

AMERICAN HOME MORTGAGE INVESTMENT CORP
Form 10-Q
November 09, 2004

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004.

OR

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

For the transition period from _____ to _____.

Commission File Number: 001-31916

AMERICAN HOME MORTGAGE INVESTMENT CORP.

(Exact Name of Registrant as Specified in its Charter)

Maryland

20-0103914

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

520 Broadhollow Road, Melville, New York

11747

(Address of Principal Executive Offices)

(Zip Code)

(516) 949-3900

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 5, 2004, there were 40,195,686 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

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CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands, except per share amounts)

	September 2004
Assets:	
Cash and due from banks	\$ 118,
Money market investments	68,
Cash and cash equivalents	186,
Accounts receivable and servicing advances	101,
Mortgage-backed securities (including securities pledged of \$7,036,293 and \$1,426,477 as of September 30, 2004 and December 31, 2003, respectively)	7,331,
Mortgage loans held for sale, net	1,131,
Derivative assets	11,
Mortgage servicing rights, net	160,
Premises and equipment, net	47,
Goodwill	89,
Other assets	16,
Total assets	\$ 9,076,
Liabilities and Stockholders' Equity:	
Liabilities:	
Warehouse lines of credit	\$ 547,
Drafts payable	45,
Commercial paper	462,
Reverse repurchase agreements	6,899,
Payable for securities purchased	
Derivative liabilities	18,
Accrued expenses and other liabilities	154,
Notes payable	128,
Income taxes payable	30,
Total liabilities	8,286,
Commitments and contingencies	
Stockholders' Equity:	
9.75% Series A Cumulative Redeemable Preferred Stock: par value \$0.01 per share, 10,000,000 shares authorized, 2,150,000 and 0 shares issued and outstanding as of September 30, 2004 and December 31, 2003, respectively	50,
Common stock: par value \$0.01 per share, 100,000,000 shares authorized, 40,184,333 and 25,270,100 shares issued and outstanding as of September 30, 2004 and December 31, 2003, respectively	
Additional paid-in capital	629,
Retained earnings	151,
Accumulated other comprehensive loss	(41,
Total stockholders' equity	790,
Total liabilities and stockholders' equity	\$ 9,076,

See notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended
	September 30,		
	2004	2003	2004
Net interest income:			
Interest income	\$ 94,298	\$ 29,693	\$ 198,298
Interest expense	(61,405)	(16,009)	(132,405)
Total net interest income	32,893	13,684	65,893
Non-interest income:			
Gain on sales of mortgage loans	28,373	105,577	98,373
Gain on sales of mortgage-backed securities and derivatives	22,341	-	37,341
Unrealized gain on mortgage-backed securities and derivatives	27,069	-	82,069
Loan servicing fees	9,822	8,306	28,328
Amortization of mortgage servicing rights	(7,755)	(14,903)	(22,658)
Impairment (provision) recovery of mortgage servicing rights	(4,807)	7,825	(10,982)
Net loan servicing (loss) fees	(2,740)	1,228	(4,512)
Other non-interest income	3,349	1,423	5,172
Total non-interest income	78,392	108,228	218,392
Non-interest expenses:			
Salaries, commissions and benefits, net	46,482	62,698	128,482
Occupancy and equipment	9,984	7,340	26,984
Data processing and communications	3,745	3,682	10,745
Office supplies and expenses	3,012	3,557	9,012
Marketing and promotion	2,610	3,232	7,610
Travel and entertainment	3,620	3,122	9,620
Professional fees	2,524	2,319	6,524
Other	6,363	5,153	15,363
Total non-interest expenses	78,340	91,103	213,340
Net income before income tax (benefit) expense	32,945	30,809	71,945
Income tax (benefit) expense	(9,998)	12,115	(26,998)
Net income	42,943	18,694	97,943

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Dividends on preferred stock	1,648	-	1
Net income available to common shareholders	\$ 41,295	\$ 18,694	\$ 96
Per share data:			
Basic	\$ 1.03	\$ 1.08	\$
Diluted	\$ 1.02	\$ 1.06	\$
Weighted average number of shares - basic	40,145	17,272	36
Weighted average number of shares - diluted	40,605	17,705	37

See notes to consolidated financial statements.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Co
Balance at January 1, 2003	\$ -	\$ 167	\$ 95,785	\$ 68,144	\$
Comprehensive income:					
Net income	-	-	-	61,884	
Comprehensive income					
Issuance of common stock - earnouts	-	3	3,302	-	
Issuance of common stock - 1999 Omnibus Stock Incentive Plan	-	3	1,933	-	
Issuance of common stock - warrants	-	-	78	-	
Dividends declared on common stock	-	-	-	(4,752)	
Balance at September 30, 2003	\$ -	\$ 173	\$ 101,098	\$125,276	\$
Balance at December 31, 2003	\$ -	\$ 252	\$ 281,432	\$121,029	\$
Comprehensive income:					
Net income	-	-	-	97,648	
Unrealized gain on mortgage-backed securities available for sale	-	-	-	-	
Unrealized loss on cash flow hedges, net of amortization	-	-	-	-	
Comprehensive income					
Issuance of preferred stock - offering	50,857	-	-	-	
Issuance of common stock - offering	-	144	339,647	-	
Issuance of common stock - earnouts	-	2	4,843	-	
Issuance of common stock - 1999 Omnibus Stock Incentive Plan	-	4	2,286	-	

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Tax benefit from stock options exercised	-	-	1,599	-
Dividends declared on preferred stock	-	-	-	(1,648)
Dividends declared on common stock	-	-	-	(65,732)
	-----	-----	-----	-----
Balance at September 30, 2004	\$ 50,857	\$ 402	\$ 629,807	\$151,297
	=====	=====	=====	=====

See notes to consolidated financial statements.

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

	Three Months Ended	
	September 30,	
	2004	2003
	-----	-----
Cash flows from operating activities:		
Net income	\$ 42,943	\$ 18,694
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,151	1,589
Amortization and impairment of mortgage servicing rights	12,562	7,078
Amortization of mortgage-backed securities premiums, net	9,477	-
Amortization of cash flow hedges	(7,019)	-
Gain on sales of mortgage-backed securities and derivatives	(22,341)	-
Unrealized gain on securities held in trading	(23,916)	-
Unrealized loss (gain) on free standing derivatives	20,128	-
Additions to mortgage servicing rights on securitized loans	(27,203)	-
Additions to mortgage servicing rights on sold loans	(3,976)	(27,711)
Decrease (increase) in interest rate lock commitments	7,358	9,605
(Increase) decrease in deferred origination costs	(808)	8,885
(Increase) decrease in SFAS No. 133 basis adjustments	(1,009)	6,064
Other	(2,662)	130
Increase in operating assets:		
Accounts receivable and servicing advances	(616)	(13,773)
Other assets	(2,857)	(2,793)
Increase (decrease) in operating liabilities:		
Accrued expenses and other liabilities	32,761	(14,940)
Income taxes payable	(10,995)	4,249
Forward delivery contracts	(9,004)	11,904
Origination of mortgage loans held for sale	(2,688,820)	(7,052,401)
Proceeds from sales of mortgage loans	2,806,070	7,070,846
	-----	-----
Net cash provided by (used in) operating activities	132,224	27,426
	-----	-----
Cash flows from investing activities:		
Purchases of premises and equipment, net	(5,565)	(2,983)
Origination of mortgage loans held for securitization	(2,603,371)	-
Proceeds from securitizations of mortgage loans	2,779,409	-
Purchases and additions to mortgage-backed securities	(3,317,250)	-
Proceeds from sales of mortgage-backed securities and derivatives	3,008,523	-
Principal repayments on mortgage-backed securities	397,727	-

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Other	-	414
	-----	-----
Net cash provided by (used in) investing activities	259,473	(2,569)
	-----	-----
Cash flows from financing activities:		
(Decrease) increase in warehouse lines of credit	(124,872)	(4,667)
Increase in reverse repurchase agreements	485,518	-
Decrease in payable for securities purchased	(423,909)	-
(Decrease) increase in commercial paper	(584,324)	-
(Decrease) increase in drafts payable	(40,774)	(18,762)
Proceeds from issuance of preferred stock	52,057	-
Proceeds from issuance of capital stock	426	564
Dividends paid	(24,468)	(2,237)
Increase (decrease) in notes payable	21,211	10,994
	-----	-----
Net cash (used in) provided by financing activities	(639,135)	(14,108)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(247,438)	10,749
Cash and cash equivalents, beginning of period	433,918	38,834
	-----	-----
Cash and cash equivalents, end of period	\$ 186,480	\$ 49,583
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 28,887	\$ 10,812
Income taxes paid	996	7,974

See notes to consolidated financial statements.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - On December 3, 2003, American Home Mortgage Investment Corp. ("AHM Investment") completed its merger with Apex Mortgage Capital, Inc. ("Apex"), a Maryland corporation that operated and elected to be treated as a real estate investment trust, or REIT. Under the terms of the transaction, American Home Mortgage Holdings, Inc. ("AHM Holdings") reorganized through a reverse triangular merger that caused AHM Investment, a newly formed Maryland corporation that operates and has elected to be treated as a REIT for federal income tax purposes, to become AHM Holdings' parent. AHM Investment was formed to combine the net assets of Apex, consisting primarily of mortgage-backed securities, with the mortgage origination and servicing businesses of AHM Holdings. As used herein, references to the "Company," "American Home," "we," "our" and "us" refer to AHM Investment collectively with its subsidiaries.

AHM Investment is a mortgage REIT focused on earning net interest income from purchased and self-originated mortgage-backed securities, and through its taxable subsidiaries, on earning income from originating and selling mortgage loans and servicing mortgage loans for institutional investors. Mortgages are originated through a network of loan origination offices as well as through mortgage brokers and are serviced at the Company's Columbia, Maryland servicing center.

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

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

Cash and Due From Banks - Cash and due from banks include cash on hand, amounts due from banks and overnight deposits. The carrying amount of cash and due from banks approximates its fair value.

Money Market Investments - Money market investments include short-term purchases of securities under agreements to resell ("repurchase agreements"). The amount advanced under repurchase agreements approximates its fair value and is reported as an asset on the balance sheet.

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

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

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

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market value is determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate basis.

Mortgage Servicing Rights - Mortgage servicing rights ("MSRs") are carried at the lower of cost or fair value, based on defined risk strata, and are amortized in proportion to and over the period of estimated net servicing income. When the Company sells certain loans and retains the servicing rights, it allocates the cost basis of the loans between the assets sold and the MSRs based on their relative fair values on the date of sale.

The Company estimates the fair value of its MSRs by obtaining market information from one of the primary MSR brokers. When the book value of capitalized MSRs exceeds its fair value, impairment is recognized through a valuation allowance. In determining impairment, our mortgage servicing portfolio is stratified by the predominant risk characteristic of the underlying mortgage loans. The Company has determined that the predominant risk characteristic is the interest rate on the underlying loans. The Company measures impairment for each stratum by comparing the estimated fair value to the recorded book value. Temporary impairment is recorded through a valuation allowance and amortization expense in the period of occurrence. In addition, the Company periodically evaluates its MSRs for other than temporary impairment to determine if the carrying value before the application of the valuation allowance is recoverable. The Company receives a sensitivity analysis of the estimated fair value of its MSRs assuming a 200-basis-point instantaneous increase in interest rates from an independent MSR broker. The fair value estimate includes changes in market assumptions that would be expected given the increase in mortgage rates (e.g., prepayment speeds would be lower). The Company believes this 200-basis-point increase in mortgage rates to be an appropriate threshold for determining the recoverability of the temporary impairment because that size rate increase is foreseeable and consistent with historical mortgage rate fluctuations. When using this instantaneous change in rates, if the fair value of the strata of MSRs is estimated to increase to a point where all of the impairment would be recovered, the impairment is considered to be temporary. When the Company determines that a portion of the MSRs is not recoverable, the related MSRs and the previously established valuation allowance are correspondingly reduced to reflect other than temporary impairment.

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

Goodwill - Goodwill represents the excess purchase price over the fair value of net assets acquired from business acquisitions. The Company tests for impairment at least annually and will test for impairment more frequently if events or circumstances indicate that an asset may be impaired. The Company tests for impairment by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. The discounted cash flow calculation related to the Company's loan origination segment includes a forecast of the expected future loan originations and the related revenues and expenses. The discounted cash flow calculation related to the Company's mortgage-backed securities 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.

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

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

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

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

Interest Rate Lock Commitments. The Company's mortgage committed pipeline includes IRLCs that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria. The Company classifies and accounts for the IRLCs associated with loans expected to be sold or securitized as free-standing derivatives. Accordingly, IRLCs are recorded at fair value with

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changes in fair value recorded to current earnings. The fair value of the IRLCs initiated on or before March 31, 2004 is determined by an estimate of the ultimate gain on sale of the loans, including the value of MSR, net of estimated net costs to originate the loan. In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 105 ("SAB No. 105"), which provided industry guidance that changed the timing of recognition of MSR for IRLCs initiated after March 31, 2004. In SAB No. 105, the SEC stated that the value of expected future cash flows related to servicing rights should be excluded when determining the fair value of derivative IRLCs. Under the new policy, the value of the expected future cash flow related to servicing rights is not recognized until the underlying loans are sold.

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

Forward Delivery Commitments Used to Hedge Mortgage Loans Held for Sale. The Company's risk management objective for its mortgage loans held for sale is to protect earnings from an unexpected charge due to a decline in value. The Company's strategy is to engage in a risk management program involving the use of mortgage forward delivery contracts designated as fair value hedging instruments to hedge 100% of its agency-eligible conforming loans and most of its non-conforming loans held for sale. At the inception of the hedge, to qualify for hedge accounting, the Company formally documents the relationship between the forward delivery contracts and the mortgage inventory as well as its objective and strategy for undertaking the hedge transaction. For conventional

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conforming fixed-rate loans, the notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount of the mortgage inventory being hedged; hence, the forward delivery contracts effectively fix the forward sales price and thereby substantially eliminate interest rate and price risk to the Company. The Company classifies and accounts for these forward delivery contracts as fair value hedges. The derivatives are carried at fair value with the changes in fair value recorded to current earnings. When the hedges are deemed highly effective, the book value of the hedged loans held for sale is adjusted for its change in fair value during the hedge period.

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

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

Gain on Sale of Loans - The Company recognizes gain on sale of loans for the difference between the sales price and the adjusted book value of the loans at

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the time of sale. The adjusted book value of the loans includes the original principal amount plus adjustments related to previously recognized income plus deferrals of fees and points received and direct loan origination costs.

Loan Origination Fees and Direct Origination Costs - The Company records loan fees, discount points and certain direct origination costs as an adjustment of the cost of the loan or security and such amounts are included in revenues when the loan or security is sold. When loans

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are securitized and held as securities available for sale, net deferred origination costs are amortized over the life of the security using the level-yield method and such amounts are included in interest income. When loans are securitized and held as trading securities, net deferred origination costs are an adjustment to the cost of the security and such amounts affect the amount recorded as unrealized gain on mortgage-backed securities and derivatives. Gain on sales of mortgage loans and salaries, commissions and benefits have been reduced by \$71.8 million and \$70.4 million due to direct loan origination costs, including commission costs, incurred for the nine months ended September 30, 2004 and 2003, respectively.

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

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

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

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

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

Stock Option Plans - In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). The Company has elected to account for

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the Plan using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and to provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value based method, as required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123," had been applied. Had compensation cost been determined based on the fair value at the grant dates for awards under the Plan, the Company's net income available to common stockholders would have been \$95.4 million and \$61.4 million for the nine months ended September 30, 2004 and 2003, respectively. Basic earnings per share would have been \$2.60 and \$3.61 for the nine months ended September 30, 2004 and 2003, respectively. Diluted earnings per share would have been \$2.56 and \$3.54 for the nine months ended September 30, 2004 and 2003, respectively.

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(In thousands, except per share data)	Three Months Ended September 30,	
	2004	2003
Net income available to common shareholders - as reported	\$ 41,295	\$18,694
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(272)	(224)
Net income available to common shareholders - pro forma	\$ 41,023	\$18,470
Earnings per share:		
Basic - as reported	\$ 1.03	\$ 1.08
Basic - pro forma	\$ 1.02	\$ 1.07
Diluted - as reported	\$ 1.02	\$ 1.06
Diluted - pro forma	\$ 1.01	\$ 1.04

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

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

Recently Issued Accounting Standards - In March of 2004, the Emerging Issues Task Force ("EITF") reached consensus on the guidance provided in EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." Among other investments, this guidance is applicable to debt and equity securities that are within the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." EITF 03-1

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specifies that an impairment would be considered other-than-temporary unless (a) the investor has the ability and intent to hold an investment for a reasonable period of time sufficient for the recovery of the fair value up to (or beyond) the cost of the investment and (b) evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. A company's liquidity and capital requirements should be considered when assessing its intent and ability to hold an investment for a reasonable period of time that would allow the fair value of the investment to recover up to or beyond its cost. Although not presumptive, a pattern of selling investments prior to the forecasted fair value recovery may call into question a company's intent. In addition, the severity and duration of the impairment should also be considered when determining whether the impairment is other-than-temporary. This new guidance was to be effective for reporting periods beginning after June 15, 2004, but was subsequently deferred to periods ending after December 15, 2004 pending issuance of a Financial Accounting Standards Board Staff Position. The Company is currently evaluating the impact this guidance will have on its process for determining whether other-than-temporary declines exist within its available for sale securities portfolio. Adoption of this guidance may accelerate the recognition of losses from declines in value on available for sale securities due to interest rates; however, it is not anticipated to have a significant impact on stockholders' equity as changes in market value of available for sale securities are already included in "accumulated other comprehensive loss."

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NOTE 2 - MORTGAGE-BACKED SECURITIES

The following table presents the Company's mortgage-backed securities as of September 30, 2004 and December 31, 2003:

(In thousands)	September 30, 2004		
	Trading Securities	Securities Available for Sale	Total Securities
Adjusted cost	\$ 2,651,063	\$ 4,667,454	\$ 7,318,517
Gross unrealized gains	16,074	18,341	34,415
Gross unrealized losses	(5,775)	(15,269)	(21,044)
Fair value	\$ 2,661,362	\$ 4,670,526	\$ 7,331,888
	=====	=====	=====
(In thousands)	December 31, 2003		
	Trading Securities	Securities Available for Sale	Total Securities
Adjusted cost	\$ 476,541	\$ 1,282,523	\$ 1,759,064
Gross unrealized gains	3,382	1,969	5,351
Gross unrealized losses	(110)	(677)	(787)
Fair value	\$ 479,813	\$ 1,283,815	\$ 1,763,628
	=====	=====	=====

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During the quarter ended September 30, 2004, the Company sold \$3.0 billion of mortgage-backed securities and realized \$38.6 million in gains and \$16.3 million in losses, net of associated interest rate swaps.

During the nine months ended September 30, 2004, the Company sold \$4.7 billion of mortgage-backed securities and realized \$58.7 million in gains and \$21.4 million in losses, net of associated interest rate swaps.

The Company's mortgage-backed securities with gross unrealized losses at September 30, 2004 have been in an unrealized loss position for less than six months.

The Company has credit exposure on loans it has securitized. The following table summarizes the loan delinquency information as of September 30, 2004 and December 31, 2003:

September 30, 2004				
(Dollars in thousands)				
Delinquency Status	Loan Count	Loan Balance	Percent of Total Securitizations	Percent of Total
60 to 89 days	24	\$ 5,857	0.20%	
90 and greater days	6	1,580	0.05%	
Foreclosure	13	3,334	0.11%	
	43	\$ 10,771	0.36%	
	=====	=====	=====	=====

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December 31, 2003				
(Dollars in thousands)				
Delinquency Status	Loan Count	Loan Balance	Percent of Total Securitizations	Percent of Total
60 to 89 days	1	\$ 692	0.13%	
	1	\$ 692	0.13%	
	=====	=====	=====	=====

NOTE 3 - MORTGAGE LOANS HELD FOR SALE, NET

The following table presents the Company's mortgage loans held for sale, net, as of September 30, 2004 and December 31, 2003:

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(In thousands)	September 30, 2004	December 31, 2003
Mortgage loans held for sale	\$ 1,121,129	\$ 1,187,314
SFAS No. 133 basis adjustments	1,316	16,489
Deferred origination costs, net	9,216	12,550
Mortgage loans held for sale, net	\$ 1,131,661	\$ 1,216,353

NOTE 4 - DERIVATIVE ASSETS AND LIABILITIES

The following table presents the Company's derivative assets and liabilities as of September 30, 2004 and December 31, 2003:

(In thousands)	September 30, 2004	December 31, 2003
Derivative Assets:		
Interest rate lock commitments	\$ 11,630	\$ 30,611
Derivative assets	\$ 11,630	\$ 30,611
Derivative Liabilities:		
Forward delivery contracts - loan commitments	\$ 980	\$ 4,358
Forward delivery contracts - loans held for sale	114	2,300
Interest rate swaps	7,324	6,036
Interest rate swaps - free standing derivatives	9,819	-
Derivative liabilities	\$ 18,237	\$ 12,694

The notional amount of the Company's interest rate swaps as of September 30, 2004 was \$2.8 billion.

At September 30, 2004, the notional amount of forward delivery contracts amounted to approximately \$843.5 million. The forward delivery contracts have a high correlation to the price movement of the loans being hedged. The ineffectiveness recognized in hedging loans held for sale recorded on the balance sheet was insignificant as of September 30, 2004.

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NOTE 5 - MORTGAGE SERVICING RIGHTS, NET

The following table presents the activity in the Company's mortgage servicing rights, net, for the three and nine months ended September 30, 2004 and 2003:

Three Months Ended September 30,	Nine Months Ended September 30,
-----	-----

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(In thousands)	2004 -----	2003 -----	2004 -----	2003 -----
Mortgage Servicing Rights:				
Balance at beginning of period	\$ 151,018	\$ 104,775	\$ 121,652	\$ 119,225
Additions	31,179	27,711	75,655	43,316
Amortization	(7,755)	(14,903)	(22,865)	(44,958)
	-----	-----	-----	-----
Balance at end of period	\$ 174,442	\$ 117,583	\$ 174,442	\$ 117,583
	-----	-----	-----	-----
Impairment Allowance:				
Balance at beginning of period	\$ (9,200)	\$ (22,387)	\$ (3,868)	\$ (10,202)
Impairment recovery (provision)	(4,807)	7,825	(10,139)	(4,360)
	-----	-----	-----	-----
Balance at end of period	\$ (14,007)	\$ (14,562)	\$ (14,007)	\$ (14,562)
	-----	-----	-----	-----
Mortgage servicing rights, net	\$ 160,435	\$ 103,021	\$ 160,435	\$ 103,021
	=====	=====	=====	=====

Aggregate Amortization Expense

 Nine months ended September 30, 2004 \$ 22,865

Estimated Amortization Expense

 Year ended September 30, 2005 \$ 39,835
 Year ended September 30, 2006 33,436
 Year ended September 30, 2007 22,369
 Year ended September 30, 2008 15,355
 Year ended September 30, 2009 11,479
 Thereafter 51,968

On a quarterly basis, the Company reviews MSR for impairment based on risk strata. The MSR are stratified based on the predominant risk characteristics of the underlying loans. The Company's predominant risk characteristic is interest rate. A valuation allowance is recognized for MSR that have an amortized balance in excess of the estimated fair value for the individual risk stratification.

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

The significant assumptions used in estimating the fair value of MSR at September 30, 2004 and December 31, 2003 were as follows:

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September 30, 2004	December 31, 2003
-----	-----

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Weighted-average prepayment speed (PSA)	352	397
Weighted-average discount rate	10.42%	9.82%
Weighted-average default rate	2.64%	4.02%

The following table presents certain information regarding the Company's servicing portfolio of loans serviced for others at September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
	-----	-----
	(Dollars in thousands)	
Loan servicing portfolio - loans sold or securitized	\$ 12,539,467	\$ 8,272,294
Average loan size	\$ 160	\$ 120
Weighted-average servicing fee	0.354%	0.347%
Weighted-average note rate	5.41%	5.72%
Weighted-average remaining term (in months)	327	298
Weighted-average age (in months)	18	27

NOTE 6 - GOODWILL

The following table presents the activity in the Company's goodwill for the nine months ended September 30, 2004:

	Loan Origination Segment	Mortgage-Backed Securities Holdings Segment	Total
(In thousands)	-----	-----	-----
Balance at December 31, 2003	\$ 58,605	\$ 24,840	\$ 83,445
Earnouts from previous acquisitions	5,751	-	5,751
	-----	-----	-----
Balance at September 30, 2004	\$ 64,356	\$ 24,840	\$ 89,196
	=====	=====	=====

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

Warehouse Lines of Credit

As of September 30, 2004, the Company has a committed bank syndicated facility led by Bank of America and a pre-purchase facility with UBS Real Estate Securities Inc. ("UBS"). The Company also has committed facilities with CDC Mortgage Capital Inc. ("CDC"), Morgan Stanley Bank ("Morgan Stanley") and Calyon Americas. In addition, the Company has a gestation facility with Greenwich Capital Financial Products, Inc. The Bank of America facility is for \$600 million, the UBS facility is for \$1.2 billion, the CDC facility is for \$450 million, the Morgan Stanley facility is for \$350 million and the Calyon Americas

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facility is for \$200 million. The interest rate on outstanding balances fluctuates daily based on a spread to the LIBOR and interest is paid monthly.

The facilities are secured by mortgage loans and other assets of the Company. The facilities contain various covenants pertaining to maintenance of net worth, working capital and maximum leverage. At September 30, 2004, the Company was in compliance with respect to the loan covenants.

Included within the Bank of America line of credit, the Company has a working capital sub-limit that allows for borrowings up to \$50 million at a rate based on a spread to the LIBOR that may be adjusted for earnings on compensating balances on deposit at creditors' banks. As of September 30, 2004, borrowings under the working capital line of credit were \$24 million.

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The following table presents the Company's warehouse lines of credit as of September 30, 2004 and December 31, 2003:

(Dollars in thousands)	September 30, 2004		December 31, 2003	
	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
Calyon Americas	\$ 199,540	2.44%	\$ 200,702	1.88%
Bank of America	187,096	2.92	-	-
CDC	156,946	2.63	406,444	1.98
Morgan Stanley	4,002	2.57	92,925	1.92
RFC	-	-	293,344	2.06
UBS	-	-	128,345	3.21
Warehouse lines of credit	\$ 547,584	2.66%	\$ 1,121,760	2.12%

Reverse Repurchase Agreements

The Company has arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with thirteen different financial institutions and on September 30, 2004 had borrowed funds from nine of these firms. Because the Company borrows money under these agreements based on the fair value of its mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, the Company's borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of the Company's mortgage-backed securities declines for other reasons.

As of September 30, 2004, the Company had \$6.9 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.78% and a weighted-average remaining maturity of four months. As of December 31, 2003, the Company had \$1.3 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.26% and a weighted-average remaining maturity of seven months.

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At September 30, 2004 and December 31, 2003, the Company's reverse repurchase agreements had the following remaining maturities:

	September 30, 2004	December 31, 2003

(In thousands)		
Within 30 days	\$ 1,122,546	\$ 184,302
31 to 89 days	1,782,846	-
90 to 365 days	3,993,632	1,160,025

Reverse repurchase agreements	\$ 6,899,024	\$ 1,344,327
=====		

Commercial Paper

In May 2004, the Company formed a wholly owned special purpose entity for the purpose of issuing commercial paper in the form of short-term Secured Liquidity Notes ("SLNs") to finance certain portions of the Company's mortgage loans held for sale. The special purpose entity allows for issuance of short-term notes with maturities of up to 180 days, extendable up to 300 days. The SLNs bear interest at prevailing money market rates approximating LIBOR. The SLN program capacity, based on aggregate commitments of underlying credit enhancers, was \$2.0 billion at September 30, 2004.

As of September 30, 2004, the Company had \$462.7 million of SLNs outstanding, with an average interest cost of 1.83%. The SLNs were collateralized by loans held for sale, mortgage-backed securities and cash with a balance of \$467.8 million as of September 30, 2004.

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At September 30, 2004, the Company's commercial paper had the following remaining maturities:

	September 30, 2004

(In thousands)	
Within 30 days	\$ 409,731
31 to 89 days	52,981

Commercial paper	\$ 462,712
=====	

NOTE 8 - COMMON STOCK AND PREFERRED STOCK

In March 2004, the Company issued 14,375,000 shares of its common stock ("Common Stock") at a price of \$25 per share, which included the exercise of the underwriters' option to purchase 1,875,000 additional shares of Common Stock to

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cover over-allotments. The total proceeds to the Company, including proceeds from the exercise of the over-allotment option, were \$359.3 million, before underwriting discounts, commissions and other offering expenses.

In July 2004, the Company issued 2,150,000 shares of 9.75% Series A Cumulative Redeemable Preferred Stock ("Preferred Stock") at a price of \$25 per share. The total number of shares of Preferred Stock outstanding includes: 1,400,000 shares of Preferred Stock issued in an underwritten public offering (the "Initial Offering"), which closed on July 7, 2004; 100,000 shares of Preferred Stock issued in connection with the underwriters' election to purchase a portion of the shares of Preferred Stock offered to them in connection with the Initial Offering to cover over-allotments, which closed on July 12, 2004; and 650,000 shares of Preferred Stock issued and sold to the underwriters in connection with a subsequent public offering of Preferred Stock, which closed on July 20, 2004. The total proceeds from both offerings to the Company were \$53.8 million before underwriting discounts, commissions and other offering expenses.

On September 8, 2004, the Company declared a dividend of \$0.61 per common share, which was paid on October 21, 2004 to common shareholders of record as of October 5, 2004.

On September 8, 2004, the Company declared a dividend of \$0.76663 per preferred share, which was paid on November 1, 2004 to preferred shareholders of record as of October 5, 2004.

NOTE 9 - INCOME TAXES

The following table presents a reconciliation of the statutory income tax provision to the effective income tax provision:

	Three Months Ended September 30,				Nine Month
	2004		2003		2004
	(Dollars in thousands)				
Tax provision at statutory rate	\$ 11,534	35.0%	\$ 10,850	35.0%	\$ 24,961
Non-taxable REIT income	(20,313)	(61.6)	-	-	(47,807)
State and local taxes, net of federal income tax benefit	(1,369)	(4.2)	987	3.2	(4,004)
Minority income adjustment	-	-	(67)	(0.2)	-
Other	150	0.5	345	1.1	520
	-----		-----		-----
Income tax (benefit) expense	\$ (9,998)	(30.3%)	\$ 12,115	39.1%	\$ (26,330)
	=====		=====		=====

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The following table presents the major sources of temporary differences, and their deferred tax effects, as of September 30, 2004 and December 31, 2003:

September 30, December 31,

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	2004	2003
	-----	-----
	(In thousands)	
Deferred tax liabilities:		
Capitalized cost of mortgage servicing rights	\$ 69,784	\$ 50,083
Loan origination costs	9,746	11,926
Depreciation	2,341	576
Mark-to-market adjustments	1,081	11,041
	-----	-----
Deferred tax liabilities	82,952	73,626
	-----	-----
Deferred tax assets:		
Tax loss carryforwards	10,204	10,441
Allowance for bad debts and foreclosure reserve	2,967	3,133
Deferred state income taxes	3,389	2,855
Broker fees	1,972	-
Other	846	691
	-----	-----
Deferred tax assets	19,378	17,120
	-----	-----
Net deferred tax liabilities	\$ 63,574	\$ 56,506
	=====	=====

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NOTE 10 - EARNINGS PER SHARE

The following is a reconciliation of the denominators used in the computations of basic and diluted earnings per share for the three and nine months ended September 30, 2004 and 2003:

	Three Months Ended September 30,	
	2004	2003
	-----	-----
(Dollars in thousands, except per share amounts)		
Numerator for basic earnings per share - Net income available to common shareholders	\$ 41,295	\$ 18,694
	=====	=====
Denominator:		
Denominator for basic earnings per share		
Weighted average number of common shares outstanding during the period	40,144,601	17,272,319
	-----	-----
Net effect of dilutive stock options	460,453	432,205
	-----	-----
Denominator for diluted earnings per share	40,605,054	17,704,524
	=====	=====
Net income per share available to common shareholders:		
Basic	\$ 1.03	\$ 1.08
	=====	=====
Diluted	\$ 1.02	\$ 1.06
	=====	=====

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NOTE 11 - STOCK OPTION PLANS

In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). Pursuant to the Plan, eligible employees, officers and directors are offered the opportunity to acquire the Company's common stock through the grant of options and the award of restricted stock under the Plan. The total number of shares that may be optioned or awarded under the Plan is 3,000,000 shares of common stock. The Plan provides for the granting of options at the fair market value on the date of grant. The options issued primarily vest 50% on the two-year anniversary of the grant date and 50% on the three-year anniversary of the grant date, and expire ten years from the grant date.

As of September 30, 2004, the Company has awarded 208,579 shares of restricted stock under the Plan. During the nine months ended September 30, 2004 and 2003, the Company recognized compensation expense of \$603 thousand and \$385 thousand, respectively, relating to shares of restricted stock. At September 30, 2004, 134,401 shares are vested. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

For options granted under the Plan, there was no intrinsic value of the options when granted, as the exercise price was equal to the quoted market price at the grant date. No compensation cost has been recognized for the nine months ended September 30, 2004 and 2003.

Pursuant to the terms of the Company's merger with Apex, which was consummated on December 3, 2003 (following the approval of the Company's stockholders at a special meeting held on November 21, 2003), the Company assumed the Amended and Restated 1997 Stock Option Plan of Apex (the "Apex Plan"). Upon the closing of the merger with Apex, Apex caused all unvested options granted under the Apex Plan to become vested, and each option granted under the Apex Plan that was not exercised as of December 3, 2003 was terminated and not assumed by the Company.

An aggregate of 1 million shares of common stock were available for issuance upon exercise of stock options granted under the Apex Plan. As of the effective date of the merger, Apex had granted options to purchase 791,000 shares of common stock, which options were either (i) previously caused to become vested or (ii) terminated and not assumed by the Company. Accordingly, options to purchase an aggregate of 209,000 shares of the Company's common stock remain available for grant under the Apex Plan.

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There were 110,000 and 422,413 options granted under the Plan in the three months and nine months ended September 30, 2004. The weighted-average fair value per share of options granted during the three months and nine months ended September 30, 2004 was \$4.58 and \$5.00, respectively.

There were 40,000 and 214,376 options granted under the Plan in the three months and nine months ended September 30, 2003. The weighted-average fair value per share of options granted in the three months and nine months ended September 30, 2003 was \$5.44 and \$4.62, respectively.

The fair value of the options granted is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the grants:

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	Three Months Ended September 30,		Nine Months Ended S
	2004	2003	2004
Dividend yield	9.0 %	3.0 %	8.3 %
Expected volatility	38.3 %	50.9 %	44.5 %
Risk-free interest rate	5.0 %	5.0 %	5.0 %
Expected life	3 years	3 years	3 years

NOTE 12 - ACQUISITIONS

Apex Mortgage Capital, Inc.

On December 3, 2003, AHM Investment completed its merger with Apex, a Maryland corporation that operated and elected to be treated as a REIT for federal income tax purposes. Immediately prior to the merger, under the terms of the reorganization agreement between AHM Holdings and AHM Investment, AHM Holdings reorganized through a reverse triangular merger that caused AHM Investment to become AHM Holdings' parent. The shares of AHM Investment issued to former Apex stockholders in the merger were valued at \$177.3 million.

The following table summarizes the required disclosures of the pro forma combined entity, as if the acquisition occurred at the beginning of the nine months ended September 30, 2003:

(In thousands, except per share amounts)	Nine Months Ended September 30, 2003
Revenue	\$ 291,553
Income before income taxes	46,445
Net income	\$ 3,441
Earnings per share - basic	\$ 0.14
Earnings per share - diluted	\$ 0.14

Valley Bancorp, Inc.

In August 2001, AHM Holdings entered into an agreement to acquire Valley Bancorp, Inc. ("Valley Bancorp") and its wholly-owned subsidiary, Valley Bank of Maryland, a federal savings bank located in suburban Baltimore, Maryland, for a combination of cash and stock, subject to certain adjustments. Under the terms of the definitive agreement, the Company will pay \$46 for each share of Valley Bancorp common stock outstanding, or approximately \$6.0 million. The acquisition agreement between AHM Holdings and Valley Bancorp has been extended through July 31, 2005. This transaction is subject to regulatory approval and no assurance can be given that such approval will be obtained or that the acquisition agreement with Valley Bancorp will be further extended if necessary.

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Acquisition of Certain Home Loan Centers of Washington Mutual, Inc.

On August 2, 2004, the Company acquired certain residential mortgage home loan centers and associated satellite offices that Washington Mutual Inc. and its subsidiaries ("Washington Mutual") previously slated for closure in 18 states. The Company hired 498 employees who support these home loan centers and associated satellite offices with the vast majority being sales professionals focused on retail loan originations. The purchase price was insignificant to the Company's consolidated financial statements.

Under the terms of the acquisition, the Company assumed Washington Mutual's lease obligations and purchased certain fixed assets in the acquired offices. The acquisition was funded from current cash reserves.

NOTE 13 - SEGMENTS AND RELATED INFORMATION

The Company has three segments, the Mortgage-Backed Securities Holdings segment, the Loan Origination segment and the Loan Servicing segment. The Mortgage-Backed Securities Holdings segment uses the Company's equity capital and borrowed funds to invest in mortgage-backed securities, thereby producing net interest income. The Loan Origination segment originates mortgage loans through the Company's retail and internet branches and loans sourced through mortgage brokers (wholesale channel). The Loan Servicing segment includes investments in MSRs as well as servicing operations primarily for other financial institutions.

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

The Loan Origination segment includes realized gains or losses on sales of loans and mortgage-backed securities, unrealized gains or losses that exist on the date of securitization of self-originated loans that are classified as trading securities and realized and unrealized gains or losses on related interest rate swaps. The Loan Origination segment's pre-tax income consists of income from our qualified REIT subsidiary ("QRS") and our taxable REIT subsidiaries ("TRSs").

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	Three Months Ended	
	(In thousands)	
	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment
Net interest income:		
Interest income	\$ 66,856	\$ 27,442
Interest expense	(42,124)	(18,252)
Total net interest income	24,732	9,190

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Non-interest income:		
Gain on sales of mortgage loans	-	28,373
(Loss) gain on sales of mortgage-backed securities and derivatives	(4,610)	26,951
Unrealized (loss) gain on mortgage-backed securities and derivatives	(1,784)	28,853
Loan servicing fees	-	-
Amortization of mortgage servicing rights	-	-
Impairment provision of mortgage servicing rights	-	-
Net loan servicing fees (loss)	-	-
Other non-interest income	-	3,349
Total non-interest income	(6,394)	87,526
Non-interest expenses:		
Salaries, commissions and benefits, net	55	45,151
Occupancy and equipment	5	9,858
Data processing and communications	5	3,637
Office supplies and expenses	-	2,831
Marketing and promotion	-	2,608
Travel and entertainment	-	3,609
Professional fees	44	2,389
Other	2,036	3,591
Total non-interest expenses	2,145	73,674
Net income before income tax benefit	16,193	23,042
Income tax benefit	-	(7,510)
Net income	16,193	30,552
Dividends on preferred stock	1,648	-
Net income available to common shareholders	\$ 14,545	\$ 30,552
Segment assets	\$ 7,489,460	\$ 1,378,704

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Three Months Ended Se	
(In thous	
Mortgage-Backed Securities Holdings Segment	Loan Originat Segmen

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Net interest income:			
Interest income	\$	-	\$ 29,6
Interest expense		-	(15,7

Total net interest income		-	13,9

Non-interest income:			
Gain on sales of mortgage loans		-	105,5
Loan servicing fees		-	
Amortization of mortgage servicing rights		-	
Impairment recovery of mortgage servicing rights		-	

Net loan servicing fees		-	
Other non-interest income		-	1,4

Total non-interest income		-	107,0

Non-interest expenses:			
Salaries, commissions and benefits, net		-	61,9
Occupancy and equipment		-	7,2
Data processing and communications		-	3,6
Office supplies and expenses		-	3,3
Marketing and promotion		-	3,2
Travel and entertainment		-	3,1
Professional fees		-	2,1
Other		-	4,3

Total non-interest expenses		-	88,9

Net income before income tax expense (benefit)		-	31,9

Income tax expense (benefit)		-	12,8

Net income		-	19,1

Dividends on preferred stock		-	

Net income available to common shareholders	\$	-	\$ 19,1
		=====	
			Dece

Segment assets	\$	1,865,414	\$ 1,375,2
		=====	

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Nine Months Ended Sep

(In thous

Mortgage-Backed
 Securities Loan
 Holdings Origination

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	Segment	Segment
	-----	-----
Net interest income:		
Interest income	\$ 123,194	\$ 75,153
Interest expense	(82,026)	(47,736)
	-----	-----
Total net interest income	41,168	27,417
	-----	-----
Non-interest income:		
Gain on sales of mortgage loans	-	98,095
(Loss) gain on sales of mortgage-backed securities and derivatives	(22,874)	60,184
Unrealized gain on mortgage-backed securities and derivatives	29,131	52,910
	-----	-----
Loan servicing fees	-	-
Amortization of mortgage servicing rights	-	-
Impairment provision of mortgage servicing rights	-	-
	-----	-----
Net loan servicing fees (loss)	-	-
Other non-interest income	-	5,553
	-----	-----
Total non-interest income	6,257	216,742
	-----	-----
Non-interest expenses:		
Salaries, commissions and benefits, net	159	125,053
Occupancy and equipment	5	25,691
Data processing and communications	11	10,068
Office supplies and expenses	-	8,525
Marketing and promotion	-	7,013
Travel and entertainment	2	8,947
Professional fees	251	6,060
Other	5,109	8,044
	-----	-----
Total non-interest expenses	5,537	199,401
	-----	-----
Net income before income tax benefit	41,888	44,758
	-----	-----
Income tax benefit	-	(20,267)
	-----	-----
Net income	41,888	65,025
	-----	-----
Dividends on preferred stock	1,648	-
	-----	-----
Net income available to common shareholders	\$ 40,240	\$ 65,025
	=====	=====
		September 30
	-----	-----
Segment assets	\$ 7,489,460	\$ 1,378,704
	=====	=====

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Nine Months Ended

(In thousands)

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	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment
Net interest income:		
Interest income	\$ -	\$ 76,1
Interest expense	-	(37,0

Total net interest income	-	39,0

Non-interest income:		
Gain on sales of mortgage loans	-	323,0
Loan servicing fees	-	
Amortization of mortgage servicing rights	-	
Impairment provision of mortgage servicing rights	-	

Net loan servicing fees (loss)	-	
Other non-interest income	-	5,5

Total non-interest income	-	328,6

Non-interest expenses:		
Salaries, commissions and benefits, net	-	159,0
Occupancy and equipment	-	19,3
Data processing and communications	-	9,4
Office supplies and expenses	-	9,5
Marketing and promotion	-	8,8
Travel and entertainment	-	7,9
Professional fees	-	5,3
Other	-	14,7

Total non-interest expenses	-	234,2

Net income before income tax expense (benefit)	-	133,5

Income tax expense (benefit)	-	54,7

Net income	-	78,7

Dividends on preferred stock	-	

Net income available to common shareholders	\$ -	\$ 78,7
=====		
		December

Segment assets	\$ 1,865,414	\$ 1,375,2
=====		

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OF OPERATIONS

Regarding Forward-Looking Statements

This report, including, but not limited to, "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 which are not historical in nature, including the words "anticipate," "may," "estimate," "should," "seek," "expect," "plan," "believe," "intend," and similar words, or the negatives of those words, are intended to identify forward-looking statements. Statements which also 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:

- o our business strategy;
- o future performance, developments, market forecasts or projected dividends;
- o projected acquisitions or joint ventures; and
- o 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. 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 our expectations of future results, performance or financial position. These factors include, without limitation:

- o our limited operating history with respect to our proposed portfolio strategy;
- o 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;
- o our need for a significant amount of cash to operate our business;
- o risks associated with the use of leverage;
- o disruptions in the market for repurchase facilities;
- o failure to match the interest rates on our borrowings with the interest rates on the mortgage-backed securities we hold;
- o failure to maintain our status as a real estate investment trust;
- o changes in federal and state tax laws affecting real estate investment trusts;

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- o general economic, political, market, financial or legal conditions; and
- o those risks and uncertainties discussed in our filings with the Securities and Exchange Commission.

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 actual results may differ from expectations. We are not

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under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies and Estimates

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

Mortgage-Backed Securities - We record our mortgage-backed securities at fair value. The fair values of our mortgage-backed securities are generally based on market prices provided by certain dealers who make markets on these financial instruments or third-party pricing services. If the fair value of a mortgage-backed security is not reasonably available, management estimates the fair value, which requires management's judgment and may not be indicative of the amounts we could realize in a current market exchange.

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 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 total cost of the loans is allocated to the servicing assets and the loans (without the servicing assets) based on their relative fair values. The amount attributable to the servicing assets is capitalized as MSRs on the consolidated balance sheets. The MSRs are amortized to expense in proportion to and over the period of estimated net servicing income.

The MSRs are assessed for impairment based on the fair value of those assets. We estimate the fair value of the servicing assets by obtaining market information from a primary MSR broker. When the book value of capitalized servicing assets exceeds their fair value, impairment is recognized through a valuation allowance. In determining impairment, the mortgage servicing portfolio is stratified by the predominant risk characteristic of the underlying mortgage loans. We have determined that the predominant risk characteristic is the interest rate on the underlying loan. We measure impairment for each stratum by

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comparing the estimated fair value to the recorded book value. Temporary impairment is recorded through a valuation allowance and amortization expense in the period of occurrence. In addition, we periodically evaluate our MSRs for other than temporary impairment to determine if the carrying value before the application of the valuation allowance is recoverable. We receive a sensitivity analysis of the estimated fair value of our MSRs assuming a 200-basis-point instantaneous increase in interest rates from an independent MSR broker. The fair value estimate includes changes in market assumptions that would be expected given the increase in mortgage rates (e.g., prepayment speeds would be lower). We believe this 200-basis-point increase in mortgage rates to be an appropriate threshold for determining the recoverability of the temporary impairment because that size rate increase is foreseeable and consistent with historical mortgage rate fluctuations. When using this instantaneous change in rates, if the fair value of the strata of MSRs is estimated to increase to a point where all of the impairment would be recovered, the impairment is considered to be temporary. When we determine that a portion of the MSRs is not recoverable, the related MSRs and the previously established valuation allowance are correspondingly reduced to reflect other than temporary impairment.

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. IRLCs associated with loans expected to be sold are recorded at fair value with changes in fair value recorded to current earnings. The fair value of the IRLCs initiated on or before March 31, 2004 is determined by an estimate of the ultimate gain on sale of the loans, including the value of MSRs, net of estimated net costs remaining to originate the loan and any net deferred origination costs. In March 2004, the SEC issued SAB No. 105, which provides industry guidance which changed the timing of recognition of MSRs for IRLCs initiated after March 31, 2004. In SAB No. 105, the SEC stated that the value of expected future cash flows related to servicing rights should be excluded when determining the fair value of derivative IRLCs. Under the new policy, the value of the expected future cash flow related to servicing rights is not recognized until the underlying loans are sold.

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

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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.

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We enter into interest rate swap agreements to manage our interest rate exposure when financing our adjustable-rate mortgage loans and mortgage-backed securities. Certain swap agreements accounted for as cash flow hedges and certain swap agreements not designated as cash flow hedges are both carried on the balance sheet at fair value. The fair values of our swap agreements are generally based on market prices provided by certain dealers who make markets in these financial instruments or third-party pricing services. If the fair value of an interest rate swap agreement is not reasonably available, management estimates the fair value, which requires management's judgment and may not be indicative of the amounts we could realize in a current market exchange.

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 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-Backed Securities 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.

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Financial Condition

At September 30, 2004, 80.8% of our total assets were mortgage-backed securities and 12.5% were mortgage loans held for sale, compared to 51.8% and 35.7%, respectively, at December 31, 2003.

Total assets increased \$5.7 billion to \$9.1 billion at September 30, 2004 from \$3.4 billion at December 31, 2003. The increase primarily reflects an increase in mortgage-backed securities of \$5.6 billion. The growth in mortgage-backed securities was primarily funded by an increase in reverse repurchase agreements of \$5.6 billion. We began issuing commercial paper in the quarter ended June 30, 2004, to fund our loans held for sale. As of September 30, 2004, we had \$462.7 million of commercial paper outstanding, which allowed us to reduce the amount of loans funded by warehouse lines of credit.

The following table summarizes our mortgage-backed securities owned at September 30, 2004 and December 31, 2003, classified by type of issuer and by ratings categories:

September 30, 2004					
Trading Securities		Securities Available for Sale		Total	
Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix

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(Dollars in thousands)

Agency securities	\$ 760,957	28.6%	\$ 854,122	18.3%	\$1,615,079	2
Privately issued:						
AAA	1,714,299	64.4	3,750,873	80.3	5,465,172	7
AA	-	-	17,750	0.4	17,750	
A	59,199	2.2	17,938	0.4	77,137	
BBB	70,601	2.7	9,081	0.2	79,682	
Unrated (1)	56,306	2.1	20,762	0.4	77,068	
Total	\$2,661,362	100.0%	\$4,670,526	100.0%	\$7,331,888	10

(1) Unrated subordinated certificates retained by the Company as credit enhancements for its privately issued securities.

December 31, 2003

	Trading Securities		Securities Available for Sale		Total	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
			(Dollars in thousands)			
Agency securities	\$287,577	60.0%	\$ 713,790	55.6%	\$1,001,367	5
Privately issued:						
AAA	167,974	35.0	570,025	44.4	737,999	4
AA	11,322	2.4	-	-	11,322	
A	6,470	1.3	-	-	6,470	
Unrated (1)	6,470	1.3	-	-	6,470	
Total	\$479,813	100.0%	\$1,283,815	100.0%	\$1,763,628	10

(1) An unrated subordinated certificate retained by the Company as a credit enhancement for its privately issued securities.

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The following table classifies our mortgage-backed securities portfolio by type of interest rate index at September 30, 2004 and December 31, 2003:

	September 30, 2004				
	Trading Securities		Securities Available for Sale		Carrying Value
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value
			(Dollars in thousands)		
Index:					
One-month LIBOR	\$ 124,265	4.7%	\$ 127,196	2.7%	\$ 251,

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	(Dollars in thousands)					
Product:						
ARMs less than 3 years	\$ 189,771	39.6%	\$ 212,897	16.6%	\$ 402,668	22.2%
3/1 Hybrid ARM	133,019	27.7	415,674	32.4	548,693	31.1
5/1 Hybrid ARM	133,140	27.7	619,688	48.2	752,828	42.2
7/1 Hybrid ARM	23,883	5.0	35,556	2.8	59,439	3.3
Total	\$ 479,813	100.0%	\$1,283,815	100.0%	\$1,763,628	100.0%

During the three months ended September 30, 2004, we purchased \$0.5 billion of mortgage-backed securities and added \$2.8 billion of self-originated mortgage-backed securities to our portfolio.

During the nine months ended September 30, 2004, we purchased \$5.2 billion of mortgage-backed securities and added \$5.8 billion of self-originated mortgage-backed securities to our portfolio.

During the three months and nine months ended September 30, 2004, we sold \$3.0 billion and \$4.7 billion of mortgage-backed securities, respectively.

The average cost basis of our mortgage-backed securities, excluding unrealized gains and losses, was 100.7% of par as of September 30, 2004 and 101.5% of par as of December 31, 2003.

We had a payable for securities purchased of \$259.7 million as of December 31, 2003.

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Results of Operations - Comparison of the Three Months Ended September 30, 2004 and 2003

	Three Months Ended September 30, 2004		Three Months Ended September 30, 2003	
	(In thousands)			
	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment
Net interest income:				
Interest income	\$ 66,856	\$ 27,442	\$ 66,856	\$ 27,442
Interest expense	(42,124)	(18,252)	(42,124)	(18,252)
Total net interest income	24,732	9,190	24,732	9,190
Non-interest income:				
Gain on sales of mortgage loans	-	28,373	-	28,373
(Loss) gain on sales of mortgage-backed securities and derivatives	(4,610)	26,951	(4,610)	26,951
Unrealized (loss) gain on mortgage-backed securities and derivatives	(1,784)	28,853	(1,784)	28,853
Loan servicing fees	-	-	-	-
Amortization of mortgage servicing rights	-	-	-	-

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Impairment provision of mortgage servicing rights	-	-
Net loan servicing fees (loss)	-	-
Other non-interest income	-	3,349
Total non-interest income	(6,394)	87,526
Non-interest expenses:		
Salaries, commissions and benefits, net	55	45,151
Occupancy and equipment	5	9,858
Data processing and communications	5	3,637
Office supplies and expenses	-	2,831
Marketing and promotion	-	2,608
Travel and entertainment	-	3,609
Professional fees	44	2,389
Other	2,036	3,591
Total non-interest expenses	2,145	73,674
Net income before income tax benefit	16,193	23,042
Income tax benefit	-	(7,510)
Net income	16,193	30,552
Dividends on preferred stock	1,648	-
Net income available to common shareholders	\$ 14,545	\$ 30,552
		September
Segment assets	\$ 7,489,460	\$1,378,704

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	Three Months Ended Se	
	(In thous	
	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment
Net interest income:		
Interest income	\$ -	\$ 29,693
Interest expense	-	(15,755)
Total net interest income	-	13,938
Non-interest income:		
Gain on sales of mortgage loans	-	105,577

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Loan servicing fees	-	-	
Amortization of mortgage servicing rights	-	-	
Impairment recovery of mortgage servicing rights	-	-	

Net loan servicing fees	-	-	
Other non-interest income	-	1,423	

Total non-interest income	-	107,000	

Non-interest expenses:			
Salaries, commissions and benefits, net	-	61,902	
Occupancy and equipment	-	7,220	
Data processing and communications	-	3,659	
Office supplies and expenses	-	3,362	
Marketing and promotion	-	3,229	
Travel and entertainment	-	3,103	
Professional fees	-	2,118	
Other	-	4,355	

Total non-interest expenses	-	88,948	

Net income before income tax expense (benefit)	-	31,990	

Income tax expense (benefit)	-	12,873	

Net income	-	19,117	

Dividends on preferred stock	-	-	

Net income available to common shareholders	\$ -	\$ 19,117	\$
	=====		
		December 31	

Segment assets	\$ 1,865,414	\$1,375,276	\$
	=====		

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Overview

Net income available to common shareholders for the three months ended September 30, 2004 was \$41.3 million, compared to \$18.7 million for the three months ended September 30, 2003, an increase of \$22.6 million, or 120.9%. This increase was the result of a \$22.1 million decrease in income tax expense, a \$19.2 million increase in net interest income and a \$12.8 million decrease in non-interest expense, partly offset by a \$29.8 million decrease in non-interest income and a \$1.7 million increase in dividends on preferred stock. The \$29.8 million decrease in non-interest income consists of a \$77.2 million decrease in gain on sales of mortgage loans and a \$4.0 million decrease in net loan servicing fees, partly offset by a \$49.4 million increase in realized and unrealized gain on mortgage-backed securities and derivatives and a \$2.0 million increase in non-interest income in the third quarter of 2004 versus the third quarter of 2003.

Mortgage-Backed Securities Holdings Segment

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Our Mortgage-Backed Securities Holdings segment began operations on December 3, 2003 as a result of the reorganization of the Company into a REIT and the merger with Apex. The segment's business is the holding for net interest income of adjustable-rate mortgage ("ARM")-backed securities.

The following table presents the average balances for the Mortgage-Backed Securities Holdings segment's mortgage-backed securities and reverse repurchase agreements, corresponding annualized effective rate of interest and the related interest income or expense:

	Three Months Ended September 30,		
(Dollars in thousands)	2004		
	Average Balance	Interest	Average Yield/Cost
Mortgage-backed securities, net (1)	\$ 7,179,816	\$ 66,856	3.72%
Reverse repurchase agreements (2)	6,776,787	42,124	2.46%
Net interest income		\$ 24,732	
Interest rate spread			1.26%
Net interest margin			1.40%

(1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.

(2) Includes \$13.2 million of net interest expense on interest rate swap agreements.

Revenues. Total revenues for the Mortgage-Backed Securities Holdings segment for the three months ended September 30, 2004 were \$18.3 million, consisting of net interest income of \$24.7 million, loss on sales of mortgage-backed securities and derivatives of \$4.6 million and unrealized loss on mortgage-backed securities and derivatives of \$1.8 million.

Loan Origination Segment

Our Loan Origination segment's primary business is the origination and sale or securitization of primarily one-to-four family residential mortgage loans. Total loan originations for the three months ended September 30, 2004 were \$5.3 billion compared to \$7.1 billion for the third quarter of 2003, a 25.0% decrease. Our retail originations, which are conducted through our community loan production offices and Internet call center, were 51% of our loan originations in the three months ended September 30, 2004 compared to 78% of our originations in the three months ended September 30, 2003. Mortgage brokers accounted for 49% of our loan originations in the three months ended September 30, 2004 compared to 22% of our originations in the three months ended September 30, 2003. Mortgage brokers accounted for an increased percentage of our originations in the three months ended September 30, 2004 due to the opening of wholesale branches in the western United States.

Gain on Sales of Mortgage Loans, Mortgage-Backed Securities and Derivatives.
Gain on sales of mortgage loans, mortgage-backed securities and derivatives for

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the three months ended September 30, 2004 was \$84.2 million compared to \$105.6 million in the three months ended September 30, 2003.

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Gain on sales of mortgage loans for the three months ended September 30, 2004 totaled \$28.4 million on non-securitized loan sales of \$2.9 billion, compared to \$105.6 million on loan sales of \$7.0 billion for the three months ended September 30, 2003. The average gain on sale margin decreased to 0.98% in the third quarter of 2004 from 1.52% in the third quarter of 2003. The decline in average margin reflects the rise in fees paid to brokers on wholesale originations as a result of the increased percentage of wholesale originations in the third quarter of 2004 versus the third quarter of 2003.

The Loan Origination segment recognized \$27.0 million of gain on sales of mortgage-backed securities and derivatives during the third quarter of 2004. These gains reflect the gains that existed on the date of securitization of self-originated loans and realized gains or losses on related interest rate swaps.

The Loan Origination segment recognized \$28.9 million of unrealized gain on mortgage-backed securities and derivatives relating to market valuations of mortgage-backed securities classified in the trading portfolio during the three months ended September 30, 2004. These unrealized gains reflect the gains that existed on the date of securitization of self-originated loans that are classified as trading securities and unrealized gains or losses on related interest rate swaps.

Net Interest Income. Total interest income for the three months ended September 30, 2004 on our Loan Origination segment's mortgage loans held for sale was \$27.4 million, compared to interest income for the three months ended September 30, 2003 of \$29.7 million, a decrease of \$2.3 million, or 7.6%. Our Loan Origination segment funds its loan inventory primarily through a \$2.0 billion Secured Liquidity Note Program and borrowing facilities with several mortgage warehouse lenders. Total interest expense for the three months ended September 30, 2004 was \$18.3 million, compared to interest expense for the three months ended September 30, 2003 of \$15.8 million, a \$2.5 million increase. Included in interest expense in the third quarter of 2004 is \$4.3 million of net interest expense on interest rate swap agreements accounted for as cash flow hedges.

Other Non-Interest Income. Other non-interest income totaled \$3.3 million for the three months ended September 30, 2004 and \$1.4 million for the three months ended September 30, 2003. For the three months ended September 30, 2004, other non-interest income primarily includes revenue from a legal settlement of \$1.5 million, reinsurance premiums earned totaling approximately \$0.6 million, revenue from rental income of \$0.5 million and revenue from title services of \$0.2 million. For the three months ended September 30, 2003, other non-interest income primarily consists of volume incentive bonuses received from loan purchasers totaling approximately \$0.6 million and revenue from title services of \$0.4 million.

Non-Interest Expenses. Total non-interest expenses of our Loan Origination segment for the three months ended September 30, 2004 were \$73.7 million, compared to \$88.9 million for the three months ended September 30, 2003.

Our operating expenses represent costs that are not eligible to be added to the book value of the loans because they are not considered direct origination costs under the rules of SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Costs of Leases." Direct origination costs are added to the book value of loans and either reduce

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the gain on sale of loans if the loans are sold or are amortized over the life of the loan.

Salaries, commissions and benefits for the three months ended September 30, 2004 were \$45.2 million, or 85 basis points of total loan originations, compared to \$61.9 million, or 87 basis points of total loan originations, for the three months ended September 30, 2003. The decrease in basis points reflects the higher percentage of wholesale originations in the third quarter of 2004 versus the third quarter of 2003. The third quarter of 2004 salaries, commissions and benefits expenses include salaries relating to our acquisition of certain home loan centers of Washington Mutual, Inc. (the "Washington Mutual branches") in August 2004.

Operating expenses, excluding salaries, commissions and benefits, were \$28.5 million, or 54 basis points of total loan originations for the three months ended September 30, 2004, compared to \$27.0 million, or 38 basis points of total loan originations for the three months ended September 30, 2003. The increase in operating expenses in basis points includes an 8 basis point increase in occupancy and equipment expense in the third quarter of 2004 versus the third quarter of 2003. The third quarter of 2004 operating expenses include lease obligations and certain fixed asset expenses relating to our acquisition of the Washington Mutual branches in August 2004.

Income Tax Expense. Income tax expense decreased to a benefit of \$7.5 million for the three months ended September 30, 2004 from an expense of \$12.9 million for the three months ended September 30, 2003, a decrease of \$20.4 million. The decrease in income tax expense in the third quarter of 2004 versus the third quarter of 2003 reflects a decrease in income before income taxes relating to our taxable REIT subsidiary ("TRS").

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Loan Servicing Segment

The Loan Servicing segment total revenues for the three months ended September 30, 2004 were a loss of \$3.8 million compared to \$0.9 million for the three months ended September 30, 2003, a decrease of \$4.7 million.

Net loan servicing fees were losses of \$2.7 million for the three months ended September 30, 2004, compared to revenues of \$1.2 million for the three months ended September 30, 2003.

Loan servicing fees increased to \$9.8 million for the three months ended September 30, 2004 from \$8.3 million for the three months ended September 30, 2003, an increase of \$1.5 million, or 18.3%. The increase in loan servicing fees in the third quarter of 2004 versus the third quarter of 2003 is primarily the result of an increase in loans serviced for others. Included in loan servicing fees are gains on Ginnie Mae early buy-out sales of \$0.7 million for the three months ended September 30, 2004 compared to \$2.8 million for the three months ended September 30, 2003, a decrease of \$2.1 million.

Amortization decreased to \$7.8 million for the three months ended September 30, 2004 from \$14.9 million for the three months ended September 30, 2003, a decrease of \$7.1 million. The decrease in amortization was due to a rise in interest rates which resulted in slower prepayment speeds in the three months ended September 30, 2004 versus the three months ended September 30, 2003.

We recognized a temporary impairment provision of \$4.8 million for the three months ended September 30, 2004 versus a temporary impairment recovery of \$7.8 million for the three months ended September 30, 2003, resulting in a decrease

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in net loan servicing fees of \$12.6 million. The increase in impairment provision in the three months ended September 30, 2004 was due to a decrease in the fair value of MSRs attributable to an increase in estimated future prepayment speeds.

Non-Interest Expenses. Total non-interest expenses of our Loan Servicing segment were \$2.5 million for the three months ended September 30, 2004 and \$2.2 million for the three months ended September 30, 2003.

Income Tax Benefit. Income tax benefit increased to \$2.5 million for the three months ended September 30, 2004 from a \$0.8 million benefit for the three months ended September 30, 2003, an increase of \$1.7 million.

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Results of Operations - Comparison of the Nine Months Ended September 30, 2004 and 2003

	Nine Months Ended September 30,	
	(In thousands)	
	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment
Net interest income:		
Interest income	\$ 123,194	\$ 75,153
Interest expense	(82,026)	(47,736)
Total net interest income	41,168	27,417
Non-interest income:		
Gain on sales of mortgage loans	-	98,095
(Loss) gain on sales of mortgage-backed securities and derivatives	(22,874)	60,184
Unrealized gain on mortgage-backed securities and derivatives	29,131	52,910
Loan servicing fees	-	-
Amortization of mortgage servicing rights	-	-
Impairment provision of mortgage servicing rights	-	-
Net loan servicing fees (loss)	-	-
Other non-interest income	-	5,553
Total non-interest income	6,257	216,742
Non-interest expenses:		
Salaries, commissions and benefits, net	159	125,053
Occupancy and equipment	5	25,691
Data processing and communications	11	10,068
Office supplies and expenses	-	8,525
Marketing and promotion	-	7,013
Travel and entertainment	2	8,947
Professional fees	251	6,060
Other	5,109	8,044

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Total non-interest expenses	5,537	199,401
Net income before income tax benefit	41,888	44,758
Income tax benefit	-	(20,267)
Net income	41,888	65,025
Dividends on preferred stock	1,648	-
Net income available to common shareholders	\$ 40,240	\$ 65,025
		September
Segment assets	\$ 7,489,460	\$ 1,378,704

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	Nine Months Ended S	
	(In thous	
	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment
Net interest income:		
Interest income	\$ -	\$ 76,117
Interest expense	-	(37,036)
Total net interest income	-	39,081
Non-interest income:		
Gain on sales of mortgage loans	-	323,070
Loan servicing fees	-	-
Amortization of mortgage servicing rights	-	-
Impairment provision of mortgage servicing rights	-	-
Net loan servicing fees (loss)	-	-
Other non-interest income	-	5,592
Total non-interest income	-	328,662
Non-interest expenses:		
Salaries, commissions and benefits, net	-	159,027
Occupancy and equipment	-	19,338
Data processing and communications	-	9,436
Office supplies and expenses	-	9,526
Marketing and promotion	-	8,822

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Travel and entertainment	-	7,977
Professional fees	-	5,318
Other	-	14,796

Total non-interest expenses	-	234,240

Net income before income tax expense (benefit)	-	133,503

Income tax expense (benefit)	-	54,736

Net income	-	78,767

Dividends on preferred stock	-	-

Net income available to common shareholders	\$ -	\$ 78,767
	=====	
		December 31, 2004

Segment assets	\$ 1,865,414	\$ 1,375,276
	=====	

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Overview

Net income available to common shareholders for the nine months ended September 30, 2004 was \$96.0 million, compared to \$61.9 million for the nine months ended September 30, 2003, an increase of \$34.1 million, or 55.1%. This increase was the result of a \$69.4 million decrease in income tax expense, a \$28.4 million increase in net interest income and a \$27.7 million decrease in non-interest expense, partly offset by an \$89.7 million decrease in non-interest income and a \$1.7 million increase in dividends on preferred stock. The \$89.7 million decrease in non-interest income consists of a \$225.0 million decrease in gain on sales of mortgage loans, partly offset by a \$119.4 million increase in realized and unrealized gain on mortgage-backed securities and derivatives and a \$15.9 million increase in net loan servicing fees in the 2004 period versus the 2003 period.

Mortgage-Backed Securities Holdings Segment

The following table presents the average balances for the Mortgage-Backed Securities Holdings segment's mortgage-backed securities and reverse repurchase agreements, corresponding annualized effective rate of interest and the related interest income or expense:

(Dollars in thousands)	Nine Months Ended September 30,		
	2004		
	Average Balance	Interest	Average Yield/Cost
	-----	-----	-----
Mortgage-backed securities, net (1)	\$ 4,659,398	\$123,194	3.53%

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Reverse repurchase agreements (2)	4,366,228	82,026	2.50%
Net interest income		\$ 41,168	
Interest rate spread		1.03%	
Net interest margin		1.19%	

(1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.

(2) Includes \$31.6 million of net interest expense on interest rate swap agreements.

Revenues. Total revenues for the Mortgage-Backed Securities Holdings segment for the nine months ended September 30, 2004 were \$47.4 million, consisting of net interest income of \$41.2 million, unrealized gain on mortgage-backed securities and derivatives of \$29.1 million and loss on sales of mortgage-backed securities and derivatives of \$22.9 million.

Loan Origination Segment

Total loan originations for the nine months ended September 30, 2004 were \$16.3 billion compared to \$17.5 billion for the nine months ended September 30, 2003, a 6.9% decrease. Our retail originations, which are conducted through our community loan production offices and Internet call center, were 48% of our loan originations in the nine months ended September 30, 2004 compared to 80% of our originations in the nine months ended September 30, 2003. Mortgage brokers accounted for 52% of our loan originations in the nine months ended September 30, 2004 compared to 20% of our originations in the nine months ended September 30, 2003. Mortgage brokers accounted for an increased percentage of our originations in the nine months ended September 30, 2004 due to the opening of wholesale branches in the western United States.

Gain on Sales of Mortgage Loans, Mortgage-Backed Securities and Derivatives. Gain on sales of mortgage loans, mortgage-backed securities and derivatives for the nine months ended September 30, 2004 was \$211.2 million compared to \$323.1 million in the nine months ended September 30, 2003. The change in fair value of IRLCs included in gain on sale of loans in the 2004 period was reduced as a result of the Company's adoption of Staff Accounting Bulletin No. 105 ("SAB No. 105").

Gain on sales of mortgage loans for the nine months ended September 30, 2004 totaled \$98.1 million on non-securitized loans sales of \$10.7 billion, compared to \$323.1 million on loan sales of \$16.7 billion for the nine months ended September 30, 2003. The average gain on sale

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margin decreased to 0.91% in the 2004 period from 1.93% in the 2003 period. The decline in average margin reflects higher broker fee expenses included as a reduction to gain on sale of loans as a result of the increased percentage of wholesale originations in the 2004 period versus the 2003 period.

The Loan Origination segment recognized \$60.2 million of gain on sales of

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mortgage-backed securities and derivatives during the nine months ended September 30, 2004. These gains reflect the gains that existed on the date of securitization of self-originated loans and realized gains or losses on related interest rate swaps.

The Loan Origination segment recognized \$52.9 million of unrealized gain on mortgage-backed securities and derivatives relating to market valuations of mortgage-backed securities classified in the trading portfolio during the nine months ended September 30, 2004. These unrealized gains reflect the gains that existed on the date of securitization of self-originated loans that are classified as trading securities and unrealized gains or losses on related interest rate swaps.

Net Interest Income. Total interest income for the nine months ended September 30, 2004 on our Loan Origination segment's mortgage loans held for sale was \$75.1 million, compared to interest income for the nine months ended September 30, 2003 of \$76.1 million, a decrease of \$1.0 million, or 1.3%. Our Loan Origination segment funds its loan inventory primarily through a \$2.0 billion Secured Liquidity Note Program and borrowing facilities with several mortgage warehouse lenders. Total interest expense for the nine months ended September 30, 2004 was \$47.7 million, compared to interest expense for the nine months ended September 30, 2003 of \$37.0 million, a \$10.7 million increase, which was primarily due to increased borrowings to fund our increased loan inventory.

Other Non-Interest Income. Other non-interest income totaled \$5.6 million for the nine months ended September 30, 2004 and the nine months ended September 30, 2003. For the nine months ended September 30, 2004, other non-interest income primarily includes rental income of \$1.6 million, income from a legal settlement of \$1.5 million, reinsurance premiums earned totaling approximately \$1.1 million and revenue from title services of \$0.7 million. For the nine months ended September 30, 2003, other non-interest income primarily consists of Principal fulfillment fees of \$1.9 million, volume incentive bonuses received from loan purchasers totaling approximately \$1.4 million and revenue from title services of \$1.0 million. The Principal fulfillment fees represent non-recurring fees received from Principal Residential Mortgage, Inc. ("PRM") for loans closed by us on behalf of PRM. As part of the agreement to acquire the retail branches of PRM, we agreed to assume the costs incurred to close out PRM's application pipeline as of the date of the agreement on behalf of PRM for a per loan fee.

Non-Interest Expenses. Total non-interest expenses of our Loan Origination segment for the nine months ended September 30, 2004 were \$199.4 million, compared to \$234.2 million for the nine months ended September 30, 2003.

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

Salaries, commissions and benefits for the nine months ended September 30, 2004 were \$125.1 million, or 77 basis points of total loan originations, compared to \$159.0 million, or 91 basis points of total loan originations, for the nine months ended September 30, 2003. The decrease in expenses reflects the higher percentage of wholesale originations in the 2004 period versus the 2003 period.

Operating expenses, excluding salaries, commissions and benefits, were \$74.3 million, or 46 basis points of total loan originations for the nine months ended September 30, 2004 compared to \$75.2 million, or 43 basis points of total loan originations for the nine months ended September 30, 2003. The increase in basis points in operating expenses is primarily the result of a 5 basis point increase

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in occupancy and equipment expense in the 2004 period versus the 2003 period. The operating expenses in the 2004 period include lease obligations and certain fixed asset expenses relating to our acquisition of the Washington Mutual branches in August 2004.

Income Tax Expense. Income tax expense decreased to a benefit of \$20.3 million for the nine months ended September 30, 2004 from an expense of \$54.7 million for the nine months ended September 30, 2003, a decrease of \$75.0 million. The decrease in income tax expense in the 2004 period versus the 2003 period reflects a decrease in income before income taxes relating to our TRS.

Loan Servicing Segment

The Loan Servicing segment total revenues for the nine months ended September 30, 2004 were a loss of \$7.0 million compared to a loss of \$21.8 million for the nine months ended September 30, 2003, an increase of \$14.8 million.

Net loan servicing fees were a loss of \$4.1 million for the nine months ended September 30, 2004, compared to a loss of \$20.1 million for the nine months ended September 30, 2003.

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Loan servicing fees decreased to \$28.9 million for the nine months ended September 30, 2004 from \$29.3 million for the nine months ended September 30, 2003, a decrease of \$0.4 million, or 1.3%. Included in loan servicing fees are gains on Ginnie Mae early buy-out sales of \$3.7 million for the nine months ended September 30, 2004 compared to \$9.7 million for the nine months ended September 30, 2003, a decrease of \$6.0 million, or 61.1%. This decrease was partly offset by an increase in loan servicing fees in the 2004 period versus the 2003 period as a result of an increase in loans serviced for others.

Amortization decreased to \$22.9 million for the nine months ended September 30, 2004 from \$45.0 million for the nine months ended September 30, 2003, a decrease of \$22.1 million, or 49.1%. The decrease in amortization was due to a rise in interest rates which resulted in slower prepayment speeds in the nine months ended September 30, 2004 versus the nine months ended September 30, 2003.

We recognized a temporary impairment provision of \$10.1 million for the nine months ended September 30, 2004 versus a temporary impairment provision of \$4.4 million for the nine months ended September 30, 2003, resulting in a decrease in net loan servicing fees of \$5.7 million. The increase in impairment provision in the nine months ended September 30, 2004 is due to a decrease in the fair value of servicing rights attributable to an increase in estimated future prepayment speeds.

Non-Interest Expenses. Total non-interest expenses of our Loan Servicing segment for the nine months ended September 30, 2004 were \$8.4 million, compared to \$6.8 million for the nine months ended September 30, 2003.

Income Tax Benefit. Income tax benefit decreased to \$6.0 million for the nine months ended September 30, 2004 from an \$11.7 million benefit for the nine months ended September 30, 2003, a decrease of \$5.7 million, or 48.3%.

Liquidity and Capital Resources

We have arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with thirteen different financial institutions and on September 30, 2004 had borrowed funds from nine of these

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firms. Because we borrow money under these agreements based on the fair value of our mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, our borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of our mortgage-backed securities declines for other reasons.

As of September 30, 2004, we had \$6.9 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.78% before the impact of interest rate swaps and a weighted-average remaining maturity of four months.

To originate a mortgage loan, we draw against a \$2.0 billion Secured Liquidity Note Program, \$1.2 billion pre-purchase facility with UBS Real Estate Securities Inc. (formerly Paine Webber Real Estate Securities Inc.) ("UBS"), a \$600 million bank syndicated facility led by Bank of America, a \$450 million facility with CDC Mortgage Capital Inc. ("CDC"), a facility of \$350 million with Morgan Stanley Bank ("Morgan Stanley") and a facility of \$200 million with Calyon Americas. In addition, the Company has a gestation facility with Greenwich Capital Financial Products, Inc. These facilities are secured by the mortgages owned by us and by certain of our other assets. Advances drawn under the facilities bear interest at rates that vary depending on the type of mortgages securing the advances. These loans are subject to sublimits, advance rates and terms that vary depending on the type of securing mortgages and the ratio of the Company's liabilities to its tangible net worth. At November 4, 2004, the aggregate outstanding balance under the warehouse facilities was \$1.3 billion, the aggregate outstanding balance in drafts payable was \$39.1 million and the aggregate maximum amount available for additional borrowings was \$2.0 billion.

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

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

- o the loan is rejected as "unsatisfactory for purchase" by the ultimate investor and has exceeded its permissible 120-day warehouse period;
- o we fail to deliver the applicable mortgage note or other documents evidencing the loan within the requisite time period;

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- o the underlying property that secures the loan has sustained a casualty loss in excess of 5% of its appraised value; or
- o the loan ceases to be an eligible loan (as determined pursuant to the applicable warehousing agreement).

As of September 30, 2004, our aggregate warehouse facility borrowings were \$547.6 million (including \$23.9 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were \$45.5 million, compared to

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\$1.1 billion (including \$29.0 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were \$25.6 million as of December 31, 2003. At September 30, 2004, our loans held for sale were \$1.1 billion compared to \$1.2 billion at December 31, 2003.

In addition to the UBS, CDC, Bank of America, Morgan Stanley, and Calyon Americas warehouse facilities, we have a purchase and sale agreement with UBS and Greenwich Capital. This agreement allows us to accelerate the sale of our mortgage loan inventory, resulting in a more effective use of the warehouse facility. Amounts sold and being held under this agreement at September 30, 2004 and December 31, 2003 were \$464.4 thousand and \$236.0 million, respectively. There was no amount so held under this agreement at November 4, 2004. This agreement is not a committed facility and may be terminated at the discretion of the counterparty.

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

We also have a \$150.0 million term loan facility with a bank syndicate led by Bank of America which we use to finance our MSR's. The term loan facility expires on December 14, 2005. Interest is based on a spread to the LIBOR and may be adjusted for earnings on escrow balances. At September 30, 2004 and December 31, 2003, borrowings under our term loan facility were \$101.0 million and \$71.5 million, respectively.

Cash and cash equivalents increased to \$186.5 million at September 30, 2004 from \$53.1 million at December 31, 2003.

Our primary sources of cash and cash equivalents during the nine months ended September 30, 2004, were as follows:

- o \$5.6 billion increase in reverse repurchase agreements;
- o \$462.7 million increase in commercial paper; and
- o \$357.0 million net decrease in mortgage loans held for sale.

Our primary uses of cash and cash equivalents during the nine months ended September 30, 2004, were as follows:

- o \$5.5 billion net increase in mortgage-backed securities;
- o \$574.2 million net decrease in warehouse lines of credit; and
- o \$287.7 million net increase in mortgage loans held for securitization.

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The Company had the following commitments (excluding derivative financial instruments) at September 30, 2004:

	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years

	(in thousands)				
Warehouse facilities	\$ 547,584	\$ 547,584	\$ -	\$ -	\$ -
Operating leases	62,931	19,523	29,024	13,167	1,217
Notes payable	128,448	102,505	718	804	24,421
Commercial paper	462,712	462,712	-	-	-
Reverse repurchase agreements	6,899,024	6,899,024	-	-	-

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ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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dealers who meet established credit and capital guidelines.

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

The Company enters into interest rate swap agreements ("Swap Agreements") to manage its interest rate exposure when financing its adjustable-rate loans and its mortgage-backed securities. The Company generally borrows money based on short-term interest rates, by entering into borrowings with maturity terms of less than one year, and frequently nine to twelve months. The Company's adjustable-rate loans and mortgage-backed securities financing vehicles generally have an interest rate that reprices based on frequency terms of one to twelve months. The Company's mortgage-backed securities have an initial fixed interest rate period of three to five years. When the Company enters into a Swap Agreement, it generally agrees to pay a fixed rate of interest and to receive a variable interest rate, generally based on LIBOR. These Swap Agreements have the effect of converting the Company's variable-rate debt into fixed-rate debt over the life of the Swap Agreements. These instruments are used as a cost-effective way to lengthen the average repricing period of the Company's variable-rate and short-term borrowings such that the average repricing of the borrowings more closely matches the average repricing of the Company's mortgage-backed securities. The Company's duration gap was less than one month on September 30, 2004.

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The following table summarizes the Company's interest rate sensitive instruments:

	September 30, 2004	
	Carrying Value	Estimated Fair Value
Assets:		
Mortgage-backed securities	\$7,331,888	\$7,331,888
Derivative assets (1)	11,630	37,159
Mortgage loans held for sale, net	1,131,661	1,148,827
Mortgage servicing rights, net	160,435	163,047
Liabilities:		
Reverse repurchase agreements	\$6,899,024	\$6,892,190
Derivative liabilities	18,237	18,237
December 31, 2003		
	Carrying Value	Estimated Fair Value
Assets:		
Mortgage-backed securities	\$1,763,628	\$1,763,628
Derivative assets	30,611	30,611
Mortgage loans held for sale, net	1,216,353	1,218,667

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Mortgage servicing rights, net	117,784	117,784
Liabilities:		
Reverse repurchase agreements	\$1,344,327	\$1,344,327
Derivative liabilities	12,694	12,694

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

The Company had total commitments to lend at September 30, 2004 and December 31, 2003 of \$6.5 billion and \$4.0 billion, respectively.

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ITEM 4.

CONTROLS AND PROCEDURES

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this quarterly report. The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to determine whether any changes occurred during the third quarter of 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the third quarter of 2004.

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PART II-OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

None.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following is a description of the Company's securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act"), which were sold during the quarter ended September 30, 2004.

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The Company acquired First Home Mortgage Corp. ("First Home") on September 30, 2000. In addition to the shares paid to former First Home shareholders as initial consideration, the Company may be required to issue unregistered shares of common stock to the former shareholders as additional consideration under the earnout provisions of the merger agreement. On July 1, 2004, pursuant to these earnout provisions, the Company issued an aggregate of 2,051 shares of common stock to the former First Home shareholders as additional consideration. In addition, on August 16, 2004, the Company issued 3,783 shares of common stock to such shareholders as additional consideration. These securities were exempt from registration under Section 4(2) of the Securities Act because they were issued pursuant to the terms of a private transaction rather than through a public offering.

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5.

OTHER INFORMATION

None.

ITEM 6.

EXHIBITS

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

Exhibit 10.1 Credit Agreement, dated August 30, 2004 (the "Credit Agreement"), by and among American Home Mortgage Servicing, Inc., American Home Mortgage Corp., American Home Mortgage Acceptance, Inc., collectively as Borrowers, the Lenders from time to time party thereto, Bank of America, N.A., as Administrative Agent and Swing Line Lender, Calyon Bank New York Branch and Deutsche Bank Securities, as Co-Syndication Agents, ABN AMRO Bank N.V., Citibank, N.A. and U.S. Bank National Association, as Co-Documentation Agents, and Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 3, 2004).

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Exhibit 10.2 Security and Collateral Agency Agreement, dated August 30, 2004, by and among American Home Mortgage Servicing, Inc., American Home Mortgage Corp., American Home Mortgage Acceptance, Inc., collectively as Borrowers, Bank of America, N.A., as Administrative Agent for the Lenders from time to time party to the Credit Agreement, and Deutsche Bank National Trust Company,

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as Custodian and Collateral Agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 3, 2004).

- Exhibit 10.3 Guaranty, dated August 30, 2004, by American Home Mortgage Investment Corp. and American Home Mortgage Holdings, Inc., jointly and severally, in favor of the Lenders and Bank of America, N.A., as Administrative Agent for the Lenders, for the Borrowers' obligations under the Credit Agreement (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on September 3, 2004).
- Exhibit 10.4 Amendment No. 6, dated as of September 27, 2004, to the Amended and Restated Master Loan and Security Agreement, dated as of November 26, 2003, by and among American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Holdings, Inc., American Home Mortgage Acceptance, Inc., and American Home Mortgage Servicing, Inc., collectively as Borrowers, the Lenders from time to time parties thereto (the "MS Lenders"), and Morgan Stanley Bank, as agent for the MS Lenders.
- Exhibit 10.5 Amendment No. 1, dated as of September 27, 2004, to the Amended and Restated Custodial Agreement, dated as of November 26, 2003, by and among American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Holdings, Inc., American Home Mortgage Acceptance, Inc., and American Home Mortgage Servicing, Inc., collectively as Borrowers, Deutsche Bank National Trust Company, as Custodian, and Morgan Stanley Bank, as Agent for the MS Lenders.
- Exhibit 10.6 First Amendment, dated as of September 1, 2004, to the Mortgage Loan Purchase and Sale Agreement (Whole Loan Purchase and Sale Agreement), dated January 1, 2004, by and among Greenwich Capital Financial Products, Inc., as Purchaser, and American Home Mortgage Corp. and American Home Mortgage Servicing, Inc., together as Sellers.
- Exhibit 10.7 Second Amended and Restated Revolving Credit Agreement, dated as of September 24, 2004, by and among American Home Mortgage Corp. and American Home Mortgage Servicing, Inc., together as Borrowers, and U.S. Bank National Association, as Lender.
- Exhibit 10.8 Second Amended and Restated Pledge and Security Agreement, dated as of September 24, 2004, by and among American Home Mortgage Corp. and American Home Mortgage Servicing, Inc., together as Borrowers, and U.S. Bank National Association, as Lender.
- Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Exhibit 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

AMERICAN HOME MORTGAGE INVESTMENT CORP.
(Registrant)

Date: November 9, 2004

By: /s/ Michael Strauss

Michael Strauss
Chairman of the Board, Chief Executive
Officer and President

Date: November 9, 2004

By: /s/ Stephen A. Hozie

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

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