NEW YORK MORTGAGE TRUST INC
Form 10-K
March 16, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2005

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

For the Transition Period From to

Commission File Number 001-32216

NEW YORK MORTGAGE TRUST, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Yes £ No R

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

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

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

Large Accelerated Filer £ Accelerated Filer R Non-Accelerated Filer £

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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FORM 10-K

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PART I

Item 1. *BUSINESS*

General

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

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

- focusing on originating high credit quality residential mortgage loans through NYMC that we believe can either be retained in our portfolio or sold at a profit;

- focusing on maximizing our lending to home buyers rather than to home owners seeking to refinance their mortgage loans, which we believe makes our business less vulnerable to declines in loan origination volume resulting from increases in interest rates;

- leveraging our portfolio to increase its size with the intent to enhance our returns while at the same time managing the increased risk of loss associated with this leverage;

- utilizing hedging strategies that we consider appropriate to minimize exposure to interest rate changes; and

- expanding our retail and wholesale mortgage banking business through the hiring of additional loan officers, the opening of new retail branch offices in new markets and selectively pursuing strategic acquisitions in the mortgage banking industry.

In order to be a full service provider to our customers, we originate mortgage loans through NYMC. Licensed or exempt from licensing in 43 states and the District of Columbia and through a network of 28 full service branch loan

origination locations and 26 satellite loan origination locations, NYMC offers a broad range of residential mortgage products, with a primary focus on prime, or high credit quality, residential mortgage loans. We either sell the fixed-rate loans that we originate to third parties and retain and finance in our portfolio selected adjustable-rate and hybrid mortgage loans that we originate or we sell them to third parties. Our portfolio of loans is held at the real estate investment trust ("REIT") level or by a qualified REIT subsidiary ("QRS"). We rely on our own underwriting criteria with respect to the mortgage loans we retain and rely on the underwriting criteria of the institutions to which we sell our loans with respect to the loans we intend to sell. In either case, we directly perform the underwriting of such loans with our own experienced underwriters.

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

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

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

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

Access to our Periodic SEC Reports and Other Corporate Information

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

Corporate Governance

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

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

- We have adopted a Code of Business Conduct and Ethics and Corporate Governance Guidelines that apply to all officers, directors and employees (as well as a supplemental Code of Ethics for Senior Financial Officers) to promote

the highest standard of conduct and ethics in our dealings with our customers, stockholders, vendors, the public and our employees.

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

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

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

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

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Company History

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

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

Our Industry

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

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

similar investments because they are subject to federal income tax on their earnings.

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

Operating Policies, Strategies and Business Segments

The Company operates two segments:

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

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

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

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

Mortgage Portfolio Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Mortgage Lending

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

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

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

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

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

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

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

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

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

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

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

rates. In addition, we believe that our referral-based business results in relatively higher gross margins and lower advertising costs and loan generation expenses than most other mortgage companies whose business is not referral-based.

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

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

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

Retail Loan Origination

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

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

sold to third parties, while at the same time offering our customers a variety of mortgage products at competitive rates and fees.

Wholesale Loan Origination

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

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Correspondent Lending

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

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

Underwriting

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

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

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

The key aspects of our underwriting guidelines are as follows:

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

our experience, more than 95% of prospective borrowers have accessible credit histories.

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

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

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

Our Loan Origination Financing Strategy

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

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

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

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

Loan Servicing

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

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

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

own) a loan and sell the loan to a third party, we service loans through Cenlar as well.

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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