UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2007.

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.)**
538 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 x No ¨

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

As of May 4, 2007, there were 54,278,645 shares of the registrant s common stock, par value $0.01 per share, outstanding.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

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PART I-FINANCIAL INFORMATION

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	March 31, 2007 (Unaudited)	December 31, 2006
Assets:		
Cash and cash equivalents	$ 836,860	$ 398,166
Securities purchased under agreements to resell	58,675	
Accounts receivable and servicing advances	316,673	432,418
Securities (including securities pledged of $6,547,901 as of March 31, 2007 and $8,690,803 as of December 31, 2006)	7,557,886	9,308,032
Mortgage loans held for sale, net	955,451	1,523,737
Mortgage loans held for sale, at fair value	3,926,296	
Mortgage loans held for investment, net of allowance of $16,586 as of March 31, 2007 and $14,191 as of December 31, 2006	6,010,969	6,329,721
Derivative assets	22,718	32,142
Mortgage servicing rights	525,565	506,341
Premises and equipment, net	87,723	86,211
Goodwill	133,248	133,128
Other assets	121,871	79,089
Total assets	$ 20,553,935	$ 18,828,985
Liabilities and Stockholders Equity:		
Liabilities:		
Warehouse lines of credit	$ 4,013,190	$ 1,304,541
Commercial paper	1,696,256	1,273,965
Reverse repurchase agreements	6,727,505	8,571,459
Deposits	184,614	24,016
Collateralized debt obligations	4,719,376	4,854,801
Payable for securities purchased	595,277	289,716
Derivative liabilities	36,550	12,644
Trust preferred securities	336,616	336,078
Accrued expenses and other liabilities	396,109	361,923
Notes payable	531,867	417,467
Income taxes payable	92,831	112,089
Total liabilities	19,330,191	17,558,699
Commitments and contingencies		
Stockholders Equity:		
Preferred Stock, par value $0.01 per share, 10,000,000 shares authorized:		
9.75% Series A Cumulative Redeemable, 2,150,000 shares issued and outstanding as of March 31, 2007 and December 31, 2006	50,857	50,857
9.25% Series B Cumulative Redeemable, 3,450,000 shares issued and outstanding as of March 31, 2007 and December 31, 2006	83,183	83,183
Common Stock, par value $0.01 per share, 100,000,000 shares authorized, 50,273,878 and 50,195,499 shares issued and outstanding as of March 31, 2007 and December 31, 2006, respectively	503	502
Additional paid-in capital	965,034	963,617

Retained earnings	173,900	257,283
Accumulated other comprehensive loss	(49,733)	(85,156)
Total stockholders equity	1,223,744	1,270,286
Total liabilities and stockholders equity	$ 20,553,935	$ 18,828,985

See notes to consolidated financial statements (unaudited).

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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 March 31, 2007	2006
Net interest income:		
Interest income	$ 394,277	$ 300,613
Interest expense	(333,738)	(254,035)
Total net interest income	60,539	46,578
Provision for loan losses	(9,143)	(1,311)
Total net interest income after provision for loan losses	51,396	45,267
Non-interest income:		
Gain on sales of mortgage loans	126,817	171,907
(Loss) gain on securities and derivatives	(4,242)	8,465
Loan servicing fees	46,084	24,333
Changes in fair value of mortgage servicing rights:		
Due to realization of cash flows	(24,959)	(18,735)
Due to changes in valuation assumptions, net of hedge gain	(1,076)	114
Net loan servicing fees	20,049	5,712
Other non-interest income	3,221	1,769
Total non-interest income	145,845	187,853
Non-interest expenses:		
Salaries, commissions and benefits, net	107,871	99,267
Occupancy and equipment	21,306	17,970
Data processing and communications	5,377	7,126
Office supplies and expenses	4,851	4,332
Marketing and promotion	4,278	5,800
Travel and entertainment	7,797	6,753
Professional fees	6,904	5,331
Other	20,850	15,882
Total non-interest expenses	179,234	162,461
Net income before income tax (benefit) expense	18,007	70,659
Income tax (benefit) expense	(12,675)	16,200
Net income	$ 30,682	$ 54,459
Dividends on preferred stock	3,305	3,305

Net income available to common stockholders	$	27,377	$	51,154
Per share data:				
Basic	$	0.55	$	1.03
Diluted	$	0.54	$	1.02
Weighted average number of shares basic		50,223		49,715
Weighted average number of shares diluted		50,499		50,070

See notes to consolidated financial statements (unaudited).

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited)

THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance at January 1, 2006	$ 134,040	$ 496	$ 947,512	$ 203,778	$ (78,810)	$ 1,207,016
Comprehensive income:						
Net income				54,459		54,459
Net change in accumulated other comprehensive loss					13,990	13,990
Comprehensive income						68,449
Cumulative effect adjustment due to adoption of SFAS No. 156				(2,917)		(2,917)
Issuance of Common Stock - earnouts		3	9,555			9,558
Issuance of Common Stock - 1999 Omnibus Stock Incentive Plan		1	698			699
Stock-based employee compensation expense			410			410
Dividends declared on Series A Preferred Stock				(1,310)		(1,310)
Dividends declared on Series B Preferred Stock				(1,995)		(1,995)
Dividends declared on Common Stock				(45,503)		(45,503)
Balance at March 31, 2006	$ 134,040	$ 500	$ 958,175	$ 206,512	$ (64,820)	$ 1,234,407
Balance at January 1, 2007	$ 134,040	$ 502	$ 963,617	$ 257,283	$ (85,156)	$ 1,270,286
Comprehensive income:						
Net income				30,682		30,682
Net change in accumulated other comprehensive loss					(19,030)	(19,030)
Comprehensive income						11,652
Cumulative effect adjustment due to adoption of SFAS No. 159				(54,453)	54,453	
Issuance of Common Stock - 1999 Omnibus Stock Incentive Plan		1	798			799
Stock-based employee compensation expense			322			322
Tax benefit from stock options exercised			297			297
Dividends declared on Series A Preferred Stock				(1,310)		(1,310)
Dividends declared on Series B Preferred Stock				(1,995)		(1,995)
Dividends declared on Common Stock				(56,307)		(56,307)
Balance at March 31, 2007	$ 134,040	$ 503	$ 965,034	$ 173,900	$ (49,733)	$ 1,223,744

See notes to consolidated financial statements (unaudited).

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net income	$ 30,682	$ 54,459
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,637	3,953
Provision for loans held for investment	9,143	1,311
Provision (recovery) for loans held for sale	60,543	(412)
Change in fair value of mortgage servicing rights	26,421	18,621
Accretion and amortization of mortgage-backed securities, net	(8,530)	2,331
Deferred cash flow hedge gain, net of amortization	8,323	3,909
Gain on sales of mortgage-backed securities and derivatives	(5,155)	
Unrealized loss on mortgage-backed securities	14,073	3,090
Unrealized loss (gain) on free standing derivatives	3,431	(4,765)
Increase (decrease) in forward delivery contracts	13,174	(24,041)
Capitalized mortgage servicing rights on sold loans	(45,645)	(69,768)
(Increase) decrease in interest rate lock commitments	(8,904)	7,131
Fair value in excess of cost basis on mortgage loans held for sale, fair value	(44,831)	
Cost basis adjustments on mortgage loans held for sale, fair value	(52,100)	
Decrease in mortgage loan basis adjustments	9,836	4,731
Excess tax benefits from share-based payment arrangements	(297)	
Other	3,111	(198)
(Increase) decrease in operating assets:		
Accounts receivable	118,178	6,829
Servicing advances	(2,433)	(3,281)
Other assets	11,210	(1,451)
Increase (decrease) in operating liabilities:		
Accrued expenses and other liabilities	22,412	93,876
Income taxes payable	(18,961)	16,173
Origination of mortgage loans held for sale	(16,624,997)	(12,203,014)
Principal received from sales of mortgage loans held for sale	13,255,213	13,372,986
Additions to mortgage-backed securities and derivatives	(67,834)	
Principal proceeds from sales of self-originated mortgage-backed securities		1,809,796
Cash received from residual assets in securitizations	16,519	27,353
Principal repayments of mortgage-backed securities	39,340	93,845
Net cash (used in) provided by operating activities	(3,232,441)	3,213,464
Cash flows from investing activities:		
Purchases of premises and equipment	(7,149)	(10,765)
Origination of mortgage loans held for investment	(121,224)	(970,335)
Proceeds from repayments and dispositions of mortgage loans held for investment	425,385	137,545
Net increase in securities purchased under agreements to resell	(58,675)	
Purchases of mortgage-backed securities	(1,452,021)	(1,389,336)
Principal proceeds from sales of purchased mortgage-backed securities	2,737,023	
Principal repayments of purchased mortgage-backed securities	474,015	438,297

Net increase in investment in Federal Home Loan Bank stock, at cost	(713)	
Acquisition of business		(550,077)
Net cash provided by (used in) investing activities	1,996,641	(2,344,671)
Cash flows from financing activities:		
Increase (decrease) in warehouse lines of credit, net	2,708,649	(1,719,610)
Decrease in reverse repurchase agreements, net	(1,843,954)	(907,094)
Increase in deposits	160,598	
(Decrease) increase in collateralized debt obligations	(135,425)	1,847,293
Increase (decrease) in payable for securities purchased	305,561	(46,425)
Increase (decrease) in commercial paper, net	422,291	(5,549)
Decrease in drafts payable, net	(2,751)	(4,377)
Increase in trust preferred securities	538	330
Increase in notes payable, net	114,400	11,405
Proceeds from issuance of Common Stock	802	652
Excess tax benefits from share-based payment arrangements	297	
Dividends paid	(56,512)	(48,477)
Net cash provided by (used in) financing activities	1,674,494	(871,852)
Net increase (decrease) in cash and cash equivalents	438,694	(3,059)
Cash and cash equivalents, beginning of period	398,166	575,650
Cash and cash equivalents, end of period	$ 836,860	$ 572,591
Supplemental disclosure of cash flow information:		
Interest paid	$ 318,455	$ 181,955
Income taxes paid	$ 6,345	$ 32
Supplemental disclosure of non-cash investing information:		
Net transfer of loans held for sale to loans held for investment	$ 10,135	$

See notes to consolidated financial statements (unaudited).

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization American Home Mortgage Investment Corp. (AHM Investment) is a mortgage REIT focused on earning net interest income from mortgage loans and 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 and mortgage brokers or are purchased from correspondents, and are serviced at the Company s Irving, Texas servicing center. As used herein, references to the Company, American Home, we, our and us refer to AHM Investment collectively with its subsidiaries.

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.

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 Cash Equivalents Cash and cash equivalents are demand deposits and short-term investments with a maturity of 90 days or less. The carrying amount of cash and cash equivalents approximates its fair value.

Fair Value A substantial portion of the Company s assets and certain of the Company s liabilities are carried at fair value. At the beginning of 2007, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. With the adoption of SFAS No. 159, the Company recognized a gain of approximately $44.8 million during the three months ended March 31, 2007, related to the fair value in excess of cost basis of mortgage loans held for sale. The Company s cost basis adjustments relating to the direct costs of originating the loans were $52.1 million during the three months ended March 31, 2007, and were recognized in earnings. The transition adjustment to beginning retained earnings related to the adoption of SFAS No. 159 was a loss of $54.5 million, net of tax, all of which related to applying the fair value option to securities.

Securities, at Fair Value The fair values of the Company s securities carried at fair value are generally based on market prices provided by certain dealers who make markets in these financial instruments. Changes in the fair value of securities are recognized in earnings and are included in (loss) gain on securities and derivatives.

Mortgage Loans Held for Sale Mortgage loans held for sale originated prior to January 1, 2007 are carried at the lower of cost or aggregate market value (LOCOM). The cost basis includes the capitalized value of the prior 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 market value is determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate basis.

Mortgage Loans Held for Sale, at Fair Value Mortgage loans held for sale originated after January 1, 2007 are carried at fair value. The fair value of mortgage loans held for sale may be determined by either outstanding commitments from investors, recent trade prices for identical or similar loans, or other observable data. Unrealized gain or loss is recognized in earnings for the difference between the cost basis, including upfront costs and fees, and the fair value of the loans. Unrealized gain or loss is included in gain on sales of mortgage loans.

Mortgage Loans Held for Investment Mortgage loans held for investment represent loans securitized through transactions structured as financings, or pending securitization through transactions that are expected to be structured as financings. Mortgage loans held for investment are carried at the aggregate of their remaining unpaid principal balances, including the capitalized value of the prior IRLCs related to the mortgage loans, plus net deferred origination costs, less any related charge-offs and allowance for loan losses. Loan fees and direct origination costs are deferred and amortized into interest income over the contractual life of the loan using the level-yield method.

Allowance for Losses on Mortgage Loans Held for Investment The Company maintains an allowance for loan losses for its mortgage loans held for investment, based on the Company s estimate of current existing losses. Additions to the allowance for loan losses are based on assessments of certain factors, including historical loan loss experience of similar types of loans, the Company s loan loss experience, the amount of past due and nonperforming loans, specific known risks, the value of collateral securing the loans, and current and anticipated economic and interest rate conditions. Evaluation of these factors involves subjective estimates and judgments that may change. Additions to the allowance for loan losses are provided through a charge to income and recorded within provision for loan losses in the consolidated statements of income. The allowance for loan losses is reduced by subsequent charge-offs, net of recoveries.

Real Estate Owned The Company s real estate owned (REO) represents property acquired through foreclosure or other proceedings. REO is carried at the lower of cost or fair value, less costs to sell. REO is reported in other assets in the consolidated balance sheet. The Company periodically evaluates all REO, and reductions in carrying value are recognized in other non-interest expenses in the consolidated statements of income.

Mortgage Servicing Rights In March 2006, the Financial Accounting Standards Board (FASB) released SFAS No. 156, *Accounting for Servicing Financial Assets, an amendment of SFAS No. 140* (SFAS No. 156). SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and liabilities be initially measured at fair value, if practical. The effective date of this statement is as of the beginning of the entity s first fiscal year that begins after September 15, 2006; however, early adoption is permitted as of the beginning of any fiscal year, provided the entity has not issued financial statements for the interim period. The initial recognition and measurement of servicing assets and servicing liabilities are required to be applied prospectively to transactions occurring after the effective date. The Company elected to early adopt SFAS No. 156 as of January 1, 2006 and, upon measurement of its mortgage servicing rights (MSRs) at fair value, recorded a cumulative effect adjustment to retained earnings of $718 thousand after tax. The Company s election increased MSRs by $1.2 million. Prior to January 1, 2006, MSRs were carried at the lower of cost or fair value, based on defined interest rate risk strata, and the gross MSR asset was amortized in proportion to and over the period of estimated net servicing income. The Company estimates the fair value of its MSRs by obtaining market information from one of the market s primary independent MSR brokers.

Premises and Equipment Premises and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated service lives of the premises and equipment. 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 in the consolidated statements of income.

Goodwill Goodwill represents the excess purchase price over the fair value of net assets acquired from business acquisitions. The Company s goodwill includes earnouts, consisting of cash and shares of the Company s common stock, par value $0.01 per share (Common Stock), paid to former shareholders of previously acquired companies. 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 holdings segment includes a forecast of the expected future net interest income, gain on securities and derivatives 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.

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 borrowings and recorded as a liability on the consolidated balance sheet.

Collateralized Debt Obligations The Company has issued adjustable-rate collateralized debt obligations (CDOs) to finance certain portions of its mortgage loans. The CDOs are collateralized by primarily adjustable-rate mortgage (ARM) loans that have been placed in a trust and bear interest rates that have historically moved in close relationship to LIBOR. CDOs are accounted for as borrowings and recorded as a liability on the consolidated balance sheet.

Commercial Paper The Company maintains 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 and mortgage loans held for investment. The commercial paper may be secured by the Company s mortgage loans held for sale, mortgage loans held for investment, mortgage-backed securities (MBS) or cash and bears interest at prevailing money market rates approximating LIBOR. Commercial paper is accounted for as a borrowing and recorded as a liability on the consolidated balance sheet.

Trust Preferred Securities The Company has formed wholly owned statutory business trusts (Trusts) for the purpose of issuing trust preferred securities. The Company does not consolidate its Trusts, which results in a liability to the Trusts, which is recorded in trust preferred securities on the consolidated balance sheet.

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 (IRLCs). 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 and have locked their terms and rates. The Company uses mortgage forward delivery contracts to economically hedge the IRLCs. The Company classifies and accounts for the IRLCs associated with loans expected to be sold as free-standing derivatives. Accordingly, IRLCs related to loans held for sale are recorded at fair value with changes in fair value recorded to current earnings.

Forward Delivery Commitments Used to Economically 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 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.

Total Return Swaps Used to Economically Hedge MSRs. The Company uses agency trust principal only total return swaps to economically hedge its MSRs, 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.

Swaptions Used to Economically Hedge MSRs. The Company uses swaptions to economically hedge its MSRs, 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.

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 is 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 income (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 income (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 SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), the Company does not account for these hedges under a method defined in SFAS No. 133 as the shortcut method, but rather the Company performs an assessment of the hedge effectiveness and measures 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 (loss) gain on 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 (loss) gain on 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 or cash flows 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, net of hedge gains or losses, for the difference between the sales price and the adjusted book value of the loans, less associated market valuation reserves and recourse liabilities, at the time of sale. The adjusted book value of the loans includes the original principal amount plus SFAS No. 133 basis adjustments plus deferrals of fees and points received and direct loan origination costs. Recourse liabilities could include the potential repurchase of loans or indemnification of losses based on violations of representations and warranties which are customary to the business. The Company s recourse liabilities are recorded in accrued expenses and other liabilities on the consolidated balance sheet.

The Company has elected to utilize the fair value option to measure mortgage loans held for sale originated after January 1, 2007, in accordance with SFAS No. 159. With the adoption of SFAS No. 159, the Company records in current earnings as gain on sale of loans its fair value in excess of cost basis of mortgage loans held for sale.

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 or the loan is marked to fair value. When loans held for investment are securitized, net deferred origination costs are amortized over the life of the loan using the level-yield method and such amounts adjust 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 (loss) gain on securities and derivatives.

Interest Recognition The Company accrues interest income for all loans and securities as it is earned and interest expense as it is incurred. 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.

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 (loss) gain on 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 Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, *Share Based Payment* (SFAS No. 123R), using the modified prospective method. Under this method, compensation cost includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated using a binomial lattice-based option valuation model. The Company s policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. Additionally, the Company s policy is to issue authorized but unissued shares of Common Stock to satisfy stock option exercises.

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

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 February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS No. 155). Key provisions of SFAS No. 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips and principal-only strips from derivative accounting under paragraph 14 of SFAS No. 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are free standing derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a QSPE holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. In general, these changes will reduce the operational complexity associated with bifurcating embedded derivatives, and increase the number of beneficial interests in securitization transactions, including interest-only strips and principal-only strips, required to be accounted for in accordance with SFAS No. 133. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after November 15, 2006. The adoption of SFAS No. 155 did not have a material effect on the Company s consolidated financial statements.

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes An Interpretation of SFAS No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for financial statements issued for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material effect on the Company s consolidated financial statements.

In September 2006, the SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statement* (SAB 108), on quantifying financial statement misstatements. In summary, SAB 108 was issued to address the diversity in practice of evaluating and quantifying financial statement misstatements and the related accumulation of such misstatements. SAB 108 states that both a balance sheet approach and an income statement approach should be used when quantifying and evaluating the materiality of a potential misstatement and contains guidance for correcting errors under this dual perspective. SAB 108 is effective for financial statements issued for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, which provides for enhanced guidance for using the fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS No. 157 is applicable under other accounting pronouncements that either require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

Effective January 1, 2007, the Company adopted the methods of fair value as prescribed in SFAS No. 157 to value financial assets and liabilities. As defined in SFAS No. 157, fair value is based on exit price or the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2: Observable prices based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs used when little or no market data is available.

The Company has applied this definition of fair value in conjunction with its adoption of SFAS No. 159.

In February 2007, the FASB issued SFAS No. 159, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in

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earnings caused by measuring related assets and liabilities differently. SFAS No. 159 establishes presentation and disclosure requirements and requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company s choice to use fair value on its earnings. SFAS No. 159 also requires entities to display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the balance sheet. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and early adoption is permitted for fiscal years beginning on or before November 15, 2007 provided that the entity makes that choice in the first 120 days of the fiscal year, has not issued financial statements for any interim period of the fiscal year of adoption and also elects to apply the provisions of SFAS No. 157. Effective January 1, 2007, the Company is electing to utilize the fair value option to value a portion of its mortgage loans held for sale and substantially all of its marketable securities. The Company did not elect the fair value option for its mortgage loans held for sale held as of December 31, 2006 due to cost-benefit considerations.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are demand deposits and short-term investments with a maturity of 90 days or less. The carrying amount of cash and cash equivalents approximates its fair value.

Included within cash and cash equivalents are reserve balances that the Company is required to maintain due to contractual or fiduciary obligations. These restrictions include funds collected for various escrow responsibilities, including funds held for tax and insurance collections. The Company s reserved funds as of March 31, 2007, and December 31, 2006 are $310.1 million and $218.1 million, respectively.

NOTE 3 FAIR VALUE

The following tables present the Company s financial assets and liabilities that were accounted for at fair value as of March 31, 2007 by level within the fair value hierarchy. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	March 31, 2007			
	Level 1	Level 2	Level 3	Total
(In thousands)				
Securities	$	$ 7,556,464	$	$ 7,556,464
Mortgage loans held for sale	271,338	3,654,958		3,926,296
Derivative assets		22,718		22,718
Mortgage servicing rights		525,565		525,565
Total assets at fair value	$ 271,338	$ 11,759,705	$	$ 12,031,043

	March 31, 2007			
	Level 1	Level 2	Level 3	Total
(In thousands)				
Derivative liabilities	$	$ 36,550	$	$ 36,550
Total liabilities at fair value	$	$ 36,550	$	$ 36,550

The Company elected to early adopt SFAS No. 159 as of January 1, 2007, and in doing so, began employing the use of fair value measurement for a portion of its mortgage loans held for sale and its marketable securities. The Company has elected to utilize the fair value option to measure mortgage loans held for sale originated after January 1, 2007. With the adoption of SFAS No. 159, the Company recognized a gain of approximately $44.8 million during the three months ended March 31, 2007, related to the fair value in excess of cost basis of mortgage loans held for sale. The Company s cost basis adjustments relating to the adoption of SFAS No. 159 were $52.1 million during the three months ended March 31, 2007.

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The Company s primary reasons for electing the fair value option were mitigating volatility in earnings from different measurement attributes, simplification, and cost-benefit considerations. The transition adjustment to beginning retained earnings related to the adoption of SFAS No. 159 was a loss of $54.5 million, net of tax, all of which related to applying the fair value option to securities.

NOTE 4 SECURITIES

The following table presents the Company s securities as of March 31, 2007 and December 31, 2006:

	March 31, 2007	December 31, 2006
(In thousands)		
Mortgage-backed securities:		
Agency	$ 354,935	$ 212,591
Privately issued rated	7,018,617	8,887,249
Privately issued unrated	180,128	204,710
Total mortgage-backed securities	7,553,680	9,304,550
Fannie Mae bonds	1,994	1,979
Corporate bonds	186	188
Trust preferred securities	592	593
Equity securities	12	13
Total securities at fair value	7,556,464	9,307,323
FHLB stock, at cost	1,422	709
Total securities	$ 7,557,886	$ 9,308,032

The Company s securities held at March 31, 2007 were primarily either agency obligations or were rated AAA or AA by Standard & Poor s.

A substantial portion of the Company s securitizations qualified as sales under SFAS No. 140, which resulted in the recording of residual assets and MSRs on the consolidated balance sheet. The principal balance of off-balance sheet securitized loans that the Company has securitized privately was $12.0 billion and $10.7 billion as of March 31, 2007 and December 31, 2006, respectively. The credit exposure associated with the Company s off-balance sheet securitized loans is limited to the fair value of the Company s residual assets from securitizations totaling $182.9 million and $206.1 million as of March 31, 2007 and December 31, 2006, respectively. As of March 31, 2007, the Company s nonperforming off-balance sheet securitized loans were $310.1 million, or 2.59% of the total portfolio. As of December 31, 2006, the Company s nonperforming off-balance sheet securitized loans were $266.0 million, or 2.48% of the total portfolio.

The significant assumptions used in estimating the fair value of residual cash flows as of March 31, 2007 and December 31, 2006 were as follows:

	March 31, 2007	December 31, 2006
Weighted-average prepayment speed (CPR)	28.70%	30.48%
Weighted-average discount rate	19.03%	16.74%
Weighted-average annual default rate	0.83%	0.63%
Weighted-average loss severity	21.11%	22.33%

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NOTE 5 MORTGAGE LOANS

Mortgage Loans Held For Sale, at Fair Value

The following table presents the Company s mortgage loans held for sale, at fair value, as of March 31, 2007:

(In thousands)	March 31, 2007
Mortgage loans held for sale	$ 3,829,365
Mark to fair value equal to cost basis adjustments	52,100
Mark to fair value in excess of cost basis adjustments	44,831
Total mortgage loans held for sale, at fair value	$ 3,926,296

At March 31, 2007, the Company marked to fair value $3.8 billion of mortgage loans held for sale and recognized a gain of approximately $44.8 million related to the fair value in excess of cost basis on mortgage loans held for sale. The Company s cost basis adjustments relating to the direct costs of originating the loans were $52.1 million during the three months ended March 31, 2007.

As of March 31, 2007, the Company held no mortgage loans held for sale, at fair value, which were contractually past due 90 days or more as to principal or interest payments.

Mortgage Loans Held For Sale, Net

The following table presents the Company s mortgage loans held for sale, net, as of March 31, 2007 and December 31, 2006:

(In thousands)	March 31, 2007	December 31, 2006
Mortgage loans held for sale	$ 1,001,815	$ 1,533,613
SFAS No. 133 basis adjustments	(1,199)	(2,467)
Deferred origination costs, net	7,650	14,639
LOCOM valuation reserves	(52,815)	(22,048)
Total mortgage loans held for sale, net	$ 955,451	$ 1,523,737

During the three months ended March 31, 2007, the Company sold or added at fair value mortgage loans totaling $17.2 billion and realized $126.8 million in gains.

During the three months ended March 31, 2006, the Company sold mortgage loans totaling $13.5 billion and realized $171.9 million in gains.

During the three months ended March 31, 2007, the Company deferred $253.1 million of loan origination costs as an adjustment to the cost basis for additions to mortgage loans held for sale. The Company s gain on sale of loans was reduced by $208.0 million of deferred origination costs associated with mortgage loans sold and $52.1 million of cost basis adjustments for mortgage loans held for sale at fair value during the three months ended March 31, 2007.

During the three months ended March 31, 2006, the Company deferred $127.9 million of loan origination costs as an adjustment to the cost basis for additions to mortgage loans held for sale. The Company s gain on sale of loans was reduced by $134.7 million of deferred origination costs associated with mortgage loans sold during the three months ended March 31, 2006.

As of March 31, 2007, the Company s nonaccruing mortgage loans held for sale was $242.9 million, or 5.03% of the total mortgage loans held for sale portfolio. As of December 31, 2006, the Company s nonaccruing mortgage loans held for sale was $124.3 million, or 8.13% of the total mortgage loans held for sale portfolio.

As of March 31, 2007 and December 31, 2006, the Company held no accruing mortgage loans held for sale which were contractually past due 90 days or more as to principal or interest payments.

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Mortgage Loans Held For Investment, Net

The following table presents the Company s mortgage loans held for investment, net, as of March 31, 2007 and December 31, 2006:

(In thousands)	March 31, 2007	December 31, 2006
Mortgage loans held for investment:		
One-to-four family	$ 5,964,664	$ 6,276,890
Commercial	4,562	4,580
Mortgage loans held for investment	5,969,226	6,281,470
SFAS No. 133 basis adjustments	(2,736)	(2,967)
Deferred origination costs, net	61,065	65,409
Allowance for loan losses	(16,586)	(14,191)
Total mortgage loans held for investment, net	$ 6,010,969	$ 6,329,721

During the three months ended March 31, 2007, the Company deferred $361.1 thousand of loan origination costs as an adjustment to the cost basis for mortgage loans added to its held for investment portfolio. The Company s interest income was reduced by $4.7 million of deferred origination cost amortization on mortgage loans held for investment during the three months ended March 31, 2007.

During the three months ended March 31, 2006, the Company deferred $8.4 million of loan origination costs as an adjustment to the cost basis for mortgage loans added to its held for investment portfolio. The Company s interest income was reduced by $2.8 million of deferred origination cost amortization on mortgage loans held for investment during the three months ended March 31, 2006.

As of March 31, 2007, the Company s mortgage loans held for investment includes $4.9 billion of mortgage loans pledged as collateral for its collateralized debt obligations.

As of December 31, 2006, the Company s mortgage loans held for investment includes $5.0 billion of mortgage loans pledged as collateral for its collateralized debt obligations.

The following table presents the activity in the Company s allowance for loan losses for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(In thousands)	
Balance at beginning of period	$ 14,191	$ 2,142
Provision for loan losses	9,143	1,311
Charge-offs	(6,748)	
Balance at end of period	$ 16,586	$ 3,453

As of March 31, 2007, the Company s nonaccruing mortgage loans held for investment was $96.1 million, or 1.61% of the total mortgage loans held for investment portfolio. As of December 31, 2006, the Company s nonaccruing mortgage loans held for investment was $82.4 million, or 1.31% of the total mortgage loans held for investment portfolio.

As of March 31, 2007 and December 31, 2006, the Company held no accruing loans held for investment which were contractually past due 90 days or more as to principal or interest payments.

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NOTE 6 DERIVATIVE ASSETS AND LIABILITIES

The following table presents the Company s derivative assets and liabilities as of March 31, 2007 and December 31, 2006:

(In thousands)	March 31, 2007	December 31, 2006
Derivative Assets		
Interest rate lock commitments	$ 13,524	$ 11,728
Interest rate swaps	5,556	9,759
Swaptions	2,185	2,367
Forward delivery contracts loan commitments		4,253
Forward delivery contracts loans held for sale		2,342
Other	1,453	1,693
Derivative assets	$ 22,718	$ 32,142
Derivative Liabilities		
Interest rate swaps	$ 24,323	$ 1,624
Forward delivery contracts loan commitments	2,903	
Total return swaps	2,725	3,178
Forward delivery contracts loans held for sale	2,282	
Interest rate lock commitments	733	7,842
Other	3,584	
Derivative liabilities	$ 36,550	$ 12,644

As of March 31, 2007 and December 31, 2006, the notional amount of forward delivery contracts was approximately $7.6 billion and $4.8 billion, respectively.

As of March 31, 2007 and December 31, 2006, the notional amount of interest rate swap agreements was approximately $5.2 billion and $8.4 billion, respectively.

As of March 31, 2007 and December 31, 2006, the notional amount of swaptions was approximately $380.0 million.

As of March 31, 2007 and December 31, 2006, the notional amount of total return swaps was approximately $148.7 million and $152.6 million, respectively.

The Company s forward delivery contracts have a high correlation to the price movement of the loans being hedged. The ineffectiveness in hedging loans held for sale recorded on the consolidated balance sheets was insignificant as of March 31, 2007 and December 31, 2006.

The unrealized loss on interest rate swap agreements, interest rate caps and other derivative liabilities relating to cash flow hedges recorded in accumulated other comprehensive loss was $49.7 million and $30.7 million as of March 31, 2007 and December 31, 2006, respectively. During the three months ended March 31, 2007, the increase in unrealized loss on cash flow hedges, net of amortization, was $19.0 million. During the three months ended March 31, 2006, the increase in unrealized gain on cash flow hedges, net of amortization, was $49.8 million. These changes in unrealized gain and loss on cash flow hedges are reported in net change in accumulated other comprehensive loss in the consolidated statements of stockholders equity.

The Company estimates that $6.4 million of the unrealized loss as of March 31, 2007 will be reclassified from accumulated other comprehensive loss to interest expense for the twelve months ended March 31, 2008.

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NOTE 7 MORTGAGE SERVICING RIGHTS

The Company elected to early adopt SFAS No. 156 as of January 1, 2006, and has recorded its MSRs at fair value. The Company s adoption of SFAS No. 156 resulted in a cumulative-effect adjustment as of January 1, 2006, which increased MSRs by $1.2 million.

Prior to January 1, 2006, MSRs were carried at the lower of cost or fair value, based on defined interest rate risk strata, and the gross MSR asset was amortized in proportion to and over the period of estimated net servicing income. Prior to the Company s adoption of SFAS No. 156, the Company evaluated MSRs for impairment based on risk strata and a valuation allowance was recognized for MSRs that had an amortized balance in excess of the estimated fair value for the individual risk stratification.

The following table presents the activity in the Company s MSRs for the three months ended March 31, 2007 and 2006:

(In thousands)	Three Months Ended March 31, 2007	2006
Balance at beginning of period	$ 506,341	$ 340,377
Cumulative-effect adjustment as of beginning of year		1,156
Fair value measurement method adjustment		(20,706)
Additions	45,645	69,768
Changes in fair value resulting from:		
Realization of cash flows	(24,959)	(18,735)
Changes in valuation assumptions	(1,462)	114
Balance at end of period	$ 525,565	$ 371,974
Impairment allowance:		
Balance at beginning of period	$	$ (20,706)
Fair value measurement method adjustment		20,706
Balance at end of period	$	$
Total mortgage servicing rights	$ 525,565	$ 371,974

The amount of contractually specified servicing fees earned by the Company during the three months ended March 31, 2007 and 2006 were $33.1 million and $20.3 million, respectively.

The estimated fair value of MSRs is determined by obtaining a market valuation from one of the market s primary independent MSR brokers. To determine the market value of MSRs, 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 MSRs. Market assumptions are held constant over the life of the portfolio. The key risks inherent in MSRs are changes in interest rates and prepayment speeds.

The Company uses free standing derivatives to hedge the risk of changes in fair value of MSRs, with the resulting gain or loss reflected in income. During the three months ended March 31, 2007, the Company recognized in earnings $387 thousand in unrealized gains on free standing derivatives used to economically hedge the MSRs. These gains are recorded in change in fair value of mortgage servicing rights due to changes in valuation assumptions, net of hedge gain, in the consolidated statements of income.

The significant assumptions used in estimating the fair value of MSRs at March 31, 2007 and December 31, 2006 were as follows:

	March 31, 2007	December 31, 2006
Weighted-average prepayment speed (PSA)	488	487
Weighted-average discount rate	11.69%	11.50%
Weighted-average default rate	2.30%	2.56%

The following table presents certain information regarding the Company s servicing portfolio of loans serviced for others at March 31, 2007 and December 31, 2006:

	March 31, 2007	December 31, 2006
	(Dollars in thousands)	
Loan servicing portfolio loans sold or securitized	$ 39,631,213	$ 38,480,246
ARM loans as a percentage of total loans	76%	76%
Average loan size	$ 247	$ 241
Weighted-average servicing fee	0.348%	0.347%
Weighted-average note rate	7.30%	7.08%
Weighted-average remaining term (in months)	371	369
Weighted-average age (in months)	17	15

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NOTE 8 GOODWILL

The following table presents the activity in the Company s goodwill for the three months ended March 31, 2007 and 2006:

(In thousands)	Loan Origination Segment	Mortgage Holdings Segment	Banking Segment	Total
Balance at January 1, 2006	$ 74,687	$ 24,840	$	$ 99,527
Acquisitions	700			700
Earnouts from previous acquisitions	10,103			10,103
Balance at March 31, 2006	$ 85,490	$ 24,840	$	$ 110,330
Balance at January 1, 2007	$ 87,050	$ 24,840	$ 21,238	$ 133,128
Earnouts from previous acquisitions	120			120
Balance at March 31, 2007	$ 87,170	$ 24,840	$ 21,238	$ 133,248

In October 2006, the Company, through its wholly-owned subsidiary American Home Mortgage Holdings, Inc., acquired Flower Bank, fsb, now known as American Home Bank (AH Bank). The goodwill relating to the AH Bank acquisition was $21.2 million. The details of the AH Bank acquisition are included in Note 21 to the Consolidated Financial Statements (Acquisitions).

As of December 31, 2006, the Company completed a goodwill impairment test by comparing the fair value of goodwill with its carrying value and did not recognize impairment.

NOTE 9 WAREHOUSE LINES OF CREDIT, REVERSE REPURCHASE AGREEMENTS AND COMMERCIAL PAPER

Warehouse Lines of Credit

To originate a mortgage loan, the Company draws against either a $3.3 billion SLN commercial paper program, a $2.0 billion pre-purchase facility with UBS Real Estate Securities Inc., a facility of $2.0 billion with Bear Stearns, a $1.3 billion bank syndicated facility led by Bank of America, N.A. (which includes a $446 million term loan facility which the Company uses to finance its MSRs), a facility of $125 million with J.P. Morgan Chase, a $750 million facility with IXIS Real Estate Capital, Inc. (IXIS), a $350 million facility with Credit Suisse First Boston Mortgage Capital LLC (CSFB), a $1.0 billion facility with Barclays Bank PLC (Barclays), a $250 million facility with ABN AMRO, or a $1.5 billion syndicated facility led by Calyon New York Branch (Calyon). The Bank of America, J.P. Morgan Chase, ABN AMRO, and Calyon facilities are committed facilities. The IXIS and CSFB facilities are partially committed facilities. The interest rate on outstanding balances fluctuates daily based on a spread to the LIBOR and interest is paid monthly. In addition, we have purchase and sale gestation facilities with UBS, Greenwich Capital Financial Products, Inc. (Greenwich), Societe Generale, and Deutsche Bank (Deutsche). 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 March 31, 2007, 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 March 31, 2007, borrowings under the working capital line of credit were $50.0 million.

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The following tables summarize the Company s warehouse lines of credit:

	March 31, 2007	December 31, 2006
	(Dollars in thousands)	
Balance outstanding at end of period	$ 4,013,190	$ 1,304,541
Weighted-average interest rate at end of period	5.65%	5.94%

	Three Months Ended March 31, 2007	2006
	(In thousands)	
Average balance outstanding for the period	$ 7,224,668	$ 6,713,022
Maximum balance outstanding at any month end	5,194,848	5,028,564

As of March 31, 2007 and December 31, 2006, the Company s warehouse lines of credit had remaining maturities within 30 days.

Reverse Repurchase Agreements

The Company has arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with eighteen different financial institutions and on March 31, 2007 had borrowed funds from eleven 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.

The following tables summarize the Company s reverse repurchase agreements:

	March 31, 2007	December 31, 2006
	(Dollars in thousands)	
Balance outstanding at end of period	$ 6,727,505	$ 8,571,459
Weighted-average interest rate at end of period	5.38%	5.40%

	Three Months Ended March 31, 2007	2006
	(In thousands)	
Average balance outstanding for the period	$ 8,533,063	$ 9,309,261
Maximum balance outstanding at any month end	9,199,441	9,126,012

As of March 31, 2007 and December 31, 2006, the Company s reverse repurchase agreements had the following remaining maturities:

	March 31, 2007	December 31, 2006
	(In thousands)	
Within 30 days	$ 403,868	$ 511,095
31 to 89 days	347,631	684,774
90 to 365 days	5,050,381	2,499,057
Greater than 1 year	925,625	4,876,533

Total reverse repurchase agreements	$ 6,727,505	$ 8,571,459

As of March 31, 2007 and December 31, 2006, the Company s reverse repurchase agreements outstanding had a weighted-average remaining maturity of nine months and eleven months, respectively.

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Commercial Paper

The Company maintains a wholly owned special purpose entity for the purpose of issuing commercial paper in the form of short-term SLNs to finance certain portions of the Company s mortgage loans. The special purpose entity allows for issuance of short-term SLNs with maturities of up to 180 days, extendable up to 300 days. The SLNs bear interest at prevailing money market rates approximating the LIBOR. The SLN program capacity, based on aggregate commitments of underlying credit enhancers, was $3.3 billion at March 31, 2007.

The SLNs were collateralized by mortgage loans held for sale, mortgage loans held for investment and cash with a balance of $1.8 billion as of March 31, 2007. The SLNs were collateralized by mortgage loans held for sale, mortgage loans held for investment and cash with a balance of $1.4 billion as of December 31, 2006.

The following tables summarize the Company s SLNs:

	March 31, 2007	December 31, 2006
	(Dollars in thousands)	
Balance outstanding at end of period	$ 1,696,256	$