

NEW YORK MORTGAGE TRUST INC

Form 10-Q

November 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

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

Commission file number 001-32216

NEW YORK MORTGAGE TRUST, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Maryland  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

52 Vanderbilt Avenue, Suite 403, New York, New York 10017  
(Address of Principal Executive Office) (Zip Code)

(212) 792-0107  
(Registrant's Telephone Number, Including Area Code)

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Edgar Filing: NEW YORK MORTGAGE TRUST INC - Form 10-Q

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☒

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

The number of shares of the registrant's common stock, par value \$.01 per share, outstanding on November 1, 2011 was 11,178,273.

---

NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

PART I. Financial Information	2
Item 1. Condensed Consolidated Financial Statements	2
Condensed Consolidated Balance Sheets as of September 30, 2011 (Unaudited) and December 31, 2010	2
Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2011 and September 30, 2010	3
Unaudited Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2011	4
Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and September 30, 2010	5
Unaudited Notes to the Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3. Quantitative and Qualitative Disclosures about Market Risk	52
Item 4. Controls and Procedures	56
PART II. OTHER INFORMATION	57
Item 1. Legal Proceedings	57
Item 1A. Risk Factors	57
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3. Defaults Upon Senior Securities	58
Item 4. (Removed and Reserved).	58
Item 5. Other Information	58
Item 6. Exhibits	58
SIGNATURES	59

## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (unaudited)

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (amounts in thousands, except share and per share amounts)

	September 30, 2011 (unaudited)	December 31, 2010
<b>ASSETS</b>		
Investment securities available for sale, at fair value (including pledged securities of \$133,008 and \$38,475, respectively)	\$ 170,393	\$86,040
Mortgage loans held in securitization trusts (net)	210,423	228,185
Mortgage loans held for investment	5,117	7,460
Investments in limited partnership and limited liability company	16,887	18,665
Cash and cash equivalents	11,679	19,375
Receivable for securities sold	5,400	5,653
Derivative assets	75,053	-
Receivables and other assets	29,587	8,916
<b>Total Assets</b>	<b>\$524,539</b>	<b>\$374,294</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
Financing arrangements, portfolio investments	\$ 111,500	\$35,632
Collateralized debt obligations	203,054	219,993
Derivative liabilities	3,619	1,087
Payable for securities purchased	79,585	-
Accrued expenses and other liabilities	5,360	4,095
Subordinated debentures (net)	45,000	45,000
<b>Total liabilities</b>	<b>448,118</b>	<b>305,807</b>
<b>Commitments and Contingencies</b>		
<b>Equity:</b>		
<b>Stockholders' equity</b>		
Common stock, \$0.01 par value, 400,000,000 authorized, 11,178,273 and 9,425,442, shares issued and outstanding, respectively	\$ 112	\$94
Additional paid-in capital	140,843	135,300
Accumulated other comprehensive income	12,453	17,732
Accumulated deficit	(77,971)	(84,639)
<b>Total stockholders' equity</b>	<b>75,437</b>	<b>68,487</b>
Noncontrolling interest	984	-
<b>Total equity</b>	<b>76,421</b>	<b>68,487</b>
<b>Total Liabilities and Equity</b>	<b>\$524,539</b>	<b>\$374,294</b>

See notes to condensed consolidated financial statements.



NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(amounts in thousands, except per share amounts)  
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
INTEREST INCOME	\$7,431	\$4,536	\$17,607	\$15,942
INTEREST EXPENSE:				
Investment securities and loans held in securitization trusts	732	1,211	2,161	3,887
Subordinated debentures	471	563	1,407	1,995
Convertible preferred debentures	-	537	-	1,737
Total interest expense	1,203	2,311	3,568	7,619
NET INTEREST INCOME	6,228	2,225	14,039	8,323
OTHER (EXPENSE) INCOME:				
Provision for loan losses	(435 )	(734 )	(1,459 )	(1,336 )
Income from investment in limited partnership and limited liability company	479	150	1,762	150
Realized gain on investment securities and related hedges	2,526	1,860	8,000	3,958
Unrealized loss on investment securities and related hedges	(8,027 )	-	(8,762 )	-
Total other (expense) income	(5,457 )	1,276	(459 )	2,772
General, administrative and other expenses	717	2,222	6,464	6,185
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	54	1,279	7,116	4,910
Income tax expense	56	-	419	-
(LOSS) INCOME FROM CONTINUING OPERATIONS	(2 )	1,279	6,697	4,910
Income from discontinued operation - net of tax	19	298	23	877
NET INCOME	17	1,577	6,720	5,787
Net income attributable to noncontrolling interest	32	-	52	-
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$(15 )	\$1,577	\$6,668	\$5,787
Basic income per common share	\$-	\$0.17	\$0.67	\$0.61
Diluted income per common share	\$-	\$0.17	\$0.67	\$0.61
Dividends declared per common share	\$0.25	\$-	\$0.65	\$0.43
Weighted average shares outstanding-basic	11,146	9,425	10,015	9,421
Weighted average shares outstanding-diluted	11,146	9,425	10,015	9,421

See notes to condensed consolidated financial statements.



NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(dollar amounts in thousands)  
(unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Non- controlling Interest	Comprehensive Income	Total
Balance, December 31, 2010	\$ 94	\$ 135,300	\$ (84,639 )	\$ 17,732	\$ -	\$ -	\$ 68,487
Net income	-	-	6,668	-	52	6,668	6,720
Stock issuance	18	12,475	-	-	-	-	12,493
Costs associated with issuance of common stock	-	(359 )	-	-	-	-	(359 )
Dividends declared	-	(6,573 )	-	-	-	-	(6,573 )
Increase in non-controlling interests related to consolidation of interest in a mortgage loan held for investment	-	-	-	-	932	-	932
Reclassification adjustment for net gain included in net income	-	-	-	(3,886 )	-	(3,886 )	(3,886 )
Decrease in net unrealized gain on securities available for sale	-	-	-	(1,996 )	-	(1,996 )	(1,996 )
Increase in fair value of derivative instruments utilized for cash flow hedges	-	-	-	603	-	603	603
Comprehensive income	-	-	-	-	-	\$ 1,389	-
Balance, September 30, 2011	\$ 112	\$ 140,843	\$ (77,971 )	\$ 12,453	\$ 984		\$ 76,421

See notes to condensed consolidated financial statements.





NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(dollar amounts in thousands)  
(unaudited)

	For the Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$6,720	\$5,787
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102	627
Net accretion on investment securities and mortgage loans held in securitization trusts	2,463	(2,223 )
Realized gain on securities and related hedges	(8,000 )	(3,958 )
Unrealized loss on securities and related hedges	8,762	-
Net decrease in loans held for sale	24	24
Provision for loan losses	1,459	1,336
Income from investment in limited partnership and limited liability company	(1,762 )	(150 )
Interest distributions from investment in limited partnership and limited liability company	910	-
Stock issuance	202	139
Changes in operating assets and liabilities:		
Receivables and other assets	(3,574 )	76
Accrued expenses and other liabilities	167	(526 )
Net cash provided by operating activities	7,473	1,132
Cash Flows from Investing Activities:		
Restricted cash	(17,349 )	690
Proceeds from sales of investment securities	168,055	33,113
Purchases of investment securities	(267,815 )	-
Issuance of mortgage loans held for investment	(2,520 )	-
Purchase of investment in limited partnership and limited liability company	(5,322 )	(10,000 )
Proceeds from investment in limited partnership and limited liability company	7,952	-
Proceeds from mortgage loans held for investment	5,002	-
Principal repayments received on mortgage loans held in securitization trusts	16,438	38,761
Principal paydowns on investment securities - available for sale	14,139	44,588
Net cash (used in) provided by investing activities	(81,420 )	107,152
Cash Flows from Financing Activities:		
Proceeds from (payments of) financing arrangements	75,868	(46,641 )
Stock issuance	12,291	-
Dividends paid	(5,475 )	(6,405 )
Payments made on collateralized debt obligations	(17,006 )	(39,246 )
Capital contributed by noncontrolling interest	932	-
Costs associated with common stock subscribed	(359 )	-
Net cash provided by (used in) financing activities	66,251	(92,292 )
Net (Decrease) Increase in Cash and Cash Equivalents	(7,696 )	15,992
Cash and Cash Equivalents - Beginning of Period	19,375	24,522
Cash and Cash Equivalents - End of Period	\$11,679	\$40,514

Supplemental Disclosure:		
Cash paid for interest	\$3,466	\$7,269
Non-Cash Investment Activities:		
Sale of investment securities not yet settled	\$5,400	\$7,743
Purchase of investment securities not yet settled	\$79,585	\$-
Non-Cash Financing Activities:		
Dividends declared to be paid in subsequent period	\$2,795	\$-
Grant of restricted stock	\$-	\$30

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

(unaudited)

1. Summary of Significant Accounting Policies

Organization - New York Mortgage Trust, Inc., together with its consolidated subsidiaries ("NYMT," the "Company," "we," "our" and "us"), is a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets. Our principal business objective is to generate net income for distribution to our stockholders resulting from the spread between the interest and other income we earn on our interest-earning assets and the interest expense we pay on the borrowings that we use to finance our leveraged assets and our operating costs. We also may opportunistically acquire and manage various other types of financial assets that we believe will compensate us appropriately for the risks associated with them.

The Company conducts its business through the parent company, NYMT, and several subsidiaries, including special purpose subsidiaries established for loan securitization purposes, a taxable REIT subsidiary ("TRS") and qualified REIT subsidiaries ("QRS"). The Company conducts certain of its portfolio investment operations through its wholly-owned TRS, Hypotheca Capital, LLC ("HC"), in order to utilize, to the extent permitted by law, a portion of a net operating loss carry-forward held in HC that resulted from the Company's exit from the mortgage lending business. Prior to March 31, 2007, the Company conducted substantially all of its mortgage lending business through HC. One of the Company's wholly-owned QRS, New York Mortgage Funding, LLC ("NYMF"), currently holds certain mortgage-related assets for regulatory compliance purposes. The Company also may conduct certain other portfolio investment operations through NYMF. The Company utilizes one of its wholly-owned QRS, RB Commercial Mortgage LLC ("RBCM"), for its investments secured by commercial real estate and other structured investments such as seasoned or distressed commercial loan portfolios, net leased properties or subordinate commercial mortgage-backed securities. The Company consolidates all of its subsidiaries under generally accepted accounting principles in the United States of America ("GAAP").

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

Basis of Presentation - The condensed consolidated balance sheet as of December 31, 2010, has been derived from audited financial statements. The condensed consolidated balance sheet at September 30, 2011, the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010, the condensed consolidated statement of stockholders' equity for the nine months ended September 30, 2011 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010 are unaudited. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the operating results for the full year.

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The condensed consolidated financial statements of the Company include the accounts of all subsidiaries; significant intercompany accounts and transactions have been eliminated.

**Investment Securities Available for Sale** - The Company's investment securities, where the fair value option has not been elected and which are reported at fair value with unrealized gains and losses reported in other comprehensive income ("OCI"), include residential mortgage-backed securities ("RMBS") that are issued by government sponsored enterprises ("GSE"), which, together with RMBS issued or guaranteed by other GSEs or government agencies, is referred to as "Agency RMBS," non-Agency RMBS and collateralized loan obligations ("CLOs"). Our investment securities are classified as available for sale securities. Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the condensed consolidated statements of operations. Purchase premiums or discounts on investment securities are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method. Adjustments to amortization are made for actual prepayment activity.

When the fair value of an investment security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities on at least a quarterly basis, and designates such impairments as either "temporary" or "other-than-temporary." If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then it must recognize an other-than-temporary impairment through earnings equal to the entire difference between the investment's amortized cost and its fair value at the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the other-than-temporary impairment related to credit losses is recognized through earnings with the remainder recognized as a component of other comprehensive income (loss) on the condensed consolidated balance sheet. Impairments recognized through other comprehensive income (loss) do not impact earnings. Following the recognition of an other-than-temporary impairment through earnings, a new cost basis is established for the security, which may not be adjusted for subsequent recoveries in fair value through earnings. However, other-than-temporary impairments recognized through earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an other-than-temporary impairment exists and, if so, the amount considered other-than-temporarily impaired is subjective, as such determinations are based on both factual and subjective information available at the time of assessment. As a result, the timing and amount of other-than-temporary impairments constitute material estimates that are susceptible to significant change.

The Company's investment securities available for sale also includes its investment in a wholly owned account referred to as the Midway Residential Mortgage Portfolio. The Midway Residential Mortgage Portfolio investments primarily include interest only and inverse interest only securities (collectively referred to as "IOs"). The Midway Residential Mortgage Portfolio investments include derivative investments not designated as hedging instruments, with unrealized gains and losses recognized through earnings in the condensed consolidated statements of operations. The Company has elected the fair value option for these investment securities which also measures unrealized gains and losses through earnings in the condensed consolidated statements of operations, as the Company believes this accounting treatment more accurately and consistently reflects their results of operations.

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

**Receivables and Other Assets** - Receivables and other assets totaled \$29.6 million as of September 30, 2011, and consist primarily of \$18.8 million of restricted cash held by third parties, \$4.0 million of assets related to discontinued operations, \$2.2 million of accrued interest receivable, \$1.7 million related to escrow advances, \$1.4 million of prepaid expenses, \$0.6 million of capitalized expenses related to equity and bond issuance cost, \$0.5 million of real estate owned ("REO") in securitization trusts, \$0.3 million of other assets and \$0.1 million of deferred tax asset. The restricted cash held by third parties of \$18.8 million includes \$11.0 million held in its Midway Residential Mortgage

Portfolio to be used for trading purposes, \$7.6 million held by counterparties as collateral for hedging instruments and \$0.2 million as collateral for a letter of credit related to the lease of the Company's corporate headquarters. Receivables and other assets totaled \$8.9 million as of December 31, 2010, and consist of \$4.0 million of assets related to discontinued operations, \$1.4 million of restricted cash held by third parties, \$1.1 million related to escrow advances, \$0.7 million of real estate owned ("REO") in securitization trusts, \$0.6 million of capitalized expenses related to equity and bond issuance cost, \$0.6 million of accrued interest receivable, \$0.4 million of prepaid expenses and \$0.1 million of deferred tax asset. The restricted cash held by third parties of \$1.4 million includes \$1.2 million held by counterparties as collateral for hedging instruments and \$0.2 million as collateral for a letter of credit related to the lease of the Company's corporate headquarters.

**Mortgage Loans Held in Securitization Trusts** - Mortgage loans held in securitization trusts are certain adjustable rate mortgage ("ARM") loans transferred to New York Mortgage Trust 2005-1, New York Mortgage Trust 2005-2 and New York Mortgage Trust 2005-3 that have been securitized into sequentially rated classes of beneficial interests. Mortgage loans held in securitization trusts are carried at their unpaid principal balances, net of unamortized premium or discount, unamortized loan origination costs and allowance for loan losses.

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

**Mortgage Loans Held for Investment** - Mortgage loans held for investment are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in interest income. Loans are considered to be impaired when it is probable that, based upon current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Based on the facts and circumstances of the individual loans being impaired, loan specific valuation allowances are established for the excess carrying value of the loan over either: (i) the present value of expected future cash flows discounted at the loan's original effective interest rate, (ii) the estimated fair value of the loan's underlying collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or (iii) the loan's observable market price.

**Allowance for Loan Losses on Mortgage Loans Held in Securitization Trusts** - We establish an allowance for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of mortgage loans held in securitization trusts.

Estimation involves the consideration of various credit-related factors including but not limited to, macro-economic conditions, the current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's current economic condition and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the current value of the collateralizing property. We utilize various home valuation methodologies including appraisals, broker pricing opinions ("BPOs"), internet-based property data services to review comparable properties in the same area or consult with a realtor in the property's area.

Comparing the current loan balance to the property value determines the current loan-to-value ("LTV") ratio of the loan. Generally, we estimate that a first lien loan on a property that goes into a foreclosure process and becomes real estate owned ("REO"), results in the property being disposed of at approximately 84% of the current appraised value. This estimate is based on management's experience as well as realized severity rates since issuance of our securitizations. During 2008, as a result of the significant deterioration in the housing market, we revised our policy to estimate recovery values based on current home valuations less expected costs to dispose. These costs typically approximate 16% of the current home value. It is possible given continued difficult real estate market conditions in many geographic regions that we may realize less than that return in certain cases. Thus, for a first lien loan that is delinquent, we will adjust the property value down to approximately 84% of the current property value and compare that to the current balance of the loan. The difference determines the base provision for the loan loss taken for that loan. This base provision for a particular loan may be adjusted if we are aware of specific circumstances that may affect the outcome of the loss mitigation process for that loan. Predominately, however, we use the base reserve number for our reserve.

The allowance for loan losses will be maintained through ongoing provisions charged to operating income and will be reduced by loans that are charged off. As of September 30, 2011 and December 31, 2010, the allowance for loan losses held in securitization trusts totaled \$3.3 million and \$2.6 million, respectively.

**Investment in Limited Partnership and Limited Liability Company** – The Company has equity investments in a limited partnership and a limited liability company. In circumstances where the Company has a non-controlling interest but either owns a significant interest or is able to exert influence over the affairs of the enterprise, the Company utilizes the equity method of accounting. Under the equity method of accounting, the initial investment is increased each period for additional capital contributions and a proportionate share of the entity's earnings and decreased for cash distributions and a proportionate share of the entity's losses.



Management periodically reviews its investments for impairment based on projected cash flows from the entity over the holding period. When any impairment is identified, the investments are written down to recoverable amounts.

Financing Arrangements, Portfolio Investments - Investment securities available for sale are typically financed with repurchase agreements, a form of collateralized borrowing which is secured by the securities on the balance sheet. Such financings are recorded at their outstanding principal balance with any accrued interest due recorded as an accrued expense.

Revenue Recognition - Interest income on our 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.

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

Collateralized Debt Obligations (“CDOs”) - We use CDOs to permanently finance our loans held in securitization trusts. For financial reporting purposes, the ARM loans held as collateral are recorded as assets of the Company and the CDO is recorded as the Company’s debt. The Company has completed four securitizations since inception, the first three were accounted for as a permanent financing and the fourth was accounted for as a sale, and accordingly, not included in the Company’s financial statements.

Subordinated Debentures (Net) - Subordinated debentures are trust preferred securities that are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities are classified as subordinated debentures in the liability section of the Company’s condensed consolidated balance sheet.

Convertible Preferred Debentures (Net) - The Company issued \$20.0 million in Series A Convertible Preferred Stock that matured on December 31, 2010. The outstanding shares were redeemed by the Company at the \$20.00 per share liquidation preference plus accrued dividends on December 31, 2010.

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

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks and investment banks who meet established credit and capital guidelines. Management does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any loss due to counterparty default. In addition, all outstanding interest rate swap agreements have bi-lateral margin call capabilities, meaning the Company will require margin for interest rate swaps that are in the Company’s favor, minimizing any amounts at risk.

The Company invests in To-Be-Announced securities (“TBAs”) through its Midway Residential Mortgage Portfolio. TBAs are forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are “To-Be-Announced.” Pursuant to these TBA transactions, we agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. For TBA contracts that we have entered into, we have not asserted that physical settlement is probable, therefore we have not designated these forward commitments as hedging instruments. Realized and unrealized gains and losses associated with these TBAs are

recognized through earnings in the condensed consolidated statements of operations.

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

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

**Interest Rate Risk** - The Company hedges the aggregate risk of interest rate fluctuations with respect to its borrowings, regardless of the form of such borrowings, which require payments based on a variable interest rate index. With respect to interest rate risk, the Company generally intends to hedge the risk related to changes in the benchmark London Interbank Offered Rate ("LIBOR"). The Company applies hedge accounting for certain interest rate hedges utilizing the cash flow hedge criteria.

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

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

the items to be hedged expose the Company to interest rate risk; and

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

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

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

In addition to utilizing interest rate swaps and caps, we may purchase or sell short U.S. Treasury securities or enter into Eurodollar or other futures contracts or options to help mitigate the potential impact of changes in interest rates on the performance of the Midway Residential Mortgage Portfolio. We may borrow U.S. Treasury securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. For instruments that are not designated or qualify as a cash flow hedge, such as our use of U.S. Treasury securities or Eurodollar futures contracts, any realized and unrealized gains and losses associated with these instruments are recognized through earnings in the condensed consolidated statement of operations.

With respect to futures contracts, initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments are made or received periodically, depending upon whether unrealized gains or losses are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

The Company uses TBAs to hedge interest rate risk associated with its Midway Residential Mortgage Portfolio. For example, we may utilize TBAs to hedge the interest rate or yield spread risk inherent in our long Agency RMBS by taking short positions in TBAs that are similar in character. In a TBA transaction, we would agree to purchase or sell

for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis. TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS.

**Prepayment Risk** - When borrowers repay the principal on their mortgage loans before maturity or faster than their scheduled amortization, the effect is to shorten the period over which interest is earned, and thereby, reduce the yield for mortgage assets purchased at a premium to their then current balance. Conversely, mortgage assets purchased for less than their then current balance exhibit higher yields due to faster prepayments. Generally, when market interest rates decline, borrowers have a tendency to refinance their mortgages, thereby increasing prepayments.

In an increasing prepayment environment, the timing difference between the actual cash receipt of principal paydowns and the announcement of the principal paydown may result in additional margin requirements from our repurchase agreement counterparties.

We mitigate prepayment risk by constantly evaluating our mortgage assets relative to prepayment speeds observed for our mortgage assets, including the investments in our Midway Residential Mortgage Portfolio. The Midway Residential Mortgage Portfolio is designed to outperform in a rising rate or slower prepayment environment, off-setting possible exposures in our other mortgage related assets. Furthermore, we stress-test the portfolio as to prepayment speeds and interest rate risk in order to further develop or make modifications to our hedge balances.

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

**Employee Benefits Plans** - The Company sponsors a defined contribution plan (the "Plan") for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Plan, participating employees may defer up to 15% of their pre-tax earnings, subject to the annual Internal Revenue Code contribution limit. The Company may match contributions up to a maximum of 25% of the first 5% of salary. Employees vest immediately in their contribution and vest in the Company's contribution, if any, at a rate of 25% after two full years and then an incremental 25% per full year of service until fully vested at 100% after five full years of service. The Company made no contributions to the Plan for the nine months ended September 30, 2011 and 2010.

**Stock Based Compensation** - Compensation expense for equity based awards is recognized over the vesting period of such awards, based upon the fair value of the stock at the grant date.

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

HC is a TRS and therefore subject to corporate federal income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Accounting Standards Codification Topic 740 Accounting for Income Taxes ("ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. In situations involving uncertain tax positions related to income tax matters, we do not recognize benefits unless it is more likely than not that they will be sustained. ASC 740 was applied to all open taxable years as of its effective date. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based on factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof. The Company will recognize interest and penalties, if any, related to uncertain tax positions as income tax expense.

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

Loans Sold to Third Parties – The Company sold its discontinued mortgage lending business in March 2007. In the normal course of business, the Company is obligated to repurchase loans based on violations of representations and warranties in the loan sale agreements. The Company did not repurchase any loans during the nine months ended September 30, 2011 and 2010.

The Company periodically receives repurchase requests based on alleged violations of representations and warranties, each of which management reviews to determine, based on management's experience, whether such requests may reasonably be deemed to have merit. As of September 30, 2011, we had a total of \$2.0 million of unresolved repurchase requests that management concluded may reasonably be deemed to have merit, against which the Company has a reserve of approximately \$0.3 million. The reserve is based on one or more of the following factors; historical settlement rates, property value securing the loan in question and specific settlement discussions with third parties.

A Summary of Recent Accounting Pronouncements Follows:

Receivables (ASC 310)

In April 2011, the FASB issued ASU No. 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU 2011-02 clarifies whether loan modifications constitute troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of ASU 2011-02 did not have an effect on our financial condition, results of operations and disclosures.

Transfers and Servicing (ASC 860)

In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements. ASU 2011-03 is intended to improve financial reporting of repurchase agreements ("repos") and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. In a typical repo transaction, an entity transfers financial assets to a counterparty in exchange for cash with an agreement for the counterparty to return the same or equivalent financial assets for a fixed price in the future. FASB Accounting Standards Codification ("Codification") Topic 860, Transfers and Servicing, prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repo agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. The amendments to the Codification in this ASU are intended to improve the accounting for these transactions by removing from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. The guidance in the ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. We are assessing the impact of ASU 2011-03 on our financial condition, results of operations and disclosures.

Fair Value Measurements (ASC 820)

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 represents the converged guidance of the FASB and the IASB (the "Boards") on fair value measurements. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this ASU are required to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. We do not expect that the adoption of ASU 2011-04 will have a significant impact on our financial condition, results of operations and disclosures.

Comprehensive Income (ASC 220)

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which amends current comprehensive income guidance. ASU 2011-05 eliminates the option



to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 will not have an impact on our financial position, results of operations and disclosures as it only requires a change in the format of the current presentation.

## 2. Investment Securities Available for Sale

Investment securities available for sale consist of the following as of September 30, 2011 (dollar amounts in thousands):

	Amortized Costs	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS	\$ 147,584	\$ 3,212	\$ (7,980)	\$ 142,816
Non-Agency RMBS	6,356	—	(1,494)	4,862
CLOs	9,056	13,659	—	22,715
Total	\$ 162,996	\$ 16,871	\$ (9,474)	\$ 170,393

Securities included in investment securities available for sale held in our Midway Residential Mortgage Portfolio that are measured at fair value through earnings consist of the following as of September 30, 2011 (dollar amounts in thousands):

	Amortized Costs	Unrealized Gains	Unrealized Losses	Carrying Value
Interest only securities included in Agency RMBS:				
Federal National Mortgage Association (“Fannie Mae”)	\$ 32,902	\$ 854	\$ (3,393)	\$ 30,363
Federal Home Loan Mortgage Corporation (“Freddie Mac”)	20,369	472	(1,970)	18,871
Government National Mortgage Association (“Ginnie Mae”)	22,446	308	(2,385)	20,369
Total	\$ 75,717	\$ 1,634	\$ (7,748)	\$ 69,603

Investment securities available for sale consist of the following as of December 31, 2010 (dollar amounts in thousands):

	Amortized Costs	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS	\$ 45,865	\$ 1,664	\$ —	\$ 47,529
Non-Agency RMBS	10,071	80	(1,166)	8,985
CLOs	11,286	18,240	—	29,526
Total	\$ 67,222	\$ 19,984	\$ (1,166)	\$ 86,040

The following table sets forth the stated reset periods of our investment securities available for sale at September 30, 2011 (dollar amounts in thousands):

September 30, 2011	Less than 6 Months Carrying Value	More than 6 Months to 24 Months Carrying Value	More than 24 Months Carrying Value	Total Carrying Value
Agency RMBS	\$81,043	\$30,841	\$30,932	\$142,816
Non-Agency RMBS	4,862	—	—	4,862
CLO	22,715	—	—	22,715
Total	\$108,620	\$30,841	\$30,932	\$170,393

The following table sets forth the stated reset periods of our investment securities available for sale at December 31, 2010 (dollar amounts in thousands):

December 31, 2010	Less than 6 Months Carrying Value	More than 6 Months to 24 Months Carrying Value	More than 24 Months Carrying Value	Total Carrying Value
Agency RMBS	\$25,816	\$5,313	\$16,400	\$47,529
Non-Agency RMBS	8,985	—	—	8,985
CLO	29,526	—	—	29,526
Total	\$64,327	\$5,313	\$16,400	\$86,040

The following tables present the Company's investment securities available for sale in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

September 30, 2011	Less than 12 Months Gross Carrying Unrealized Value Losses		Greater than 12 Months Gross Carrying Unrealized Value Losses		Total Gross Carrying Unrealized Value Losses	
Agency RMBS	\$ 30,312	\$ 232	\$ —	\$ —	\$ 30,312	\$ 232
Non-Agency RMBS	—	—	4,862	1,494	4,862	1,494
Total	\$ 30,312	\$ 232	\$ 4,862	\$ 1,494	\$ 35,174	\$ 1,726

December 31, 2010	Less than 12 Months Gross Carrying Unrealized Value Losses		Greater than 12 Months Gross Carrying Unrealized Value Losses		Total Gross Carrying Unrealized Value Losses	
Non-Agency RMBS	\$ —	\$ —	\$ 6,436	\$ 1,166	\$ 6,436	\$ 1,166
Total	\$ —	\$ —	\$ 6,436	\$ 1,166	\$ 6,436	\$ 1,166

As of September 30, 2011 and December 31, 2010, respectively, the Company did not have unrealized losses in investment securities that were deemed other-than-temporary.

During the three and nine months ended September 30, 2011, the Company received total proceeds of approximately \$0.2 million and \$20.8 million, respectively, realizing approximately \$0 and \$5.0 million, respectively, of profit before incentive fee from the sale of certain CLO investments, certain Agency RMBS and U.S. Treasury securities. During the three and nine months ended September 30, 2010, the Company received total proceeds of approximately \$7.9 million and \$40.8 million, respectively, realizing approximately \$1.9 million and \$4.0 million, respectively, of profit before incentive fee from the sale of certain Agency RMBS and non-Agency RMBS.

## 3. Mortgage Loans Held in Securitization Trusts and Real Estate Owned

Mortgage loans held in securitization trusts (net) consist of the following as of September 30, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

	September 30, 2011	December 31, 2010
Mortgage loans principal amount	\$ 212,404	\$ 229,323
Deferred origination costs – net	1,338	1,451
Reserve for loan losses	(3,319 )	(2,589 )
Total	\$ 210,423	\$ 228,185

Allowance for Loan losses - The following table presents the activity in the Company's allowance for loan losses on mortgage loans held in securitization trusts for the nine months ended September 30, 2011 and 2010, respectively (dollar amounts in thousands):

	Nine Months Ended September 30, 2011	2010
Balance at beginning of period	\$ 2,589	\$ 2,581
Provisions for loan losses	1,191	1,210
Transfer to real estate owned	(16 )	(449 )
Charge-offs	(445 )	(534 )
Balance at the end of period	\$ 3,319	\$ 2,808

On an ongoing basis, the Company evaluates the adequacy of its allowance for loan losses. The Company's allowance for loan losses at September 30, 2011 was \$3.3 million, representing 156 basis points of the outstanding principal balance of loans held in securitization trusts as of September 30, 2011, as compared to 113 basis points as of December 31, 2010. As part of the Company's allowance for loan losses adequacy analysis, management will assess an overall level of allowances while also assessing credit losses inherent in each non-performing mortgage loan held in securitization trusts. These estimates involve the consideration of various credit related factors, including but not limited to, current housing market conditions, current loan to value ratios, delinquency status, the borrower's current economic and credit status and other relevant factors.

Real Estate Owned – The following table presents the activity in the Company's real estate owned held in securitization trusts for the nine months ended September 30, 2011 and the year ended December 31, 2010 (dollar amounts in thousands):

	September 30, 2011	December 31, 2010
Balance at beginning of period	\$ 740	\$ 546
Write downs	(62 )	(193 )
Transfer from mortgage loans held in securitization trusts	218	1,398
Disposal	(372 )	(1,011 )
Balance at the end of period	\$ 524	\$ 740

Real estate owned held in securitization trusts are included in receivables and other assets on the balance sheet and write downs are included in provision for loan losses in the statement of operations for reporting purposes.

All of the Company's mortgage loans and real estate owned held in securitization trusts are pledged as collateral for the CDOs issued by the Company. As of September 30, 2011 and December 31, 2010, the Company's net investment in the securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the loans and real estate owned held in securitization trusts and the amount of CDOs outstanding, was \$7.9 million and \$8.9 million, respectively.

## Delinquency Status of Our Mortgage Loans Held in Securitization Trusts

As of September 30, 2011, we had 41 delinquent loans with an aggregate principal amount outstanding of approximately \$22.0 million categorized as Mortgage Loans Held in Securitization Trusts (net). Of the \$22.0 million in delinquent loans, \$18.0 million, or 82%, are currently under some form of modified payment plan. As these borrowers are not current, they continue to be reported as delinquent even though they are working towards a credit resolution. The table below shows delinquencies in our portfolio of loans held in securitization trusts, including real estate owned through foreclosure (REO), as of September 30, 2011 (dollar amounts in thousands):

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	3	\$ 1,526	0.72%
61-90	1	246	0.12%
90+	37	20,183	9.48%
Real estate owned through foreclosure	2	570	0.27%

As of December 31, 2010, we had 46 delinquent loans with an aggregate principal amount outstanding of approximately \$25.1 million categorized as Mortgage Loans Held in Securitization Trusts (net). Of the \$25.1 million in delinquent loans as of December 31, 2010, \$17.8 million, or 71%, were under some form of modified payment plan. Because these borrowers were not current as of December 31, 2010, they have been reported as delinquent even though they were working towards a credit resolution. The table below shows delinquencies in our portfolio of loans held in securitization trusts, including real estate owned through foreclosure (REO), as of December 31, 2010 (dollar amounts in thousands):

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	7	\$ 2,515	1.09%
61-90	4	4,362	1.89%
90+	35	18,191	7.90%
Real estate owned through foreclosure	3	894	0.39%

## 4. Investment in Limited Partnership and Limited Liability Company

The Company has a non-controlling, unconsolidated limited partnership interest in an entity that is accounted for using the equity method of accounting. Capital contributions, distributions, and profits and losses of the entity are allocated in accordance with the terms of the limited partnership agreement. The Company owns effectively 100% of the equity of the limited partnership, but has no decision-making powers, and therefore does not consolidate the limited partnership. Our maximum exposure to loss in this variable interest entity is \$11.3 million at September 30, 2011. During the third and fourth quarters of 2010, HC invested, in exchange for limited partnership interests, \$19.4 million in this limited partnership that was formed for the purpose of acquiring, servicing, selling or otherwise disposing of first-lien residential mortgage loans. The pool of mortgage loans was acquired by the partnership at a significant discount to the loans' unpaid principal balance.

At September 30, 2011, the Company had an investment in this limited partnership of \$11.5 million. For the three and nine months ended September 30, 2011, the Company recognized income from the investment in limited partnership of \$0.3 million and \$1.6 million, respectively. For the three and nine months ended September 30, 2011, the Company received distributions from the investment in limited partnership of \$3.9 million and \$8.8 million, respectively.

The condensed balance sheet of the investment in limited partnership at September 30, 2011 and December 31, 2010, respectively, is as follows (dollar amounts in thousands):

	September 30, 2011	December 31, 2010
Assets		
Cash	\$ 2,095	\$ 152
Mortgage loans held for sale (net)	8,690	18,072
Other assets	694	478
Total Assets	\$ 11,479	\$ 18,702
Liabilities & Partners' Equity		
Other liabilities	\$ 180	\$ 37
Partners' equity	11,299	18,665
Total Liabilities and Partners' Equity	\$ 11,479	\$ 18,702

The condensed statement of operations of the investment in limited partnership for the three and nine months ended September 30, 2011, respectively, is as follows (dollar amounts in thousands):

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Statement of Operations		
Interest income	\$ 302	\$ 1,063
Realized gain	208	993
Total Income	510	2,056
Other expenses	(181)	(496)
Net Income	\$ 329	\$ 1,560

During the second quarter of 2011, RBCM invested \$5.3 million in a limited liability company that was formed for the purpose of investing in two tranches of securities. For the three and nine months ended September 30, 2011, the Company recognized income from the investment in limited liability company of \$0.2 million. For the three and nine



months ended September 30, 2011, the Company received distributions from the investment in limited liability company of \$0.1 million.

## 5. Derivatives and Other Hedging Instruments

The following table presents the fair value of derivative instruments designated as hedging instruments and their location in the Company's condensed consolidated balance sheets at September 30, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	September 30, 2011	December 31, 2010
Interest Rate Swaps	Derivative Liabilities	\$ 484	\$ 1,087

The following table presents the impact of the Company's derivative instruments on the Company's accumulated other comprehensive income (loss) for the nine months ended September 30, 2011 and 2010, respectively (dollar amounts in thousands):

	Nine Months Ended September 30,	
Derivatives Designated as Hedging Instruments	2011	2010
Accumulated other comprehensive income (loss) for derivative instruments:		
Balance at beginning of the period	\$ (1,087)	\$ (2,905)
Unrealized gain on interest rate caps	—	390
Unrealized gain on interest rate swaps	603	878
Reclassification adjustment for net gains (losses) included in net income for hedges	—	—
Balance at the end of the period	\$ (484)	\$ (1,637)

The Company estimates that over the next 12 months, approximately \$0.4 million of the net unrealized losses on the interest rate swaps will be reclassified from accumulated other comprehensive income (loss) into earnings.

The following table presents the fair value of derivative instruments held in our Midway Residential Mortgage Portfolio that were not designated as hedging instruments and their location in the Company's condensed consolidated balance sheets at September 30, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	September 30, 2011	December 31, 2010
TBA securities	Derivative Asset	\$ 74,120	\$ —
U.S. Treasury futures	Derivative Asset	632	—
Eurodollar futures	Derivative Liabilities	3,135	—
Options on U.S. Treasury futures	Derivative Asset	301	—

The tables below summarize the activity of derivative instruments not designated as hedges for the three and nine months ended September 30, 2011, respectively (dollar amounts in thousands). There were no derivative instruments not designated as hedges for the same periods in 2010.

For the Three Months Ended September 30, 2011				
Derivatives Not Designated as Hedging Instruments	Notional Amount as of June 30, 2011	Additions	Settlement, Expiration or Exercise	Notional Amount as of September 30, 2011
TBA securities	\$ 14,000	\$ 149,000	\$ (92,000 )	\$ 71,000

Edgar Filing: NEW YORK MORTGAGE TRUST INC - Form 10-Q

U.S. Treasury futures	15,600	220,000	(231,100 )	4,500
Short sales of				
Eurodollar futures	(2,746,000 )	807,000	(928,000 )	(2,867,000 )
Options on U.S.				
Treasury futures	88,000	191,400	(170,500 )	108,900

For the Nine Months Ended September 30, 2011

Derivatives Not Designated as Hedging Instruments	Notional Amount as of December 31, 2010	Additions	Settlement, Expiration or Exercise	Notional Amount as of September 30, 2011
TBA securities	\$ —	\$ 193,000	\$ (122,000 )	\$ 71,000
U.S. Treasury futures	—	279,700	(275,200 )	4,500
Short sales of				
Eurodollar futures	—	1,201,000	(4,068,000 )	(2,867,000 )
Options on U.S.				
Treasury futures	—	377,900	(269,000 )	108,900

The use of TBAs exposes the Company to market value risk, as the market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price. For the three and nine months ended September 30, 2011, respectively, we recorded net realized gains of \$1.1 million. For the three and nine months ended September 30, 2011, respectively, we recorded no net unrealized gains. There were no realized or unrealized gains or losses from TBAs for the same periods in 2010.

The Eurodollar futures swap equivalents in our Midway Residential Mortgage Portfolio are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our condensed consolidated statements of operations. For the three and nine months ended September 30, 2011, we recorded net realized losses of \$0.9 million and \$1.1 million, respectively, and net unrealized losses of \$1.4 million and \$3.1 million, respectively, in our Eurodollar futures contracts. The Eurodollar futures consist of 2,867 contracts with expiration dates ranging between December 2011 and September 2014 and have a fair market value derivative liability of \$3.1 million. There were no realized or unrealized gains or losses from Eurodollars for the same periods in 2010.

The U.S. Treasury futures and options in our Midway Residential Mortgage Portfolio are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our condensed consolidated statements of operations. For the three and nine months ended September 30, 2011, respectively, we recorded net realized gains of \$2.4 million and \$2.9 million, respectively, and net unrealized gains of \$0.6 million and \$0.5 million. There were no realized or unrealized gains or losses from U.S. Treasury futures and options for the same periods in 2010.

The following table details the impact of the Company's interest rate swaps and interest rate caps included in interest expense for the three and nine months ended September 30, 2011 and 2010, respectively (dollar amounts in thousands):

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	2011	2010	2011	2010
<b>Interest Rate Caps:</b>				
Interest expense-investment securities and loans held in securitization trusts	\$—	\$86	\$—	\$303
Interest expense-subordinated debentures	—	—	—	92
<b>Interest Rate Swaps:</b>				
Interest expense-investment securities and loans held in securitization trusts	213	596	716	1,983

**Interest Rate Swaps, Futures Contracts and TBAs** - The use of interest rate swaps "Swaps" exposes the Company to counterparty credit risks in the event of a default by a Swap counterparty. If a counterparty defaults under the applicable Swap agreement, the Company may be unable to collect payments to which it is entitled under its Swap agreements, and may have difficulty collecting the assets it pledged as collateral against such Swaps. The Company currently has in place with all outstanding Swap counterparties bi-lateral margin agreements thereby requiring a party to post collateral to the Company for any valuation deficit. This arrangement is intended to limit the Company's exposure to losses in the event of a counterparty default.

The Company is required to pledge assets under a bi-lateral margin arrangement, including either cash or Agency RMBS, as collateral for its interest rate swaps, futures contracts and TBAs, whose collateral requirements vary by counterparty and change over time based on the market value, notional amount, and remaining term of the

agreement. In the event the Company is unable to meet a margin call under one of its agreements, thereby causing an event of default or triggering an early termination event under one of its agreements, the counterparty to such agreement may have the option to terminate all of such counterparty's outstanding transactions with the Company. In addition, under this scenario, any close-out amount due to the counterparty upon termination of the counterparty's transactions would be immediately payable by the Company pursuant to the applicable agreement. The Company believes it was in compliance with all margin requirements under its agreements as of September 30, 2011 and December 31, 2010. The Company had \$7.6 million and \$1.2 million of restricted cash related to margin posted for its agreements as of September 30, 2011 and December 31, 2010, respectively. The restricted cash held by third parties is included in receivables and other assets in the accompanying condensed consolidated balance sheets.

The following table presents information about the Company's interest rate swaps as of September 30, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

Maturity (1)	September 30, 2011		December 31, 2010	
	Notional Amount	Weighted Average Fixed Pay Interest Rate	Notional Amount	Weighted Average Fixed Pay Interest Rate
Within 30 Days	\$ 1,570	3.03%	\$ 24,080	2.99%
Over 30 days to 3 months	1,570	3.02	2,110	3.03
Over 3 months to 6 months	15,190	3.02	2,280	3.03
Over 6 months to 12 months	750	2.93	5,600	3.03
Over 12 months to 24 months	8,820	2.93	16,380	3.01
Over 24 months to 36 months	—	—	8,380	2.93
Total	\$ 27,900	2.99%	\$ 58,830	3.00%

(1) The Company enters into scheduled amortizing interest rate swap transactions whereby the Company pays a fixed rate of interest and receives one month LIBOR.

**Interest Rate Caps** – Interest rate caps were designated by the Company as cash flow hedges against interest rate risk associated with the Company's CDOs and the subordinated debentures. The interest rate caps associated with the CDOs are amortizing contractual schedules determined at origination. The Company had \$0 and \$76.0 million of notional interest rate caps outstanding as of September 30, 2011 and December 31, 2010, respectively. These interest rate caps were utilized to cap the interest rate on the CDOs at a fixed-rate when one month LIBOR exceeds a predetermined rate. The interest rate caps expired on April 25, 2011.

## 6. Financing Arrangements, Portfolio Investments

The Company has entered into repurchase agreements with third party financial institutions to finance its investment portfolio. The repurchase agreements are short-term borrowings that bear interest rates typically based on a spread to LIBOR, and are secured by the securities which they finance. At September 30, 2011, the Company had repurchase agreements with an outstanding balance of \$111.5 million and a weighted average interest rate of 0.61%. As of December 31, 2010, the Company had repurchase agreements with an outstanding balance of \$35.6 million and a weighted average interest rate of 0.39%. At September 30, 2011 and December 31, 2010, securities pledged by the Company as collateral for repurchase agreements had estimated fair values of \$133.0 million and \$38.5 million, respectively. All outstanding borrowings under our repurchase agreements mature within 30 days. As of September 30, 2011, the average days to maturity for all repurchase agreements is 18 days.

The following table summarizes outstanding repurchase agreement borrowings secured by portfolio investments, which are included in financing arrangements, portfolio investments on the condensed consolidated balance sheets, as of September 30, 2011 and December 31, 2010, respectively (dollar amount in thousands):

Repurchase Agreements by Counterparty		
Counterparty Name	September 30, 2011	December 31, 2010
Cantor Fitzgerald, L.P.	\$9,720	\$4,990
Credit Suisse First Boston LLC	11,331	12,080
Jefferies & Company, Inc.	18,542	9,476
JPMorgan Chase & Co.	45,594	—
South Street Securities LLC	26,313	9,086
Total Financing Arrangements, Portfolio Investments	\$111,500	\$35,632

As of September 30, 2011, the outstanding balance under our repurchase agreements was funded at an advance rate of 85% that implies an average haircut of 15%. The weighted average “haircut” related to our repurchase agreement financing for our Agency IOs, CLOs and other Agency RMBS was approximately 25%, 35% and 5%, respectively, for a total weighted average “haircut” of 15%. The amount at risk for Credit Suisse First Boston LLC, South Street Securities LLC, Jefferies & Company, Inc., Cantor Fitzgerald, L.P., and JPMorgan Chase & Co. are \$0.9 million, \$1.0 million, \$1.0 million, \$3.9 million and \$14.7 million, respectively. As of September 30, 2011, the Company had \$11.7 million in cash and \$37.4 million in unencumbered investment securities to meet additional haircut or market valuation requirements, including \$25.0 million of RMBS, of which \$20.2 million are Agency RMBS. The \$11.7 million of cash and the \$25.0 million in RMBS (which, collectively, represents 33% of our financing arrangements, portfolio investments) are liquid and could be monetized to pay down or collateralize the liability immediately. There is also an additional \$11.0 million held in overnight deposits in our Midway Residential Mortgage Portfolio included in restricted cash that is available to meet margin calls as it relates to our repurchase agreements.

## 7. Collateralized Debt Obligations

The Company’s CDOs, which are recorded as liabilities on the Company’s balance sheet, are secured by ARM loans pledged as collateral, which are recorded as mortgage loans held in securitization trusts in the condensed consolidated balance sheets. As of September 30, 2011 and December 31, 2010, the Company had CDOs outstanding of \$203.1 million and \$220.0 million, respectively. As of September 30, 2011 and December 31, 2010, the current weighted average interest rate on these CDOs was 0.62% and 0.65%, respectively. The CDOs are collateralized by ARM loans with a principal balance of \$212.4 million and \$229.3 million at September 30, 2011 and December 31, 2010, respectively. The Company retained the owner trust certificates, or residual interest, for three securitizations and, as of September 30, 2011 and December 31, 2010, had a net investment in the securitization trusts, after loan loss reserves and including real estate owned, of \$7.9 million and \$8.9 million, respectively.

## 8. Discontinued Operation

In connection with the sale of our mortgage origination platform assets during the quarter ended March 31, 2007, we classified our mortgage lending segment as a discontinued operation. As a result, we have reported revenues and expenses related to the segment as a discontinued operation for all periods presented in the accompanying condensed consolidated financial statements. Certain assets, such as the deferred tax asset, and certain liabilities, such as the subordinated debentures and liabilities related to lease facilities not sold, are part of our ongoing operations and

accordingly, we have not included these items as part of the discontinued operation. Assets and liabilities related to the discontinued operation are \$4.0 million and \$0.5 million, respectively, at September 30, 2011, and \$4.0 million and \$0.6 million, respectively, and December 31, 2010, and are included in receivables and other assets and accrued expenses and other liabilities in the condensed consolidated balance sheets.



## Statements of Operations Data

The statements of operations of the discontinued operation for the three and nine months ended September 30, 2011 and 2010, respectively, are as follows (dollar amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	\$59	\$368	\$160	\$1,115
Expenses	40	70	137	238
Income from discontinued operation-net of tax	\$19	\$298	\$23	\$877

## 9. Commitments and Contingencies

**Loans Sold to Third Parties** - The Company sold its discontinued mortgage lending business in March 2007. In the normal course of business, the Company is obligated to repurchase loans based on violations of representations and warranties in the loan sale agreements. The Company did not repurchase any loans during the nine months ended September 30, 2011.

The Company periodically receives repurchase requests based on alleged violations of representations and warranties, each of which management reviews to determine, based on management's experience, whether such requests may reasonably be deemed to have merit. As of September 30, 2011, we had a total of \$2.0 million of unresolved repurchase requests that management concluded may reasonably be deemed to have merit and against which the Company has a reserve of approximately \$0.3 million. The reserve is based on one or more of the following factors: historical settlement rates, property value securing the loan in question and specific settlement discussions with third parties.

**Outstanding Litigation** - The Company is at times subject to various legal proceedings arising in the ordinary course of business. As of September 30, 2011, 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, financial condition or cash flows.

## 10. Concentrations of Credit Risk

At September 30, 2011 and December 31, 2010, respectively, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within the mortgage loans held in the securitization trusts and the real estate owned as follows:

	September 30, 2011	December 31, 2010
New York	37.6%	37.9%
Massachusetts	25.0%	25.0%
New Jersey	9.1%	8.7%
Florida	5.7%	5.6%
Connecticut	5.0%	4.7%

## 11. Fair Value of Financial Instruments

The Company has established and documented processes for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that primarily use inputs that are market-based or independently-sourced market parameters, including interest rate yield curves.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following describes the valuation methodologies used for the Company's financial instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

- a. Investment Securities Available for Sale (RMBS) - Fair value for the RMBS in our portfolio is based on quoted prices provided by dealers who make markets in similar financial instruments. The dealers will incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. If quoted prices for a security are not reasonably available from a dealer, the security will be re-classified as a Level 3 security and, as a result, management will determine the fair value based on characteristics of the security that the Company receives from the issuer and based on available market information. Management reviews all prices used in determining valuation to ensure they represent current market conditions. This review includes surveying similar market transactions, comparisons to interest pricing models as well as offerings of like securities by dealers. The Company's investment securities that are comprised of RMBS are valued based upon readily observable market parameters and are classified as Level 2 fair values.

- b. Investment Securities Available for Sale (CLO) - The fair value of the CLO notes, prior to December 31, 2010, was based on management's valuation determined using a discounted future cash flows model that management believes would be used by market participants to value similar financial instruments. At each of September 30, 2011 and December 31, 2010, the fair value of the CLO notes was based on quoted prices provided by dealers who make markets in similar financial instruments. The CLO notes were previously classified as Level 3 fair values and were re-classified as Level 2 fair values in the fourth quarter of 2010.
- c. Investment Securities Available for Sale (Midway) - The fair value of other investment securities available for sale, such as IOs and U.S. Treasury securities, is based on quoted prices provided by dealers who make markets in similar financial instruments. The Company's IOs and U.S. Treasury securities are classified as Level 2 fair values.
- d. Derivative Instruments - The fair value of interest rate swaps, caps, options, futures and TBAs are based on dealer quotes. The Company's derivatives are classified as Level 1 and 2 fair values.

The following table presents the Company's financial instruments measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, respectively, on the Company's condensed consolidated balance sheets (dollar amounts in thousands):

	Measured at Fair Value on a Recurring Basis at September 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investment securities available for sale:				
Agency RMBS	\$ —	\$ 142,816	\$ —	\$ 142,816
Non-Agency RMBS	—	4,862	—	4,862
CLO	—	22,715	—	22,715
Derivative Asset	—	75,053	—	75,053
Total	\$ —	\$ 245,446	\$ —	\$ 245,446

Liabilities carried at fair value:				
Derivative liabilities (interest rate swaps and Eurodollar futures)	\$ 3,135	\$ 484	\$ —	\$ 3,619
Total	\$ 3,135	\$ 484	\$ —	\$ 3,619

	Measured at Fair Value on a Recurring Basis at December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investment securities available for sale:				
Agency RMBS	\$ —	\$ 47,529	\$ —	\$ 47,529
Non-Agency RMBS	—	8,985	—	8,985
CLO	—	29,526	—	29,526
Total	\$ —	\$ 86,040	\$ —	\$ 86,040
Liabilities carried at fair value:				
Derivative liabilities (interest rate swaps)	\$ —	\$ 1,087	\$ —	\$ 1,087
Total	\$ —	\$ 1,087	\$ —	\$ 1,087

The following table details changes in valuation for the Level 3 assets for the nine months ended September 30, 2011 and 2010, respectively (amounts in thousands):

Investment securities available for sale: CLO

	Nine Months Ended September 30,	
	2011	2010
Balance at beginning of period	\$ —	\$ 17,599
Total gains (realized/unrealized)		
Included in earnings (1)	—	1,496
Included in other comprehensive income/(loss)	—	4,854
Balance at the end of period (2)	\$ —	\$ 23,949

(1) - Amounts included in interest income.

(2) - The CLOs were re-classified from Level 3 to Level 2 fair values during the fourth quarter of 2010 due to management determining that there is a reliable market for these assets based upon quoted prices provided by dealers who make markets in similar investments.

Any changes to the valuation methodology are reviewed by management to ensure the changes are appropriate. As markets and products develop and the pricing for certain products becomes more transparent, the Company continues to refine its valuation methodologies. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of each reporting date, which may in the future include periods of market dislocation, during which time price transparency may be reduced. This condition could cause the Company's financial instruments to be reclassified from Level 2 to Level 3 in future periods.

The following table presents assets measured at fair value on a non-recurring basis as of September 30, 2011 and December 31, 2010, respectively, on the Company's condensed consolidated balance sheets (dollar amounts in thousands):

	Assets Measured at Fair Value on a Non-Recurring Basis			
	at September 30, 2011			
	Level 1	Level 2	Level 3	Total
Mortgage loans held for investment	\$ —	\$ —	\$ 5,117	\$ 5,117
Mortgage loans held for sale – included in discontinued operations (net)	—	—	3,787	3,787
Mortgage loans held in securitization trusts – impaired loans (net)	—	—	6,825	6,825
Real estate owned held in securitization trusts	—	—	524	524

	Assets Measured at Fair Value on a Non-Recurring Basis			
	at December 31, 2010			
	Level 1	Level 2	Level 3	Total
Mortgage loans held for investment	\$ —	\$ —	\$ 7,460	\$ 7,460
Mortgage loans held for sale – included in discontinued operations (net)	—	—	3,808	3,808
Mortgage loans held in securitization trusts – impaired loans (net)	—	—	6,576	6,576
Real estate owned held in securitization trusts	—	—	740	740

The following table presents losses incurred for assets measured at fair value on a non-recurring basis for the three and nine months ended September 30, 2011 and 2010, respectively, on the Company's condensed consolidated statements of operations (dollar amounts in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Mortgage loans held in securitization trusts –				
impaired loans (net)	\$435	\$734	\$1,234	\$1,336



The following table presents the carrying value and estimated fair value of the Company's financial instruments at September 30, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 11,679	\$ 11,679	\$ 19,375	\$ 19,375
Investment securities available for sale	170,393	170,393	86,040	86,040
Mortgage loans held in securitization trusts (net)	210,423	186,342	228,185	206,560
Derivative assets	75,053	75,053	—	—
Assets related to discontinued operation-mortgage loans held for sale (net)	3,787	3,787	3,808	3,808
Mortgage loans held for investment	5,117	5,117	7,460	7,460
Receivable for securities sold	5,400	5,400	5,653	5,653
<b>Financial liabilities:</b>				
Financing arrangements, portfolio investments	\$ 111,500	\$ 111,500	\$ 35,632	\$ 35,632
Collateralized debt obligations	203,054	171,187	219,993	185,609
Derivative liabilities	3,619	3,619	1,087	1,087
Payable for securities purchased	79,585	79,585	—	—
Subordinated debentures (net)	45,000	27,112	45,000	36,399

## 12. Capital Stock and Earnings per Share

The Company had 400,000,000 authorized shares of common stock, par value \$0.01 per share, with 11,178,273 and 9,425,442 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively.

The following table presents cash dividends declared by the Company on its common stock with respect to each of the quarterly periods commencing January 1, 2010 and ended September 30, 2011:

Period	Declaration Date	Record Date	Payment Date	Cash Dividend Per Share
Third Quarter 2011	September 20, 2011	September 30, 2011	October 25, 2011	\$ 0.25
Second Quarter 2011	May 31, 2011	June 10, 2011	June 27, 2011	0.22
First Quarter 2011	March 18, 2011	March 31, 2011	April 26, 2011	0.18
Fourth Quarter 2010	December 20, 2010	December 30, 2010	January 25, 2011	0.18
Third Quarter 2010	October 4, 2010	October 14, 2010	October 25, 2010	0.18
Second Quarter 2010	June 16, 2010	July 6, 2010	July 26, 2010	0.18
First Quarter 2010	March 16, 2010	April 1, 2010	April 26, 2010	0.25

On June 28, 2011, we entered into an underwriting agreement relating to the offer and sale of 1,500,000 shares of our common stock at a public offering price of \$7.50 per share, which shares were issued and proceeds received on July 1, 2011. On July 14, 2011, we issued an additional 225,000 shares of common stock to the underwriter pursuant to their exercise of an over-allotment option. These proceeds were received on July 14, 2011. We received total net proceeds of \$11.9 million from the issuance of the 1,725,000 shares.





The Company calculates basic net income per share by dividing net income for the period by weighted-average shares of common stock outstanding for that period. Diluted net income per share takes into account the effect of dilutive instruments, such as convertible preferred stock, stock options and unvested restricted or performance stock, but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding.

The following table presents the computation of basic and diluted net income per share for the periods indicated (in thousands, except per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Numerator:				
Net (loss) income – Basic	\$(15 )	\$1,577	\$6,668	\$5,787
Net (loss) income from continuing operations	(34 )	1,279	6,645	4,910
Net income from discontinued operations (net of tax)	19	298	23	877
Effect of dilutive instruments:				
Convertible preferred debentures	—	537	—	1,737
Net (loss) income – Dilutive	(15 )	2,114	6,668	7,524
Net (loss) income from continuing operations	(34 )	1,816	6,645	6,647
Net income from discontinued operations (net of tax)	\$19	\$298	\$23	\$877
Denominator:				
Weighted average basis shares outstanding	11,146	9,425	10,015	9,421
Effect of dilutive instruments:				
Convertible preferred debentures	—	2,500	—	2,500
Weighted average dilutive shares outstanding	11,146	9,425	10,015	9,421
EPS:				
Basic EPS	\$—	\$0.17	\$0.67	\$0.61
Basic EPS from continuing operations	—	0.14	0.67	0.52
Basic EPS from discontinued operations (net of tax)	—	0.03	—	0.09
Dilutive EPS	\$—	\$0.17	\$0.67	\$0.61
Dilutive EPS from continuing operations	—	0.14	0.67	0.52
Basic EPS from discontinued operations (net of tax)	—	0.03	—	0.09

### 13. Related Party Transactions

#### Advisory Agreements

On January 18, 2008, the Company entered into an advisory agreement (the “Prior Advisory Agreement”) with Harvest Capital Strategies LLC (“HCS”) (formerly known as JMP Asset Management LLC), pursuant to which HCS was responsible for implementing and managing the Company’s investments in certain real estate-related and financial assets. The Company entered into the Prior Advisory Agreement concurrent and in connection with its private placement of Series A Preferred Stock to JMP Group Inc. and certain of its affiliates. HCS is a wholly-owned subsidiary of JMP Group Inc. As of September 30, 2011, HCS and JMP Group Inc. collectively beneficially owned approximately 12.8% of the Company’s common stock. In addition, until its redemption on December 31, 2010, HCS and JMP Group Inc. collectively beneficially owned 100% of the Company’s Series A Preferred Stock. The Company’s Series A Preferred Stock matured on December 31, 2010, at which time it redeemed all the outstanding shares at the \$20.00 per share liquidation preference plus accrued dividends of \$0.5 million.

Pursuant to the Prior Advisory Agreement, HCS managed investments made by HC and NYMF (other than certain RMBS that are held in these entities for regulatory compliance purposes) as well as any additional subsidiaries that were acquired or formed to hold investments made on the Company’s behalf by HCS. The Company sometimes refers to these subsidiaries in its periodic reports filed with the Securities and Exchange Commission as the “Managed Subsidiaries.” The Prior Advisory Agreement provided for the payment to HCS of a base advisory fee that was equal to 1.50% per annum of the “equity capital” (as defined in the advisory agreement) of the Managed Subsidiaries; and an incentive fee upon the Managed Subsidiaries achieving certain investment hurdles. HCS was also eligible to earn an incentive fee on the managed assets. The Prior Advisory Agreement incentive fee was equal to 25% of the GAAP net income of the Managed Subsidiaries attributable to the investments that are managed by HCS that exceed a hurdle rate equal to the greater of (a) 8.00% and (b) 2.00% plus the ten year treasury rate for such fiscal year payable by us to HCS in cash, quarterly in arrears; provided, however, that a portion of the incentive compensation may be paid in shares of our common stock. The Prior Advisory Agreement was terminated effective July 26, 2010 upon execution and effectiveness of an amended and restated advisory agreement among the Company, HC, NYMF and HCS (the “HCS Advisory Agreement”).

Pursuant to the HCS Advisory Agreement, HCS provides investment advisory services to the Company and manages on the Company’s behalf “new program assets” acquired after the date of the HCS Advisory Agreement. The terms for new program assets, including the compensation payable thereunder to HCS by the Company, will be negotiated on a transaction-by-transaction basis. For those new program assets identified as “Managed Assets”, HCS will be (A) entitled to receive a quarterly base advisory fee (payable in arrears) in an amount equal to the product of (i) one-fourth of the amortized cost of the Managed Assets as of the end of the quarter, and (ii) 2%, and (B) eligible to earn incentive compensation on the Managed Assets for each fiscal year during the term of the Agreement in an amount (not less than zero) equal to 35% of the GAAP net income attributable to the Managed Assets for the full fiscal year (including paid interest and realized gains), after giving effect to all direct expenses related to the Managed Assets, including but not limited to, the annual consulting fee (described below) and base advisory fees, that exceeds a hurdle rate of 13% based on the average equity of the Company invested in Managed Assets during that particular year. For those new program assets identified as Scheduled Assets, HCS will receive the compensation, which may include base advisory and incentive compensation, agreed upon between the Company and HCS and set forth in a term sheet or other documentation related to the transaction. HCS will continue to be eligible to earn incentive compensation on those assets held by the Company as of the effective date of the HCS Advisory Agreement that are deemed to be managed assets under the Prior Advisory Agreement. Incentive compensation for these “legacy assets” will be calculated in the manner prescribed in the Prior Advisory Agreement. Lastly, during the term of the HCS Advisory Agreement, the Company will pay HCS an annual consulting fee equal to \$1 million, subject to reduction under certain circumstances, payable on a quarterly basis in arrears, for consulting and support services.

For the three and nine months ended September 30, 2011, HCS earned aggregate base advisory and consulting fees of approximately \$0.3 million and \$0.8 million, respectively, and an incentive fee of approximately \$0.1 million and \$1.6 million, respectively. For the three and nine months ended September 30, 2010, HCS earned aggregate base advisory and consulting fees of approximately \$0.3 million and \$0.6 million, respectively, and an incentive fee of approximately \$0.7 million and \$1.6 million, respectively. As of September 30, 2011, HCS was managing approximately \$36.7 million of assets on the Company's behalf. As of September 30, 2011 and December 31, 2010, the Company had a management fee payable totaling \$0.4 million and \$0.7 million, respectively, included in accrued expenses and other liabilities.

The HCS Advisory Agreement has an initial term that expires on June 30, 2012, subject to automatic annual one-year renewals thereafter. The Company may terminate the Agreement or elect not to renew the Agreement, subject to certain conditions and subject to paying a termination fee equal to the product of (A) 1.5 and (B) the sum of (i) the average annual base advisory fee earned by HCS during the 24-month period preceding the effective termination date, and (ii) the annual consulting fee.

On April 5, 2011, RBCM entered into a management agreement with RiverBanc LLC ("RiverBanc"), pursuant to which RiverBanc provides investment management services to RBCM. HCS owns a 28% equity interest in RiverBanc and, accordingly, may receive a portion of the fees paid to RiverBanc by RBCM. For the three and nine months ended September 30, 2011, RBCM paid approximately \$26,000 and \$37,000, respectively, in fees to RiverBanc.

JMP and its affiliates have, at times, co-invested with the Company and/or made debt or equity investments in investees they introduced to the Company. James J. Fowler, the Company's Chairman and the Chief Investment Officer of HC and NYMF, is a portfolio manager for HCS and a managing director of JMP Group Inc.

## 14. Income Taxes

At December 31, 2010, the Company had approximately \$58 million of net operating loss carryforwards that will expire in 2024 through 2029. The Internal Revenue Code places certain limitations on the annual amount of net operating loss carryforwards that can be utilized if certain changes in the Company's ownership occur. The Company has undergone an ownership change within the meaning of IRC section 382 that will limit the net loss carryforwards to be used to offset future taxable income to \$660,000 per year, which will cause a significant amount of the Company's net operating loss to expire unused. HC is presently undergoing an IRS examination for the taxable year ended December 31, 2009.

During the three and nine months ended September 30, 2011, the Company's taxable REIT subsidiary recorded approximately \$0.1 million and \$0.4 million, respectively, of income tax expense for income attributable to the subsidiary. The Company's estimated taxable income differs from the federal statutory rate as a result of state and local taxes, non-taxable REIT income and a valuation allowance.

## 15. Stock Incentive Plan

In May 2010, the Company's stockholders approved the Company's 2010 Stock Incentive Plan (the "2010 Plan"), with such stockholder action resulting in the termination of the Company's 2005 Stock Incentive Plan (the "2005 Plan"). The terms of the 2010 Plan are substantially the same as the 2005 Plan. However, any outstanding awards under the 2005 Plan will continue in accordance with the terms of the 2005 Plan and any award agreement executed in connection with such outstanding awards. At September 30, 2011, there are 14,084 shares of non-vested restricted stock outstanding under the 2010 and 2005 Plan.

Pursuant to the 2010 Plan, eligible employees, officers and directors of the Company are offered the opportunity to acquire the Company's common stock through the award of restricted stock and other equity awards under the 2010 Plan. The maximum number of shares that may be issued under the 2010 Plan is 1,190,000. Since the 2010 Plan's adoption in May 2010, the Company's directors have been issued 20,924 shares under the 2010 Plan in lieu of cash compensation as of September 30, 2011.

During the three and nine months ended September 30, 2011, the Company recognized non-cash compensation expense of approximately \$8,000 and \$107,000, respectively. Dividends are paid on all restricted stock issued, whether those shares have vested or not. Notwithstanding certain exceptions, non-vested restricted stock is forfeited upon the recipient's termination of employment.

A summary of the activity of the Company's non-vested restricted stock for the nine months ended September 30, 2011 and September 30, 2010, respectively, is presented below:

	2011		2010	
	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value (1)	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value (1)
Non-vested shares at January 1	28,999	\$5.43	60,665	\$5.28
Granted	14,084	7.10	4,000	7.50
Forfeited	—	—	(829 )	5.28

Vested	(28,999 )	5.43	(32,837 )	5.42
Non-vested shares as of September 30	14,084	\$7.10	30,999	\$5.42
Weighted-average fair value of restricted stock granted during the period	14,084	\$7.10	4,000	\$7.50

(1) The grant date fair value of restricted stock awards is based on the closing market price of the Company's common stock at the grant date.

At September 30, 2011 and 2010, the Company had unrecognized compensation expense of \$0.1 million and \$0.1 million, respectively, related to the non-vested shares of restricted common stock. The unrecognized compensation expense at September 30, 2011 is expected to be recognized over a weighted average period of 2.42 years. The total fair value of restricted shares vested during the nine months ended September 30, 2011 and 2010 was \$0.2 million, respectively.

#### 16. Subsequent Event

The Company has committed to purchase the majority of the privately placed first loss security from the Freddie Mac Multifamily Loan Securitization Series 2011-K015 (the "K-015 Series"), with an anticipated settlement in November 2011. In addition, the Company will invest in an IO security for which the underlying mortgages are those mortgages that comprise the K-015 Series. The Company's total investment in these K-015 Series securities will be approximately \$15.1 million. We expect to fund the acquisition of these assets with a combination of working capital and term financing. The K-015 Series is backed by approximately 91 multi-family properties totaling \$1.2 billion.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements included or implied in this Quarterly Report on Form 10-Q constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “plan,” “goal,” “objective,” “potential,” “project,” “should,” “will” and “would” or the negative of these terms or other terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently in our possession. These beliefs, assumptions and expectations may change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, the performance of our portfolio and our business, financial condition, liquidity and results of operations may vary materially from those expressed, anticipated or contemplated in our forward-looking statements. You should carefully consider these risks, along with the following factors that could cause actual results to vary from our forward-looking statements:

changes in our business and strategies;

our ability to successfully diversify our investment portfolio and identify suitable assets to invest in;

the effect of the Federal Reserve's and the U.S. Treasury's actions and programs, including future purchases or sales of Agency RMBS by the Federal Reserve or Treasury, on the liquidity of the capital markets and the impact and timing of any further programs or regulations implemented by the U.S. Government or its agencies;

any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac or Ginnie Mae and the U.S. Government;

increased prepayments of the mortgages and other loans underlying our investment securities;

the volatility of the markets for our targeted assets;

increased rates of default and/or decreased recovery rates on our assets;

mortgage loan modification programs and future legislative action, including actions that may lead to greater refinancings and higher prepayment speeds;

the degree to which our hedging strategies may or may not protect us from, or expose us to, credit, prepayment or interest rate risk;

changes in the availability, terms and deployment of capital;

changes in interest rates and interest rate mismatches between our assets and related borrowings;

our ability to maintain existing financing agreements, obtain future financing arrangements and the terms of such arrangements;

changes in economic conditions generally and the mortgage, real estate and debt securities markets specifically;

legislative or regulatory changes;

changes to GAAP; and

the other important factors identified, or incorporated by reference into this report, including, but not limited to those under the captions “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures about Market Risk” and “Risk Factors,” and those described under the caption “Risk Factors” in each of our Annual Report on Form 10-K for the year ended December 31, 2010, Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 and any other documents we file with the SEC.

We cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on forward-looking statements, which apply only as of the date on which they are made. Except as obligated by law, we do not intend and disclaim any duty or obligation to update or revise any industry information or forward-looking statements set forth in this report to reflect new information, future events or otherwise.



In this Quarterly Report on Form 10-Q we refer to New York Mortgage Trust, Inc., together with its consolidated subsidiaries, as “we,” “us,” “Company,” or “our,” unless we specifically state otherwise or the context indicates otherwise. We refer to Hypotheca Capital, LLC, our wholly-owned taxable REIT subsidiary (“TRS”) as “HC,” New York Mortgage Funding, LLC, our wholly-owned qualified REIT subsidiary (“QRS”) as “NYMF,” and RB Commercial Mortgage LLC, our wholly-owned subsidiary as “RBCM.” In addition, the following defines certain of the commonly used terms in this report: “RMBS” refers to residential adjustable-rate, hybrid adjustable-rate, fixed-rate mortgage-backed securities and interest only and inverse interest only securities; “Agency RMBS” refers to RMBS that are issued or guaranteed by a federally chartered corporation (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. government, such as the Government National Mortgage Association (“Ginnie Mae”); “non-Agency RMBS” refers to RMBS backed by prime jumbo and Alternative A-paper (“Alt-A”) mortgage loans; “CMOs” refers to collateralized mortgage obligations, “REMICs” refers to real estate mortgage investment conduits, “IOs” refers to interest only securities, including inverse interest only securities, “POs” refers to principal-only securities, “ARMs” refers to adjustable-rate residential mortgage loans; “prime ARM loans” refers to prime credit quality residential ARM loans (“prime ARM loans”) held in securitization trusts; and “CMBS” refers to commercial mortgage-backed securities.

## General

We are a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets. Our principal business objective is to generate net income for distribution to our stockholders resulting from the spread between the interest and other income we earn on our interest-earning assets and the interest expense we pay on the borrowings that we use to finance our leveraged assets and our operating costs. Our targeted assets currently include Agency RMBS consisting of pass-through certificates, REMICs, IOs and POs, as well as multi-family CMBS and other commercial real estate-related debt investments. We also may opportunistically acquire and manage various other types of financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, Agency CMOs, non-Agency RMBS (which may include non-Agency IOs and POs) and residential mortgage loans.

Since 2009, we have repositioned our investment portfolio away from one primarily focused on leveraged Agency RMBS and prime ARM loans held in securitization trusts to a more diversified portfolio that includes elements of credit risk with reduced leverage, as evidenced by our investments in residential mortgage loans in 2010 and our establishment and initial funding of each of our Midway Residential Mortgage Portfolio and commercial mortgage strategy in 2011. We anticipate continuing to contribute capital to these asset classes in the future such that these investments will become significant contributors to our revenues and earnings and will represent a significant portion of our total assets in the future. For more information regarding our Midway Residential Mortgage Portfolio strategy and our commercial mortgage strategy, see “—Recent and Subsequent Events” below.

We have elected to be taxed as a REIT and have complied, and intend to continue to comply, with the provisions of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), with respect thereto. Accordingly, we do not expect to be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders if certain asset, income and ownership tests and recordkeeping requirements are fulfilled. Even if we maintain our qualification as a REIT, we may be subject to some federal, state and local taxes on our income generated in our taxable REIT subsidiary.

## Recent and Subsequent Events

### Investment in Multi-Family Loan Securitization Assets

The Company has committed to purchase the majority of the privately placed first loss security from the Freddie Mac Multifamily Loan Securitization Series 2011-K015 (the "K-015 Series") with an anticipated settlement in November 2011. In addition, the Company will invest in an IO strip off of the K-015 Series. The Company's total investment will be approximately \$15.1 million, which will be funded through a combination of working capital and term financing. The K-015 Series is backed by approximately 91 multi-family properties totaling \$1.2 billion. The investment in the K-015 Series will bring the Company's total investment in the multi-family sector to approximately \$20.5 million.

#### Proposed Federal Housing Finance Agency HARP II program

In October, the U.S. Government indicated that it would be implementing a new program to assist borrowers who are current with their mortgage payments but are unable to refinance due to property valuation ratios. It appears, based on the information released by the U.S. Government, that the revamped Home Affordable Refinance Program ("HARP") will target homeowners who did not participate in the original version of HARP and whose mortgages were originated prior to May 31, 2009. The following table summarizes the investment securities in the Company's portfolio containing mortgages which would be eligible for refinancing and thus prepaid under this revamped version of HARP ("HARP II"), given the parameters of the program known to the Company at this time. The U.S. Government is expected to disclose final details of the HARP II program on November 15, 2011.

(dollar amount in thousands)	Constant Prepayment Rates (CPR)						HARP II	
	9/30/2011 Carrying Value	9/30/2011 Qtr Avg	6/30/2011 Qtr Avg	9/30/2011 Monthly Avg	10/31/11 Monthly Avg		Exposure (>4% WAC*)	
Agency RMBS	\$73,213	16.6 %	19.3 %	22.9 %	16.9 %		\$16,352	
Midway Residential Portfolio	\$69,603	10.1 %	8.0 %	11.4 %	15.8 %		\$17,273	

\* WAC – Weighted Average Coupon

## Current Market Conditions and Commentary

General. Despite some positive momentum and optimism in early 2011 with respect to an acceleration of the U.S. economic recovery, many economists and financial analysts are now expecting continued lackluster economic growth in the U.S. due to (i) state and municipal governments' continued trimming of payrolls and the potential of the federal government implementing deficit reduction measures and (ii) the lack of job growth as marked by recent labor reports from the U.S. Department of Labor. In addition, throughout the 2011 third quarter, the financial markets experienced significant volatility primarily as a result of concerns regarding Euro zone sovereign debt and the U.S. federal deficit and debt ceiling debates. It remains unclear what impact these events may have had on the global economy during the 2011 third quarter. Additionally, inflation and wage pressure expectations remain low. In August 2011 and again in November 2011, the Federal Reserve announced that it intends to keep the Federal Funds Target Rate near zero through mid-2013. This environment has fostered continued strong demand for Agency ARMS and fixed-rate pass-through RMBS while also helping to keep the costs of financing and hedging at or near historical lows.

On August 5, 2011, Standard & Poor's lowered its long term sovereign credit rating of the U.S. from AAA to AA+. While U.S. lawmakers reached agreement to raise the federal debt ceiling on August 2, 2011, the downgrade reflected Standard & Poor's view that the fiscal consolidation plan within that agreement fell short of what would be necessary to stabilize the U.S. government's medium term debt dynamics. Additionally, many economists and financial analysts now believe that Moody's Investor Service and/or Fitch Ratings are also considering lowering their respective long term sovereign credit ratings of the U.S. before the end of calendar year 2011. Because the guarantees provided by Fannie Mae and Freddie Mac are perceived by investors to be guaranteed by the U.S. government, if the U.S.'s credit rating were further downgraded or downgraded by other ratings agencies, it would likely impact the credit risk associated with Agency RMBS and, therefore, decrease the value of the Agency RMBS in our portfolio. Moreover, any further downgrade of the U.S.'s credit rating would create broader financial turmoil and uncertainty, which could have significant consequences for the global banking system and credit markets generally.

Recent Government Actions. The U.S. Government and the Federal Reserve and other governmental regulatory bodies have taken numerous actions to stabilize or improve market and economic conditions in the U.S. and may in the future take additional significant actions that may impact our portfolio and our business. A description of recent government actions that we believe are most relevant to our operations and business is included below:

As part of its plan to sell off a \$142 billion portfolio of mortgage-backed securities it purchased during the financial crisis, in March 2011, the U.S. Treasury Department announced plans to begin selling those securities. The U.S. Treasury's investments are primarily 30-year, fixed-rate mortgage securities guaranteed by either Fannie Mae or Freddie Mac that were purchased in late 2008 and 2009. The U.S. Treasury is aiming to sell off about \$10 billion each month (in addition to principal pay-downs) and made the decision to begin selling these securities in light of the general improvement in the U.S. economy.

In September 2011, President Obama announced his jobs program. The jobs program calls for continuing payroll tax cuts, increased infrastructure investment and other measures to be funded by the U.S. government. The jobs program also seeks to implement further deficit reduction measures. There is uncertainty as to whether this jobs plan will ultimately be approved by Congress.

On September 21, 2011, the U.S. Federal Reserve announced the maturity extension program where it intends to sell \$400 billion of shorter-term U.S. Treasury securities by the end of June 2012 and use the proceeds to buy longer-term U.S. Treasury securities. This program is intended to extend the average maturity of the securities in the Federal Reserve's portfolio. By reducing the supply of longer-term U.S. Treasury securities in the market, this action should put downward pressure on longer-term interest rates, including rates on financial assets that investors consider to be close substitutes for longer-term U.S. Treasury securities, like certain types of Agency RMBS. The

reduction in longer-term interest rates, in turn, may contribute to a broad easing in financial market conditions that the Federal Reserve hopes will provide additional stimulus to support the economic recovery.

On October 24, the FHFA, along with Fannie Mae and Freddie Mac, announced several changes to be made to HARP. Among those changes to be included in HARP II are (1) the reduction or elimination in certain cases, of many risk based fees charged to borrowers when refinancing, (2) the expansion of the previous 125% loan-to-value ceiling to allow all underwater borrowers (those borrowers who owe more on their mortgages than the value of their homes) to participate in the program, regardless of the size of their loan versus the value of their home and (3) the removal of certain representation and warranties made on behalf of lenders for loans owned or guaranteed by Fannie Mae or Freddie Mac, among other changes. These refinancing opportunities will only be available to borrowers with loans that are owned or guaranteed by Fannie Mae or Freddie Mac and, aside from the expansion of HARP as described above, are subject to the restrictions originally put in place for the program. Although it is not yet possible to gauge the ultimate success of HARP II and the expansion announcement, the FHFA's actions present the opportunity for many borrowers, who previously could not, to take advantage of the ability to refinance their mortgages into lower interest rates, possibly resulting in higher prepayment speeds in the future. This could negatively impact our Agency RMBS, including our Agency IOs; however, it is unknown at this time what the ultimate impact will be on our portfolio.

On August 31, 2011, the SEC published a concept release (No. IC-29778; File No. SW7-34-11, Companies Engaged in the Business of Acquiring Mortgages and Mortgage-Related Instruments) pursuant to which it is reviewing whether certain companies that invest in RMBS and rely on the exemption from registration under Section 3(c)(5)(C) of the Investment Company Act should continue to be allowed to rely on such exemption from registration. This release suggests that the SEC may modify the exemption relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities.

**Developments at Fannie Mae and Freddie Mac.** Payments on the Agency RMBS in which we invest are guaranteed by Fannie Mae and Freddie Mac. As broadly publicized, Fannie Mae and Freddie Mac have experienced significant losses in recent years, causing the U.S. Government to place Fannie Mae and Freddie Mac under federal conservatorship. In February 2011, the U.S. Department of the Treasury along with the U.S. Department Housing and Urban Development released a much-awaited report titled “Reforming America’s Housing Finance Market”, which outlines recommendations for reforming the U.S. housing system, specifically the roles of Fannie Mae and Freddie Mac and transforming the government’s involvement in the housing market. The scope and nature of the actions that the U.S. Government will ultimately undertake with respect to the future of Fannie Mae and Freddie Mac are unknown and will continue to evolve. New regulations and programs related to Fannie Mae and Freddie Mac may adversely affect the pricing, supply, liquidity and value of RMBS and otherwise materially harm our business and operations.

**Credit Quality.** U.S. residential mortgage delinquency rates have continued to remain at high levels for various types of mortgage loans during 2011. While RMBS backed by subprime mortgages and option ARMs are experiencing the highest delinquency and loss rates, our portfolio of prime ARM loans held in securitization trusts continue to experience high delinquency rates, with approximately 10.3% of the loans in the portfolio in a delinquent position (based on aggregate principal amount outstanding). More recently, it appears that the increasing supply of unsold homes as a result of foreclosure delays continues to place downward pressure on home pricing. This may lead to further delinquency and loss rates on various RMBS.

**Credit Spreads.** Over the past few years, the credit markets generally experienced tightening credit spreads (specifically, spreads between U.S. Treasury securities and other securities) mainly due to the strong demand for lending opportunities. However, during the past three months, the credit markets experienced significant spread widening due to a series of factors, including concerns related to a possible global economic slowdown, the European sovereign debt crisis and continued concern with respect to certain U.S. domestic economic policies. Additionally, the FHFA announced in September 2011 that it would be introducing HARP II in the fourth quarter, which, in turn has created a perception that prepayment speeds will rise in the near future, thereby placing additional pressure on credit spreads. Finally, during the third quarter of 2011 the 10 year U.S treasury note reached a yield of 1.72%, a historic low. All of these factors have contributed to significant widening of credit spreads, which, in turn, negatively impacted the pricing on our CLO securities and our Midway Residential Mortgage Portfolio assets as of September 30, 2011.

**Financing markets and liquidity.** The availability of repurchase agreement financing is stable with interest rates between 0.28% and 0.44% for 30-90 day repurchase agreements. The 30-day London Interbank Offered Rate (“LIBOR”), which was 0.24% at September 30, 2011, changed to an increase of approximately 6 basis points from June 30, 2011, but a decrease of 2 basis points from the previous year end. While we expect interest rates to rise over the longer term, we believe that interest rates, and thus our financing costs, are likely to remain at these historically low levels until such time as the economic data begin to confirm an acceleration of overall economic recovery.

As of September 30, 2011, the weighted average “haircut” related to our repurchase agreement financing for our Agency IOs, CLOs and other Agency RMBS was approximately 25%, 35% and 5%, respectively, for a total weighted average “haircut” of 15%. As of September 30, 2011, the Company had available cash of \$11.7 million to meet short term

liquidity requirements. In addition, there is \$11.0 million in restricted cash available to meet additional margin calls as it relates to the repurchase agreements.

Prepayment rates. As a result of various government initiatives and the reduction in intermediate and longer-term treasury yields, rates on conforming mortgages reached historical lows during the 2011 third quarter. While these trends have historically resulted in higher rates of refinancing and thus higher prepayment speeds, we continue to experience relatively low prepayment rates for the current interest rate environment. During the quarter ended September 30, 2011, our overall investment portfolio averaged 10.8% CPR, as compared to 21.1% for the same period the previous year and 8.8% compared to the second quarter of 2011. The Company's portfolio averaged 13.5% CPR for the month of October 2011 up from 11.8% CPR for the month of September 2011, but still below historic experience given the rate environment.

## Significance of Estimates and Critical Accounting Policies

A summary of our critical accounting policies is included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2010 and “Note 1 – Summary of Significant Accounting Policies” to the condensed consolidated financial statements included therein. In 2011, the Company elected the fair value option for its investments in the Midway Residential Mortgage Portfolio, which measures unrealized gains and losses through earnings in the condensed consolidated statements of operations.

## Executive Summary

For the three months ended September 30, 2011, the Company had a net loss attributable to common stockholders of \$15,000 as compared to net income attributable to common stockholders of \$1.6 million for the same period in 2010 and net income attributable to common stockholders of \$4.2 million for the three months ended June 30, 2011. The decline in net income for the third quarter of 2011 was primarily due to an unrealized loss on investment securities and related hedges of \$8.0 million, as compared to an unrealized loss of \$0.7 million during the second quarter of 2011 and no loss during the third quarter of 2010. The Company’s net income (loss) is substantially dependent upon the net interest income generated from its investment portfolio and loans held in securitization trusts, as well as realized and unrealized gains (losses) on its investment securities and related hedges, primarily related to its Midway Residential Mortgage Portfolio investment securities and hedges. The Midway Residential Mortgage Portfolio is primarily comprised of interest-only securities derived from Agency whole-pool certificates which have historically been particularly sensitive to increased prepayment and spread widening environments. The Company uses TBAs, futures and options on futures to hedge against risks related to the Midway Residential Mortgage Portfolio. Because of the hedging strategy employed by the Company with respect to its IOs, unrealized gains and losses are not designated for hedge accounting treatment, and therefore are directly run through the Company’s income statement.

Although the unrealized losses contributed to the Company’s decline in net income for the 2011 third quarter, the Company’s investment portfolio continued to post strong net interest income results, generating \$6.2 million in net interest income in the 2011 third quarter, which represents a 180% improvement over net interest income for the same period of 2010 and a 17% increase over net interest income for the three months ended June 30, 2011. Agency IOs in the Company’s Midway Residential Mortgage Portfolio contributed significantly to the Company’s improvement in net interest income during the 2011 third quarter.

As of September 30, 2011, the Company’s book value per common share was \$6.75, a decrease of \$0.52 from \$7.27 at December 31, 2010 and a decrease of \$0.69 from adjusted book value per common share of \$7.44 at June 30, 2011 (as adjusted to give effect to the issuance and sale of 1.5 million common shares in a public offering that closed on July 1, 2011). The decrease since June 30, 2011 is due in part to an unrealized loss per share of \$0.43 on our CLO securities due to widening credit spreads during the 2011 third quarter. Unlike IOs, unrealized gains and losses on the Company’s CLO securities run through the balance sheet and as a result, impact stockholders’ equity and book value per share.

The unrealized losses that contributed to lower net income and book value per common share as of and for the quarter ended September 30, 2011, were primarily driven by lower mark to market valuations of our IOs and CLO securities, as applicable, which were negatively impacted as a result of a confluence of several factors, including (i) a historical rally in U.S. treasuries during the quarter leading to the lowest yield ever on the 10-year treasury note, which contributed to perceived higher future prepayment experience for the Company’s IOs, (ii) continued uncertainty and concerns of systemic risk related to the European sovereign debt crisis, and (iii) uncertainty resulting from a possible revamping and expanding of the rules under HARP, with the intent of increasing significantly the number of homeowners eligible to refinance their mortgage under this program and thus, further elevating fears of higher prepayment speeds. Each of these factors contributed to a significant widening of credit spreads during the 2011 third quarter, which in turn, negatively impacted the pricing of our IOs and CLO securities at September 30, 2011.

However, while the markets anticipated an escalation in prepayment speeds, the Company's actual prepayment experience during the third quarter of 2011 and October 2011 have not indicated a significant increase in prepayment speeds on the securities in its investment portfolio. Management continues to believe that the underlying characteristics of the Company's investment securities, including the IOs, remain strong. The Company further believes that these investments will contribute in a meaningful way to the Company's net interest income in the future, while the unrealized losses incurred during this 2011 third quarter are expected to be temporary and should improve in the future as the markets digest the aforementioned events.

#### Summary of Operations

**Net Interest Spread.** Our net income is dependent upon the net interest income (the interest income on portfolio assets net of the interest expense and hedging costs associated with such assets) generated from our portfolio of RMBS (including IOs), CLO, mortgage loans held in securitization trusts, mortgage loans held for investment and mortgage loans held for sale. The net interest spread on our investment portfolio was 715 basis points for the quarter ended September 30, 2011, as compared to 665 basis points for the quarter ended June 30, 2011, 368 basis points for the quarter ended March 31, 2011, and 353 basis points for the quarter ended December 31, 2010. The increase in our net interest spread is primarily due to earnings derived from our Midway Residential Mortgage Portfolio, which now represents a larger part of our overall portfolio as compared to prior quarters.



Other Income (Expense). Other income (expense) decreased by \$6.8 million for the three months ended September 30, 2011 to \$(5.5) million from \$1.3 million for the three months ended September 30, 2010 and decreased by \$3.3 million for the nine months ended September 30, 2011 to \$(0.5) million from \$2.8 million for the nine months ended September 30, 2010. The decreases were primarily due to the unrealized losses recognized through earnings from the Company's Midway Residential Mortgage Portfolio investments, which amounts to \$8.0 million and \$8.8 million for the three and nine months ended September 30, 2011, respectively. There were no unrealized gains or losses recognized through earnings for the same periods in 2010. In addition, the Company realized approximately \$0 and \$5.0 million, respectively, of profit before incentive fee from the sale of certain CLO investments, certain Agency RMBS and U.S. Treasury securities during the three and nine months ended September 30, 2011. The Company realized approximately \$1.9 million and \$4.0 million, respectively, of profit before incentive fee from the sale of certain Agency RMBS and non-Agency RMBS during the three and nine months ended September 30, 2010. In addition, for the three and nine months ended September 30, 2011, the Company recognized income from the investment in limited partnership and limited liability company of \$0.5 million and \$1.8 million, respectively. During the quarter ended September 30, 2010, the Company recognized income from the investment in limited partnership of \$0.2 million. There was no income from investment in limited liability company for the three and nine months ended September 30, 2010. The Company also had provision for loan losses of \$0.4 million and \$1.5 million for the three and nine months ended September 30, 2011, respectively, compared to \$0.7 million and \$1.3 million for the three and nine months ended September 30, 2010, respectively.

Financing. During the quarter ended September 30, 2011, we continued to employ a balanced and diverse funding mix to finance our assets. At September 30, 2011, our Agency RMBS portfolio was funded with approximately \$111.5 million of repurchase agreement borrowing, which represents approximately 24.9% of our total liabilities, at a weighted average interest rate of 0.61%, as compared to 0.63% for the three months ended June 30, 2011 and 0.48% for the three months ended March 31, 2011. The increase in the borrowing rate was primarily due to higher borrowing rates required for the financing of our Agency IOs, which we began investing in during the end of the quarter ended March 31, 2011. The borrowing rate for the Agency IOs was approximately 83 basis points as compared to 31 basis points for the other Agency RMBS in our portfolio and 175 basis points for the CLOs. The weighted average haircut on our repurchase borrowings was approximately 15% at September 30, 2011. As of September 30, 2011, our wholly owned subsidiary, HC, had trust preferred securities outstanding of \$45.0 million, which represents approximately 10.0% of our total liabilities, at a weighted average interest rate of 4.2%. As of September 30, 2011, the loans held in securitization trusts were permanently financed with approximately \$203.1 million of CDOs, which represents approximately 45.3% of our total liabilities, at an average interest rate of 0.62%. The Company has a net equity investment of \$7.9 million in the securitization trusts as of September 30, 2011.

At September 30, 2011, the leverage ratio for our RMBS investment portfolio, which we define as our outstanding indebtedness under repurchase agreements divided by stockholders' equity, was 1.5 to 1. We have continued to utilize significantly less leverage than our previously targeted leverage due to the ongoing repositioning of our investment portfolio from one primarily focused on leveraged Agency RMBS and prime ARM loans held in securitization trusts to a more diversified portfolio with reduced leverage.

Prepayment Experience. The CPR on our overall mortgage portfolio averaged approximately 10.8% during the three months ended September 30, 2011, as compared to 8.8% for the three months ended June 30, 2011 and 9.6% for the three months ended March 31, 2011. CPRs on our purchased portfolio of RMBS for the three months ended September 30, 2011 were 10.9%, as compared to 9.0% for the three months ended June 30, 2011 and 16.9% for the three months ended March 31, 2011. CPRs on our IOs were 10.1% during the three months ended September 30, 2011, as compared to 8.0% for the three months ended June 30, 2011 and 10.4% for the three months ended March 31, 2011. The CPRs on our mortgage loans held in securitization trusts averaged approximately 10.2% during the three months ended September 30, 2011, as compared to 8.4% for the three months ended June 30, 2011 and 7.0% for the three months ended March 31, 2011. When prepayment expectations over the remaining life of assets increase, we

amortize premiums over a shorter time period, which results in a reduced yield to maturity on our investment assets. Conversely, if prepayment expectations decrease, the premium is amortized over a longer period resulting in a higher yield to maturity. We monitor our prepayment experience on a monthly basis and adjust the amortization of our net premiums accordingly. An actual or perceived increase in prepayment speeds could have a significant negative impact on our earnings derived from our Midway Residential Mortgage Portfolio.

## Financial Condition

As of September 30, 2011, we had approximately \$524.5 million of total assets, as compared to approximately \$374.3 million of total assets as of December 31, 2010.

## Balance Sheet Analysis

Investment Securities Available for Sale - The following tables set forth the balances of our investment securities as of September 30, 2011 (dollar amounts in thousands):

	Par Value	Carrying Value	% of Portfolio	
September 30, 2011				
Agency RMBS	\$637,522	\$142,816	83.8	%
Non-Agency RMBS	7,098	4,862	2.9	%
CLO	35,550	22,715	13.3	%
Total	\$680,170	\$170,393	100.0	%

Securities included in investment securities available for sale held in our Midway Residential Mortgage Portfolio that are measured at fair value through earnings as of September 30, 2011 are as follows (dollar amounts in thousands):

	Par Value	Carrying Value	% of Portfolio	
September 30, 2011				
Interest only securities included in Agency RMBS:				
Fannie Mae	\$214,230	\$30,363	43.6	%
Freddie Mac	140,348	18,871	27.1	%
Ginnie Mae	213,530	20,369	29.3	%
Total	\$568,108	\$69,603	100.0	

The following table sets forth the balances of our investment securities as of December 31, 2010 (dollar amounts in thousands):

	Par Value	Carrying Value	% of Portfolio	
December 31, 2010				
Agency RMBS	\$45,042	\$47,529	55.3	%
Non-Agency RMBS	11,104	8,985	10.4	%
CLO	45,950	29,526	34.3	%
Total	\$102,096	\$86,040	100.0	%

Detailed Composition of Loans Securitizing Our CLOs - The following tables summarize the loans securitizing our CLOs grouped by range of outstanding balance and industry as of September 30, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

As of September 30, 2011				As of December 31, 2010			
Range of Outstanding Balance	Number of Loans	Maturity Date	Total Principal	Number of Loans	Maturity Date	Total Principal	
\$0 - \$500	16		\$ 7,075	11		\$ 5,404	

Edgar Filing: NEW YORK MORTGAGE TRUST INC - Form 10-Q

		9/2015 – 6/2018			11/2014 – 11/2017	
		4/2014 – 12/2018			5/2013 – 12/2017	
\$500 - \$2,000	103	146,331	72		95,704	
		6/2012 – 9/2019			8/2012 – 11/2017	
\$2,000 - \$5,000	91	272,356	88		276,265	
		2/2013 – 3/2016			11/2011 – 3/2016	
\$5,000 - \$10,000	6	35,976	11		77,366	
Total	216	\$ 461,738	182		\$ 454,739	

September 30, 2011

Industry	Number of Loans	Outstanding Balance	% of Outstanding Balance
Healthcare, Education and Childcare	23	\$ 59,650	12.92%
Retail Store	15	35,428	7.67%
Electronics	13	32,501	7.04%
Telecommunications	14	28,099	6.09%
Chemicals, Plastics and Rubber	13	26,617	5.76%
Diversified Conglomerate Service	15	23,414	5.07%
Personal, Food & Misc. Services	14	21,679	4.70%
Aerospace & Defense	11	20,888	4.52%
Leisure, Amusement, Motion Pictures & Entertainment	9	20,872	4.52%
Personal & Non-Durable Consumer Products	8	18,931	4.10%
Beverage, Food & Tobacco	8	18,154	3.93%
Utilities	5	16,754	3.63%
Hotels, Motels, Inns and Gaming	5	16,580	3.59%
Containers, Packaging and Glass	6	14,076	3.05%
Printing & Publishing	4	11,741	2.54%
Finance	7	11,330	2.45%
Diversified/Conglomerate Mfg	4	8,918	1.93%
Automobile	6	8,897	1.93%
Banking	3	8,293	1.80%
Mining, Steel, Iron and Non-Precious Metals	3	6,316	1.37%
Machinery (Non-Agriculture, Non-Construction & Non-Electric)	4	6,248	1.35%
Cargo Transport	2	5,929	1.28%
Broadcasting & Entertainment	3	5,365	1.16%
Farming & Agriculture	3	5,321	1.15%
Textiles & Leather	5	5,292	1.15%
Personal Transportation	2	4,981	1.08%
Buildings and Real Estate	2	4,939	1.07%
Grocery	3	4,925	1.07%
Insurance	2	4,431	0.96%
Diversified Natural Resources, Precious Metals and Minerals	1	2,233	0.48%
Ecological	2	1,989	0.43%
Oils & Gas	1	947	0.21%
	216	\$ 461,738	100.00%

December 31, 2010

Industry	Number of Loans	Outstanding Balance	% of Outstanding Balance
Healthcare, Education and Childcare	19	\$ 52,537	11.55%
Retail Store	10	29,388	6.46%
Electronics	10	29,148	6.41%
Telecommunications	13	26,410	5.81%
Leisure, Amusement, Motion Pictures & Entertainment	10	22,316	4.91%
Personal, Food & Misc. Services	10	21,179	4.66%
Chemicals, Plastics and Rubber	9	20,962	4.61%
Beverage, Food & Tobacco	9	18,666	4.10%
Utilities	5	17,035	3.75%
Aerospace & Defense	7	16,468	3.62%
Insurance	3	16,245	3.57%
Hotels, Motels, Inns and Gaming	5	15,389	3.38%
Farming & Agriculture	5	14,983	3.29%
Cargo Transport	3	14,372	3.16%
Diversified/Conglomerate Mfg	6	13,914	3.06%
Personal & Non-Durable Consumer Products	5	13,774	3.03%
Printing & Publishing	4	11,944	2.63%
Diversified/Conglomerate Service	5	10,841	2.38%
Broadcasting & Entertainment	4	10,037	2.21%
Ecological	4	8,763	1.93%
Finance	3	7,803	1.72%
Containers, Packaging and Glass	4	7,635	1.68%
Machinery (Non-Agriculture, Non-Construction & Non-Electronic)	4	7,482	1.65%
Personal Transportation	3	7,306	1.61%
Buildings and Real Estate	3	6,970	1.53%
Banking	2	6,750	1.48%
Automobile	5	6,544	1.44%
Mining, Steel, Iron and Non-Precious Metals	3	5,466	1.20%
Textiles & Leather	3	4,359	0.96%
Grocery	2	3,994	0.88%
Oil & Gas	3	3,808	0.84%
Diversified Natural Resources, Precious Metals and Minerals	1	2,251	0.49%
	182	\$ 454,739	100.00%

Mortgage Loans Held in Securitization Trusts (net) - Included in our portfolio are ARM loans that we originated or purchased in bulk from third parties that met our investment criteria and portfolio requirements and that we subsequently securitized. Since our formation, we have completed four securitizations; three of which were classified as financings and one of which, New York Mortgage Trust 2006-1, qualified as a sale and resulted in the recording of residual assets and mortgage servicing rights.

The following table details mortgage loans held in securitization trusts at September 30, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

	# of Loans	Par Value	Coupon	Carrying Value
September 30, 2011	519	\$ 212,404	2.85%	\$ 210,423
December 31, 2010	559	\$ 229,323	3.16%	\$ 228,185

At September 30, 2011, mortgage loans held in securitization trusts totaled approximately \$210.4 million, or 40.1% of our total assets. Of this mortgage loan investment portfolio, 100% are traditional ARMs or hybrid ARMs, 81.3% of which are ARM loans that are interest only for a period of typically 10 years. None of the mortgage loans held in securitization trusts are payment option-ARMs or ARMs with negative amortization.

The following tables set forth the characteristics of our portfolio of mortgage loans held in securitization trusts as of September 30, 2011 (dollar amounts in thousands):

	Average	High	Low
General Loan Characteristics:			
Original Loan Balance (dollar amounts in thousands)	\$ 445	\$ 2,950	\$ 48
Current Coupon Rate	2.85%	7.25%	1.25%
Gross Margin	2.37%	4.13%	1.13%
Lifetime Cap	11.28%	13.25%	9.13%
Original Term (Months)	360	360	360
Remaining Term (Months)	283	291	250
Average Months to Reset	3	11	1
Original Average FICO Score	729	818	593
Original Average LTV	70.39%	95.00%	13.94%

	% of Outstanding Loan Balance	Weighted Average Gross Margin (%)
Index Type/Gross Margin:		
One Month LIBOR	3%	1.69%
Six Month LIBOR	73%	2.40%
One Year LIBOR	16%	2.26%
One Year Constant Maturity Treasury	8%	2.65%
Total	100%	

Edgar Filing: NEW YORK MORTGAGE TRUST INC - Form 10-Q

The following table details loan summary information for loans held in securitization trusts at September 30, 2011 (dollar amounts in thousands):

Description			Interest Rate %			Final Maturity									Principal Amount of Loans Subject to Delinquent Principal or Interest
Property Type	Balance	Loan Count	Max	Min	Avg	Min	Max	Periodic Payment Terms (months)	Prior Liens	Original Amount of Principal	Current Amount of Principal				
Single	<= \$100	13	3.88	2.50	2.97	12/01/34	11/01/35	360	N/A	\$ 1,458	\$ 988	\$ -			
Family	<= \$250	69	4.63	2.50	3.02	09/01/32	12/01/35	360	N/A	14,955	12,645	957			
	<= \$500	94	4.00	2.50	2.92	07/01/33	01/01/36	360	N/A	36,018	32,532	6,417			
	<= \$1,000	35	3.50	1.38	2.78	08/01/33	12/01/35	360	N/A	28,222	26,133	3,411			
	> \$1,000	21	3.25	2.63	2.84	01/01/35	11/01/35	360	N/A	37,357	36,813	9,048			
	Summary	232	4.63	1.38	2.92	09/01/32	01/01/36	360	N/A	\$ 118,010	\$ 109,111	\$ 19,833			
2-4	<= \$100	2	3.75	3.00	3.38	02/01/35	07/01/35	360	N/A	\$ 212	\$ 171	\$ 75			
FAMILY	<= \$250	6	3.63	2.63	3.04	12/01/34	07/01/35	360	N/A	1,283	1,099	-			
	<= \$500	15	7.25	2.00	3.13	09/01/34	01/01/36	360	N/A	5,554	5,165	254			
	<= \$1,000	-	-	-	-	01/00/00	01/00/00	360	N/A	-	-	-			
	> \$1,000	-	-	-	-	01/00/00	01/00/00	360	N/A	-	-	-			
	Summary	23	7.25	2.00	3.13	09/01/34	01/01/36	360	N/A	\$ 7,049	\$ 6,435	\$ 329			
Condo	<= \$100	13	3.38	2.63	2.84	01/01/35	12/01/35	360	N/A	\$ 1,640	\$ 849	\$-			
	<= \$250	72	3.63	1.38	2.97	02/01/34	01/01/36	360	N/A	14,297	12,496	266			
	<= \$500	60	3.88	2.50	2.92	09/01/32	12/01/35	360	N/A	21,741	19,650	272			
	<= \$1,000	15	3.88	1.50	2.75	08/01/33	09/01/35	360	N/A	10,913	10,575	-			
	> \$1,000	10	3.00	2.63	2.76	01/01/55	09/01/35	360	N/A	14,914	14,590	-			
	Summary	170	3.88	1.38	2.91	09/01/32	01/01/36	360	N/A	\$ 63,505	\$ 58,160	\$ 538			
CO-OP	<= \$100	4	2.88	2.50	2.69	10/01/34	08/01/35	360	N/A	\$ 443	\$ 314	\$-			
	<= \$250	15	3.38	2.25	2.78	10/01/34	12/01/35	360	N/A	3,423	2,589	212			
	<= \$500	23	3.50	1.25	2.78	08/01/34	12/01/35	360	N/A	9,537	8,262	-			
	<= \$1,000	11	2.88	2.63	2.70	12/01/34	10/01/35	360	N/A	8,563	8,331	-			
	> \$1,000	4	2.75	2.13	2.56	11/01/34	12/01/35	360	N/A	5,659	5,263	-			
	Summary	57	3.50	1.25	2.72	08/01/34	12/01/35	360	N/A	\$ 27,625	\$ 24,759	\$ 212			
PUD	<= \$100	1	2.63	2.63	2.63	07/01/35	07/01/35	360	N/A	\$ 100	\$ 90	\$-			
	<= \$250	19	3.13	2.50	2.88	08/01/32	12/01/35	360	N/A	4,081	3,786	273			
	<= \$500	10	3.25	2.63	2.91	08/01/32	12/01/35	360	N/A	3,665	3,437	770			
	<= \$1,000	4	3.50	2.75	3.10	05/01/34	07/01/35	360	N/A	2,832	2,605	-			
	> \$1,000	3	3.04	2.75	2.89	04/01/34	12/01/35	360	N/A	4,148	4,021	-			
	Summary	37	3.50	2.50	2.90	08/01/32	12/01/35	360	N/A	\$ 14,826	\$ 13,939	\$ 1,043			
Summary	<= \$100	33	3.88	2.50	2.90	10/01/34	12/01/35	360	N/A	\$ 3,853	\$ 2,412	\$ 75			
	<= \$250	181	4.63	1.38	2.96	08/01/32	01/01/36	360	N/A	38,039	32,615	1,708			
	<= \$500	202	7.25	1.25	2.92	08/01/32	01/01/36	360	N/A	76,515	69,046	7,713			
	<= \$1,000	65	3.88	1.38	2.78	08/01/33	12/01/35	360	N/A	50,530	47,644	3,411			
	> \$1,000	38	3.25	2.13	2.79	04/01/34	12/01/35	360	N/A	62,078	60,687	9,048			
	Grand Total	519	7.25	1.25	2.85	08/01/32	01/01/36	360	N/A	\$ 231,015	\$ 212,404	\$ 21,955			





The following table details activity for loans held in securitization trusts for the nine months ended September 30, 2011 (dollar amounts in thousands):

	Current Principal	Premium	Loan Reserve	Net Carrying Value
Balance, January 1, 2011	\$229,323	\$1,451	\$(2,589)	\$228,185
Principal repayments	(16,860)	—	—	(16,860)
Provision for loan losses	—	—	(1,191)	(1,191)
Transfer to real estate owned	(234)	—	16	(218)
Charge-offs	175	—	445	620
Amortization for premium	—	(113)	—	(113)
Balance, September 30, 2011	\$212,404	\$1,338	\$(3,319)	\$210,423

Investment in Limited Partnership – The following table details loan summary information for the mortgage loans held in the limited partnership in which our interest in the limited partnership is accounted for under the equity method as of September 30, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

	September 30, 2011	
Loan Summary		
Number of Loans	78	
Aggregate Current Loan Balance	\$12,293	
Average Current Loan Balance	\$158	
Weighted Average Original Term (Months)	379	
Weighted Average Remaining Term (Months)	318	
Weighted Average Gross Coupon (%)	6.92	%
Weighted Average Original Loan-to-Value of Loan (%)	85.47	%
Average Cost-to-Principal of Asset at Funding (%)	70.18	%
Fixed Rate Mortgages (%)	64.98	%
Adjustable Rate Mortgages (%)	35.02	%
First Lien Mortgages (%)	100.00	%

	December 31, 2010	
Loan Summary		
Number of Loans	159	
Aggregate Current Loan Balance	\$26,953	
Average Current Loan Balance	\$170	
Weighted Average Original Term (Months)	377	
Weighted Average Remaining Term (Months)	326	
Weighted Average Gross Coupon (%)	6.80	%
Weighted Average Original Loan-to-Value of Loan (%)	86.60	%
Average Cost-to-Principal of Asset at Funding (%)	66.99	%
Fixed Rate Mortgages (%)	69.63	%
Adjustable Rate Mortgages (%)	30.37	%
First Lien Mortgages (%)	100.00	%

Cash and cash equivalents – We had unrestricted cash and cash equivalents of \$11.7 million at September 30, 2011.

Receivables and other assets – Receivables and other assets totaled \$29.6 million as of September 30, 2011, and consist primarily of \$18.8 million of restricted cash held by third parties, \$4.0 million of assets related to discontinued operations, \$2.2 million of accrued interest receivable, \$1.7 million related to escrow advances, \$1.4 million of prepaid expenses, \$0.6 million of capitalized expenses related to equity and bond issuance cost, \$0.5 million of real estate owned (“REO”) in securitization trusts, \$0.3 million of other assets and \$0.1 million of deferred tax asset. The restricted cash held by third parties of \$18.8 million includes \$11.0 million held in its Midway Residential Mortgage Portfolio to be used for trading purposes, \$7.6 million held by counterparties as collateral for hedging instruments and \$0.2 million as collateral for a letter of credit related to the lease of the Company’s corporate headquarters.

Financing Arrangements, Portfolio Investments – As of September 30, 2011, there were approximately \$111.5 million of repurchase borrowings outstanding. Our repurchase agreements typically have terms of 30 days or less. As of September 30, 2011, the current weighted average borrowing rate on these financing facilities was 0.61%. For the three months ended September 30, 2011, the ending balance, quarterly average and maximum balance at any month-end of the repurchase agreements, which are included in financing arrangements, portfolio investments on the condensed consolidated balance sheet, were \$111.5 million, \$117.2 million and \$121.9 million, respectively.

**Collateralized Debt Obligations** – As of September 30, 2011, we had \$203.1 million of collateralized debt obligations, or CDOs, outstanding with a weighted average interest rate of 0.62%. The CDOs permanently finance our loans held in securitization trusts.

**Subordinated Debentures** – As of September 30, 2011, we have trust preferred securities outstanding of \$45.0 million that bear an average interest rate of 4.2%. These securities have a weighted average interest rate equal to three month LIBOR plus 3.84%. The Company had previously paid interest at a fixed rate of 8.35% on \$20 million of these securities through July 30, 2010. The securities are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment, and mature in 2035. These securities are classified as subordinated debentures in the liability section of our condensed consolidated balance sheets.

**Derivative Assets and Liabilities** – We generally hedge the risk related to changes in the benchmark interest rates used in the variable rate index, usually LIBOR, as well as prepayment risk associated with our Midway Residential Mortgage Portfolio.

In order to reduce our interest rate risk, we may utilize various hedging instruments, such as interest rate swap agreements whereby we receive floating rate payments in exchange for fixed rate payments, effectively converting our short term repurchase agreement borrowing or CDOs to a fixed rate. At September 30, 2011, the Company had \$27.9 million of notional amount of interest rate swaps outstanding with a fair market liability value of \$0.5 million. The interest rate swaps qualify as cash flow hedges for financial reporting purposes.

In addition to utilizing interest rate swaps, we may purchase or sell short U.S. Treasury securities or enter into Eurodollar or other futures contracts or options to help mitigate the potential impact of changes in interest rates on the performance of our Midway Residential Mortgage Portfolio. We may borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. We account for the securities borrowing transactions as reverse repurchase agreements on our condensed consolidated balance sheet. Short sales of U.S. Treasury securities are accounted for as securities sold short, at fair value. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities and Eurodollar or other futures are recognized through earnings in the condensed consolidated statements of operations.

The Company uses TBAs, U.S. Treasury securities and U.S. Treasury futures and options to hedge interest rate risk and spread risk associated with its Midway Residential Mortgage Portfolio. For example, we may utilize TBAs to hedge the interest rate or yield spread risk inherent in our long Agency RMBS by taking short positions in TBAs that are similar in character. In a TBA transaction, we would agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis. TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS. For TBA contracts that we have entered into, we have not asserted that physical settlement is probable. Because we have not designated these forward commitments as hedging instruments, realized and unrealized gains and losses associated with these TBAs, U.S. Treasury securities and U.S. Treasury futures and options are recognized through earnings in the condensed consolidated statements of operations.

Derivative financial instruments may contain credit risk to the extent that the institutional counterparties may be unable to meet the terms of the agreements. We minimize this risk by limiting our counterparties to major financial institutions with good credit ratings. In addition, we regularly monitor the potential risk of loss with any one party resulting from this type of credit risk. Accordingly, we do not expect any material losses as a result of default by other parties, but cannot guarantee we do not have counterparty failures.

The use of TBAs exposes the Company to market value risk, as the market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price.

We enter into derivative transactions for risk management purposes. The decision of whether or not a given transaction, or a portion thereof, is hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management and our third party advisors, including the financial impact on income and asset valuation and the restrictions imposed on REIT hedging activities by the Internal Revenue Code, among others. In determining whether to hedge a risk, we may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as a hedge are entered into with a view towards minimizing the potential for economic losses that could be incurred by us.

#### Balance Sheet Analysis - Stockholders' Equity

Stockholders' equity at September 30, 2011 was \$75.4 million and included \$12.5 million of accumulated other comprehensive income. The accumulated other comprehensive income consisted of \$0.5 million in unrealized derivative losses related to cash flow hedges and \$13.0 million in unrealized gains primarily related to our CLOs.

## Midway Residential Mortgage Portfolio

The Company has investments managed by Midway referred to as the Midway Residential Mortgage Portfolio. The Midway Residential Mortgage Portfolio investments include Agency IOs, TBA securities, options and futures which are included in the Company's condensed consolidated balance sheet. The Company has elected the fair value option for these investment securities which measures unrealized gains and losses through earnings in the condensed consolidated statements of operations.

The condensed balance sheet of the Midway Residential Mortgage Portfolio included in the Company's condensed consolidated balance sheet at September 30, 2011 is as follows (dollar amounts in thousands):

## Assets

Investment securities available for sale, at fair value (including pledged securities of \$60,254)	\$	69,603
Receivable for securities sold		5,400
Derivative assets		75,053
Receivables and other assets		20,277
<b>Total Assets</b>	<b>\$</b>	<b>170,333</b>

## Liabilities &amp; Equity

## Liabilities:

Financing arrangements, portfolio investments	\$	45,594
Derivative liabilities		3,135
Payable for securities purchased		79,585
Accrued expenses and other liabilities		192
<b>Total Liabilities</b>		<b>128,506</b>

<b>Equity</b>		<b>41,827</b>
<b>Total Equity</b>		<b>41,827</b>
<b>Total Liabilities and Equity</b>	<b>\$</b>	<b>170,333</b>

The condensed statement of operations of the Midway Residential Mortgage Portfolio included in the Company's condensed consolidated statement of operations for the three and nine months ended September 30, 2011, respectively, is as follows (dollar amounts in thousands):

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Statement of Operations		
Interest income	\$4,384	\$8,322
Interest expense	97	219
<b>Net Interest Income</b>	<b>4,287</b>	<b>8,103</b>
Other income (expense)		
Realized gain on investment securities and related hedges	2,526	3,292
Unrealized loss on investment securities and related hedges	(8,027)	(8,762)
General, administrative and other expenses	754	(399)
<b>Net (Loss) Income</b>	<b>\$(460)</b>	<b>\$2,234</b>



## Results of Operations

## Overview of Performance

For the three and nine months ended September 30, 2011, we reported net income of \$17,000 and \$6.7 million, respectively, as compared to net income of \$1.6 million and \$5.8 million, respectively, for the same periods in 2010. The main components of the change in net income for the three and nine months ended September 30, 2011 as compared to the same periods for the prior year are detailed in the following table (dollar amounts in thousands, except per share data):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2011	2010	Difference	2011	2010	Difference
Net interest income	\$6,228	\$2,225	\$4,003	\$14,039	\$8,323	\$5,716
Total other (expense) income	(5,457 )	1,276	(6,733 )	(459 )	2,772	(3,231 )
General, administrative and other expenses	717	2,222	(1,505 )	6,464	6,185	279
Income from continuing operations before income taxes	54	1,279	(1,225 )	7,116	4,910	2,206
Income tax expense	56	—	56	419	—	419
(Loss) income from continuing operations	(2 )	1,279	(1,281 )	6,697	4,910	1,787
Income from discontinued operation - net of tax	19	298	(279 )	23	877	(854 )
Net income	\$17	\$1,577	\$(1,560 )	\$6,720	\$5,787	\$933
Net income attributable to noncontrolling interest	32	—	32	52	—	52
Net (loss) income attributable to common stockholders	\$(15 )	\$1,577	\$(1,592 )	\$6,668	\$5,787	\$881
Basic income per common share	\$—	\$0.17	\$(0.17 )	\$0.67	\$0.61	\$0.06
Diluted income per common share	\$—	\$0.17	\$(0.17 )	\$0.67	\$0.61	\$0.06

The decrease in net income of \$1.6 million for the quarter ended September 30, 2011, as compared to the same period in the previous year, was due primarily to an \$8.0 million increase in unrealized loss on investment securities, a \$0.3 million decrease in income from discontinued operations – net of tax, a \$0.1 million increase in income tax expense, offset by a \$4.0 million increase in net interest income on the investment portfolio and loans held in securitization trusts, a \$1.5 million decrease in general, administrative and other expenses, an increase of \$0.7 million in net realized gain on securities, an increase of \$0.3 million in income from investment in limited partnership and limited liability company, and a \$0.3 million decrease in provision for loan loss for the loans held in securitization trusts. The increase in net interest income during the quarter ended September 30, 2011, as compared to the quarter ended September 30, 2010, was primarily driven by a 352 basis point increase in net interest income spread, which was mainly due to the performance of our Midway Residential Mortgage Portfolio. The \$8.0 million increase in unrealized loss results primarily from mark to market adjustments on the investment securities and related hedges we hold in our Midway



Residential Mortgage Portfolio. The Company continues to believe the Midway Residential Mortgage Portfolio will contribute significant net interest income in the future and that the unrealized losses on the Midway Residential Mortgage Portfolio assets during the 2011 third quarter are temporary in nature and should improve over time as the markets digest the current markets events.

Comparative Expenses (dollar amounts in thousands)

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2011	2010	% Change	2011	2010	% Change
General, Administrative and Other Expenses:						
Salaries and benefits	\$414	\$510	(18.8 ) %	\$1,326	\$1,327	(0.1 ) %
Professional fees	310	320	(3.1 ) %	1,075	905	18.8 %
Management fees	(466 )	979	(147.6 ) %	2,669	2,183	22.3 %
Other	459	413	11.1 %	1,394	1,770	(21.2 ) %
Total	\$717	\$2,222	(67.7 ) %	\$6,464	\$6,185	4.5 %

The general, administrative and other expenses decrease of \$1.5 million for the quarter ended September 30, 2011 as compared to the same period in 2010 was due primarily to a \$1.4 million decrease in incentive management fees, which is primarily related to the performance of assets managed by Midway, and a \$0.1 million decrease in salaries and benefits.

## Comparative Net Interest Income

Our results of operations for our investment portfolio during a given period typically reflects the net interest income earned on our investment portfolio of Agency RMBS and non-Agency RBMS, prime ARM loans held in securitization trusts, loans held for investment, loans held for sale, CLOs, and U.S. Treasury securities (our “Interest Earning Assets”). The net interest spread is impacted by factors such as our cost of financing, the interest rate that our investments bear and our interest rate hedging strategies. Furthermore, the amount of premium or discount paid on purchased portfolio investments and the prepayment rates on portfolio investments will impact the net interest spread as such factors will be amortized over the expected term of such investments. Realized and unrealized gains and losses on Eurodollar and other derivative futures in our Midway Residential Mortgage Portfolio, which do not utilize hedge accounting for financial reporting purposes, are included in other income (expense) in our statement of operations. The following tables set forth the changes in net interest income, yields earned on our Interest Earning Assets and rates on financing arrangements for each of the three and nine months ended September 30, 2011 and 2010, respectively (dollar amounts in thousands, except as noted):

	For the Three Months Ended September 30,							
	2011				2010			
	Average Balance (1) (\$ Millions)	Amount	Yield/ Rate (2)		Average Balance (1) (\$ Millions)	Amount	Yield/ Rate (2)	
Interest income:								
Interest income	\$369.8	\$7,431	8.04	%	\$343.5	\$4,536	5.29	%
Interest expense:								
Investment securities and loans	\$320.9	\$732	0.89	%	\$286.3	\$1,211	1.66	%
Subordinated debentures	45.0	471	4.10	%	45.0	563	4.90	%
Convertible preferred debentures	—	—	—	%	20.0	537	10.51	%
Interest expense	\$365.9	1,203	1.29	%	\$351.3	2,311	2.57	%
Net interest income		\$6,228	6.75	%		\$2,225	2.72	%

	For the Nine Months Ended September 30,							
	2011				2010			
	Average Balance (1) (\$ Millions)	Amount	Yield/ Rate (2)		Average Balance (1) (\$ Millions)	Amount	Yield/ Rate (2)	
Interest income:								
Interest income	\$340.6	\$17,607	6.89	%	\$387.5	\$15,942	5.49	%
Interest expense:								
Investment securities and loans	\$295.5	\$2,161	0.98	%	\$316.0	\$3,887	1.62	%
Subordinated debentures	45.0	1,407	4.17	%	45.0	1,995	5.82	%
Convertible preferred debentures	—	—	—	%	20.0	1,737	11.41	%
Interest expense	\$340.5	3,568	1.40	%	\$381.0	7,619	2.63	%

Net interest income	\$14,039	5.49	%	\$8,323	2.86	%
---------------------	----------	------	---	---------	------	---

- (1) Our average balance of Interest Earning Assets is calculated each period as the daily average balance for the period of our Interest Earning Assets, excluding unrealized gains and losses. Our average balance of interest bearing liabilities is calculated each period as the daily average balance for the period of our financing arrangements (portfolio investments), CDOs, subordinated debentures and convertible preferred debentures.
- (2) Our net yield on Interest Earning Assets is calculated by dividing our interest income from our Interest Earning Assets for the period by our average Interest Earning Assets during the same period. Our interest expense rate is calculated by dividing our interest expense from our interest bearing liabilities for the period by our average interest bearing liabilities. The interest expense includes interest incurred on interest rate swaps.

## Comparative Net Interest Income Interest Earning Assets

The following table sets forth, among other things, the net interest spread for our portfolio of Interest Earning Assets by quarter for the eight most recently completed quarters, excluding the costs of our subordinated debentures and convertible preferred debentures:

Quarter Ended	Average Interest Earning Assets (1) (\$ millions)	Weighted Average Coupon (2)	Weighted Average Cash Yield on Interest Earning Assets (3)	Cost of Funds (4)	Net Interest Spread (5)	Constant Prepayment Rate (CPR) (6)
September 30, 2011	\$ 369.8	4.47%	8.04%	0.89%	7.15%	10.8%
June 30, 2011	\$ 341.7	4.28%	7.59%	0.94%	6.65%	8.8%
March 31, 2011	\$ 310.2	3.19%	4.76%	1.08%	3.68%	9.6%
December 31, 2010	\$ 318.0	3.24%	4.98%	1.45%	3.53%	13.8%
September 30, 2010	\$ 343.5	3.76%	5.29%	1.66%	3.63%	21.1%
June 30, 2010	\$ 393.8	4.22%	5.28%	1.58%	3.70%	20.5%
March 31, 2010	\$ 425.1	4.50%	5.85%	1.60%	4.25%	18.6%
December 31, 2009	\$ 476.8	4.75%	5.78%	1.45%	4.33%	18.1%

- (1) Our average Interest Earning Assets is calculated each quarter as the daily average balance of our Interest Earning Assets for the quarter, excluding unrealized gains and losses.
- (2) The Weighted Average Coupon reflects the weighted average rate of interest paid on our Interest Earning Assets for the quarter, net of fees paid. The percentages indicated in this column are the interest rates that will be effective through the interest rate reset date, where applicable, and have not been adjusted to reflect the purchase price we paid for the face amount of the security.
- (3) Our Weighted Average Cash Yield on Interest Earning Assets was calculated by dividing our annualized interest income from Interest Earning Assets for the quarter by our average Interest Earning Assets.
- (4) Our Cost of Funds was calculated by dividing our annualized interest expense from our Interest Earning Assets for the quarter by our average financing arrangements, portfolio investments and CDOs.
- (5) Net Interest Spread is the difference between our Weighted Average Cash Yield on Interest Earning Assets and our Cost of Funds.
- (6) Our Constant Prepayment Rate, or CPR, is the proportion of principal of our pool of loans that were paid off during each quarter.

## Comparative Net Interest Spread Core Interest Earning Assets, a Non-GAAP Financial Measure

Net Interest Spread Core Interest Earning Assets is a non-GAAP financial measure and is defined as GAAP Net Interest Spread plus unconsolidated investments in interest earning assets, such as our investments in a limited partnership and limited liability company. Our investment in limited partnership represents our equity investment in a limited partnership that owns a pool of residential whole mortgage loans and from which we receive distributions equal to principal and interest payments and sales net of certain administrative expenses. Our investment in a limited liability company includes interest income from our share of two tranches of securitized debt net of certain administrative costs. Because the income we receive from our investments in a limited partnership and limited liability company include interest from pools of mortgage loans, management considers the investment to be a functional equivalent to its Interest Earning Assets under GAAP. In order to evaluate the effective Net Interest Income of our investments, management uses Net Interest Spread Core Interest Earning Assets to reflect the net interest spread of our investments as adjusted to reflect the addition of unconsolidated investments in interest earning assets. Management believes that Net Interest Spread Core Interest Earning Assets provides useful information to investors as the income stream from this unconsolidated investment is similar to the net interest spread for the majority of our assets. Net Interest Spread–Core Interest Earning Assets should not be considered a substitute for our GAAP-based calculation of Net Interest Spread.

The following tables reconcile our GAAP Net Interest Spread for our portfolio of Interest Earning Assets for the three months ended September 30, 2011 and December 31, 2010, respectively, to our non-GAAP measure of Net Interest Spread Core Interest Earning Assets. We acquired our unconsolidated investment in a limited partnership during the third and fourth quarters of 2010 and our investment in a limited liability company during the second quarter of 2011:

	Average Core Interest Earning Assets (1) (\$ millions)	Weighted Average Coupon (2)	Weighted Average Cash Yield on Core Interest Earning Assets (3)	Cost of Funds (4)	Net Interest Spread (5)
Quarter Ended September 30, 2011					
Net Interest Spread – Interest Earning Assets	\$ 369.8	4.47%	8.04%	0.89%	7.15%
Investment in Limited Partnership	\$ 11.2	7.59%	11.27%	—%	11.27%
Investment in Limited Liability Company	\$ 5.4	6.12%	13.06%	—%	13.06%
Net Interest Spread – Core Interest Earning Assets	\$ 386.4	4.53%	8.20%	0.89%	7.31%

	Average Core Interest Earning Assets (1) (\$ millions)	Weighted Average Coupon (2)	Weighted Average Cash Yield on Core Interest Earning Assets (3)	Cost of Funds (4)	Net Interest Spread (5)
Quarter Ended September 30, 2010					
Net Interest Spread – Interest Earning Assets	\$ 343.5	3.76%	5.29%	1.66%	3.63%
Investment in Limited Partnership	\$ 4.0	8.06%	14.82%	—%	14.82%
	\$ 347.5	3.83%	5.37%	1.66%	3.71%

Net Interest Spread – Core Interest  
Earning Assets

- (1) Our average Core Interest Earning Assets is calculated each quarter as the daily average balance of our Core Interest Earning Assets for the quarter, excluding unrealized gains and losses.
- (2) The Weighted Average Coupon reflects the weighted average rate of interest paid on our Core Interest Earning Assets for the quarter, net of fees paid. The percentages indicated in this column are the interest rates that will be effective through the interest rate reset date, where applicable, and have not been adjusted to reflect the purchase price we paid for the face amount of the security.
- (3) Our Weighted Average Cash Yield on Core Interest Earning Assets was calculated by dividing our annualized interest income from Core Interest Earning Assets for the quarter by our average Core Interest Earning Assets.
- (4) Our Cost of Funds was calculated by dividing our annualized interest expense from our Core Interest Earning Assets for the quarter by our average financing arrangements, portfolio investments and CDOs.
- (5) Net Interest Spread is the difference between our Weighted Average Cash Yield on Core Interest Earning Assets and our Cost of Funds.

### Off-Balance Sheet Arrangements

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

### Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, comply with margin requirements, fund our operations, pay management, incentive and consulting fees, pay dividends to our stockholders and other general business needs. We recognize the need to have funds available for our operating businesses and to meet these potential cash requirements. Our investments and assets generate liquidity on an ongoing basis through principal and interest payments, prepayments, net earnings retained prior to payment of dividends and distributions from unconsolidated investments. In addition, depending on market conditions, the sale of investment securities or capital market transactions may provide additional liquidity. We intend to meet our liquidity needs through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds. At September 30, 2011, we had cash balances of \$11.7 million. The reduction in cash and cash equivalents from \$19.4 million at December 31, 2010 reflects the deployment of capital to our Midway Residential Mortgage Portfolio and commercial mortgage strategies. In addition, the Company has \$37.4 million in unencumbered securities, including \$25.0 million of RMBS, of which \$20.2 million are Agency RMBS, and borrowings of \$111.5 million under outstanding repurchase agreements. In addition, there is \$11.0 million in restricted cash available to meet additional margin calls as it relates to the repurchase agreements. The increase in repurchase agreement borrowing is primarily due to our increased funding of the Midway Residential Mortgage Portfolio and our use of additional leverage during the quarter. At September 30, 2011, we also had longer-term debt, including CDOs outstanding of \$203.1 million and subordinated debt of \$45.0 million. The CDOs are collateralized by the mortgage loans held in securitization trusts. Based on our current investment portfolio, new investment initiatives, leverage ratio and available borrowing arrangements, we believe our existing cash balances, funds available under our current repurchase agreements and cash flows from operations will meet our liquidity requirements for at least the next 12 months.

Our leverage ratio for our RMBS investment portfolio, which we define as our outstanding indebtedness under repurchase agreements divided by stockholders' equity, was 1.5 to 1. We have continued to utilize significantly less leverage than our previously targeted leverage due to the ongoing repositioning of our investment portfolio to a more diversified portfolio that includes elements of credit risk with reduced leverage.

On June 28, 2011, we entered into an underwriting agreement relating to the offer and sale of 1,500,000 shares of our common stock at a public offering price of \$7.50 per share, which shares were issued and proceeds received on July 1, 2011. On July 14, 2011, we issued an additional 225,000 shares of common stock to the underwriter pursuant to their exercise of an over-allotment option. These proceeds were received on July 14, 2011. We received total net proceeds of \$11.9 million from the issuance of the 1,725,000 shares.

During the quarter ended September 30, 2011, we invested an additional \$5.0 million in our Midway Residential Mortgage Portfolio. As of September 30, 2011, we have provided \$39.5 million to the Midway Residential Mortgage Portfolio including \$5.0 million of proceeds from our recent public offering and have also provided an initial \$6.9 million to RBCM, marking the commencement of investments under our commercial mortgage strategy. We plan to provide an additional \$15.1 million of funding to RBCM during November 2011 to acquire certain K-015 Series'

assets. See “–Recent Developments – Investment in Multi-Family Loan Securitization Assets.” We anticipate contributing additional capital to these strategies in the future, such that the investment in these strategies will become significant contributors to our revenues and earnings and will represent a significant portion of our total assets in the future. The Company intends to fund their investments in the Midway Residential Mortgage Portfolio and RBCM through either working capital liquidity or proceeds from capital market transactions or a combination thereof.



We have outstanding repurchase agreements, a form of collateralized short-term borrowing, with five different financial institutions. These agreements are secured by certain of our investment securities and bear interest rates that have historically moved in close relationship to LIBOR. Our borrowings under repurchase agreements are based on the fair value of our investment securities portfolio. Interest rate changes can have a negative impact on the valuation of these securities, reducing the amount we can borrow under these agreements. Moreover, our repurchase agreements allow the counterparties to determine a new market value of the collateral to reflect current market conditions and because these lines of financing are not committed, the counterparty can call the loan at any time. If a counterparty determines that the value of the collateral has decreased, the counterparty may initiate a margin call and require us to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing, on minimal notice. Moreover, in the event an existing counterparty elected to not renew the outstanding balance at its maturity into a new repurchase agreement, we would be required to repay the outstanding balance with cash or proceeds received from a new counterparty or to surrender the mortgage-backed securities that serve as collateral for the outstanding balance, or any combination thereof. If we are unable to secure financing from a new counterparty and had to surrender the collateral, we would expect to incur a significant loss.

We enter into interest rate swap agreements as a mechanism to reduce the interest rate risk of the RMBS portfolio. At September 30, 2011, we had \$27.9 million in notional interest rate swaps outstanding. Should market rates for similar term interest rate swaps drop below the fixed rates we have agreed to on our interest rate swaps, we will be required to post additional margin to the swap counterparty, reducing available liquidity. At September 30, 2011, the Company pledged \$0.6 million in cash margin to cover decreased valuations for our interest rate swaps. The weighted average maturity of the swaps was 0.9 years at September 30, 2011.

Similarly, we use Eurodollar or other futures contracts to hedge interest rate risk associated with our Midway Residential Mortgage Portfolio. With respect to futures contracts, initial margin deposits will be made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of the contract at the end of each day's trading. We may be required to satisfy variation margin payments periodically, depending upon whether unrealized gains or losses are incurred. For the three and nine months ended September 30, 2011, respectively, we recorded net realized losses of \$0.9 million and \$1.1 million, respectively, and net unrealized losses of \$1.4 million and \$3.1 million, respectively, in our Eurodollar futures contracts. The Eurodollar futures consist of 2,867 contracts with expiration dates ranging between December 2011 and September 2014 and have a fair market value derivative liability of \$3.1 million. There were no realized or unrealized gains or losses from Eurodollars for the same periods in 2010. The Eurodollar futures swap equivalents in our Midway Residential Mortgage Portfolio are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our condensed consolidated statements of operations.

We also use TBAs to hedge interest rate risk and spread risk associated with our Midway Residential Mortgage Portfolio. Since delivery for these securities extends beyond the typical settlement dates for most non-derivative investments, these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and thereby are more vulnerable, especially in the absence of margining arrangements with respect to these transactions, to increasing amounts at risk with the applicable counterparties. For the three and nine months ended September 30, 2011, respectively, we recorded net realized gains of \$1.1 million. For the three and nine months ended September 30, 2011, respectively, we recorded no net unrealized gains. There were no realized or unrealized gains or losses from TBAs for the same periods in 2010. As of September 30, 2011, the fair value of TBAs held in our Midway Residential Mortgage Portfolio amounted to \$74.1 million.

We also use U.S. Treasury securities and U.S. Treasury futures and options to hedge interest rate risk and the aggregate risk of prepayments associated with our Midway Residential Mortgage Portfolio. For the three and nine months ended September 30, 2011, respectively, we recorded net realized gains from U.S. Treasury securities of

approximately \$29,000 and \$267,000, respectively, and \$0 unrealized gains. For the three and nine months ended September 30, 2011, respectively, we recorded net realized gains from U.S. Treasury futures and options of \$2.4 million and \$2.9 million, respectively, and net unrealized gains of \$0.6 million and \$0.5 million. There were no realized or unrealized gains or losses from U.S. Treasury securities, U.S. Treasury futures or options for the same periods in 2010.

We also own approximately \$3.8 million of loans held for sale, which are included in discontinued operations. Our inability to sell these loans at all or on favorable terms could adversely affect our profitability as any sale for less than the current reserved balance would result in a loss. Currently, these loans are not financed or pledged.

As it relates to loans sold previously under certain loan sale agreements by our discontinued mortgage lending business, we may be required to repurchase some of those loans or indemnify the loan purchaser for damages caused by a breach of the loan sale agreement. Most recently, we have addressed these requests by negotiating a net cash settlement based on the actual or assumed loss on the loan in lieu of repurchasing the loans. The Company periodically receives repurchase requests, each of which management reviews to determine, based on management's experience, whether such request may reasonably be deemed to have merit. As of September 30, 2011, we had a total of \$2.0 million of unresolved repurchase requests that management concluded may reasonably be deemed to have merit, against which we had a reserve of approximately \$0.3 million.

On September 20, 2011, we declared a 2011 third quarter cash dividend of \$0.25 per common share, a \$0.03 per share increase over the dividend we declared and paid for the 2011 second quarter. The dividend was paid on October 25, 2011 to common stockholders of record as of September 30, 2011. These dividends were paid out of the Company's working capital. We expect to continue to pay quarterly cash dividends on our common stock during the near term. However, our Board of Directors will continue to evaluate our dividend policy each quarter and will make adjustments as necessary, based on a variety of factors, including, among other things, the need to maintain our REIT status, our financial condition, liquidity, earnings projections and business prospects. Our dividend policy does not constitute an obligation to pay dividends, which only occurs when our Board of Directors declares a dividend.

We intend to make distributions to our stockholders to comply with the various requirements to maintain our REIT status and to minimize or avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the REIT distribution requirements and to minimize or avoid corporate income tax and the nondeductible excise tax. At December 31, 2010, the Company had approximately \$58 million of net operating loss carryforwards that will expire in 2024 through 2029. The Internal Revenue Code places certain limitations on the annual amount of net operating loss carryforwards that can be utilized if certain changes in the Company's ownership occur. The Company has undergone an ownership change within the meaning of IRC section 382 that will limit the net loss carryforwards to be used to offset future taxable income to \$660,000 per year, which will cause a significant amount of the Company's net operating loss to expire unused.

#### Investment Management and Advisory Agreements

We currently are a party to two investment management agreements and one advisory agreement with third parties, pursuant to which we have agreed to pay these third parties a combination of base management, consulting or incentive fees in exchange for certain management, advisory or consulting and support services. We may in the future enter into joint ventures or additional external management agreements with third parties that have special expertise or investment sourcing capabilities to the extent we believe such relationships will contribute to our achievement of our investment objectives.

#### HCS Advisory Agreement

We have certain contractual obligations under the Advisory Agreement between HCS, HC, NYMF and us. See footnote 13 to the condensed consolidated financial statements included under Item 1 of this Form 10-Q for more information regarding the terms of the HCS Advisory Agreement.

For the three and nine months ended September 30, 2011, HCS earned aggregate base advisory and consulting fees of approximately \$0.3 million and \$0.8 million, respectively, and incentive fees of approximately \$0.1 million and \$1.6 million, respectively. As of September 30, 2011, HCS was managing approximately \$36.7 million of assets on the Company's behalf. As of September 30, 2011 and December 31, 2010, the Company had a management fee payable to HCS totaling \$0.4 million and \$0.7 million, respectively, included in accrued expenses and other liabilities.

#### Midway Management Agreement

We pay Midway a base management fee monthly in arrears in a cash amount equal to the product of (i) 1.50% per annum of our invested capital in the Midway Residential Mortgage Portfolio as of the last business day of the previous month, multiplied by (ii) 1/12th. In addition, pursuant to the terms of the Midway Management Agreement, Midway is entitled to a quarterly incentive fee (the "Midway Incentive Fee") that is calculated monthly and paid in cash in arrears. The Midway Incentive Fee is based upon the total market value of the net invested capital in the Midway Residential Mortgage Portfolio on the last business day of the quarter, subject to a high water mark equal to a 10% return on

invested capital (the “High Water Mark”), and shall be payable in an amount equal to 40% of the dollar amount by which adjusted net income (as defined below) attributable to the Midway Residential Mortgage Portfolio, on a calendar 12-month basis and before accounting for the Midway Incentive Fee, exceeds an annual 15% rate of return on invested capital (the “Hurdle Rate”).

The return rate for each calendar 12-month period (the “Calculation Period”) is determined by dividing (i) the adjusted net income for the Calculation Period by (ii) the weighted average of the invested capital paid into the Midway Residential Mortgage Portfolio during the Calculation Period. For the initial 12 months, adjusted net income will be calculated on the basis of each of the previously completed months on an annualized basis. Like the Hurdle Rate, which is calculated on a calendar 12 month basis, the High Water Mark is calculated on a calendar 12 month basis, and will reset every 24 months. The High Water Mark will be a static dollar figure that Midway will be required to recoup, to the extent there was a deficit in the prior High Water Mark calculation period before it can receive a Midway Incentive Fee.

Although the Midway Residential Mortgage Portfolio is wholly owned by our company, we may only redeem invested capital in an amount equal to the lesser of 10% of the invested capital in the Midway Residential Mortgage Portfolio or \$10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act. Pursuant to the terms of the Midway Management Agreement, we are only permitted to make one such redemption request in any 75-day period.

For the three months ended September 30, 2011, Midway earned base management and incentive fees of approximately \$140,000 and \$0, respectively. For the nine months ended September 30, 2011, Midway earned base management and incentive fees of approximately \$272,000 and \$0, respectively.

#### RiverBanc Management Agreement

The RiverBanc Management Agreement has a term that will expire on April 5, 2013, subject to automatic annual one-year renewals thereafter. Pursuant to the terms of the RiverBanc Management Agreement, RiverBanc will receive a monthly base management fee in arrears in a cash amount equal to the product of (i) 1.50% per annum of our invested capital in RBCM as of the last business day of the previous month, multiplied by (ii) 1/12th. In addition, RiverBanc will be entitled to an incentive fee that is calculated quarterly and paid in cash in arrears. The incentive fee is based upon the average invested capital in RBCM during the fiscal quarter, subject to a high water mark equal to a 9% return on invested capital, and shall be payable in an amount equal to 35% of the dollar amount by which adjusted net income (as defined in the RiverBanc Management Agreement) attributable to the invested capital in RBCM, on a calendar 12-month basis and before accounting for any incentive fees payable to RiverBanc, exceeds an annual 12% rate of return on invested capital. The RiverBanc Management Agreement has a term that will expire on April 5, 2013, subject to automatic annual one-year renewals thereafter. We may terminate the RiverBanc Management Agreement or elect not to renew the agreement, subject to certain conditions and subject, in certain cases, to paying a termination fee equal to the product of (A) 24 and (B) the monthly base management earned by RiverBanc during the month immediately preceding the month in which the termination occurs.

As part of this transaction, subject to our funding of RBCM at various thresholds, we are eligible, through our TRS, to receive an ownership interest in RiverBanc of up to 17.5%.

For the three and nine months ended September 30, 2011, RiverBanc earned management fees of approximately \$26,000 and \$37,000, respectively.

#### Inflation

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



### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices and equity prices. All of our market risk sensitive assets, liabilities and related derivative positions are for non-trading purposes only. Management recognizes the following primary risks associated with our business and the industry in which we conduct business:

- Interest rate risk
- Liquidity risk
- Prepayment risk
- Credit risk
- Fair value risk

#### Interest Rate Risk

Interest rates are sensitive to many factors, including governmental, monetary, tax policies, domestic and international economic conditions, and political or regulatory matters beyond our control. Changes in interest rates affect the value of the financial assets we manage and hold in our investment portfolio, the variable-rate borrowings we use to finance our portfolio, and the interest rate swaps and caps, Eurodollar futures, TBAs and other securities or instruments we use to hedge our portfolio. As a result, our net interest income is particularly affected by changes in interest rates.

Interest rate risk is measured by the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows, especially the speed at which prepayments occur on our residential mortgage related assets. For example, we hold hybrid ARM assets that reset on various dates that are not matched to the reset dates on our repurchase agreements. In general, the repricing of our repurchase agreements occurs more quickly than the repricing of our assets. Thus, it is likely that our floating rate borrowings may react to changes in interest rates before our adjustable rate assets because the weighted average next re-pricing dates on the related borrowings may have shorter time periods than that of the adjustable rate assets. In addition, the interest rates on our hybrid ARM assets may be limited to a “periodic cap” or an increase of typically 1% or 2% per adjustment period, while our borrowings do not have comparable limitations. In addition, changes in interest rates can directly impact prepayment speeds, thereby affecting our net return on hybrid ARM assets. During a declining interest rate environment, the prepayment of hybrid ARMs may accelerate (as borrowers may opt to refinance at a lower rate) causing the amount of liabilities that have been extended by the use of interest rate swaps to increase relative to the amount of hybrid ARMs, possibly resulting in a decline in our net return on hybrid ARMs as replacement hybrid ARMs may have a lower yield than those being prepaid. Conversely, during an increasing interest rate environment, hybrid ARMs may prepay slower than expected, requiring us to finance a higher amount of hybrid ARMs than originally forecast and at a time when interest rates may be higher, resulting in a decline in our net return on hybrid ARMs.

We seek to manage interest rate risk in the portfolio by utilizing interest rate swaps, caps, Eurodollar and other futures, options and U.S. Treasury securities with the goal of optimizing the earnings potential while seeking to maintain long term stable portfolio values. We continually monitor the duration of our mortgage assets and have a policy to hedge the financing such that the net duration of the assets, our borrowed funds related to such assets, and related hedging instruments, are less than one year. In addition, we utilize TBAs to mitigate the risks on our long Agency RMBS positions in our Midway Residential Mortgage Portfolio, particularly our IOs.

We utilize a model based risk analysis system to assist in projecting portfolio performances over a scenario of different interest rates. The model incorporates shifts in interest rates, changes in prepayments and other factors

impacting the valuations of our financial securities and instruments, including mortgage-backed securities, repurchase agreements, interest rate swaps and interest rate caps, TBAs and Eurodollar futures.

Based on the results of the model, instantaneous changes in interest rates would have the following effect on net interest income for the nine months ended September 30, 2011 (dollar amounts in thousands):

Changes in Net Interest Income	
Changes in Interest Rates	Changes in Net Interest Income
+200	\$ (152)
+100	\$ (214)
-100	\$ (3,120)

Interest rate changes may also impact our net book value as our mortgage assets and related hedge derivatives are marked-to-market each quarter. Generally, as interest rates increase, the value of our mortgage assets, other than IOs, decreases, and conversely, as interest rates decrease, the value of such investments will increase. The value of an IO will likely be negatively affected in a declining interest rate environment due to the risk of increasing prepayment rates because the IOs value is wholly contingent on the underlying mortgage loans having an outstanding balance. In general, we would expect however that, over time, decreases in value of our portfolio attributable to interest rate changes will be offset, to the degree we are hedged, by increases in value of our interest rate swaps or other financial instruments used for hedging purposes, and vice versa. However, the relationship between spreads on securities and spreads on our hedging instruments may vary from time to time, resulting in a net aggregate book value increase or decline. That said, unless there is a material impairment in value that would result in a payment not being received on a security or loan, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to make a distribution to our stockholders.



## Liquidity Risk

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay dividends to our stockholders and other general business needs. We recognize the need to have funds available to operate our business. It is our policy to have adequate liquidity at all times. We plan to meet liquidity through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

Our principal sources of liquidity are the repurchase agreements on our RMBS, the CDOs we have issued to finance our loans held in securitization trusts, the principal and interest payments from mortgage assets and cash proceeds from the issuance of equity securities (as market and other conditions permit). We believe our existing cash balances and cash flows from operations will be sufficient for our liquidity requirements for at least the next 12 months.

As it relates to our investment portfolio, derivative financial instruments we use to hedge interest rate risk subject us to “margin call” risk. If the value of our pledged assets decreases, due to a change in interest rates, credit characteristics, or other pricing factors, we may be required to post additional cash or asset collateral, or reduce the amount we are able to “borrow” versus the collateral. For example, under our interest rate swaps typically we pay a fixed rate to the counterparties while they pay us a floating rate. If interest rates drop below the fixed rate we are paying on an interest rate swap, we may be required to post cash margin.

## Prepayment Risk

When borrowers repay the principal on their mortgage loans before maturity or faster than their scheduled amortization, the effect is to shorten the period over which interest is earned, and therefore, reduce the yield for mortgage assets purchased at a premium to their then current balance, as with the majority of our assets. Conversely, mortgage assets purchased for less than their then current balance exhibit higher yields due to faster prepayments. Furthermore, prepayment speeds exceeding or lower than our modeled prepayment speeds impact the effectiveness of any hedges we have in place to mitigate financing and/or fair value risk. Generally, when market interest rates decline, borrowers have a tendency to refinance their mortgages, thereby increasing prepayments. The impact of increasing prepayment rates, whether as a result of declining interest rates, government intervention in the mortgage markets or otherwise, is particularly acute with respect to the IOs we hold in our Midway Residential Mortgage Portfolio. Because the value of an IO is wholly contingent on the underlying mortgage loans having an outstanding principal balance, an unexpected increase in prepayment rates could significantly negatively impact the performance of our Midway Residential Mortgage Portfolio.

Our prepayment model will help determine the amount of hedging we use to off-set changes in interest rates. If actual prepayment rates are higher than modeled, the yield will be less than modeled in cases where we paid a premium for the particular mortgage asset. Conversely, when we have paid a premium, if actual prepayment rates experienced are slower than modeled, we would amortize the premium over a longer time period, resulting in a higher yield to maturity.

In an increasing prepayment environment, the timing difference between the actual cash receipt of principal paydowns and the announcement of the principal paydown may result in additional margin requirements from our repurchase agreement counterparties.

We mitigate prepayment risk by constantly evaluating our mortgage assets relative to prepayment speeds observed for assets with a similar structure, quality and characteristics. Furthermore, we stress-test the portfolio as to prepayment speeds and interest rate risk in order to further develop or make modifications to our hedge balances. Historically, we have not hedged 100% of our liability costs due to prepayment risk.

## Credit Risk

Credit risk is the risk that we will not fully collect the principal we have invested in mortgage loans or other assets due to either borrower defaults, or a counterparty failure. Our portfolio of loans held in securitization trusts as of September 30, 2011 consisted of approximately \$212.4 million of securitized first liens originated in 2005 and earlier. The securitized first liens were principally originated by our subsidiary, HC, prior to our exit from the mortgage lending business. These are predominately high-quality loans with an original average loan-to-value ("LTV") ratio at origination of approximately 70.4%, and an original average borrower FICO score of approximately 729. In addition, approximately 64.4% of these loans were originated with full income and asset verification. While we feel that our origination and underwriting of these loans will help to mitigate the risk of significant borrower default on these loans, we cannot assure you that all borrowers will continue to satisfy their payment obligations under these loans and thereby avoid default.

As of September 30, 2011, we owned approximately \$4.9 million of non-Agency RMBS senior securities. The non-Agency RMBS has a weighted average amortized purchase price of approximately 89.5% of current par value as of September 30, 2011. Management believes the purchase price discount coupled with the credit support within the bond structure protects us from principal loss under most stress scenarios for these non-Agency RMBS. In addition, as of September 30, 2011 we own approximately \$22.7 million of notes issued by a CLO at a discounted purchase price equal to 25.5% of par. The securities are backed by a portfolio of middle market corporate loans.

## Fair Value Risk

Changes in interest rates also expose us to market risk that the market value (fair value) on our assets may decline. While the fair value of all of our current assets that are measured on a recurring basis are determined using Level 2 fair values, we have owned in the past and may own in the future certain financial instruments for which fair values may not be readily available if there are no active trading markets for the instruments. In such cases, fair values would only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values. Our fair value estimates and assumptions are indicative of the interest rate environments as of September 30, 2011, and do not take into consideration the effects of subsequent interest rate fluctuations.

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

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

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

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

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

The fair value of mortgage loans held in securitization trusts is estimated using pricing models and taking into consideration the aggregated characteristics of groups of loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed-rate period, life cap, periodic cap, underwriting standards, age and credit estimated using the estimated market prices for similar types of loans. Due to significant market dislocation over the past few years, secondary market prices were given minimal weighting in determining the fair value of these loans at September 30, 2011 and December 31, 2010.

The fair value of our CDOs is based on market pricing on comparable CDOs.

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

The table below presents the sensitivity of the market value and net duration changes of our portfolio as of September 30, 2011, using a discounted cash flow simulation model assuming an instantaneous interest rate shift. Application of this method results in an estimation of the fair market value change of our assets, liabilities and hedging instruments per 100 basis point (“bp”) shift in interest rates.

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

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

Changes in Interest Rates	Market Value Changes	
	Changes in Market Value (Amount in thousands)	Net Duration
+200	\$(10,892)	3.17 years
+100	\$(5,024)	1.89 years
Base	—	0.25 years
-100	\$(2,267)	(1.10) years

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

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

There are a number of key assumptions in our earnings simulation model. These key assumptions include changes in market conditions that affect interest rates, the pricing of ARM products, the availability of investment assets and the availability and the cost of financing for portfolio assets. Other key assumptions made in using the simulation model include prepayment speeds and management's investment, financing and hedging strategies, and the issuance of new equity. We typically run the simulation model under a variety of hypothetical business scenarios that may include different interest rate scenarios, different investment strategies, different prepayment possibilities and other scenarios that provide us with a range of possible earnings outcomes in order to assess potential interest rate risk. The

assumptions used represent our estimate of the likely effect of changes in interest rates and do not necessarily reflect actual results. The earnings simulation model takes into account periodic and lifetime caps embedded in our assets in determining the earnings at risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures - We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2011. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2011.

Changes in Internal Control over Financial Reporting - There has been no change in our internal control over financial reporting during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are at times subject to various legal proceedings arising in the ordinary course of our business. As of the date of this report, we do not believe that any of our current legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations, financial condition or cash flows.

### Item 1A. Risk Factors

We previously disclosed risk factors under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011. In addition to those risk factors and the other information included elsewhere in this report, you should also carefully consider the risk factors discussed below. The risks described below and in our Annual Report on Form 10-K for the year ended December 31, 2010, in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

Concerns regarding downgrade of the U.S. credit rating and the sovereign debt crisis in Europe could have a material adverse effect on our business, financial condition and liquidity.

On August 5, 2011, Standard & Poor's lowered its long term sovereign credit rating on the United States of America from AAA to AA+. While U.S. lawmakers reached agreement to raise the federal debt ceiling on August 2, 2011, the downgrade reflected Standard & Poor's view that the fiscal consolidation plan within that agreement fell short of what would be necessary to stabilize the U.S. Government's medium term debt dynamics. This downgrade could have material adverse impacts on financial markets and economic conditions in the United States and throughout the world and, in turn, the market's anticipation of these impacts could have a material adverse effect on our business, financial condition and liquidity. In particular, it could disrupt payment systems, money markets, long-term or short-term fixed income markets, foreign exchange markets, commodities markets and equity markets and adversely affect the cost and availability of funding and certain impacts, such as increased spreads in money market and other short term rates, have been experienced already. Because of the unprecedented nature of negative credit rating actions with respect to U.S. Government obligations, the ultimate impacts on global markets and our business, financial condition and liquidity are unpredictable and may not be immediately apparent.

In addition, global markets and economic conditions have been negatively impacted by the ability of certain European Union ("EU") member states to service their sovereign debt obligations. The continued uncertainty over the outcome of the EU governments' financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. In particular, it has and could in the future disrupt equity markets and result in volatile bond yields on the sovereign debt of EU members. These factors could have an adverse effect on our business, financial condition and liquidity.

Maintenance of our Investment Company Act exclusion 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. We believe that there are a number of exclusions under the Investment Company Act that are applicable to us. To maintain the exclusion, 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. On August 31, 2011, the SEC published a concept release entitled “Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments” (Investment Company Act Rel. No. 29778). This release suggests that the SEC may modify the exemption relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. If the SEC acts to narrow the availability of, or if we otherwise fail to qualify for, our exclusion, 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 a material adverse effect on our operations and the market price of our common stock.



Our target assets and other asset classes we may pursue in the future include structured Agency RMBS, including CMOs, IOs (including Inverse IOs) and POs. Although structured Agency RMBS are generally subject to the same risks as the Agency RMBS whole pool pass-through certificates, certain types of risks may be enhanced depending on the type of structured Agency RMBS in which we invest.

Our target assets and other asset classes we may pursue in the future include certain types of structured Agency RMBS, including CMOs, IOs and POs, which are securitizations (i) issued by Fannie Mae, Freddie Mac or Ginnie Mae, (ii) that are collateralized by Agency RMBS and (iii) that are divided into various tranches that have different characteristics (such as different maturities or different coupon payments). These securities may carry greater risk than an investment in Agency RMBS whole pool pass-through certificates. For example, certain types of structured Agency RMBS, such as POs or the IOs we invest in, are more sensitive to prepayment risks than Agency RMBS whole pool pass-through certificates. Because we invest in certain of these structured RMBS, our overall portfolio and results of operations may be more sensitive to prepayment risk.

Increased levels of prepayments on the mortgages underlying our structured Agency RMBS, particularly IOs, might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

When we acquire structured Agency RMBS, such as IOs, we anticipate that the underlying mortgages will prepay at a projected rate, generating an expected yield. When the prepayment rates on the mortgages underlying our structured Agency RMBS are higher than expected, our returns on those securities may be materially adversely affected. For example, the value of our IOs are extremely sensitive to prepayments because holders of these securities do not have the right to receive any principal payments on the underlying mortgages. Agency IOs currently comprise a large percentage of our interest earning assets. Therefore, if the mortgage loans underlying our IOs are prepaid, such securities would cease to have any value, which, in turn, could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Certain actions by the U.S. Federal Reserve could cause a flattening of the yield curve, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

On September 21, 2011, the U.S. Federal Reserve announced “Operation Twist,” which is a program by which it intends to purchase, by the end of June 2012, \$400 billion of U.S. treasury securities with remaining maturities between six and 30 years and sell an equal amount of U.S. treasury securities with remaining maturities of three years or less. The effect of Operation Twist could be a flattening in the yield curve, which could result in increased prepayment rates due to lower long-term interest rates and a narrowing of our net interest margin. Consequently, Operation Twist and any other future securities purchase programs by the U.S. Federal Reserve could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. (Removed and Reserved).

Item 5. Other Information

None.

Item 6. Exhibits

The information set forth under “Exhibit Index” below is incorporated herein by reference.

58

---

SIGNATURES

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

NEW YORK MORTGAGE TRUST, INC.

Date: November 4, 2011

By: /s/ Steven R. Mumma  
Steven R. Mumma  
Chief Executive Officer and  
President  
(Principal Executive Officer)

Date: November 4, 2011

By: /s/ Fredric S. Starker  
Fredric S. Starker  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer)

# EXHIBIT INDEX

Exhibit	Description
3.1(a)	Articles of Amendment and Restatement of New York Mortgage Trust, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 333-111668), effective June 23, 2004).
3.1(b)	Articles of Amendment of the Registrant (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 4, 2007).
3.1(c)	Articles of Amendment of the Registrant (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on October 4, 2007).
3.1(d)	Articles of Amendment of the Registrant (Incorporated by reference to Exhibit 3.1(d) to the Company's Current Report on Form 8-K filed on May 16, 2008).
3.1(e)	Articles of Amendment of the Registrant (Incorporated by reference to Exhibit 3.1(e) to the Company's Current Report on Form 8-K filed on May 16, 2008).
3.1(f)	Articles of Amendment of the Registrant (Incorporated by reference to Exhibit 3.1(f) to the Company's Current Report on Form 8-K filed on June 15, 2009).
3.2	Bylaws of New York Mortgage Trust, Inc., as amended (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on March 4, 2011).
4.1	Form of Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 333-111668), effective June 23, 2004).
4.2(a)	Junior Subordinated Indenture between The New York Mortgage Company, LLC and JPMorgan Chase Bank, National Association, as trustee, dated September 1, 2005. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 6, 2005).
4.2(b)	Amended and Restated Trust Agreement among The New York Mortgage Company, LLC, JPMorgan Chase Bank, National Association, Chase Bank USA, National Association and the Administrative Trustees named therein, dated September 1, 2005. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 6, 2005).
4.3(a)	Articles Supplementary Establishing and Fixing the Rights and Preferences of Series A Cumulative Redeemable Convertible Preferred Stock of the Company (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 25, 2008).
4.3(b)	Form of Series A Cumulative Redeemable Convertible Preferred Stock Certificate (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 25, 2008).
31.1	
31.2	Section 302 Certification of Chief Executive Officer.*
32.1	Section 302 Certification of Chief Financial Officer.*
Exhibit 101.INS	Section 906 Certification of Chief Executive Officer and Chief Financial Officer.**
XBRL	Instance Document ***
Exhibit 101.SCH	Taxonomy Extension Schema Document ***
XBRL	Taxonomy Extension Calculation Linkbase Document ***
Exhibit 101.CAL	Taxonomy Extension Definition Linkbase Document ***
XBRL	Taxonomy Extension Label Linkbase Document ***
Exhibit 101.DEF	Taxonomy Extension Presentation Linkbase Document ***
XBRL	
Exhibit 101.LAB	
XBRL	

Exhibit 101.PRE  
XBRL

\* Filed herewith.

\*\*Furnished herewith. Such certification shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

\*\*\*Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2011 ( Unaudited) and December 31, 2010 (Derived from the audited balance sheet at December 31, 2010); (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2011 and 2010; (iii) Condensed Consolidated Statement of Stockholders’ Equity (Unaudited) for the nine months ended September 30, 2011; (iv) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2011 and 2010; and (v) Unaudited Notes to Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.