclosure and sale and the principal and accrued interest of the mortgage loan. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process. The occurrence of an event of default or foreclosure could have a material adverse effect on our cash flow from operations and could limit the amount we have available for payment of our debt obligations and distribution to our stockholders. Residential mortgage-backed securities evidence interests in or are secured by pools of residential mortgage loans. Accordingly, the mortgage-backed securities we typically invest in are subject to all of the risks of the underlying mortgage loans.

Back to Table of Contents
Index to Financial Statements

We may be required to repurchase mortgage loans that we have sold or to indemnify holders of our mortgage-backed securities.

If any of the mortgage loans that we originate and sell, or that we pledge to secure mortgage-backed securities that we issue in our securitizations, do not comply with the representations and warranties that we make about the characteristics of the loans, the borrowers and the properties securing the loans, we may be required to repurchase those loans in the case of the loans that we have sold, or replace them with substitute loans or cash in the case of securitized loans. If this occurs, we may have to bear any associated losses directly. In addition, in the case of loans that we have sold, we may be required to indemnify the purchasers of such loans for losses or expenses incurred as a result of a breach of a representation or warranty made by us. Repurchased loans typically require an allocation of working capital to carry on our books, and our ability to borrow against such assets is limited, which could limit the amount by which we can leverage our equity. Any significant repurchases or indemnification payments could significantly harm our cash flow and results of operations and limit our ability to make distributions to our stockholders.

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

When we originate mortgage loans, we rely upon information supplied by borrowers and other third parties, including information contained in the applicant's loan application, property appraisal reports, title information and employment and income documentation. If any of this information is misrepresented or falsified and if we do not discover it prior to funding a loan, the actual value of such loan may be significantly lower than anticipated. As a practical matter, we generally bear the risk of loss associated with a misrepresentation whether it is made by the loan applicant, the mortgage broker, another third party or one of our employees. A loan subject to a material misrepresentation is typically unsaleable or is subject to repurchase or substitution if it is sold or securitized prior to detection of the misrepresentation. Although we may have rights against persons and entities who made or knew about the misrepresentation, those persons and entities may be difficult to locate, and it is often difficult to collect any monetary losses from them that we may have suffered.

Our operations are subject to a body of complex laws and regulations at the federal, state and local levels.

We must comply with the laws, rules and regulations, as well as judicial and administrative decisions, of all jurisdictions in which we originate mortgage loans, as well as an extensive body of federal laws, rules and regulations. The volume of new or modified laws, rules and regulations applicable to our business has increased in recent years and individual municipalities have also begun to enact laws, rules and regulations that restrict or otherwise affect loan origination activities, and in some cases loan servicing activities. The laws, rules and regulations of each of these jurisdictions are different, complex and, in some cases, in direct conflict with each other. It may be more difficult to identify comprehensively, to interpret accurately, to program properly our information systems and to effectively train our personnel with respect to all of these laws, rules and regulations, thereby potentially increasing the risks of non-compliance with these laws, rules and regulations.

Our failure to comply with these laws, rules and regulations can lead to:

- civil and criminal liability, including potential monetary penalties;
- loss of state licenses or permits required for continued lending and servicing operations;
- legal defenses causing delay or otherwise adversely affecting our ability to enforce loans, or giving the borrower the right to rescind or cancel the loan transaction;
- demands for indemnification or loan repurchases from purchasers of our loans;

- class action lawsuits; and
- administrative enforcement actions.

Back to Table of Contents
Index to Financial Statements

We commenced operations as a newly public company in June 2004 and have a limited operating history.

NYMC, our mortgage banking subsidiary, has a substantial operating history, but we were not formed until September 2003 and had no operations prior to closing our IPO on June 29, 2004. As a result, we have a limited history managing a portfolio of mortgage loans or mortgage-backed securities for you to determine the likelihood of our achieving our investment objectives.

Our executive officers have agreements that provide them with benefits in the event their employment is terminated following a change in control.

We have entered into agreements with the members of our senior management team, Messrs. Schnall, Akre, Wirth, Fierro and Mumma, that provide them with severance benefits if their employment ends under specified circumstances following a change in control. These benefits could increase the cost to a potential acquirer of us and thereby prevent or discourage a change in control that might involve a premium price for your shares or otherwise be in your best interest.

Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control which could have an adverse effect on the value of our securities.

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

- our charter provides that, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed with or without cause only by the affirmative vote of holders of at least two-thirds of all votes entitled to be cast by our stockholders generally in the election of directors;
- our bylaws provide that only our board of directors shall have the authority to amend our bylaws;
- under our charter, our board of directors has authority to issue preferred stock from time to time, in one or more series and to establish the terms, preferences and rights of any such series, all without the approval of our stockholders;
- the Maryland Business Combination Act; and
- the Maryland Control Share Acquisition Act.

Although our board of directors has adopted a resolution exempting us from application of the Maryland Business Combination Act and our bylaws provide that we are not subject to the Maryland Control Share Acquisition Act, our board of directors may elect to make the “business combination” statute and “control share” statute applicable to us at any time and may do so without stockholder approval.

Maintenance of our Investment Company Act exemption imposes limits on our operations.

We have conducted and intend to continue to conduct our operations so as not to become regulated as an investment company under the Investment Company Act of 1940, as amended. We believe that there are a number of exemptions under the Investment Company Act that are applicable to us. To maintain the exemption, the assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act. In addition, we could, among other things, be required either (a) to change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have an adverse effect on our operations and the market price for our securities.

Failure to qualify as a REIT would adversely affect our operations and ability to make distributions.

We have operated and intend to continue to operate so to qualify as a REIT for federal income tax purposes. Our continued qualification as a REIT will depend on our ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income, and the amount of our distributions to our stockholders.

In order to qualify as a REIT, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income, excluding any net capital gain. To the extent that we distribute at least 90%, but less than 100% of our REIT taxable income, we will be subject to corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of (i) 85% of our ordinary REIT income for that year, (ii) 95% of our REIT capital gain net income for that year, and (iii) 100% of our undistributed REIT taxable income from prior years.

We have made and intend to continue to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax.

Back to Table of Contents
Index to Financial Statements

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. In addition, if we do not qualify for certain statutory relief provisions, we generally would be disqualified from treatment as a REIT for the four taxable years following the year in which we lost our REIT status. Failing to obtain, or losing, our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability, and we would no longer be required to make distributions to stockholders. Additionally, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

Item 1B. ***UNRESOLVED STAFF COMMENTS***

None.

Item 2. ***PROPERTIES***

Our principal executive and administrative offices are located at 1301 Avenue of the Americas, 7th floor, New York, New York 10019. We also operate retail loan origination sales offices at 54 (28 branches and 26 branch satellite) locations in 11 states. All of our facilities are leased. The aggregate annual rent for these locations is approximately $5.0 million.

Further details of our facilities is as follows:

Location	**Business Activity**	**Business Segment**
New York City	Corporate Headquarters and Mortgage Origination	Mortgage Portfolio Management and Mortgage Lending
Bridgewater, New Jersey	Wholesale Lending	Mortgage Lending
Various-54 locations in 11 states	Retail Mortgage Origination	Mortgage Lending

Item 3. ***LEGAL PROCEEDINGS***

The Company is at times subject to various legal proceedings arising in the ordinary course of business. 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.

Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

None.

PART II

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

Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the New York Stock Exchange under the trading symbol "NTR". As of March 1, 2006, we had 18,258,221 shares of common stock outstanding, and as of March 6, 2006, there were 88 holders of record. This figure does not reflect the beneficial ownership of shares held in nominee name.

Back to Table of Contents
Index to Financial Statements

The following table sets forth, for the periods indicated, the high, low and quarter end closing sales prices per share of common stock on the NYSE and the cash dividends paid or payable per share of common stock.

	Common Stock Prices			Cash Dividends		
	High	**Low**	**Close**	**Declared**	**Paid or Payable**	**Amount per Share**
Year Ended December 31, 2005						
Fourth quarter	$ 7.50	$ 5.51	$ 6.62	12/09/05	1/26/06	$ 0.21
Third quarter	9.20	7.00	7.47	9/26/05	10/26/05	0.21
Second quarter	10.23	9.04	9.07	6/02/05	07/26/05	0.25
First quarter	11.30	9.90	10.22	03/11/05	04/26/05	0.25

	Common Stock Prices			Cash Dividends		
	High	**Low**	**Close**	**Declared**	**Paid or Payable**	**Amount per Share**
Year Ended December 31, 2004						
Fourth quarter	$ 11.34	$ 8.90	$ 11.20	12/16/04	1/26/05	$ 0.24
Third quarter	9.90	8.55	9.35	9/16/04	10/26/04	0.16
Second quarter	9.15	8.69	8.86	(1)	(1)	(1)

(1) The Company closed its IPO on June 29, 2004. As a result, no dividend for the two days of the quarter ended June 30, 2004 was declared or paid.

In order to qualify for the tax benefits accorded to a REIT under the Code, we intend to pay quarterly dividends such that all or substantially all of our taxable income each year (subject to certain adjustments) is distributed to our stockholders. All of the distributions that we make will be at the discretion of our Board of Directors and will depend on our earnings and financial condition, maintenance of REIT status and any other factors that the Board of Directors deems relevant.

During 2005, taxable dividend distributions for the Company’s common stock were $0.95 per share. The Company’s common stock is currently listed under the CUSIP #649604-10-5 and trades under the NYSE ticker symbol NTR. For tax reporting purposes, the 2005 taxable dividend distributions will be classified as follows: $0.81532 as ordinary income and $0.13468 as a return of capital. The following table contains this information on a quarterly basis.

Declaration Date	Record Date	Payment Date	Cash Distribution per share	Income Dividends	Short-term Capital Gain	Total Taxable Ordinary Dividend	Return of Capital
12/16/04	1/6/05	1/26/05	$ 0.24	$ 0.21558	$ 0.02076	$ 0.23634	$ 0.00366
3/11/05	4/6/05	4/26/05	$ 0.25	$ 0.18931	$ 0.03005	$ 0.21936	$ 0.03064
6/2/05	7/14/05	7/26/05	$ 0.25	$ 0.15421	$ 0.07059	$ 0.22480	$ 0.02520
9/26/05	10/6/05	10/26/05	$ 0.21	$ 0.13482	$ —	$ 0.13482	$ 0.07518
Total 2005 Cash Distributions			$ 0.95	$ 0.69392	$ 0.12140	$ 0.81532	$ 0.13468

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Company has not purchased any of its registered equity securities in the twelve months ended December 31, 2005.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2005 with respect to compensation plans under which equity securities of the Company are authorized for issuance. The Company has no such plans that were not approved by security holders.

Plan Category	**Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights**	**Weighted Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans**
Equity compensation plans approved by security holders.	566,500	$ 9.56	139,500

Item 6. ***SELECTED FINANCIAL DATA***

The following selected consolidated financial data is derived from our audited consolidated financial statements and the notes thereto for the periods presented and should be read in conjunction with the more detailed information therein and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report. Operating results are not necessarily indicative of future performance.

The selected financial data as of and for the year ended December 31, 2005 and December 31, 2004 includes the operations of NYMT and its consolidated subsidiaries. Included in the selected financial data for the year ended December 31, 2004 are the results of NYMT for the period beginning June 29, 2004 (the closing date of our IPO) and NYMC for the year-to-date period beginning January 1, 2004. Prior to our IPO, NYMT had no operations and, as a result, for all years prior to 2004, the financial data presented is for NYMC only.

Back to Table of Contents
Index to Financial Statements

Selected Consolidated Financial and Other Data

	For the Year Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollar amounts in thousands, except per share data)				
Operating Data:					
Revenues:					
Interest income	$ 77,476	$ 27,299	$ 7,609	$ 2,986	$ 1,570
Interest expense	60,104	16,013	3,266	1,673	1,289
Net Interest Income	17,372	11,286	4,343	1,313	281
Gains on sales of mortgage loans	26,783	20,835	23,031	9,858	6,429
Brokered loan fees	9,991	6,895	6,683	5,241	3,749
Gain on sale of securities and related hedges	2,207	774	—	—	—
Impairment loss on investment securities	(7,440)	—	—	—	—
Miscellaneous	232	227	45	15	48
Total other income	31,773	28,731	29,759	15,114	10,226
Expenses:					
Salaries and benefits	30,979	17,118	9,247	5,788	3,644
Brokered loan expenses	7,543	5,276	3,734	2,992	2,174
General and administrative expenses	24,512	13,935	7,395	3,897	2,808
Total expenses	63,034	36,329	20,376	12,677	8,626
(Loss)/income before income tax benefit	(13,889)	3,688	13,726	3,750	1,881
Income tax benefit	8,549	1,259	—	—	—
Net (loss)/income	$ (5,340)	$ 4,947	$ 13,726	$ 3,750	$ 1,881
Basic (loss)/income per share	$ (0.30)	$ 0.28	—	—	—
Diluted (loss)/income per share	$ (0.30)	$ 0.27	—	—	—
Balance Sheet Data:					
Cash and cash equivalents	$ 9,056	$ 7,613	$ 4,047	$ 2,746	$ 1,549
Mortgage loans held in securitization trusts or held for investment	780,670	190,153	—	—	—
Investment securities available for sale	716,482	1,204,745	—	—	—
Mortgage loans held for sale	108,271	85,385	36,169	34,039	9,894
Due from loan purchasers and escrow deposits pending loan closings	123,247	96,140	58,862	40,621	20,707
Total assets	1,791,293	1,614,762	110,081	83,004	34,561
Financing arrangements	1,391,685	1,470,596	90,425	73,016	29,705
Collateralized debt obligations	228,226	—	—	—	—
Subordinated debentures	45,000	—	—	—	—
Subordinated notes due to members	—	—	14,707	—	—
Total liabilities	1,690,335	1,495,280	110,555	76,504	30,891

Equity (deficit)	100,958	119,482	(474)	6,500	3,670
Investment Portfolio Data:					
Average yield on investment portfolio	4.16	3.90	—	—	—
Net duration of interest earning assets to liabilities	0.91	0.42	—	—	—
Originations Data:					
Purchase originations	$ 1,985,651	$ 1,089,499	$ 803,446	$ 469,404	$ 374,454
Refinancing originations	1,451,720	756,006	796,879	407,827	209,748
Total originations	$ 3,437,371	$ 1,845,505	$ 1,600,325	$ 877,231	$ 584,202
Fixed-rate originations	$ 1,562,151	$ 878,749	$ 890,172	$ 518,382	$ 398,056
Adjustable-rate originations	1,875,220	966,756	710,153	358,849	186,146
Total originations	$ 3,437,371	$ 1,845,505	$ 1,600,325	$ 877,231	$ 584,202
Total mortgage sales	$ 2,875,288	$ 1,435,340	$ 1,234,848	$ 633,223	$ 404,470
Brokered originations	562,083	410,165	365,477	244,008	179,732
Total originations	$ 3,437,371	$ 1,845,505	$ 1,600,325	$ 877,231	$ 584,202
Originated Mortgage Loans Retained for Investment:					
Par amount	$ 555.2	$ 95.1	n/a	n/a	n/a
Weighted average middle credit score	734	743	n/a	n/a	n/a
Weighted average LTV	69.62%	66.58%	n/a	n/a	n/a
Mortgage Loans Sold:					
Weighted average whole loan sales price over par - non-FHA(1)	1.34%	1.70%	1.75%	1.51%	1.34%
Weighted average whole loan sales price over par - FHA(1)	3.63%	2.96%	4.10%	3.46%	3.10%
Weighted average whole loan sales price over par - all mortgage loans sold	1.52%	2.02%	1.75%	1.52%	1.37%
Weighted average middle credit score non-FHA(1)	704	715	—	—	—
Weighted average middle credit score FHA(1)	633	631	629	668	650
Weighted average middle credit score all mortgage loans sold	696	703	719	716	713
Weighted average LTV non-FHA(1)	74.58%	71.95%	68.47%	67.23%	71.38%
Weighted average LTV FHA(1)	92.76%	92.12%	88.82%	91.78%	86.82%
Weighted average LTV all mortgage loans sold	76.65%	75.88%	68.67%	67.42%	71.71%
Operational/Performance Data:					
Salaries, general and administrative expense as a percentage of total loans originated	1.61%	1.68%	1.04%	1.10%	1.10%
Number of state licensed or exempt from licensing at period end	43	40	15	13	7
Number of locations at period end	54	66	15	13	7
Number of employees at period end	802	782	335	184	147
Dividends declared per common share	$ 0.92	$ 0.40	—	—	—

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

Back to Table of Contents
Index to Financial Statements

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

General

New York Mortgage Trust, Inc. ("NYMT," the "Company," "we," "our" and "us") is a self-advised residential mortgage finan company that originates, acquires, retains and securitizes mortgage loans and mortgage-backed securities. Our wholly-owned taxable REIT subsidiary ("TRS"), The New York Mortgage Company, LLC ("NYMC"), is a residential mortgage banking company that originates a wide range of mortgage loans, with a particular focus on prime adjustable- and fixed-rate, first lien, residential purchase mortgage loans. Prior to the simultaneous completion of our acquisition of NYMC and our initial public offering ("IPO") in 2004, NYMC sold all of the loans it originated to third parties, and also brokered loans to other mortgage lenders prior to funding. NYMC, which originates residential mortgage loans through a network of 28 full-service loan origination locations and 26 satellite loan origination locations, is presently licensed or authorized to do business in 43 states and the District of Columbia.

Strategic Overview

We are considered an "active" mortgage REIT in that NYMC, our TRS, originates loans that may either be held in portfolio, aggregated and subsequently securitized for long-term investment or sold to third parties for gain on sale revenue. When we aggregate and securitize residential mortgage loans for investment, the leveraged portfolio is comprised largely of prime adjustable-rate mortgage loans that we originate and that meet our investment objectives and portfolio requirements, including adjustable-rate loans that have an initial fixed-rate period, which we refer to as hybrid mortgage loans. We believe that our ability to originate mortgage loans as the basis for our portfolio will enable us to build a portfolio that generates a higher return than the returns realized by "passive" mortgage investors that do not have their own origination capabilities, because the cost to originate and retain such mortgage loans for securitization is generally less than the premiums paid to purchase similar assets from third parties. Our portfolio loans are held at the REIT level or by New York Mortgage Funding, LLC ("NYMF"), our qualified REIT subsidiary ("QRS").

We aggregate a portfolio comprised mainly of high credit quality, adjustable-rate mortgage loans until the portfolio reaches a size sufficient for us to securitize such loans. We obtain the loans we securitize from either our TRS, NYMC, or from third parties. Our first securitization occurred on February 25, 2005 and we completed our second and third loan securitizations on July 28, 2005 and December 20, 2005, respectively. These securitization transactions, through which we financed the adjustable-rate and hybrid mortgage loans that we retained, were structured as financings for both tax and financial accounting purposes. Therefore, we do not expect to generate a gain or loss on sales from these activities, and, following the securitizations, the loans are classified on our consolidated balance sheet as assets. For our first two securitizations, we retained all of the resultant securities and financed such securities with repurchase agreements; for our third securitization we sold investment grade securities and the securitization debt is recorded as a liability.

NYMC also originates and sells loans to third parties for gain on sale revenue rather than aggregating lower cost assets, depending on market conditions. We also, depending on market conditions, retain in our portfolio selected adjustable-rate and hybrid mortgage loans that we originate. Generally, we sell the fixed-rate loans and any adjustable-rate and hybrid mortgage loans that do not meet our investment criteria or portfolio requirements that we originate to third parties. We rely on our own underwriting criteria with respect to the mortgage loans we retain and rely on the underwriting criteria of the institutions to which we sell our loans with respect to the loans we sell. The ability to originate and sell loans for gain on sale revenue is another advantage of being an active mortgage REIT.

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

Back to Table of Contents
Index to Financial Statements

Funding Diversification. We strive to maintain and achieve a balanced and diverse funding mix to finance our investment portfolio and assets. As a mortgage lender, we rely primarily on secured warehouse lines of credit for our funding needs on loans held for sale to third parties. Since our IPO in June 2004, we rely primarily on repurchase agreements in order to finance our investment portfolio of residential loans and mortgage-backed securities. As of December 31, 2005, we have $5.4 billion of commitments to provide repurchase agreement financing through 23 different counterparties. During 2005, we further diversified our sources of financing with the issuance of $45 million of trust preferred securities classified as subordinated debentures.

On our first two securitizations (collateralized debt obligations, or ”CDO”) of mortgage loans, we retained 100% of the issued securities and financed such securities with repurchase agreements. The creation of mortgage-backed securities of our self-originated mortgage loans in this manner provides an asset with better liquidity and longer-term financing at better rates as opposed to financing whole loans through warehouse lines. In December, 2005 we completed our third securitization of $235.0 million of self-originated ARM loans and sold the majority of the securities to third parties. Because we did not retain all of the resultant securities as in prior CDOs, this securitization eliminated the risk of short-term financing (reducing the asset to liability duration gap, which is the difference between the estimated maturities or lives of our earning assets and related financing facilities) and the mark-to-market pricing risk inherent in financing through repurchase agreements or warehouse lines of credit; as a result of this permanent financing we are not subject to margin calls on the assets of this CDO.

Risk Management. As a mortgage lender and a manager of mortgage loan investments, we must mitigate key risks inherent in these businesses, principally credit risk and interest rate risk.

Exceptional Investment Portfolio Credit Quality. We retain in our portfolio only selected, high-quality loans that we originate or may opportunistically acquire. As a result, our investment portfolio consists of high-quality loans that we have either securitized for our own portfolio or that collateralize our CDO financings. High credit quality creates significant portfolio liquidity and provides for financing opportunities that are readily available on generally favorable terms. When we retain loans for investment, either whole loans being aggregated for securitization or CDOs in which we retain all resultant securities or below A-rated tranches, we retain the risk of potential credit losses relative to the agency or higher rated securities we may purchase from time-to-time. Since we began our portfolio investment operations, we have not experienced any credit losses in our portfolio.

We believe that our credit performance is reflective of the high credit quality of the loans we originate or acquire for securitization, our prudent in-house underwriting, property valuation methods and review, our overall investment policies and prudent management of our delinquent loan portfolio. We believe that our delinquencies of 0.25% of the total par balance of our investment portfolio of residential loans at December 31, 2005 reflect strong credit characteristics and the credit culture of our underwriting and investment philosophy. The weighted average seasoning of loans in our investment portfolio of mortgage loans was approximately 12 months at December 31, 2005.

Interest Rate Risk Management. Another primary risk to our investment portfolio of mortgage loans and mortgage-backed securities is interest rate risk. We have a match funding philosophy in which we use hedging instruments to fix or cap the interest rates on our short-term, CDO and other financing arrangements that finance our investment portfolio of mortgage loans and securities. We hedge our financing costs in an attempt to maintain a net duration gap of less than one year; as of December 31, 2005, our net duration gap was approximately 11 months.

Back to Table of Contents
Index to Financial Statements

As we originate loans held for investment or acquire mortgage-backed securities or loans, we seek to employ our match funding strategy in order to stabilize net asset values and earnings during periods of rising interest rates. To do so, we use hedging instruments in conjunction with our borrowings to approximate the repricing characteristics of such assets. The Company utilizes a model based risk analysis system to assist in projecting portfolio performances over a scenario of different interest rates and market stresses. The model incorporates shifts in interest rates, changes in prepayments and other factors impacting the valuations of our financial securities, including mortgage-backed securities, repurchase agreements, interest rate swaps and interest rate caps. However, given the prepayment uncertainties on our mortgage assets, it is not possible to definitively lock-in a spread between the earnings yield on our investment portfolio and the related cost of borrowings. Nonetheless, through active management and the use of evaluative stress scenarios of the portfolio, we believe that we can mitigate a significant amount of both value and earnings volatility. See further discussion of interest rate risk at the “Quantitative And Qualitative Disclosures About Market Risk - Interest Rate Risk” section of this document.

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

- a decline in the market value of our assets due to rising interest rates;
- an adverse impact on our earnings from a decrease in the demand for mortgage loans due to, among other things, a period of rising interest rates;
- our ability to originate prime adjustable-rate and hybrid mortgage loans for our portfolio;
- increasing or decreasing levels of prepayments on the mortgages underlying our mortgage-backed securities;
- our ability to obtain financing to fund and hold mortgage loans prior to their sale or securitization;
- the overall leverage of our portfolio and the ability to obtain financing to leverage our equity;
- the potential for increased borrowing costs and its impact on net income;
- the concentration of our mortgage loans in specific geographic regions;
- our ability to use hedging instruments to mitigate our interest rate and prepayment risks;
- a prolonged economic slow down, a lengthy or severe recession or declining real estate values could harm our operations;
- if our assets are insufficient to meet the collateral requirements of our lenders, we might be compelled to liquidate particular assets at inopportune times and at disadvantageous prices;
- if we are disqualified as a REIT, we will be subject to tax as a regular corporation and face substantial tax liability; and
- compliance with REIT requirements might cause us to forgo otherwise attractive opportunities.

Financial Overview

Income. Our primary sources of income are net interest income on our loans and residential investment securities and gain on sale of mortgage loans. Net interest income is the difference between interest income, which is the income that we earn on our loans and residential investment securities and interest expense, which is the interest we pay on borrowings and subordinated debt. Net interest income is also earned on the bankered loan origination production of our TRS for the period of time from when a loan is closed to the sale of such loan to a third party.

Income from the gain on sale of mortgage loans to third parties is the difference between the sales price and the adjusted cost basis of originated loans when title transfers. The adjusted cost basis of the loans includes the original principal amount adjusted for deferrals of origination and commitment fees received, net of direct loan origination costs (including commissions and salaries for employees directly responsible for such originations) paid.

Back to Table of Contents
Index to Financial Statements

Other significant sources of income include fees received on brokered loans and income from the sale of securities and related hedges.

Expenses. Non-interest expenses we incur in operating our business consist primarily of salary and employee benefits, brokered loan expenses, occupancy and equipment expenses, marketing and promotion expenses, and other general and administrative expenses.

Salary and employee benefits consist primarily of the salaries and wages paid to our employees (exclusive of salaries and wages allocated to net gain on sale of mortgage loans), payroll taxes and expenses for health insurance, retirement plans and other employee benefits.

Brokered loan expenses are primarily direct commissions and other costs associated with brokered loans when such loans are closed with the borrower. Costs associated with brokered loans are expensed when incurred.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist of building lease expenses, furniture and equipment expenses, maintenance, real estate taxes and other associated costs of occupancy.

Marketing and promotion expenses include the cost of print, radio and internet advertisements, promotions, third-party marketing services, public relations and sponsorships.

Other general and administrative expenses include expenses for professional fees, office supplies, postage and shipping, telephone, insurance, travel and entertainment and other miscellaneous operating expenses.

Many of our expenses are variable in nature and are relative to our loan origination production volumes. Variable expenses include commissions on loan originations, brokered loan costs and, to a lesser degree, office supplies, marketing and promotion and other miscellaneous expenses. Fixed expenses are primarily occupancy and equipment lease expenses and data processing and communications expenses.

Description of Businesses

Mortgage Lending

Our mortgage lending operations are important to our financial results as they either produce the loans that will ultimately collateralize the mortgage securities that we will hold in our portfolio or provide us the flexibility to sell the loans for gain on sale revenue. We primarily originate prime, first-lien, residential mortgage loans and, to a lesser extent, second lien mortgage loans, home equity lines of credit, and bridge loans. We originate a wide range of mortgage loan products including adjustable-rate mortgage (“ARM”) loans which may have an initial fixed rate period, and fixed-rate mortgages. Since the completion of our IPO, we sell or retain and aggregate our self-originated, high-quality, shorter-term ARM loans in order to pool them into mortgage securities. The fixed rate loans we originate and any ARM loans not meeting our investment criteria continue to be sold to third parties. For the years ended December 31, 2005 and 2004, we originated $2.9 billion and $1.4 billion in mortgage loans for sale to third parties, respectively. We recognized gains on sales of mortgage loans totaling $26.8 million and $20.8 million for the years ended December 31, 2005 and 2004, respectively.

Subsequent to our IPO in June 2004, we have sold or retained for our portfolio the high quality, adjustable-rate mortgage loans that we originate. For the years ended December 31, 2005 and 2004, we originated and retained $555.2 million and $95.1 million of such loans, respectively. When we retain mortgage loans that we originate, we record such assets at GAAP ("GAAP" means generally accepted accounting principles) cost. The GAAP cost is then amortized on the effective interest method over the estimated lives of the retained loans. For the years ended December 31, 2005 and 2004, the GAAP cost of loans was approximately 58 and 45 basis points over par, respectively. Furthermore, when we retain loans that we originate, we are not able to recognize gain on sale revenues (and thus higher GAAP net income) as we would have if such loans were sold to third parties. Instead, the value of the gain on sale revenue inures to the benefit of our investment portfolio in the form of a lower cost asset and thus incrementally higher yield during the lives of retained loans. We estimate that the foregone premium we would have otherwise received had retained loans been sold to third parties is approximately $7.5 million and $2.0 million for the years ended December 31, 2005 and 2004, respectively.

Back to Table of Contents
Index to Financial Statements

Our wholesale lending strategy has historically been a small component of our loan origination operations. We have a network of non-affiliated wholesale loan brokers and mortgage lenders who submit loans to us. We maintain relationships with these wholesale brokers and, as with retail loan originations, will underwrite, process, and fund wholesale loans through our centralized facilities and processing systems. In order to further diversify our origination network, during 2005, we began to expand our wholesale loan origination capacity with the creation of a division specifically for wholesale loan originations.

We also sold broker loans to third party mortgage lenders for which we receive a broker fee. For the years ended December 31, 2005 and 2004, we originated $562.1 million and $410.1 million in brokered loans, respectively. We recognized net brokering income totaling $2.4 million and $1.6 million during the years ended December 31, 2005 and 2004, respectively.

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

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

Mortgage Portfolio Management

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

- invest in assets generated primarily from our self-origination of high-credit quality, single-family, residential mortgage loans;
- invest in mortgage-backed securities originated by others, including ARM securities and collateralized mortgage obligation floaters ("CMO Floaters");
- generally operate as a long-term portfolio investor;
- finance our portfolio by entering into repurchase agreements and as we aggregate mortgage loans for investment, issuing mortgage-backed bonds from time to time; and
- generate earnings from the return on our mortgage securities and spread income from our mortgage loan portfolio.

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

As of December 31, 2005, our mortgage securities portfolio consisted of 100% AAA- rated or Fannie Mae, Freddie Mac or Ginnie Mae-guaranteed (“FNMA/FHLMC/GNMA”) mortgage securities. This allows the company to obtain excellent financing rates as well as enhanced liquidity. The loans held in securitization trusts and mortgage loans held for investment consisted of high-credit quality prime adjustable rate mortgages with initial reset periods of no greater than seven years with 99.7% with initial reset periods of five years or less. The loan portfolio has had no credit losses to date. Our portfolio strategy for ARM loan originations is to acquire only high-credit quality ARM loans for our securitization process thereby limiting future potential losses.

Such assets are evaluated for impairment on a quarterly basis or, if events or changes in circumstances indicate that these assets or the underlying collateral may be impaired, on a more frequent basis. We evaluate whether these assets are considered impaired, whether the impairment is other-than-temporary and, if the impairment is other-than-temporary, recognize an impairment loss equal to the difference between the asset’s amortized cost basis and its fair value. We recorded an impairment loss of $7.4 million in the fourth quarter of 2005 because we concluded that we no longer had the intent to hold certain lower-yielding mortgage-backed securities until their values recovered. This impairment was not due to any underlying credit issues but was related to our intent to no longer hold identified lower-yield securities and to re-position our portfolio by selling such securities and replacing them with higher yield securities with similar credit characteristics in order to earn higher net interest spread in the future.

Back to Table of Contents
Index to Financial Statements

Known Material Trends and Commentary

Mortgage Lending. The U.S. residential mortgage market has experienced considerable growth during the past ten years according to The Bond Market Association and the Federal Reserve. According to the MBA's February 7, 2006 Mortgage Finance Forecast, lenders originated $2.8 trillion in 2005, unchanged from the amount originated in 2004. However, the mix of origination volume changed substantially. In 2004, purchase mortgages comprised 47% of total originations while in 2005; purchase mortgages represented 58% of total originations. The chart below illustrates our origination volume growth for the past two years relative to the MBA industry projections:

For the year ended December 31, 2005, our total originations of residential mortgage loans, aided in part by our acquisition of selected Guaranteed Residential Lending ("GRL") branches, increased by $1.6 billion, or 86%, versus the comparable period for the prior year. This 86% increase in our mortgage originations compares favorably to the marginal change for total U.S. 1-to-4-family mortgage originations for the period estimated in the February 7, 2006 Mortgage Finance Forecast. The following chart summarizes the our loan origination volume and characteristics for each of the four quarters of 2005 relative to our 2004 historical origination production:

Back to Table of Contents
Index to Financial Statements

With regard to purchase mortgage originations, statistics from the MBA indicate that since 1990, the volume of purchase mortgages year-after-year steadily increases throughout various economic and interest rate cycles. While management is unable to predict borrowing habits, we believe that historical trends indicate that the purchase mortgage market is relatively stable and our focus on retail based purchase origination volume contributes to consistent originations growth. For the year ended December 31, 2005, our purchase mortgage originations, aided in part by our acquisition of GRL, have increased by $896.2 million, or 82%, over the comparable period for the prior year. This increase presently exceeds the 13% increase forecasted in the MBA's February 7, 2006 Mortgage Finance Forecast for total U.S. 1-to-4-family purchase mortgage originations for the period. The following chart summarizes the our purchase loan origination volume and characteristics for each of the four quarters of 2005 relative to our prior year purchase loan historical origination production:

For the year ended December 31, 2005, our originations of mortgage refinancings, aided in part by our acquisition of GRL, have increased by $695.7, million or 92%, versus the comparable period for the prior year. This 92% increase in our origination of mortgage refinancings compares favorably to the 12% decrease for total U.S. 1-to-4-family refinance mortgage originations for the period estimated in the MBA's February 7, 2006 Mortgage Finance Forecast.

Back to Table of Contents
Index to Financial Statements

In the February 7, 2006 forecast, the MBA projected that mortgage loan volumes will decrease to $2.2 trillion in 2006, primarily due to an expected continued decline in the volume of loan refinancings. For the year ended December 31, 2005, NYMC's residential purchase loan originations represented 58% of NYMC's total residential mortgage loan originations as measured by principal balance, as compared to an industry-wide percentage of 54% for one-to-four family mortgage loans as estimated in the MBA's February 7, 2006 Mortgage Finance Forecast. We believe that our concentration on purchase loan originations has caused our loan origination volume to be less susceptible to the industry-wide decline in origination volume that has resulted from rising interest rates. We believe that the market for mortgage loans for home purchases is less susceptible than the refinance market to downturns during periods of increasing interest rates, because borrowers seeking to purchase a home do not generally base their decision to purchase on changes in interest rates alone, while borrowers that refinance their mortgage loans often make their decision as a direct result of changes in interest rates. Consequently, while our referral-based marketing strategy may cause our overall loan origination volume during periods of declining interest rates to lag our competitors who rely on mass marketing and advertising and who therefore capture a greater percentage of loan refinance applications during those periods, we believe this strategy enables us to sustain stronger home purchase loan origination volumes than those same competitors during periods of flat to rising interest rates. In addition, we believe that our referral-based business results in relatively higher gross margins and lower advertising costs and loan generation expenses than most other mortgage companies whose business is not referral-based.

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

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

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

Significance of Estimates and Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, many of which require the use of estimates, judgments and assumptions that affect reported amounts. These estimates are based, in part, on our judgment and assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. The results of these estimates affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented.

Changes in the estimates and assumptions could have a material effect on these financial statements. Accounting policies and estimates related to specific components of our consolidated financial statements are disclosed in the notes to our financial statements. In accordance with SEC guidance, those material accounting policies and estimates that we believe are most critical to an investor's understanding of our financial results and condition and which require complex management judgment are discussed below.

Revenue Recognition. Interest income on our residential mortgage loans and mortgage-backed securities is a combination of the interest earned based on the outstanding principal balance of the underlying loan/security, the contractual terms of the assets and the amortization of yield adjustments, principally premiums and discounts, using generally accepted interest methods. The net GAAP cost over the par balance of self-originated loans held for investment and premium and discount associated with the purchase of mortgage-backed securities and loans are amortized into interest income over the lives of the underlying assets using the effective yield method as adjusted for the effects of estimated prepayments. Estimating prepayments and the remaining term of our interest yield investments require management judgment, which involves, among other things, consideration of possible future interest rate environments and an estimate of how borrowers will react to those environments, historical trends and performance. The actual prepayment speed and actual lives could be more or less than the amount estimated by management at the time of origination or purchase of the assets or at each financial reporting period.

Back to Table of Contents
Index to Financial Statements

Fair Value. Generally, the financial instruments we utilize are widely traded and there is a ready and liquid market in which these financial instruments are traded. The fair values for such financial instruments are generally based on market prices provided by five to seven dealers who make markets in these financial instruments. If the fair value of a financial instrument is not reasonably available from a dealer, management estimates the fair value based on characteristics of the security that the Company receives from the issuer and on available market information.

In the normal course of our mortgage loan origination business, we enter into contractual interest rate lock commitments, or (“IRLCs”), to extend credit to finance residential mortgages. Mark-to-market adjustments on IRLCs are recorded from the inception of the interest rate lock through the date the underlying loan is funded. The fair value of the IRLCs is determined by an estimate of the ultimate gain on sale of the loans net of estimated net costs to originate the loan. To mitigate the effect of the interest rate risk inherent in issuing an IRLC from the lock-in date to the funding date of a loan, we generally enter into forward sale loan contracts, or (“FSLCs”). Since the FSLCs are committed prior to mortgage loan funding and thus there is no owned asset to hedge, the FSLCs in place prior to the funding of a loan are undesignated derivatives under SFAS No. 133 and are marked to market with changes in fair value recorded to current earnings.

Impairment of and Basis Adjustments on Securitized Financial Assets. As previously described herein, we regularly securitize our mortgage loans and retain the beneficial interests created. In addition, we may purchase such beneficial interests from third parties. Such assets are evaluated for impairment on a quarterly basis or, if events or changes in circumstances indicate that these assets or the underlying collateral may be impaired, on a more frequent basis. We evaluate whether these assets are considered impaired, whether the impairment is other-than-temporary and, if the impairment is other-than-temporary, recognize an impairment loss equal to the difference between the asset’s amortized cost basis and its fair value. These evaluations require management to make estimates and judgments based on changes in market interest rates, credit ratings, credit and delinquency data and other information to determine whether unrealized losses are reflective of credit deterioration and our ability and intent to hold the investment to maturity or recovery. This other-than-temporary impairment analysis requires significant management judgment and we deem this to be a critical accounting estimate. We recorded an impairment loss of $7.4 million during 2005, because we concluded that we no longer had the intent to hold certain lower-yielding mortgage-backed securities until their values recovered. At December 31, 2005, we have an unrealized loss of $4.1 million on the remaining securities in our portfolio, which we do not consider to represent an other than temporary impairment.

Loan Loss Reserves on Mortgage Loans. We evaluate a reserve for loan losses based on management’s judgment and estimate of credit losses inherent in our portfolio of residential mortgage loans held for sale and mortgage loans held in securitization trusts. The estimation involves the consideration of various credit-related factors including, but not limited to, current economic conditions, the credit diversification of the portfolio, loan-to-value ratios, delinquency status, historical credit losses, purchased mortgage insurance and other factors deemed to warrant consideration. If the credit performance of our mortgage loans held for investment or held in the securitization trusts deviates from expectations, the allowance for loan losses is adjusted to a level deemed appropriate by management to provide for estimated probable losses in the portfolio. Two critical assumptions used in estimating the loan loss reserve are frequency and severity. Frequency is the assumed rate of default or the expected rate at which loans may go into foreclosure over the life of the loans. Severity represents the expected rate of realized loss upon disposition/resolution of the collateral that has gone into foreclosure. Based on the performance and credit characteristics of the loan portfolio as of December 31, 2005, management established a loan loss reserve of $12.1 thousand.

Securitizations. We create securitization entities as a means of either:

- creating securities backed by mortgage loans which we will continue to hold and finance that will be more liquid than holding whole loan assets; or

- securing long-term collateralized financing for our residential mortgage loan portfolio and matching the income earned on residential mortgage loans with the cost of related liabilities, otherwise referred to a match funding our balance sheet.

Residential mortgage loans are transferred to a separate bankruptcy-remote legal entity from which private-label multi-class mortgage-backed notes are issued. On a consolidated basis, securitizations are accounted for as secured financings as defined by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and, therefore, no gain or loss is recorded in connection with the securitizations. Each securitization entity is evaluated in accordance with Financial Accounting Standards Board Interpretation, or FIN, 46(R), *Consolidation of Variable Interest Entities*, and we have determined that we are the primary beneficiary of the securitization entities. As such, the securitization entities are consolidated into our consolidated balance sheet subsequent to securitization. Residential mortgage loans transferred to securitization entities collateralize the mortgage-backed notes issued, and, as a result, those investments are not available to us, our creditors or stockholders. All discussions relating to securitizations are on a consolidated basis and do not necessarily reflect the separate legal ownership of the loans by the related bankruptcy-remote legal entity.

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

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

New accounting pronouncements - In May 2005, the FASB issued SFAS 154, “Accounting Changes and Error Corrections.” SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previous guidance required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Management believes SFAS 154 will have no impact on the Company’s financial statements.

In February 2006, the FASB issued SFAS 155, “Accounting for Certain Hybrid Financial Instruments”. Key provisions of SFAS 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips and principal-only strips from derivative accounting under paragraph 14 of FAS 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a QSPE holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. In general, these changes will reduce the operational complexity associated with bifurcating embedded derivatives, and increase the number of beneficial interests in securitization transactions, including interest-only strips and principal-only strips, required to be accounted for in accordance with FAS 133. Management does not believe that SFAS 155 will have a material effect on the financial condition, results of operations, or liquidity of the Company.

Overview of Performance

For the year ended December 31, 2005, we reported a net loss of $5.3 million, as compared to net income of $4.9 million for the year ended December 31, 2004. Our revenues were driven largely from increases in interest income on investments in mortgage loans and mortgage securities (our “mortgage portfolio management” segment) and gain on sale income from loan originations sold to third parties (our “mortgage lending” segment) during the period. The change in net income is attributed to an increase in gain on sale revenues and net interest income from our investment portfolio. These gains were offset by an impairment charge of $7.4 million in the fourth quarter related to $388.3 million of available for sale securities that we anticipate selling in 2006 in order to rebalance our portfolio with higher yielding assets, one-time severance charges of $3.0 million, and increased expenses incurred for and subsequent to the acquisition of multiple retail loan origination locations during 2004. Also, the execution of our core business strategy to retain selected self-originated loans in our portfolio (this involves foregoing the gain on sale premiums we would have otherwise received when such loans are sold to third parties), which reduced the growth in gain on sale income from what it otherwise would have been.

Back to Table of Contents
Index to Financial Statements

As upfront expenses related to the acquisition and/or infrastructure enhancements of our loan origination capacity begin to result in higher production volume and lowered stabilized costs, the mortgage lending segment is expected to become a more meaningful contributor to our financial performance in the future. For the year ended December 31, 2005, total residential originations, including brokered loans, were $3.4 billion as compared to $1.8 billion and $1.6 billion for the same period of 2004 and 2003, respectively. The increase in our loan origination levels for the year ended December 31, 2005 as compared to the same period of 2004 and 2003 is the result of the addition of sales personnel and branch offices primarily in new and underserved markets. Total employees increased to 802 at December 31, 2005 from 782 at December 31, 2004; for 2005 we also had the benefit of a full year's service from 275 employees related to our GRL acquisition in November 2004. Included in the total number of employees, the number of loan officers dedicated to originating loans decreased to 329 at December 31, 2005 from 344 at December 31, 2004. Full-service loan origination locations decreased to 28 offices and 26 satellite loan origination locations at December 31, 2005 from an aggregate of 66 locations at December 31, 2004.

Summary of Operations and Key Performance Measurements

For the year ended December 31, 2005, our net income was dependent upon our mortgage portfolio management operations and the net interest (interest income on portfolio assets net of the interest expense and hedging costs associated with the financing of such assets) generated from our portfolio of mortgage loans held for investment, mortgage loans held in the securitization trusts and residential mortgage-backed securities in our portfolio management segment. The following table presents the components of our net interest income from our investment portfolio of mortgage securities and loans for the year ended December 31, 2005:

	Amount	Average Outstanding Balance	Effective Rate
	(Dollar s in Millions)		
Net Interest Income Components:			
Interest Income			
Investment securities and loans held in the securitization trusts	$ 60,988	$ 1,361.2	4.48%
Mortgage loans held for investment	7,778	146.6	5.31%
Amortization of premium	(6,041)	—	(0.40)%
Total interest income	$ 62,725	$ 1,507.8	4.16%
Interest Expense			
Repurchase agreements	$ 43,107	$ 1,283.3	3.31%
Warehouse borrowings	5,847	142.7	4.04%
Interest rate swaps and caps	(1,106)	—	(0.08)%
Total interest expense	$ 47,848	$ 1,426.0	3.31%
Net Interest Income	$ 14,877		0.85%

The key performance measures for our portfolio management activities are:

- net interest spread on the portfolio;

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

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

For the year ended December 31, 2005, our net income was also dependent upon our mortgage lending operations and originations from our mortgage lending segment, which include the mortgage loan sales ("mortgage banking") and mortgage brokering activities on residential mortgages sold or brokered to third parties. Our mortgage banking activities generate revenues in the form of gains on sales of mortgage loans to third parties and ancillary fee income and interest income from borrowers. Our mortgage brokering operations generate brokering fee revenues from third party buyers. When we retain a portion of our loan originations for our investment portfolio, we do not realize the gain on sale premiums we would have otherwise recognized had these loans been sold to third parties and such loans retained on our balance sheet at cost. As a result, revenues in our mortgage banking segment are lower and the book value of these assets on our balance sheet, which are accounted for on a cost basis, may differ from their fair market value.

Back to Table of Contents
Index to Financial Statements

A breakdown of our loan originations for the year ended December 31, 2005 follows:

Description	Number of Loans		Aggregate Principal Balance ($000's)	Percentage of Total Principal	Weighted Average Interest Rate		Average Loan Size
Purchase mortgages	9,174	$	1,985.7	57.8%	6.33%	$	216,443
Refinancings	5,539		1,451.7	42.2%	5.99%		262,091
Total	14,713	$	3,437.4	100.0%	6.19%		233,628
Adjustable rate or hybrid	6,296	$	1,875.2	54.6%	6.00%		297,843
Fixed rate	8,417		1,562.2	45.4%	6.41%		185,595
Total	14,713	$	3,437.4	100.0%	6.19%		233,628
Bankered	12,654	$	2,875.3	83.6%	6.25%		227,224
Brokered	2,059		562.1	16.4%	5.84%		272,988
Total	14,713	$	3,437.4	100.0%	6.19%	$	233,628

The key performance measures for our origination activities are:

- dollar volume of mortgage loans originated;
- relative cost of the loans originated;
- characteristics of the loans, including but not limited to the coupon and credit quality of the loan, which will indicate their expected yield; and
- return on our mortgage asset investments and the related management of interest rate risk.

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

Year Ended December 31, 2005 Financial Highlights

- Net income for the Company's Mortgage Portfolio Management segment totaled $6.2 million for the year ended December 31, 2005 after recognition of an impairment loss on investment securities of $7.4 million.
- Consolidated net loss totaled $5.3 million for the year ended December 31, 2005.
- Completion of three securitizations totaling $896.9 million in residential mortgage loans, respectively.
- Issuance of $45.0 million of trust preferred securities.
- Total assets increased to $1.8 billion as of December 31, 2005 from $1.6 billion as of December 31, 2004.
- Aided in part by the GRL acquisition, 89% growth in loan originations of $3.4 billion for the year ended December 31, 2005 as compared to $1.8 million for the year ended December 31, 2004 and relative to an overall industry increase of 0.7% for the year ended December 31, 2005 as projected by the MBA.
-

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

- The Company's new wholesale lending division began operations.

Financial Condition

Balance Sheet Analysis - Asset Quality

Investment Portfolio Related Assets

Mortgage Loans Held in Securitization Trusts and Mortgage Loans Held for Investment. We retain in our portfolio substantially all of the adjustable-rate mortgage loans that we originate and that meet our investment criteria and portfolio requirements. These loans are classified as "mortgage loans held for investment" during a period of aggregation and until the portfolio reaches a size sufficient for us to securitize such loans. Once securitized into sequentially rated classes, loans are classified as "mortgage loans held in securitization trusts."

The following table details Mortgage Loans Held for Investment at December 31, 2005 (dollar amounts in thousands):

Category	Par Value	Coupon	Carrying Value	Yield
Mortgage Loans Held for Investment	$ 4,054	5.84%	$ 4,060	5.56%

During 2005, we securitized loan investments in three different securitizations:

- New York Mortgage Trust 2005-1 ("NYMT '05-1"), February 25, 2005; $419.0 million of loans
- New York Mortgage Trust 2005-2 ("NYMT '05-2"), July 28, 2005; $242.9 million of loans
- New York Mortgage Trust 2005-3 ("NYMT '05-3"), December 20, 2005; $235.0 of loans

The following table details Mortgage Loans Held in Securitization Trusts (dollar amounts in thousands):

Category	Par Value	Coupon	Carrying Value	Yield
Mortgage Loans Held in Securitization Trusts	$ 771,451	5.17%	$ 776,610	5.49%

At December 31, 2005 mortgage loans held for investment and mortgage loans held in securitization trusts totaled $780.7 million, or 44% of total assets. Of this mortgage loan investment portfolio 100% are traditional or hybrid ARMs and 74.9% are ARM loans that are interest only. On our hybrid ARMs, interest rate reset periods are predominately seven years or less and the interest-only/amortization period is typically 10 years, which mitigates the "payment shock" at the time of interest rate reset. No loans in our investment portfolio of mortgage loans are option-ARMs or ARMs with negative amortization.

Prior to 2005, we had no loans held in securitization trusts. The following table sets forth the composition of our loans held for investment and in securitization trusts as of December 31, 2005:

Characteristics of Our Mortgage Loans Held for Investment and Securitization (dollar amounts in thousands):

	# of Loans	Par Value	Carrying Value
Loan Characteristics:			
Mortgage loans held in securitization trusts	1,609	$ 771,451	$ 776,610
Mortgage loans held for investment	11	4,054	4,060
Total Loans Held	1,620	$ 775,505	$ 780,670

	Average	High	Low
General Loan Characteristics:			

Original Loan Balance	$ 486	$ 3,500	$ 25
Coupon Rate	5.26%	7.75%	3.00%
Gross Margin	2.40%	7.01%	1.13%
Lifetime Cap	11.08%	13.75%	9.00%
Original Term (Months)	360	360	359
Remaining Term (Months)	348	360	319

	Percentage
Arm Loan Type	
Traditional ARMs	4.7%
2/1 Hybrid ARMs	5.3%
3/1 Hybrid ARMs	32.4%
5/1 Hybrid ARMs	57.3%
7/1 Hybrid ARMs	0.3%
Total	100.0%
Percent of ARM loans that are Interest Only	74.9%
Weighted average length of interest only period	8.2 years

Back to Table of Contents
Index to Financial Statements

	Percentage
Traditional ARMs - Periodic Caps	
None	64.5%
1%	19.4%
Over 1%	16.1%
Total	100.0%

	Percentage
Hybrid ARMs - Initial Cap	
3.00% or less	29.6%
3.01%-4.00%	10.7%
4.01%-5.00%	58.2%
5.01%-6.00%	1.5%
Total	100.0%

	Percentage
FICO Scores	
650 or less	5.0%
651 to 700	18.0%
701 to 750	35.4%
751 to 800	38.2%
801 and over	3.4%
Total	100.0%
Average FICO Score	733

	Percentage
Loan to Value (LTV)	
50% or less	9.5%
50.01%-60.00%	9.4%
60.01%-70.00%	28.6%
70.01%-80.00%	49.7%
80.01% and over	2.8%
Total	100.0%
Average LTV	69.3%

	Percentage
Property Type	
Single Family	53.7%
Condominium	23.1%
Cooperative	10.1%
Planned Unit Development	9.2%
Two to Four Family	3.9%
Total	