

AMERICAN HOME MORTGAGE INVESTMENT CORP

Form 10-K

March 01, 2007

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2006.

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period From **to** **.**

Commission File Number 001-31916

AMERICAN HOME MORTGAGE INVESTMENT CORP.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of

Incorporation or Organization)

20-0103914
(I.R.S. Employer

Identification No.)

Edgar Filing: AMERICAN HOME MORTGAGE INVESTMENT CORP - Form 10-K

538 Broadhollow Road, Melville, New York 11747

(Address of Principal Executive Offices) (Zip Code)

(516) 949-3900

(Registrant's Telephone Number, Including Area Code)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE
Common Stock, \$0.01 par value per share	New York Stock Exchange
9.75% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share	New York Stock Exchange
9.25% Series B Cumulative Redeemable Preferred Stock, \$0.01 par value per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

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

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

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

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

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

As of December 31, 2006, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$1.66 billion (computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2006). For purposes of this information, the outstanding shares of common stock owned by directors and executive officers of the registrant were deemed to be shares of common stock held by affiliates.

As of February 22, 2007, the registrant had 50,222,899 outstanding shares of common stock, par value \$0.01 per share, which is the registrant's only class of common stock.

Documents Incorporated By Reference:

The information required to be furnished pursuant to Part III of this Annual Report on Form 10-K will be set forth in, and incorporated by reference from, the registrant's definitive proxy statement for the registrant's 2007 Annual Meeting of Stockholders, which definitive proxy statement will be filed by the registrant with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year ended December 31, 2006.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	14
Item 1B. <u>Unresolved Staff Comments</u>	29
Item 2. <u>Properties</u>	29
Item 3. <u>Legal Proceedings</u>	29
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	29
<u>PART II</u>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	30
Item 6. <u>Selected Financial Data</u>	33
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	63
Item 8. <u>Financial Statements and Supplementary Data</u>	63
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	64
Item 9A. <u>Controls and Procedures</u>	64
Item 9B. <u>Other Information</u>	66
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	67
Item 11. <u>Executive Compensation</u>	67
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	67
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	67
Item 14. <u>Principal Accounting Fees and Services</u>	67
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	68
<u>Signatures</u>	69
<u>Index to Financial Statements</u>	
<u>Index to Exhibits</u>	

Table of Contents

PART I

SPECIAL NOTES OF CAUTION

Cautionary Note Regarding Forward-Looking Statements

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

our business strategy;

future performance, developments, market forecasts or projected dividends;

projected acquisitions or joint ventures; and

projected capital expenditures.

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

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

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

Table of Contents

ITEM 1. BUSINESS

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

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

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

As of December 31, 2006, we held a leveraged portfolio of mortgage loans held for investment and mortgage-backed securities in the amount of approximately \$15.6 billion in order to generate net interest income and serviced approximately 197,000 loans with an aggregate principal amount of approximately \$46.3 billion. As of December 31, 2006, we operated more than 550 loan production offices located in 47 states and the District of Columbia, and made loans throughout all 50 states and the District of Columbia. We originated approximately \$58.9 billion in aggregate principal amount of loans in 2006 and for the third quarter of 2006 were ranked as the nation's 10th largest residential mortgage lender according to *National Mortgage News*.

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

Our website is <http://www.americanhm.com>. We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of our directors and executive officers and any amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. We also will provide any of

Table of Contents

the foregoing information without charge upon written request to American Home Mortgage Investment Corp., 538 Broadhollow Road, Melville, New York 11747, Attention: Investor Relations Director.

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

The certifications by our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as Exhibits 31.1 and 31.2, respectively, to this Annual Report on Form 10-K. We also have submitted to the NYSE our 2006 Annual Chief Executive Officer Certification required pursuant to NYSE Corporate Governance Standards Section 303A.12(a), to the effect that, as of the date of such certification, the Chief Executive Officer of the Company was not aware of any violation by the Company of the NYSE's Corporate Governance listing standards.

Description of Our Business

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

In general, under our current business strategy, we expect to maximize the operational and tax benefits provided by our REIT structure. Our TRSs accept and process loan applications. Loan applications that meet the requirements of the REIT, which typically consist of ARMs, are then sold by our TRSs to our QRS, while loan applications that do not meet these requirements are closed and sold to third-party purchasers. The associated servicing rights of all loans originated by our QRS are retained by our TRSs. We generate net interest income from our portfolio of mortgage loans and mortgage-backed securities, which is the difference between (1) the interest income we receive from mortgage loans and mortgage-backed securities and (2) the interest we pay on the debt used to finance these investments, plus certain administrative expenses.

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

In addition, in October 2006, the Company acquired Flower Bank, fsb, of Chicago, Illinois, a federally chartered savings bank, which, as of February 2007, has changed its name to American Home Bank.

Table of Contents

Mortgage Holdings Segment

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

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

The size of our leveraged portfolio of mortgage loans held for investment and mortgage-backed securities was approximately \$15.6 billion as of December 31, 2006. Our mortgage-backed securities are funded through borrowings in the reverse repurchase market. Our loans held for investment are funded through reverse repurchase agreements and CDOs. Rollover risk is managed by laddering the maturities of the reverse repurchase borrowings. Our termed repurchase agreements generally have maturities ranging from one to twelve months.

Loan Origination Segment

Our loan origination business originates the securitized loans in which we invest as well as additional loans that we sell, typically at a gain. We are one of the nation's largest home mortgage lenders; *National Mortgage News* ranked the Company as the nation's¹⁰ largest residential mortgage lender for the third quarter of 2006. During 2006, we made loans to approximately 196,000 borrowers and our total originations were approximately \$58.9 billion. Our loan origination business is the generator of a significant portion of our assets and the source of our gain on sale revenue. It also is the source of many of the customers whose loans are being serviced by us.

Our originations are sourced through our own sales force of approximately 2,450 loan officers and account executives, as well as through mortgage brokers and loan correspondents. As of December 31, 2006, we conducted our lending through over 550 retail and wholesale loan production offices located in 47 states and the District of Columbia. During 2006, our origination business obtained approximately 55% of our originations from mortgage brokers through our wholesale loan production offices and 35% of our originations through our retail loan production offices and Internet call center, while 10% of our originations were purchased from correspondents. Of the \$58.9 billion aggregate principal amount of loans we made during 2006, 54% were to fund refinancings while 46% were to fund home purchases.

Table of Contents

We offer a broad array of mortgage products and primarily make loans to borrowers with good credit profiles. The weighted-average FICO score for our \$58.9 billion of total originations in 2006 was 716. All of the loans we made in 2006 were secured by one- to four-family dwellings.

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

Our loan origination business has rapidly grown its market share and scale since we became a public company in 1999. The aggregate principal amount of our total loan originations was approximately \$58.9 billion in 2006, compared to \$45.3 billion in 2005, \$23.1 billion in 2004, \$21.7 billion in 2003 and \$12.2 billion in 2002. Based on Freddie Mac's Office of the Chief Economist Economic and Housing Market Outlook estimates of total industry originations, our national market share was 0.56% in 2003, 0.79% in 2004, 1.39% in 2005 and 2.22% in 2006. We believe our growth has made our mortgage banking operation more profitable and more effective at serving our customers. Specifically, growth in originations has lowered the per-loan cost of our centralized support operations and, consequently, our overall per-loan cost of origination. Our growth has also given us a relatively large presence in the secondary mortgage market, and, as a result, has improved our ability to execute loan sales to third-party purchasers. In addition, our size has enabled us to negotiate better terms with warehouse lenders and credit enhancers such as Fannie Mae and Freddie Mac. Finally, our size has made it possible for us to profitably enter businesses ancillary to mortgage lending, such as mortgage reinsurance, title brokerage and vendor management.

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

Our newly originated loans held pending sale or securitization were \$1.5 billion as of December 31, 2006. These loans are financed through our commercial paper program and through borrowings from banks and securities dealers. The interest rate risk posed by our agency-eligible conforming loans and most of our non-conforming loans is hedged through forward sales, interest rate swaps or interest rate caps.

Mortgage Products

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

Table of Contents

The following table summarizes information with respect to the most significant categories of mortgage loans we originated for the years ended December 31, 2006 and 2005:

LOAN ORIGINATION SUMMARY

Loan Type	% of Total					
	Number of Loans		Loan Originations		Dollar Originations	
	Year Ended December 31, 2006	2005	Year Ended December 31, 2006	2005 (Dollars in millions)	Year Ended December 31, 2006	2005
Adjustable-rate	81,973	62,516	\$ 29,236.1	\$ 19,072.0	49.7%	42.1%
Conventional conforming fixed-rate	73,571	67,801	14,031.0	12,281.1	23.8	27.1
Alternate A first lien	25,267	27,541	5,240.3	5,239.6	8.9	11.6
Jumbo fixed rate	6,367	6,932	4,041.1	3,657.2	6.9	8.1
Home equity/Second	54,198	55,369	3,610.2	3,362.5	6.1	7.4
Government fixed-rate	16,944	10,592	2,439.9	1,440.6	4.1	3.2
Construction	639	175	272.0	111.0	0.5	0.2
Non-prime	112	617	28.8	134.0	0.0	0.3
Loan originations	259,071	231,543	\$ 58,899.4	\$ 45,298.0	100.0%	100.0%

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

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

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

Jumbo Loans. Jumbo loans are considered non-conforming mortgage loans because they have a principal loan amount in excess of the loan limits set by Fannie Mae and Freddie Mac (which limits were \$417,000, for single-family, one-unit mortgage loans in the continental United States originated during the year ended December 31, 2006). We offer jumbo loans with creative financing features, such as the pledging of security portfolios. Our jumbo loan program is geared to the more financially sophisticated borrower.

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

Table of Contents

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

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

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

Loan Underwriting

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

Quality Control

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

Sale of Loans and Servicing Rights

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

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

Table of Contents

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

In 2006, the three institutions that bought the most loans from us were Countrywide Financial Corporation, Deutsche Bank and Wells Fargo Bank, N.A., which accounted for 20%, 19% and 11%, respectively, of our total loan sales.

With respect to mortgage loans that we originate but do not securitize, we sold the mortgage servicing rights (MSRs) in 60.9% of our loan sales at the time we sold those loans. The prices at which we are able to sell our MSRs vary over time and may be materially adversely affected by a number of factors, including, for example, the general supply of, and demand for, MSRs and changes in interest rates. From time to time, we retain the servicing rights on a portion of our loan originations. When we retain servicing rights, we earn an annual servicing fee.

On December 31, 2006, the carrying value of our MSRs was \$506.3 million. The MSRs are financed by borrowings from a bank syndicate.

Loan Servicing Segment

Our servicing business is conducted through AHM Servicing. Loans are serviced primarily for the trusts of our securitizations and for Fannie Mae, Ginnie Mae and other third-party purchasers of our loans. We have been rated Average With Noted Strengths for both first and second lien products by Standard & Poor's, and RPS3+ for our prime, alternate-A and home equity products by Fitch.

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

As of December 31, 2006, AHM Servicing serviced approximately 197,000 loans with an aggregate principal amount of approximately \$46.3 billion. The weighted-average servicing fee on our servicing portfolio as of December 31, 2006, was 0.347% of the principal amount of each loan we service. We expect our servicing business to grow as we increase our portfolio of self-originated mortgage loans and mortgage-backed securities.

The weighted-average interest rate of the single-family mortgage loans serviced for others as of December 31, 2006 was 7.08%. As of December 31, 2006, 76% of loans serviced for others were ARM loans and 24% were fixed-rate mortgage loans. The weighted-average servicing fee of our loans serviced for others was 0.347% as of December 31, 2006. The weighted-average interest rate of our fixed-rate loans serviced for others was 6.70% as of December 31, 2006.

The following table classifies our portfolio of mortgage loans serviced for others by product type at December 31, 2006 and 2005:

Product	Principal Balance December 31,		Percentage of Portfolio December 31,	
	2006	2005	2006	2005
	(In millions)			
ARMs	\$ 30,057.5	\$ 17,871.3	78.1%	71.4%
Fixed rate	8,007.5	6,700.5	20.8%	26.7%
Second liens	415.2	472.9	1.1%	1.9%
Loans serviced for others	\$ 38,480.2	\$ 25,044.7	100.0%	100.0%

Table of Contents

The following table presents the activity in our portfolio of mortgage loans serviced for others for the years ended December 31, 2006 and 2005:

	Year Ended December 31,	
	2006	2005
	(In millions)	
Balance at beginning of year	\$ 25,044.7	\$ 11,955.6
Loans sold or securitized with servicing retained	21,908.4	19,806.9
Prepayments and foreclosures	(8,341.1)	(6,300.5)
Amortization of principal	(131.8)	(417.3)
Balance at end of year	\$ 38,480.2	\$ 25,044.7

Banking Segment

The Company's banking business is conducted through American Home Bank (formerly known as Flower Bank, fsb) ("AH Bank"), which the Company acquired in October 2006. The Company expects that AH Bank will hold mortgages, consumer loans and securities as its primary assets and fund its holdings through deposits, including escrow balances. Although AH Bank is not expected to have a significant impact on the Company's financial results in the near future, the Company expects that, over time, AH Bank will diversify its sources of earnings and revenues, enabling it to become a more diversified, multi-dimensional financial services company. In particular, the Company expects to leverage its customer acquisition costs by offering mortgages, deposit accounts and additional lines of consumer credit to its existing customers and the general public.

Financial Information About Industry Segments

We primarily conduct our business in four principal segments: mortgage holdings, loan origination, loan servicing and banking. The business conducted by each segment is described above under "Description of Our Business." Additional financial information regarding our business segments as of December 31, 2006, December 31, 2005, and December 31, 2004, and for the years ended December 31, 2006, December 31, 2005, and December 31, 2004, is set forth in Note 24 to Consolidated Financial Statements, entitled "Segments and Related Information," and is incorporated herein by reference.

Hedging Activities

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

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

Government Regulation

The Company's loan origination and loan servicing segments are subject to extensive and complex rules and regulations of, and examinations by, various federal, state, and local government authorities and government sponsored enterprises, including, without limitation, HUD, FHA, VA, Fannie Mae, Freddie Mac and Ginnie Mae.

Table of Contents

These rules and regulations impose obligations and restrictions on the Company's loan origination and credit activities, including, without limitation, the processing, underwriting, making, selling, securitizing and servicing of mortgage loans.

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

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

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

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

The Company also is performing various mortgage-related operations on the Internet. The Internet, and the laws, rules and regulations related to it, are relatively new and still evolving. As such, there exist many opportunities for the Company's business operations on the Internet to be challenged or to become subject to legislation, any of which may materially and adversely affect its business, financial condition and results of operations.

Information Systems

The Company's loan origination enterprise system controls most aspects of the Company's loan origination operations, from the processing of a loan application through the closing of the loan and the sale of the loan to institutional investors. The system also performs checks and balances on many aspects of the Company's operations and supports the Company's marketing efforts. The Company's enterprise system functions on a wide

Table of Contents

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

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

Seasonality

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

Competition

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

Employees

We recruit, hire and retain individuals with the specific skills that complement our corporate growth and business strategies. As of December 31, 2006, we employed 7,409 employees.

Table of Contents

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

General

AHM Investment elected to be treated as a REIT for federal income tax purposes in the federal income tax return for its first taxable year ending December 31, 2003. In brief, if AHM Investment meets certain detailed conditions imposed by the REIT provisions of the Internal Revenue Code of 1986, as amended (the "Code"), including a requirement that we invest primarily in qualifying REIT assets (which generally include real estate and mortgage loans) and a requirement that we satisfy certain income tests, AHM Investment will not be taxed at the corporate level on the income that we currently distribute to our stockholders. Therefore, to this extent, AHM Investment's stockholders will avoid double taxation, at the corporate level and then again at the stockholder level when the income is distributed, that they would otherwise experience if AHM Investment failed to qualify as a REIT.

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

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

Requirements for Qualification as a REIT

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

Ownership of Common Stock

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

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

Nature of Assets

On the last day of each calendar quarter, at least 75% of the value of our assets and any assets held by a QRS must consist of qualified REIT assets (primarily, real estate and mortgages secured by real estate) ("Qualified REIT Assets"), government assets, cash and cash items. We expect that substantially all of our assets

Table of Contents

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

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

Sources of Income

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

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

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

Distributions

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

Taxation of Stockholders

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

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

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

Table of Contents

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

Taxation of AHM Investment

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

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

The value of, and return from, the mortgage-backed securities we hold may be volatile and will be affected by changes in the marketplace for mortgage-backed securities and debt securities in general, as well as market interest rates. The impact of changes in the marketplace for mortgage-backed securities and debt securities on our

Table of Contents

results will be magnified because our mortgage-backed securities holdings are highly leveraged. Additionally, much of the financing we use to hold our mortgage-backed securities is cancelable by our lenders on short notice. If our lenders cease to provide financing to us on favorable terms, we would be forced to liquidate some or all of our mortgage-backed securities, possibly at a substantial loss.

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

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

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

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

our repurchase facilities, warehouse lines of credit, mortgage servicing credit facilities and our commercial paper program;

the net interest income we earn on our mortgage asset holdings;

the income we earn from originating and selling mortgage loans; and

the income we earn from servicing mortgage loans.

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

As of December 31, 2006, we financed loans through eight warehouse lines of credit. Each of these facilities is cancelable by the lender for cause at any time. As of December 31, 2006, the aggregate balance outstanding under these facilities was approximately \$1.3 billion. Seven of these facilities are subject to periodic renewal and one has no expiration date. We cannot provide any assurances that we will be able to extend these existing facilities on favorable terms, or at all. If we are not able to renew any of these credit facilities or arrange for new financing on terms acceptable to us, or if we default on our covenants or are otherwise unable to access funds under any of these facilities, we may not be able to originate new loans or continue to fund our operations, which would have a material adverse effect on our business, financial condition, liquidity and results of operations.

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

Table of Contents

We may not be able to achieve our optimal leverage.

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

we determine that the leverage would expose us to excessive risk;

our lenders do not make funding available to us on acceptable terms; or

our lenders require that we provide additional collateral to cover our borrowings.

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

restrict our ability to make certain investments or acquisitions; and

restrict our ability to engage in certain mergers or consolidations.

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

When we originate mortgage loans, we rely heavily upon information supplied by third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the mortgage broker, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation, the persons and entities involved are often difficult to locate and it is often difficult to collect any monetary losses that we have suffered from the misrepresentation.

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

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

As of December 31, 2006, the value on our balance sheet of our residual interests from securitization transactions was \$206.1 million. The value of these residuals is a function of the forecasted delinquency, loss, prepayment speed and discount rate assumptions we use. It is extremely difficult to validate the assumptions we use in valuing our residual interests. In the future, if our actual experience differs materially from these assumptions, our cash flow, financial condition, results of operations and business prospects could be harmed.

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

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

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

Table of Contents

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

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

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

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

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

AHM Holdings has completed multiple acquisitions over the past few years, and we from time to time will continue to consider additional strategic acquisitions of mortgage lenders and other mortgage banking and finance-related companies. Upon completion of an acquisition, we are faced with the challenges of integrating the operations, services, products, personnel and systems of acquired companies into our business, identifying and eliminating duplicated efforts and systems and incorporating different corporate strategies, addressing unanticipated legal liabilities and other contingencies, all of which divert management's attention from ongoing business operations. Any acquisition we make may also result in potentially dilutive issuances of equity securities, the incurrence of additional debt and the amortization of expenses related to goodwill and other intangible assets. We may not be successful in integrating any acquired business effectively into the operations of our business. In addition, there is substantial competition for acquisition opportunities in the mortgage industry. This competition could result in an increase in the price of, and a decrease in the number of, attractive acquisition candidates. As a result, we may not be able to successfully acquire attractive candidates on terms we deem acceptable. We may not be able to overcome the risks associated with acquisitions and such risks may adversely affect our growth and results of operations.

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

over the activities of the independent mortgage brokers from whom we obtain our wholesale loans. Nevertheless, we may be subject to claims for fines or other penalties based upon the conduct of our independent mortgage brokers.

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

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

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

In 2006, 49% of the loans that we sold were to three large national financial institutions, two of which compete with us directly for retail originations. If these financial institutions or any other significant purchaser of our loans cease to buy our loans and equivalent purchasers cannot be found on a timely basis, then our business and results of operations could be harmed. Our results of operations could also be harmed if these financial institutions or other purchasers lower the price they pay to us or adversely change the material terms of their loan purchases from us. The prices at which we sell our loans vary over time. A number of factors determine the price we receive for our loans. These factors include:

the number of institutions that are willing to buy our loans;

the amount of comparable loans available for sale;

the levels of prepayments of, or defaults on, loans;

the types and volume of loans that we sell;

the level and volatility of interest rates; and

the quality of our loans.

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

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

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

Our ability to generate revenue through mortgage sales to institutional investors largely depends on programs sponsored by Fannie Mae, Freddie Mac, Ginnie Mae and others which facilitate the issuance of mortgage-backed securities in the secondary market. A portion of our business also depends on various programs of the Federal Housing Administration (FHA) and the Veterans Administration (VA). Any discontinuation of, or

Table of Contents

significant reduction in, the operation of those programs could have a material adverse effect on our mortgage banking business and results of operations. Also, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these entities would reduce our revenues.

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

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

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

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

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

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

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

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

In the course of our business, at various times, we may foreclose and take title (for security purposes) to residential properties and could be subject to environmental liabilities with respect to such properties. To date,

Table of Contents

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

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

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

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

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

Classified Board of Directors. Our Board of Directors is divided into three classes with staggered terms of office of three years each. The classification and staggered terms of office of our directors make it more difficult for a third party to gain control of our Board of Directors. At least two annual meetings of stockholders, instead of one, generally would be required to effect a change in a majority of our Board of Directors.

Removal of Directors. Under our charter, subject to any rights of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed only for cause and only by the affirmative vote of at least two-thirds of all votes entitled to be cast by our stockholders generally in the election of directors.

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

Stockholder Requested Special Meetings. Our bylaws provide that our stockholders have the right to call a special meeting only upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast by the stockholders at such meeting.

Advance Notice Provisions for Stockholder Nominations and Proposals. Our bylaws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of stockholders. This bylaw provision limits the ability of stockholders to make nominations of persons for election as directors or to introduce other proposals unless we are notified in a timely manner prior to the meeting.

Table of Contents

Exclusive Authority of Our Board to Amend the Bylaws. Our bylaws provide that our Board of Directors has the exclusive power to adopt, alter or repeal any provision of the bylaws or to make new bylaws. Thus, our stockholders may not effect any changes to our bylaws.

Preferred Stock. Under our charter, our Board of Directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of our stockholders. The issuance of shares of preferred stock could adversely impact the voting power of the holders of common stock and could have the effect of delaying or preventing a change in control or other corporate action.

Duties of Directors with Respect to Unsolicited Takeovers. Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to (i) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (ii) authorize the corporation to redeem any rights under, or modify or render inapplicable, any stockholders' rights plan, (iii) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act (to the extent either Act is otherwise applicable), or (iv) act or fail to act solely because of the effect that the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, under Maryland law, the act of the directors of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

Ownership Limit. In order to preserve our status as a REIT under the Code, our charter prohibits (with certain exceptions) any single stockholder, or any group of affiliated stockholders, from beneficially owning more than (i) 6.5% of our outstanding common stock, or more than 6.5% of our outstanding common and preferred stock, (ii) more than 9.8% of either the total number or the value of the total number of outstanding shares of the Series A Preferred Stock or (iii) more than 9.8% of either the total number or the value of the total number of outstanding shares of the Series B Preferred Stock, unless and to the extent to which our Board of Directors decides to waive or modify this ownership limit.

Maryland Business Combination Act. The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares of stock and other specified transactions, with an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding stock of a Maryland corporation. Our Board of Directors has adopted a resolution exempting the company from this statute. However, our Board of Directors may repeal or modify this resolution in the future, in which case the provisions of the Maryland Business Combination Act will be applicable to business combinations between us and other persons.

Maryland Control Share Acquisition Act. Maryland law provides that control shares of a corporation acquired in a control share acquisition shall have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. Control shares means shares of stock that, if aggregated with all other shares of stock previously acquired by the acquiror, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of the voting power: one-tenth or more but less than one-third, one-third or more but less than a majority or a majority or more of all voting power. A control share acquisition means the acquisition of control shares, subject to certain exceptions. If voting rights or control shares acquired in a control share acquisition are not approved at

Table of Contents

a stockholders' meeting, then subject to certain conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights. Our bylaws contain a provision exempting acquisitions of our shares from the Maryland Control Share Acquisition Act. However, our Board of Directors may amend our bylaws in the future to repeal or modify this exemption, in which case any control shares of ours acquired in a control share acquisition will be subject to the Maryland Control Share Acquisition Act.

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

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

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

Risks Relating to Our Status as a REIT

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

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

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

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

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

Table of Contents

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

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

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

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

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

Risks Related to Our Capital Stock

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

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

all of the risk factors described in this report;

actual or anticipated variations in our quarterly results;

changes in our level of dividend payments;

changes in the value of our mortgage holdings and related liabilities;

changes in the prospects for, or results from, our mortgage holdings, mortgage origination or mortgage servicing businesses;

new products or services offered by us or our subsidiaries and our competitors;

our actual results being different from our earnings guidance or other projections;

changes in projections of our financial results by securities analysts;

Table of Contents

general conditions or trends in the mortgage holding, mortgage origination and mortgage servicing businesses;

announcements by us of significant acquisitions, strategic relationships, investments or joint ventures;

negative changes in the public's perception of the prospects for returns from holding mortgage assets and from the mortgage origination and servicing businesses, which could depress our stock price, regardless of actual results;

interest rate fluctuations or general economic conditions, such as inflation or a recession;

any obstacles in continuing to qualify as a REIT, including obstacles due to changes in law applicable to REITs;

additions or departures of our key personnel; and

issuing new securities.

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

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

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

The amount of our dividends may be less than projected.

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

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

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

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

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

Edgar Filing: AMERICAN HOME MORTGAGE INVESTMENT CORP - Form 10-K

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

Table of Contents

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

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

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

Under our charter, the Company's founder, our Chief Executive Officer and President, Michael Strauss, is exempted from the general ownership limitation that applies to holders of our securities in connection with maintaining our status as a REIT and is permitted to beneficially own up to 20% of the value of the total number of our outstanding common and preferred shares of stock. As of December 31, 2006, Mr. Strauss beneficially owned approximately 9.0% of our outstanding common stock. Accordingly, Mr. Strauss has the ability to influence any of our affairs requiring stockholder approval, including, for example, the election and removal of directors, amendments to our charter and approval of significant corporate transactions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices and principal administrative offices occupy approximately 140,000 square feet located at 538 Broadhollow Road, Melville, New York 11747, an office building that we purchased on November 25, 2003.

In addition, we own an office building located at 950 North Elmhurst Road, Mt. Prospect, Illinois 60056, which consists of approximately 36,000 square feet, and which serves as the headquarters for our Eastern Retail Sales Division.

As of December 31, 2006, the Company leased real estate premises at an additional 641 locations in 47 states, ranging in size from 100 to 79,810 square feet with remaining lease terms ranging from one month to eight years. The aggregate annual rent for these locations is approximately \$41 million.

These properties are primarily utilized by the Company's loan origination segment. The Company's loan servicing segment primarily operates out of the Company's Irving, Texas, servicing center.

ITEM 3. LEGAL PROCEEDINGS

None.

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

We did not submit any matter to a vote of our security holders during the quarter ended December 31, 2006.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

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

The following table shows the high, low and closing sales prices for our common stock during each fiscal quarter during the years ended December 31, 2006 and 2005 and the cash distributions per share declared during each such period:

	Stock Prices			Cash Distributions
	High	Low	Close	Declared Per Share
Year Ended December 31, 2006				
Fourth Quarter	\$ 36.40	\$ 32.17	\$ 35.12	\$ 1.06
Third Quarter	36.96	30.16	34.87	1.01
Second Quarter	36.90	30.01	36.86	0.96
First Quarter	33.99	27.40	31.21	0.91
Year Ended December 31, 2005				
Fourth Quarter	\$ 33.98	\$ 25.45	\$ 32.57	\$ 0.91
Third Quarter	40.75	28.45	30.30	0.86
Second Quarter	36.92	26.87	34.96	0.76
First Quarter	34.28	26.80	28.64	0.71

As of February 22, 2007, the closing sales price of our common stock, as reported on the NYSE, was \$30.01. As of February 22, 2007, there were 537 holders of record of our common stock.

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

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

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans as of December 31, 2006 is disclosed in Item 12 of this report, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Table of Contents*Performance Graph*

The following graph compares the performance of an investment in the Company's Common Stock over the last five fiscal years with the S&P 500 Index and a peer group selected by management. From December 31, 2001, to December 3, 2003, prior to the Company's conversion into a REIT, the peer group includes Countrywide Financial Corp., Flagstar Bancorp, Inc., Irwin Financial Corporation, E Loan, Inc., and Finet.com, Inc. (this peer group also previously included Resource Bancshares Mortgage Group Inc., which was acquired in May 2002 and thus is no longer included). From December 3, 2003, to December 31, 2006, in light of the Company's internal reorganization and conversion into a REIT, the peer group includes Countrywide Financial Corp., Flagstar Bancorp, Inc., Thornburg Mortgage, Inc., Redwood Trust, Inc., and Annaly Mortgage Management, Inc. The performance graph assumes the value of the investment in the Company's Common Stock and each index was \$100 on December 31, 2001, and that all dividends have been reinvested. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

Date	Cumulative Total Return		
	AHMH/AHM (1)	S&P 500 Index	Peer Group Index
December 31, 2001	\$ 100.00	\$ 100.00	\$ 100.00
December 31, 2002	92.35	77.90	127.43
December 31, 2003	199.06	95.84	262.42
December 31, 2004	322.29	111.15	356.05
December 31, 2005	335.26	116.61	318.48
December 31, 2006	404.94	135.03	398.36

- (1) As described above, from December 31, 2001, to December 3, 2003, the results in the table relate to AHM Holdings. From December 3, 2003, until December 31, 2006, the results in the table relate to AHM Investment Corp. AHM Investment's Common Stock began trading on the NYSE under the symbol AHH on December 4, 2003, and its symbol on the NYSE was changed to AHM as of June 1, 2004. Through December 3, 2003, AHM Holdings' common stock was traded on the Nasdaq National Market under the symbol AHMH.

Table of Contents

Recent Issuances of Unregistered Securities

During the quarter ended December 31, 2006, the Company did not issue any securities that were not registered under the Securities Act of 1933, as amended (the Securities Act).

Issuer Purchases of Equity Securities

During the quarter ended December 31, 2006, there were no purchases by the Company of its equity securities.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 have been derived from our audited consolidated financial statements, beginning on page F-1 of this report. The selected financial data as of December 31, 2004, 2003 and 2002 and for the years ended December 31, 2003 and 2002 have been derived from prior year audited consolidated financial statements. The selected consolidated financial data as of and for each of the years in the two-year period ended December 31, 2002 is derived from the consolidated financial statements of AHM Holdings. These consolidated financial statements include all adjustments which we consider necessary for a fair presentation of our consolidated financial position and results of operations for these periods. You should not assume that the results below indicate results that we will achieve in the future. The operating data are derived from unaudited financial information that we compiled.

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

Table of Contents

	As of and for the Years Ended December 31,				
(In thousands, except per share data)	2006	2005	2004	2003	2002
Statement of Income Data:					
Net interest income	\$ 182,455	\$ 201,032	\$ 112,933	\$ 49,031	\$ 24,837
Provision for loan losses	(17,380)	(2,142)			
Gain on sales of mortgage loans	810,006	335,065	134,099	376,605	216,595
Gain on sales of current period securitized mortgage loans		194,256	40,120	149	
Gain on sales of mortgage-backed securities and derivatives	12,257	50,936	63	2,210	
Unrealized (loss) gain on mortgage-backed securities and derivatives	(7,028)	(8,536)	75,460	3,272	
Net loan servicing fees (loss)	37,320	15,561	(4,467)	(6,365)	(12,758)
Total revenues (1)	1,026,444	793,947	365,241	432,131	232,821
Total non-interest expenses	678,288	550,882	315,904	310,114	165,261
Income before income tax expense (benefit)	348,156	243,065	49,337	122,017	67,560
Income tax expense (benefit)	84,629	(17,721)	(25,575)	48,223	28,075
Net income	263,527	260,786	74,912	73,794	39,485
Net income available to common shareholders	250,309	247,569	70,924	73,794	39,485
Per share data:					
Basic earnings per share	\$ 5.00	\$ 5.64	\$ 1.89	\$ 4.16	\$ 2.72
Diluted earnings per share	4.96	5.58	1.86	4.07	2.65
Dividends declared per common share	3.94	3.24	2.43	0.91	0.15
Dividend payout ratio (2)	79.44%	58.06%	130.65%	22.36%	5.66%
Weighted average number of shares outstanding:					
Basic	50,030	43,897	37,612	17,727	14,509
Diluted	50,421	44,375	38,087	18,113	14,891
Balance Sheet Data and Ratios (end of period):					
Cash and cash equivalents	\$ 398,166	\$ 575,650	\$ 192,821	\$ 53,148	\$ 24,416
Securities	9,308,032	10,602,115	6,016,866	1,763,628	
Mortgage loans held for sale, net	1,523,737	2,208,749	4,853,394	1,216,353	811,188
Mortgage loans held for investment, net	6,329,721	3,479,721			
Mortgage servicing rights, net	506,341	319,671	151,436	117,784	109,023
Total assets	18,828,985	17,754,745	11,555,797	3,404,690	1,119,050
Warehouse lines of credit	1,304,541	3,474,191	735,783	1,121,760	728,466
Commercial paper	1,273,965	1,079,179	529,790		
Reverse repurchase agreements	8,571,459	9,806,144	7,071,168	1,344,327	
Collateralized debt obligations	4,854,801	1,057,906	2,022,218		
Total liabilities	17,558,699	16,547,729	10,729,535	3,006,720	954,954
Total stockholders' equity	1,270,286	1,207,016	826,262	397,970	164,096
Debt to stockholders' equity ratio (3)	13.22	13.22	12.73	6.51	5.11
Stockholders' equity to assets	6.75%	6.80%	7.15%	11.69%	14.66%
Performance Ratios:					
Return on average assets (ROA)	1.25%	1.88%	0.85%	3.86%	5.28%
Return on average common equity (ROE) (4)	22.74%	28.05%	10.58%	34.11%	32.52%
Operating Data:					
Loan originations	\$ 58,899,354	\$ 45,298,006	\$ 23,069,085	\$ 21,705,250	\$ 12,196,000
Retail	20,802,657	20,362,095	11,238,235	16,386,791	10,329,000
Wholesale	32,227,235	24,298,621	11,830,850	5,318,459	1,867,000
Correspondent	5,869,462	637,290			
Loans sold to third parties	55,974,228	28,465,935	13,685,246	20,758,110	12,331,000
Loan servicing portfolio loans sold or securitized	38,480,246	25,044,676	11,955,608	8,272,294	8,541,723
Loans securitized and held		4,498,672	1,847,987	586,573	

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

(2) This ratio is calculated by dividing dividends declared per common share by diluted earnings per share.

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

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

Table of Contents

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

We enter into interest rate swap agreements to manage our interest rate exposure when financing our mortgage-backed securities and certain ARM loans. Certain swap agreements accounted for as cash flow hedges

Table of Contents

and certain swap agreements not designated as cash flow hedges are both carried on the balance sheet at fair value. The fair values of our swap agreements are generally based on market prices provided by certain dealers who make markets in these financial instruments or by third-party pricing services.

We use agency trust principal only total return swaps and swaptions to economically hedge our MSRs. Our total return swaps and swaptions are classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

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

Table of Contents**Financial Condition**

The following table presents our consolidated balance sheets as of December 31, 2006 and 2005:

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

(In thousands)

	December 31,	
	2006	2005
Assets:		
Cash and cash equivalents	\$ 398,166	\$ 575,650
Accounts receivable and servicing advances	432,418	329,132
Securities	9,308,032	10,602,115
Mortgage loans held for sale, net	1,523,737	2,208,749
Mortgage loans held for investment, net	6,329,721	3,479,721
Derivative assets	32,142	44,594
Mortgage servicing rights	506,341	319,671
Premises and equipment, net	86,211	68,782
Goodwill	133,128	99,527
Other assets	79,089	26,804
Total assets	\$ 18,828,985	\$ 17,754,745
Liabilities and Stockholders' Equity:		
Liabilities:		
Warehouse lines of credit	\$ 1,304,541	\$ 3,474,191
Commercial paper	1,273,965	1,079,179
Reverse repurchase agreements	8,571,459	9,806,144
Deposits	24,016	
Collateralized debt obligations	4,854,801	1,057,906
Payable for securities purchased	289,716	261,539
Derivative liabilities	12,644	16,773
Trust preferred securities	336,078	203,688
Accrued expenses and other liabilities	361,923	298,230
Notes payable	417,467	319,309
Income taxes payable	112,089	30,770
Total liabilities	17,558,699	16,547,729
Stockholders' Equity:		
Preferred Stock	134,040	134,040
Common Stock	502	496
Additional paid-in capital	963,617	947,512
Retained earnings	257,283	203,778
Accumulated other comprehensive loss	(85,156)	(78,810)
Total stockholders' equity	1,270,286	1,207,016
Total liabilities and stockholders' equity	\$ 18,828,985	\$ 17,754,745

Total assets at December 31, 2006 were \$18.83 billion, a \$1.07 billion increase from \$17.76 billion at December 31, 2005. The increase in total assets primarily reflects an increase in mortgage loans held for investment of \$2.85 billion, partially offset by a decrease in securities of \$1.29 billion and a decrease in mortgage

Table of Contents

loans held for sale of \$685.0 million. At December 31, 2006, 49.4% of our total assets were securities, 33.6% were mortgage loans held for investment and 8.1% were mortgage loans held for sale, compared to 59.7%, 19.6% and 12.4%, respectively, at December 31, 2005.

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

	Trading Securities		December 31, 2006 Securities Available for Sale		Total	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
			(Dollars in thousands)			
Agency securities	\$	%	\$ 212,591	2.5%	\$ 212,591	2.3%
Privately issued:						
AAA	267,093	32.8	8,260,110	97.3	8,527,203	91.6
AA	47,500	5.8	7,380	0.1	54,880	0.6
A	166,635	20.5	4,196	0.0	170,831	1.8
BBB	128,023	15.7	1,646	0.0	129,669	1.4
BB	4,666	0.6			4,666	0.1
Unrated	199,666	24.6	5,044	0.1	204,710	2.2
Total	\$ 813,583	100.0%	\$ 8,490,967	100.0%	\$ 9,304,550	100.0%

	Trading Securities		December 31, 2005 Securities Available for Sale		Total	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
			(Dollars in thousands)			
Agency securities	\$	%	\$ 130,320	1.8%	\$ 130,320	1.2%
Privately issued:						
AAA	2,619,546	81.1	7,216,527	97.9	9,836,073	92.8
AA	47,253	1.5	9,989	0.1	57,242	0.5
A	166,507	5.2	7,558	0.1	174,065	1.6
BBB	164,344	5.1	3,441	0.0	167,785	1.7
Unrated	229,418	7.1	7,201	0.1	236,619	2.2
Total	\$ 3,227,068	100.0%	\$ 7,375,036	100.0%	\$ 10,602,104	100.0%

Table of Contents

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

	December 31, 2006 Securities					
	Trading Securities		Available for Sale		Total	
	Carrying Value	Portfolio Mix	Carrying Value (Dollars in thousands)	Portfolio Mix	Carrying Value	Portfolio Mix
Index:						
One-month LIBOR	\$ 361,116	44.4%	\$ 105,955	1.2%	\$ 467,071	5.0%
Six-month LIBOR	208,689	25.7	4,254,594	50.1	4,463,283	48.0
One-year LIBOR	198,613	24.4	3,704,981	43.6	3,903,594	42.0
One-year constant maturity treasury	349	0.0	335,599	4.0	335,948	3.6
One-year monthly treasury average	44,816	5.5	89,838	1.1	134,654	1.4
Total	\$ 813,583	100.0%	\$ 8,490,967	100.0%	\$ 9,304,550	100.0%

	December 31, 2005 Securities					
	Trading Securities		Available for Sale		Total	
	Carrying Value	Portfolio Mix	Carrying Value (Dollars in thousands)	Portfolio Mix	Carrying Value	Portfolio Mix
Index:						
One-month LIBOR	\$ 402,311	12.5%	\$ 10,836	0.1%	\$ 413,147	3.9%
Six-month LIBOR	2,538,016	78.6	4,838,532	65.6	7,376,548	69.6
One-year LIBOR	218,530	6.8	2,128,376	28.9	2,346,906	22.1
One-year constant maturity treasury	2,054	0.1	397,292	5.4	399,346	3.8
One-year monthly treasury average	66,157	2.0			66,157	0.6
Total	\$ 3,227,068	100.0%	\$ 7,375,036	100.0%	\$ 10,602,104	100.0%

Table of Contents

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

	December 31, 2006							
	Securities				Loans Held			
	Trading Securities Carrying Value	Portfolio Mix	Available for Sale Carrying Value	Portfolio Mix	for Investment Carrying Value	Portfolio Mix	Total Carrying Value	Portfolio Mix
(Dollars in thousands)								
Product:								
ARMs less than								
3 years	\$ 601,468	73.9%	\$ 369,835	4.4%	\$ 3,088,408	48.8%	\$ 4,059,711	26.0%
3/1 Hybrid ARM	141,224	17.4	138,268	1.6	41,245	0.7	320,737	2.0
5/1 Hybrid ARM	70,891	8.7	6,592,347	77.6	374,641	5.9	7,037,879	45.0
7/1 Hybrid ARM			1,390,517	16.4			1,390,517	8.9
Home equity/Second					208,299	3.3	208,299	1.3
Other ARM					482,067	7.6	482,067	3.1
Fixed rate					2,135,061	33.7	2,135,061	13.7
Total	\$ 813,583	100.0%	\$ 8,490,967	100.0%	\$ 6,329,721	100.0%	\$ 15,634,271	100.0%

	December 31, 2005							
	Securities				Loans Held			
	Trading Securities Carrying Value	Portfolio Mix	Available for Sale Carrying Value	Portfolio Mix	for Investment Carrying Value	Portfolio Mix	Total Carrying Value	Portfolio Mix
(Dollars in thousands)								
Product:								
ARMs less than								
3 years	\$ 700,164	21.7%	\$ 487,122	6.6%	\$ 2,628,977	75.6%	\$ 3,816,263	27.1%
3/1 Hybrid ARM	194,313	6.0	262,598	3.6	11,563	0.3	468,474	3.3
5/1 Hybrid ARM	2,332,591	72.3	6,625,316	89.8	121,227	3.5	9,079,134	64.5
Home equity/Second					611,370	17.6	611,370	4.3
Other					106,584	3.0	106,584	0.8
Total	\$ 3,227,068	100.0%	\$ 7,375,036	100.0%	\$ 3,479,721	100.0%	\$ 14,081,825	100.0%

During the year ended December 31, 2006, we purchased \$4.9 billion of mortgage-backed securities.

During the year ended December 31, 2006, we sold \$3.9 billion of mortgage-backed securities.

During the year ended December 31, 2006, we added \$4.1 billion of loans held for investment to our portfolio.

Table of Contents

Results of Operations

The following tables present our consolidated and segment statements of income for the years ended December 31, 2006, 2005 and 2004:

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Year Ended December 31,		
	2006	2005	2004
Net interest income:			
Interest income	\$ 1,328,494	\$ 727,685	\$ 314,306
Interest expense	(1,146,039)	(526,653)	(201,373)
Total net interest income	182,455	201,032	112,933
Provision for loan losses	(17,380)	(2,142)	
Total net interest income after provision for loan losses	165,075	198,890	112,933
Non-interest income:			
Gain on sales of mortgage loans	810,006	335,065	134,099
Gain on sales of current period securitized mortgage loans		194,256	40,120
Gain on sales of mortgage-backed securities and derivatives	12,257	50,936	63