NEW YORK MORTGAGE TRUST INC
Form 10-Q
November 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from_____ to_____

Commission file number **001-32216**

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

Maryland	**47-0934168**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1301 Avenue of the Americas, New York, New York 10019
(Address of Principal Executive Office) (Zip Code)

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

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

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

Large Accelerated Filer o	Accelerated Filer x	Non-Accelerated Filer o

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

The number of shares of the registrant's common stock, par value $.01 per share, outstanding on November 5, 2007 was 3,640,209.

NEW YORK MORTGAGE TRUST, INC.
FORM 10-Q

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollar amounts in thousands)

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 11,144	$ 969
Restricted cash	6,030	3,151
Investment securities - available for sale	359,872	488,962
Accounts and accrued interest receivable	4,915	5,189
Mortgage loans held in securitization trusts	458,968	588,160
Prepaid and other assets	2,411	20,951
Derivative assets	977	2,632
Property and equipment (net)	76	89
Assets related to discontinued operation	9,883	212,805
Total Assets	$ 854,276	$ 1,322,908
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$ 327,877	$ 815,313
Collateralized debt obligations	444,204	197,447
Derivative liabilities	1,601	-
Accounts payable and accrued expenses	5,003	5,871
Subordinated debentures	45,000	45,000
Liabilities related to discontinued operation	5,600	187,705
Total liabilities	829,285	1,251,336
Commitments and Contingencies (note 9)		
Stockholders' Equity:		
Common stock, $0.01 par value, 400,000,000 shares authorized, 3,635,854 shares issued and outstanding at September 30, 2007 and 3,665,037 shares issued and 3,615,576 outstanding at December 31, 2006	36	37
Additional paid-in capital	99,277	99,655
Accumulated other comprehensive loss	(10,930)	(4,381)
Accumulated deficit	(63,392)	(23,739)
Total stockholders' equity	24,991	71,572
Total Liabilities and Stockholders' Equity	$ 854,276	$ 1,322,908

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
REVENUE:				
Interest income investment securities and loans held in securitization trusts	$ 12,376	$ 16,998	$ 38,987	$ 50,050
Interest expense investment securities and loans held in securitization trusts	11,212	15,882	36,188	42,320
Net interest income from investment securities and loans held in securitization trusts	1,164	1,116	2,799	7,730
Interest expense - subordinated debentures	895	877	2,671	2,656
Net interest income	269	239	128	5,074
OTHER EXPENSE:				
Realized (loss)/gain on sale of investment securities	(1,013)	440	(4,834)	(529)
Loan loss reserve on loans held in securitization trusts	(99)	-	(1,039)	
Total other (expense) income	(1,112)	440	(5,873)	(529)
EXPENSES:				
Salaries and benefits	178	166	674	618
Marketing and promotion	37	20	99	54
Data processing and communications	50	58	143	177
Professional fees	266	82	471	447
Depreciation and amortization	93	131	242	398
Allowance for deferred tax asset	18,352	-	18,352	-
Other	222	(46)	393	177
Total expenses	19,198	411	20,374	1,871
(LOSS) INCOME FROM CONTINUING OPERATIONS	(20,041)	268	(26,119)	2,674
Loss from discontinued operation - net of tax	(675)	(4,136)	(13,534)	(8,160)
NET LOSS	$ (20,716)	$ (3,868)	$ (39,653)	$ (5,486)
Basic and diluted loss per share	$ (5.70)	$ (1.07)	$ (10.94)	$ (1.53)
Weighted average shares outstanding-basic and diluted	3,636	3,605	3,625	3,595

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	For the Nine Months Ended September 30, 2007					
	Common Stock	Additional Paid-In Capital	Stockholders' Deficit	Accumulated Other Comprehensive Loss	Comprehensive Loss	Total
	(dollar amounts in thousands) (unaudited)					
Balance, January 1, 2007 - Stockholders' Equity	$ 37	$ 99,655	$ (23,739)	$ (4,381)		$ 71,572
Net loss			(39,653)		$ (39,653)	(39,653)
Dividends declared		(909)				(909)
Vested restricted stock	(1)	531				530
Increase in net unrealized loss on available for sale securities				(3,891)	(3,891)	(3,891)
Increase in net unrealized gain on derivative instruments				(2,658)	(2,658)	(2,658)
Comprehensive loss					$ (46,202)	
Balance, September 30, 2007 - Stockholders' Equity	$ 36	$ 99,277	$ (63,392)	$ (10,930)		$ 24,991

See notes to consolidated financial statements.

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30,	
	2007	**2006**
	(dollar amounts in thousands) (unaudited)	
Cash Flows from Operating Activities:		
Net loss	$ (39,653)	$ (5,486)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	683	1,625
Amortization of premium on investment securities and mortgage loans	1,602	1,962
Purchase of mortgage loans held for sale	-	(222,907)
Origination of mortgage loans held for sale	(300,863)	(1,402,457)
Proceeds from sales of mortgage loans	398,807	1,621,438
Restricted stock compensation expense	529	734
Loss on sale of securities and related hedges	4,834	529
Loss on sale of securitized loans	-	747
Gain on sale of retail lending segment	(4,525)	-
Allowance for deferred tax asset / tax (benefit)	18,352	(8,494)
Change in value of derivatives	550	110
Minority interest expense	12	(30)
Loan losses	6,648	3,289
Loss on disposal of fixed assets	505	-
Changes in operating assets and liabilities:		
Due from loan purchasers	88,351	(11,137)
Escrow deposits - pending loan closings	3,814	(188)
Accounts and accrued interest receivable	2,183	5,610
Prepaid and other assets	2,526	(3,036)
Due to loan purchasers	(11,721)	8,875
Accounts payable and accrued expenses	(4,116)	(6,802)
Other liabilities	(131)	(385)
Net cash provided by (used in) operating activities:	168,387	(16,003)
Cash Flows from Investing Activities:		
Restricted cash	(2,879)	3,489
Net purchase of investment securities	14,942	(388,398)
Proceeds from sale of retail lending platform	12,936	452,780
Principal repayments received on mortgage loans held in securitization trusts	127,301	151,450
Principal paydown on investment securities	104,875	126,203
Purchases of property and equipment	(396)	(1,373)
Disposal of fixed assets	485	-
Net cash provided by investing activities	257,264	344,151
Cash Flows from Financing Activities:		

Repurchase of common stock	-	(300)
Change in financing arrangements	(413,650)	(321,120)
Dividends paid	(1,826)	(8,947)
Capital Contributions from minority interest member	-	42
Net cash used in financing activities	(415,476)	(330,325)

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (continued)

	For the Nine Months Ended September 30,	
	2007	**2006**
	(dollar amounts in thousands) (unaudited)	
Net Increase (Decrease) in Cash and Cash Equivalents	10,175	(2,177)
Cash and Cash Equivalents - Beginning of Period	969	9,056
Cash and Cash Equivalents - End of Period	$ 11,144	$ 6,879
Supplemental Disclosure		
Cash paid for interest	$ 41,338	$ 68,398
Non Cash Financing Activities		
Dividends declared to be paid in subsequent period	$ -	$ 2,566

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited)

1. Summary of Significant Accounting Policies

Organization- New York Mortgage Trust, Inc. (“NYMT” or the “Company”) is a self-advised real estate investment trust ("REIT") that invests in and manages a portfolio of mortgage loans and mortgage-backed securities.

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

Until March 31, 2007, the company operated a mortgage lending business through its wholly-owned subsidiary, Hypotheca Capital, LLC (formerly known as The New York Mortgage Company, LLC) (“HC”).

On March 31, 2007, we completed the sale of substantially all of the operating assets related to HC's retail mortgage lending platform to IndyMac Bank, F.S.B. (“Indymac”), a wholly-owned subsidiary of Indymac Bancorp, Inc. On February 22, 2007, we completed the sale of substantially all of the operating assets related to HC's wholesale mortgage lending platform to Tribeca Lending Corp. (“Tribeca Lending”), a wholly-owned subsidiary of Franklin Credit Management Corporation.

Subsequent to its exit from the mortgage origination business, the Company has continued the process of exploring strategic alternatives while continuing its passive REIT strategy. There can be no assurances that the Company will be successful in entering into a strategic alternative. Should the Company be unsuccessful in doing so, it will operate at a higher expense ratio relative to its peers, and will have to reevaluate its long term viability.

In connection with the sale of the assets of our wholesale mortgage origination platform assets on February 22, 2007 and the sale of the assets of our retail mortgage lending platform on March 31, 2007, during the fourth quarter of 2006, we classified our mortgage lending segment as a discontinued operation in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”. As a result, we have reported revenues and expenses related to the segment as a discontinued operation and the related assets and liabilities as assets and liabilities related to the discontinued operation for all periods presented in the accompanying consolidated financial statements. Certain assets, such as the deferred tax asset, and certain liabilities, such as subordinated debt and liabilities related to leased facilities not assigned to Indymac or Tribeca Lending, will become part of the ongoing operations of NYMT and accordingly, have not been classified as a discontinued operation in accordance with the provisions of SFAS No. 144. (See note 8)

While the Company sold substantially all of the assets of its wholesale and retail mortgage lending platforms and exited the mortgage lending business as of March 31, 2007, it retains certain liabilities associated with that former line of business. Among these liabilities are the costs associated with the disposal of the mortgage loans held for sale, potential repurchase and indemnification obligations (including early payment defaults) on previously sold mortgage loans and remaining lease payment obligations on real and personal property not assigned as part of those transactions.

Basis of Presentation- The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions are eliminated in consolidation. Certain prior period amounts have been reclassified to conform to current period classifications. In addition, certain previously reported discontinued

operation balances have been reclassified to continuing operations, including $1.1 million in restricted cash, a $1.0 million derivative asset balance related to interest rate caps, $0.1 million in property and equipment net and $0.3 million in accounts payable and accrued expenses.

The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition of the Company at September 30, 2007 and results of operations for all periods presented have been made. The results of operations for the nine-month period ended September 30, 2007 should not be construed as indicative of the results to be expected for the full year.

As used herein, references to the “Company,” “NYMT,” “we,” “our” and “us” refer to New York Mortgage Trust, Inc., collectively with its subsidiaries.

The Board of Directors declared a one for five reverse stock split of our common stock, providing shareholders of record as of October 9, 2007, with one share of common stock for each five shares owned of record as of October 7, 2007 (the "Reverse Stock Split"). The reduction in shares resulting from the reverse stock split was effective on October 9, 2007, decreasing the number of common shares outstanding to approximately 3.6 million. Prior year share amounts and earnings per share disclosures have been restated to reflect the reverse stock split.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited)

Use of Estimates- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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 and credit exposure. 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 conditions may occur which could cause actual results to differ materially.

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

Restricted Cash- Restricted cash includes amounts held by counterparties as collateral for hedging instruments, amounts held as collateral for two letters of credit related to the Company's lease of office space, including its corporate headquarters and amounts held in an escrow account to support warranties and indemnifications related to the sale of the retail mortgage lending platform to Indymac.

Investment Securities - Available for Sale- The Company's investment securities are residential mortgage-backed securities comprised of Fannie Mae ("FNMA"), Freddie Mac ("FHLMC" and together with FNMA, referred to as "Agency") securities and "AAA"- rated adjustable-rate securities, including adjustable-rate loans that have an initial fixed-rate period. Investment securities are classified as available for sale securities and are reported at fair value with unrealized gains and losses reported in other comprehensive income ("OCI"). Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in gain on sale of securities and related hedges. Purchase premiums or discounts on investment securities are accreted or amortized to interest income over the estimated life of the investment securities using the interest method. Investment securities may be subject to interest rate, credit and/or prepayment risk.

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 will be sold prior to the recovery of fair value). Management considers at a minimum the following factors that, both individually or in combination, could indicate the decline is "other-than-temporary:" 1) the length of time and extent to which the market value has been less than book value; 2) the financial condition and near-term prospects of the issuer; or 3) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery in market 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). Even though no credit concerns exist with respect to an available for sale security, an other-than-temporary impairment may be evident if management determines that the Company does not have the intent and ability to hold an investment until a forecasted recovery of the value of the investment.

Accounts and Accrued Interest Receivable- Accounts and accrued interest receivable includes accrued interest receivable for investment securities and mortgage loans held in securitization trusts.

Mortgage Loans Held in Securitization Trusts- Mortgage loans held in securitization trusts are certain first-lien adjustable rate mortgage ("ARM") loans transferred to New York Mortgage Trust 2005-1, New York Mortgage Trust 2005-2 and New York Mortgage Trust 2005-3 that have been securitized into sequentially rated classes of beneficial interests. Mortgage loans held in securitization trusts are recorded at amortized cost, using the same accounting principles as those used for mortgage loans held for investment. (see note 3) From time to time the Company may sell certain securities from its securitizations resulting in a permanent financing. See Collateralized Debt Obligations below for further description.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited)

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

Loan Loss Reserves on Mortgage Loans Held in Securitization Trusts- We establish a reserve for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of mortgage loans held in securitization trusts.

Loss estimations involve the consideration of various credit-related factors including but not limited to, macro-economic conditions, the current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's credit and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the value of the property. We utilize various internet based property data services to look at comparable properties in the same area or consult with a realtor in the property's area to determine the property’s value.

Comparing the current loan balance to the property value determines the current loan-to-value (“LTV”) ratio of the loan. Generally, we estimate that a first lien loan on a property that goes into a foreclosure process and becomes real estate owned (“REO”), results in the property being disposed of at approximately 68% of the property's value. This estimate is based on management's long term experience in similar market conditions. Thus, for a first lien loan that is delinquent, we will adjust the property value down to approximately 68% of the property value and compare that to the current balance of the loan. The difference, determines the base reserve taken for that loan. This base reserve for a particular loan may be adjusted if we are aware of specific circumstances, including the uncertain market conditions that may affect the outcome of the loss mitigation process for that loan. Predominately, however, we use the base reserve number for our reserve.

At September 30, 2007, we had a loan loss reserve of $1.0 million on mortgage loans held in securitization trusts. (see note 3)

Property and Equipment (Net)- Property and equipment have lives ranging from three to ten years, and are stated at cost less accumulated depreciation and amortization. Depreciation is determined in amounts sufficient to charge the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or service lives of the improvements using the straight-line method. (see note 4)

Financing Arrangements, Portfolio Investments- Portfolio investments are typically financed with repurchase agreements, a form of collateralized borrowing which is secured by portfolio securities on the balance sheet. Such financings are recorded at their outstanding principal balance with any accrued interest due recorded as an accrued expense. (see note 6)

Collateralized Debt Obligations- CDOs are securities that are issued and secured by first-lien ARM loans. For financial reporting purposes, the first-lien ARM loans held as collateral are recorded as assets of the Company and the CDO is recorded as the Company's debt. Our CDO securitization transactions include interest rate caps which are held by the securitization trust and recorded as an asset or liability of the Company. (see note 7)

The Company, as transferor, securitizes mortgage loans and securities by transferring the loans or securities to entities ("Transferees") which generally qualify under GAAP as "qualifying special purpose entities" ("QSPE's") as defined under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities-a replacement of FASB Statement No. 125 ("Off Balance Sheet Securitizations")". The QSPEs issue investment grade and non-investment grade securities. Generally, the investment grade securities are sold to third party investors, and the Company retains the non-investment grade securities. If a transaction meets the requirements for sale recognition under GAAP, and the Transferee meets the requirements to be a QSPE, the assets transferred to the QSPE are considered sold, and gain or loss is recognized. The gain or loss is based on the price of the securities sold and the estimated fair value of any securities and servicing rights retained over the cost basis of the assets transferred net of transaction costs. If subsequently the Transferee fails to continue to qualify as a QSPE, or the Company obtains the right to purchase assets out of the Transferee, then the Company may have to include in its financial statements such assets, or potentially, all the assets of such Transferee.

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited)

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks, investment banks and certain private investors who meet established credit and capital guidelines. Management does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any loss due to counterparty default. These commitments and option contracts are considered in conjunction with the Company's valuation of its mortgage loans held for sale.

The Company uses other derivative instruments, including treasury, Agency or mortgage-backed securities forward sale contracts which are also classified as free-standing, undesignated derivatives and thus are recorded at fair value with the changes in fair value recognized in current earnings.

Interest Rate Risk- The Company hedges the aggregate risk of interest rate fluctuations with respect to its borrowings, regardless of the form of such borrowings, which require payments based on a variable interest rate index. The Company generally intends to hedge only the risk related to changes in the benchmark interest rate (London Interbank Offered Rate (“LIBOR”) or a Treasury rate).

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited)

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

- the items to be hedged expose the Company to interest rate risk; and
- the interest rate swaps or caps are expected to be and continue to be highly effective in reducing the Company's exposure to interest rate risk.

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

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

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

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

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

Other Comprehensive Income- Other comprehensive income is comprised primarily of the impact of changes in value of the Company's available for sale securities, and the impact of deferred gains or losses on changes in the fair value of derivative contracts hedging future cash flows.

Employee Benefits Plans- The Company sponsors a defined contribution plan (the “Plan”) for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Plan, participating employees may defer up to 15% of their pre-tax earnings, subject to the annual Internal Revenue Code contribution limit. The plan provides that the Company may match contributions up to a maximum of 25% of the first 5% of salary. Employees vest immediately in their contribution and vest in the Company's contribution at a rate of 25% after two full years and then an incremental 25% per full year of service until fully vested at 100% after five full years of service. The Company's total contributions to the Plan were $18,495 and $0.3 million for the nine month periods ended September 30, 2007 and 2006 respectively.

Stock Based Compensation- The Company accounts for its stock options and restricted stock grants in accordance with SFAS No. 123R, "Share-Based Payment," ("SFAS No. 123R") which requires all companies to measure compensation costs for all share-based payments, including employee stock options, at fair value. (see note 14)

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited)

Income Taxes- The Company operates so as to qualify as a REIT under the requirements of the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of the Company's stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. The remaining balance may extend until timely filing of the Company's tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income. (see note 12)

HC is a taxable REIT subsidiary and therefore, is subject to corporate Federal income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has fully reserved its deferred tax asset at September 30, 2007 due to the uncertainty surrounding the asset's utilization.

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. (see note 15)

Loan Loss Reserves on Repurchase Requests and Mortgage Under Indemnification Agreements- (Discontinued operation - See note 8) We establish reserves for loans we have been requested to repurchase from investors and for loans subject to indemnification agreements. Generally loans wherein the borrowers do not make each of all the first three payments to the new investor once the loan has been sold, require us, under the terms of purchase and sale agreement entered into with the investor, to repurchase the loan. During the three month period ended September 30, 2007, we received $1.0 million of new repurchase requests, while $0.5 million of existing repurchase requests were rescinded.

During the three months ended September 30, 2007, we eliminated $18.4 million in repurchase requests by entering into settlement and release agreements with the parties requesting the repurchases. The settlements provided for a payment of a negotiated amount taking into account the loss incurred or otherwise borne by the loan purchaser in return for the elimination of the repurchase request, and in a majority of the cases, a release from all future claims due to EPDs, quality control issues, and indemnification obligations. As of September 30, 2007, we had $7.3 million in outstanding repurchase requests and a reserve of $0.6 million.

From time to time, as an alternative to repurchasing loans, we sign indemnification agreements with loan investors. Generally these agreements specify that if a loan goes delinquent and the investor realizes a loss as a result of foreclosure, the Company will reimburse the investor for their loss. As of June 30, 2007, we had outstanding indemnification agreements on $7.4 million of mortgage loans, against which the Company had taken a reserve of $0.4 million. During the three months ended September 30, 2007, we entered into no new indemnification agreements and eliminated $5.3 million in existing indemnification obligations by entering into settlement and release agreements

with the parties pertaining to repurchase requests. As of September 30, 2007, we had outstanding indemnification agreements on $2.1 million of mortgage loans, against which the Company maintained a reserve of $0.4 million.

At September 30, 2007, we had $9.6 million of loans held for sale of which we had a loan loss reserve of $1.6 million. All of these items are included in discontinued operations. We had incurred $8.4 million of loan losses for the nine months ended September 30, 2007 as compared to $4.1 million for the same period for 2006. In addition, the Company incurred $0.2 million of loan losses for the three months ended September 30, 2007 as compared to $4.1 million for the same period in 2006.

Recent Accounting Pronouncements- In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No.157”). SFAS No.157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No.157 will be applied under other accounting principles that require or permit fair value measurements, as this is a relevant measurement attribute. This statement does not require any new fair value measurements. We will adopt the provisions of SFAS No.157 beginning January 1, 2008. We are currently evaluating the impact of the adoption of this statement on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“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 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 the 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 Company 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. The Company is in the process of analyzing the impact of the adoption of SFAS No. 159 on our consolidated financial statements.

In June 2007, the EITF reached consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* ("EITF 06-11"). EITF 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007, and the Company expects to adopt the provisions of EITF 06-11 beginning in the first quarter of 2008. The Company is currently evaluating the potential effect on the consolidated financial statements of adopting EITF 06-11.

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In June 2007, the AICPA issued SOP No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-1"). SOP 07-1 addresses whether the accounting principles of the AICPA Audit and Accounting Guide Investment Companies may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. In October of 2007, the provisions of SOP 07-1 were deferred indefinitely. The Company has not determined whether or not SOP 07-1 will have an impact if it is ultimately implemented.

2. Investment Securities Available for Sale

Investment securities available for sale consist of the following as of September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

	September 30, 2007	December 31, 2006
Amortized cost	$ 367,578	$ 492,777
Gross unrealized gains	47	623
Gross unrealized losses	(7,753)	(4,438)
Fair value	$ 359,872	$ 488,962

The Company sold approximately $246.9 million of non-Agency ARM securities, including $225.4 million of lower yielding non-Agency ARM securities previously designated as impaired, with a reserve of $3.8 million. The Company incurred an additional net loss of $1.0 million in the sale of the incremental $21.5 million in securities.

As of September 30, 2007 and the date of this filing, we have the intent, and believe we have the ability, to hold our portfolio of securities which are currently in unrealized loss positions until recovery of their amortized cost, which may be until maturity. Given the uncertain state of the market for such securities, should conditions change that would require us to sell securities at a loss, we may no longer be able to assert that we have the ability to hold our remaining securities until recovery, and we would then be required to record impairment charges related to these securities. Substantially all of the Company's investment securities available for sale are pledged as collateral for borrowings under financing arrangements. (see note 6)

All securities held in Investment Securities Available for Sale, including Agency, investment and non-investment grade securities, are based on unadjusted price quotes for similar securities in active markets obtained from independent dealers.

The following table sets forth the stated reset periods and weighted average yields of our investment securities at September 30, 2007 (dollar amounts in thousands):

	September 30, 2007		
Less than 6 Months	More than 6 Months to 24 Months	More than 24 Months to 60 Months	Total

	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Agency REMIC CMO floaters	$ 326,422	6.53%	$ -	-	$ -	-	$ 326,422	6.53%
Non-Agency floaters	29,813	6.01%	-	-	-	-	29,813	6.01%
NYMT retained securities	2,175	6.37%	-	-	1,462	14.32%	3,637	10.82%
Total/Weighted average	$ 358,410	6.48%	$ -	-	$ 1,462	14.32%	$ 359,872	6.54%

The NYMT retained securities includes $1.5 million of residual interests related to the NYMT 2006-1 transaction.

The following table sets forth the stated reset periods and weighted average yields of our investment securities at December 31, 2006 (dollar amounts in thousands):

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	December 31, 2006							
	Less than 6 Months		More than 6 Months To 24 Months		More than 24 Months To 60 Months		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Agency REMIC CMO floaters	$ 163,898	6.40%	$ -	-	$ -	-	$ 163,898	6.40%
Non-Agency floaters	22,284	6.46%	-	-	-	-	22,284	6.46%
Non-Agency ARMs	16,673	5.60%	78,565	5.80%	183,612	5.64%	278,850	5.68%
NYMT retained securities	6,024	7.12%	-	-	17,906	7.83%	23,930	7.66%
Total/Weighted average	$ 208,879	6.37%	$ 78,565	5.80%	$ 201,518	5.84%	$ 488,962	6.06%

The following tables present the Company's investment securities available for sale in an unrealized loss position, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

	September 30, 2007					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency REMIC CMO floaters	$ 262,161,	$ 5,064	$ 57,925	$ 1,533	$ 320,086	$ 6,597
Non-Agency floaters	26,231	514	3,582	56	29,813	570
Non-Agency ARMs	-	-	-	-	-	-
NYMT retained securities	-	-	3,637	586	3,637	586
Total	$ 288,392	$ 5,578	$ 65,144	$ 2,175	$ 353,536	$ 7,753

	December 31, 2006					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency REMIC CMO floaters	$ 966	$ 2	$ 1,841	$ 4	$ 2,807	$ 6
Non-Agency floaters	22,284	80	-	-	22,284	80
Non-Agency ARMs	30,385	38	248,465	4,227	278,850	4,265
NYMT retained securities	7,499	87	-	-	7,499	87
Total	$ 61,134	$ 207	$ 250,306	$ 4,231	$ 311,440	$ 4,438

3. Mortgage Loans Held in Securitization Trusts

Mortgage loans held in securitization trusts consist of the following as of September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

	September 30, 2007	December 31, 2006
Mortgage loans principal amount	$ 457,057	$ 584,358
Deferred origination costs – net	2,922	3,802
Reserve for loan losses	(1,011)	-
Total mortgage loans held in securitization trusts	$ 458,968	$ 588,160

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All of the Company's mortgage loans held in securitization trusts are pledged as collateral for the collateralized debt obligation (see note 7). The Company's net investment in the loans held in securitization trusts, or the difference between the purchase cost of the loans and the amount of collateralized debt obligations outstanding, was $15.8 million, of which the Company had a $1.0 million reserve.

The following tables set forth delinquent loans in our portfolio as of September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

	September 30, 2007		
Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	1	$ 246	0.05%
61-90	2	1,131	0.25%
90+	10	$ 7,604	1.66%

As of September 30, 2007, we had no real estate owned through foreclosure (REO).

	December 31, 2006		
Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	1	$ 166	0.03%
61-90	1	193	0.03%
90+	4	5,819	0.99%
REO	1	$ 625	0.11%

Delinquencies on loans held in securitization trusts increased from December 31, 2006 to September 30, 2007 by approximately 0.91%, while REO decreased to zero during the same period. This trend is primarily due to the increasing age of the loans held in securitization trusts, a deteriorating real estate market as evidenced by increased number of homes listed for sale, decreased appreciation rates for home prices, and in certain markets, deteriorating home prices.

4. Property and Equipment - Net

Property and equipment - net consists of the following as of September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

	September 30, 2007	December 31, 2006
Office and computer equipment	$ 175	$ 156
Furniture and fixtures	152	147
Total equipment, furniture and fixtures	327	303

Less: accumulated depreciation	(251)	(214)
Property and equipment - net	$ 76	$ 89

5. **Derivative Instruments and Hedging Activities**

The Company enters into derivatives to manage its interest rate and market risk exposure associated with its mortgage-backed securities investment activities and its subordinated debentures. These derivatives include interest rate swaps and caps to mitigate the effects of major interest rate changes on net investment spread.

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The following table summarizes the estimated fair value of derivative assets and liabilities as of September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

	September 30, 2007	December 31, 2006
Derivative Assets:		
Interest rate caps	$ 977	$ 2,011
Interest rate swaps	-	621
Total derivative assets	$ 977	$ 2,632
Derivative Liabilities:		
Interest rate swaps	$ 1,601	$ -
Total derivative assets	$ 1,601	$ -

The notional amounts of the Company's interest rate swaps and interest rate caps as of September 30, 2007 were $220.0 million and $783.3 million, respectively.

The notional amounts of the Company's interest rate swaps and interest rate caps as of December 31, 2006 were $285.0 million and $1.5 billion, respectively.

The Company estimates that over the next twelve months, approximately $0.2 million of the net unrealized losses on the interest rate swaps will be reclassified from accumulated OCI into earnings.

6. Financing Arrangements, Portfolio Investments

The Company has entered into repurchase agreements with third party financial institutions to finance its residential mortgage-backed securities and certain mortgage loans held in the securitization trusts not financed by collateralized debt obligations. The repurchase agreements are short-term borrowings that bear interest rates based on a spread to LIBOR, and are secured by the residential mortgage-backed securities and mortgage loans held in the securitization trusts which they finance. At September 30, 2007, the Company had repurchase agreements with an outstanding balance of $327.9 million and a weighted average interest rate of 5.28%. As of December 31, 2006, the Company had repurchase agreements with an outstanding balance of $815.3 million and a weighted average interest rate of 5.37%. At September 30, 2007 and December 31, 2006, securities and mortgage loans pledged as collateral for repurchase agreements had estimated fair values of $349.6 million and $850.6 million, respectively. In August 2007, the Company entered into a six month repurchase agreement with Credit Suisse totaling approximately $102.2 million. The repurchase agreement will mature in February 22, 2008 with interest rates to reset monthly. All outstanding borrowings under other repurchase agreements mature within 30 days. The average days to maturity for all repurchase agreements is 56 days. In the event we are unable to obtain sufficient short-term financing through repurchase agreements or otherwise, or our lenders start to require additional collateral, we may have to liquidate our investment securities at a disadvantageous time, and result in losses. Any losses resulting from the disposition of our investment securities in this manner could have a material adverse effect on our operating results and net profitability.

The follow table summarizes outstanding repurchase agreement borrowings secured by portfolio investments as of September 30, 2007 and December 31, 2006 (dollars amounts in thousands):

Repurchase Agreements by Counterparty

Counterparty Name	September 30, 2007	December 31, 2006
Barclays	$ 105,489	$ -
Countrywide Securities Corporation	-	168,217
Credit Suisse	102,242	-
Goldman, Sachs & Co.	68,601	121,824
HSBC	51,545	-
J.P. Morgan Securities Inc.	-	33,631
Nomura Securities International, Inc.	-	156,352
SocGen/SG Americas Securities	-	87,995
West LB	-	247,294
Total financing arrangements, portfolio investments	$ 327,877	$ 815,313

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During the third quarter, the availability of short-term collateralized borrowing through repurchase agreements worsened considerably, primarily as a result of the fall-out from increasing defaults in the sub-prime mortgage market and losses incurred at a number of larger companies in the mortgage industry. The Company sold approximately $21.5 million in non-Agency securities as a result of an inability to obtain financing, resulting in a net loss of $1.0 million. At September 30, 2007, we had outstanding balances under repurchase agreements with four different counterparties and, as of the date of this report, we have been successful at resetting all outstanding balances under our various repurchase agreements. In the event a counterparty elected to not reset the outstanding balance into a new repurchase agreement, we would be required to repay the outstanding balance with proceeds received from a new counterparty or to surrender the mortgage-backed securities that serve as collateral for the outstanding balance. If we are unable to secure financing from another counterparty and as a result surrender the collateral, we would expect to incur a loss. Although we presently expect the short-term collateralized borrowing markets to continue providing us with necessary financing through repurchase agreements, we cannot assure you that this form of financing will be available to us in the future on comparable terms, if at all.

7. Collateralized Debt Obligations

The Company had CDOs outstanding of $444.2 million with a weighted average interest rate of 5.51% as of September 30, 2007 and $197.4 million with a weighted average interest rate of 5.72% as of December 31, 2006. The CDOs include amortizing interest rate cap contracts with a notional amount of $303.8 million as of September 30, 2007 and a notional amount of $187.5 million as of December 31, 2006, which were recorded as an asset of the Company. The Company's CDOs are secured by ARM loans pledged as collateral which are recorded as an asset of the Company. The pledged ARM loans included in mortgage loans held in securitization trust had a principal balance of $457.1 million and $204.6 million at September 30, 2007 and December 31, 2006, respectively.

8. Discontinued Operation

In connection with the sale of our wholesale mortgage origination platform assets on February 22, 2007 and the sale of our retail mortgage lending platform on March 31, 2007, during the fourth quarter of 2006, we classified our mortgage lending segment as a discontinued operation in accordance with the provisions of SFAS No. 144. As a result, we have reported revenues and expenses related to the segment as a discontinued operation and the related assets and liabilities as assets and liabilities related to a discontinued operation for all periods presented in the accompanying consolidated financial statements. Certain assets, such as the deferred tax asset, and certain liabilities, such as subordinated debt and liabilities related to leased facilities not assigned to Indymac, will become part of the ongoing operations of NYMT and accordingly, we have not included these items as part of the discontinued operation in accordance with the provisions of SFAS No. 144.

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Balance Sheet

The following tables indicate a significant decline in the assets and liabilities related to the discontinued operation from December 31, 2006 to September 30, 2007, as the Company exited from the mortgage lending business at the end of March 2007.

The components of Assets related to the discontinued operation as of September 30, 2007 and December 31, 2006 are as follows (dollar amounts in thousands):

	September 30, 2007	December 31, 2006
Due from loan purchasers	$ -	$ 88,351
Escrow deposits-pending loan closings	-	3,814
Accounts and accrued interest receivable	579	2,488
Mortgage loans held for sale (net)	7,999	106,900
Prepaid and other assets	1,294	4,654
Derivative assets	-	171
Property and equipment, net	11	6,427
Total assets	$ 9,883	$ 212,805

The components of Liabilities related to the discontinued operation as of September 30, 2007 and December 31, 2006 are as follows (dollar amounts in thousands):

	September 30, 2007	December 31, 2006
Financing arrangements, mortgage loans held for sale	$ -	$ 172,972
Due to loan purchasers	1,180	8,334
Accounts payable and accrued expenses	4,420	6,066
Derivative liabilities	-	216
Other liabilities	-	117
Total liabilities	$ 5,600	$ 187,705

Mortgage Loans Held for Sale - Mortgage loans held for sale consists of the following as of September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

	September 30, 2007	December 31, 2006
Mortgage loans principal amount	$ 9,598	$ 110,804
Deferred origination costs - net	(45)	138
Reserve for loan losses	(1,554)	(4,042)
Total mortgage loans held for sale (net)	$ 7,999	$ 106,900

Loan losses -The following table presents the activity in the Company's reserve for loan losses on mortgage loans held for sale for the nine months ended September 30, 2007 and 2006 (dollar amounts in thousands).

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	September 30, 2007	2006
Balance at beginning of period	$ 4,042	$ -
Provisions for loan losses	957	-
Charge-offs	(3,445)	-
Balance of the end of period	$ 1,554	$ -

Financing Arrangements, Mortgage Loans Held for Sale - Financing arrangements secured by mortgage loans held for sale consisted of the following as of December 31, 2006 (dollar amounts in thousands):

	December 31, 2006
$120 million master repurchase agreement as of March 31, 2007 with CSFB expiring on June 29, 2007 and $200 million as of December 31, 2006, bearing interest at daily LIBOR plus spreads from 0.75% to 2.000% depending on collateral (6.36% at December 31, 2006). Principal repayments are required 90 days from the funding date. Management did not seek renewal of this facility.	$ 106,801
$300 million master repurchase agreement with Deutsche Bank Structured Products, Inc. expiring on March 26, 2007 bearing interest at 1 month LIBOR plus spreads from 0.625% to 1.25% depending on collateral (6.0% at December 31, 2006). Principal payments are due 120 days from the repurchase date. Management did not seek renewal of this facility.	66,171
Total Financing Arrangements	$ 172,972

As of September 30, 2007, the Company had no outstanding financing arrangements secured by mortgage loans held for sale.

Statements of Operations

The combined results of operations of the discontinued operation for the three and nine months ended September 30, 2007 and 2006 are as follows (dollar amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues:				
Net interest income	$ 179	$ 543	$ 931	$ 2,871
Gain on sale of mortgage loans	(10)	4,311	2,540	14,362
Loan losses	(172)	(4,077)	(8,414)	(4,077)
Brokered loan fees	3	2,402	2,319	8,672
Gain on sale of retail lending segment	-	-	4,525	-
Other income (expense)	(39)	43	(24)	(437)
Total net revenues	(39)	3,222	1,877	21,391
Expenses:				

Salaries, commissions and benefits	424	5,212	6,508	17,102
Brokered loan expenses	-	1,674	1,731	6,609
Occupancy and equipment	(86)	1,255	2,124	3,870
General and administrative	298	3,132	5,048	10,464
Total expenses	636	11,273	15,411	38,045
Loss before income tax benefit	(675)	(8,051)	(13,534)	(16,654)
Income tax (provision) benefit	-	3,915	-	8,494
Loss from discontinued operations - net of tax	$ (675)	$ (4,136)	$ (13,534)	$ (8,160)

Gain on Sale of Mortgage Loans- The Company recognizes gain on sale of loans sold to third parties as the difference between the sales price and the adjusted cost basis of the loans when title transfers. The adjusted cost basis of the loans includes the original principal amount adjusted for deferrals of origination and commitment fees received, net of direct loan origination costs paid.

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Loan Origination Fees and Direct Origination Cost- The Company records loan fees, discount points and certain incremental direct origination costs as an adjustment of the cost of the loan and such amounts are included in gain on sales of loans when the loan is sold.

Brokered Loan Fees and Expenses- The Company recorded commissions associated with brokered loans when such loans are closed with the borrower. Costs associated with brokered loans are expensed when incurred.

Loan Commitment Fees- Fees received for the funding of mortgage loans to borrowers at pre-set conditions are deferred and recognized at the date at which the loan is sold.

9. **Commitments and Contingencies**

Loans Sold to Investors- The Company is not exposed to long term credit risk on its loans sold to investors. In the normal course of business, however, the Company is obligated to repurchase loans based on violations of representations and warranties, or early payment defaults. For the three months ended September 30, 2007, we repurchased no loans, however for the nine months ended September 30, 2007, we repurchased a total of $6.5 million of mortgage loans that were originated in either 2005 or 2006, the majority of which were due to early payment defaults. Of the repurchased loans originated in 2006, a majority were Alt-A. As of September 30, 2007, we had pending repurchase requests totaling $7.3 million in unpaid principal balances, against which the Company has taken a reserve of $1.0 million included in due to loan purchasers within liabilities related to discontinued operations. The Company intends to address the $7.3 million in outstanding repurchase requests by either repurchasing the mortgage loans and reselling them to third parties or entering into settlement agreements with the parties requesting the repurchases and paying such parties negotiated amounts based on the actual loss incurred or the estimated amount to be borne by such party in lieu of repurchasing the mortgage loans.

Outstanding Litigation- The Company has at times been subject to various legal proceedings arising in the ordinary course of its discontinued mortgage lending business. Other than as described in the following paragraphs, the Company does not believe that any of its current legal proceedings, individually or in the aggregate, will have a material adverse effect on its operations or financial condition. As of September 30, 2007, the Company has a reserve of $0.5 million for legal defense costs it expects to incur with respect to these various legal proceedings.

On December 13, 2006, Steven B. Yang and Christopher Daubiere (“Plaintiffs”), filed suit in the United States District Court for the Southern District of New York (the “Court”) against HC and our Company alleging that we failed to pay them, and similarly situated employees, overtime in violation of the Fair Labor Standards Act (“FLSA”) and New York State law. Plaintiffs, former employees in our discontinued Mortgageline division who purport to bring a FLSA "collective action" on behalf of similarly situated loan officers in our now discontinued mortgage lending operations, are seeking unspecified amounts for alleged unpaid overtime wages, liquidated damages, attorney's fees and costs. Because the parties have agreed to attempt mediation, as of November 9, 2007, Plaintiffs have not applied to the Court for permission to certify the class or send notice of the collective action to prospective collective action members.

We are currently engaged in discovery and continue to investigate Plaintiffs' claims. This case involves complex issues of law and fact and has not yet progressed to the point where the Company can: (1) predict its outcome; (2) precisely estimate damages that might result from such case due to the uncertainty of the class certification and the number of potential participants in any class that may be certified; or (3) predict the effect that final resolution of this

litigation might have on it, its business, financial condition or results of operations, although such effect could be materially adverse. After consulting with counsel, the Company believes that it has defenses to the claims against it in these cases and is vigorously defending these proceedings.

Leases- The Company leases its corporate offices, certain office space related to our discounted mortgage lending operation not assumed by IndyMac and certain equipment under short-term lease agreements expiring at various dates through 2010. All such leases are accounted for as operating leases. Total rental expense for property and equipment amounted to $2.1 million and $3.9 million for the nine months ended September 30, 2007 and 2006, respectively.

On November 13, 2006, the Company entered into an Assignment and Assumption of Sublease and an Escrow Agreement, each with Lehman Brothers Holdings Inc. (“Lehman”) (collectively, the “Agreements”). Under the Agreements, the Company assigned and Lehman has assumed the sublease for the Company's corporate headquarters at 1301 Avenue of the Americas. Pursuant to the Agreements, Lehman has funded an escrow account for the benefit of HC such that if the Company vacates the leased space before February 1, 2008, the Company will receive $3.2 million. The escrow amount shall be reduced by $0.2 million for each month the Company remains in the leased space beginning February 1, 2008. The entire remaining amount held in the escrow account will be released to the Company when it vacates the leased space. Pursuant to the provisions of the sale transaction with IndyMac, beginning August 1, 2007, so long as IndyMac continues to occupy and use the leased space at the Company’s corporate headquarters, IndyMac will pay rent equal to Company’s cost, including any penalties and foregone bonuses resulting from the delayed vacation of the leased premises. Until February 1, 2008, the Company’s lease cost, including penalties and foregone bonuses, is $0.2 million per month. The Company intends to relocate its corporate headquarters to a smaller facility at a location that is yet to be determined.

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Letters of Credit - HC maintains a letter of credit in the amount of $100,000 in lieu of a cash security deposit for an office lease dated June 1998 for the Company's former headquarters located at 304 Park Avenue South in New York City. The sole beneficiary of this letter of credit is the owner of the building, 304 Park Avenue South LLC. This letter of credit is secured by cash deposited in a bank account maintained at JP Morgan Chase bank.

Subsequent to the move to a new headquarters location in New York City in July 2003, in lieu of a cash security deposit for the office lease we entered into an irrevocable transferable letter of credit in the amount of $313,000 with PricewaterhouseCoopers, LLP (sublandlord), as beneficiary. This letter of credit is secured by cash deposited in a bank account maintained at JP Morgan Chase bank.

10. Concentrations of Credit Risk

At September 30, 2007 and December 31, 2006, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within mortgage loans held in the securitization trusts and retained interests in our REMIC securitization, NYMT 2006-1, as follows:

	September 30, 2007	December 31, 2006
New York	31.2%	29.1%
Massachusetts	17.5%	17.5%
Florida	8.0%	11.4%
California	7.9%	7.5%
New Jersey	5.7%	5.1%

11. Fair Value of Financial Instruments

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

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

Fair value estimates are based on existing financial instruments and do not attempt to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amounts presented below do not represent the underlying value of the Company.

The fair value of certain assets and liabilities approximate cost due to their short-term nature, terms of repayment or interest rates associated with the asset or liability. Such assets or liabilities include cash and cash equivalents, escrow deposits, unsettled mortgage loan sales, and financing arrangements. All forward delivery commitments and option

contracts to buy securities are to be contractually settled within six months of the balance sheet date.

The following describes the methods and assumptions used by the Company in estimating fair values of other financial instruments:

a. *Investment Securities Available for Sale*- Fair value is generally estimated based on market prices provided by five to seven dealers who make markets in these financial instruments. If the fair value of a security is not reasonably available from a dealer, management estimates the fair value based on characteristics of the security that the Company receives from the issuer and based on available market information.

b. *Mortgage Loans Held in the Securitization Trusts*- Mortgage loans held in the securitization trusts are recorded at amortized cost. Fair value is estimated using pricing models and taking into consideration the aggregated characteristics of groups of loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed-rate period, life cap, periodic cap, underwriting standards, age and credit estimated using the quoted market prices for securities backed by similar types of loans.

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c. *Interest Rate Swaps and Caps*- The fair value of interest rate swaps and caps is based on using market accepted financial models as well as dealer quotes.

The following tables set forth information about financial instruments, except for those noted above for which the carrying amount approximates fair value (dollar amounts in thousands):

	September 30, 2007		
	Notional Amount	Carrying Amount	Estimated Fair Value
Investment securities available for sale	$ 367,980	$ 359,872	$ 359,872
Mortgage loans held in the securitization trusts	457,057	458,968	453,067
Commitments and contingencies:			
Interest rate swaps	220,000	(1,601)	(1,601)
Interest rate caps	$ 783,334	$ 977	$ 977

	December 31, 2006		
	Notional Amount	Carrying Amount	Estimated Fair Value
Investment securities available for sale	$ 491,293	$ 488,962	$ 488,962
Mortgage loans held in the securitization trusts	584,358	588,160	582,504
Commitments and contingencies:			
Interest rate swaps	285,000	621	621
Interest rate caps	$ 1,540,518	$ 2,011	$ 2,011

12. Income Taxes

All income tax benefits relate to HC and are included in the results of operations of the discontinued operation (see note 8). A reconciliation of the statutory income tax provision (benefit) to the effective income tax provision for the nine months ended September 30, 2007 and September 30, 2006, is as follows (dollar amounts in thousands).

	September 30.			
	2007		2006	
Benefit at statutory rate	$ (7,434)	(35.0)%	$ (4.893)	(35.0)%
Non-taxable REIT income (loss)	1,813	8.5%	(1,825)	(13.1)%
Transfer pricing of loans sold to nontaxable parent	-	-	11	0.1%
State and local tax benefit	(1,480)	(7.0)%	(1,773)	(12.7)%
Valuation allowance	25,438	119.8%	-	-
Miscellaneous	15	0.1%	(14)	(0.1)%
Total provision (benefit)	$ 18,352	86.4%	$ (8,494)	(60.8)%

The income tax benefit for the nine month period ended September 30, 2006 is comprised of the following components (dollar amounts in thousands):

		Deferred
Federal	$	(6,721)
State		(1,773)
Total tax benefit	$	(8,494)

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The deferred tax asset at September 30, 2007 includes a deferred tax asset of $18.4 million (included in prepaid and other assets on our consolidated balance sheet) and a deferred tax liability of $0.1 million (included in accounts payable and accrued expenses on our consolidated balance sheet) which represents the tax effect of differences between tax basis and financial statement carrying amounts of assets and liabilities. The major sources of temporary differences and their deferred tax effect at September 30, 2007 were as follows (dollar amounts in thousands):

Deferred tax assets:		
Net operating loss carryover	$	27,407
Restricted stock, performance shares and stock option expense		418
Marked to market adjustment		56
Sec. 267 disallowance		268
Charitable contribution carryforward		35
GAAP reserves		1,202
Rent expense		319
Loss on sublease		67
Gross deferred tax asset		29,772
Valuation allowance		(29,707)
Net deferred tax asset	$	65
Deferred tax liabilities:		
Depreciation	$	65
Total deferred tax liability	$	65
Net deferred tax asset	$	-

The deferred tax asset at December 31, 2006 includes a deferred tax asset of $18.4 million (included in prepaid and other assets on our consolidated balance sheet) and a deferred tax liability of $0.1million (included in accounts payable and accrued expenses on our consolidated balance sheet) which represents the tax effect of differences between tax basis and financial statement carrying amounts of assets and liabilities. The major sources of temporary differences and their deferred tax effect at December 31, 2006 were as follows (dollar amounts in thousands):

Deferred tax assets:		
Net operating loss carryover	$	19,949
Restricted stock, performance shares and stock option expense		410
Marked to market adjustment		2
Sec. 267 disallowance		268
Charitable contribution carryforward		35
GAAP reserves		1,399
Rent expense		518
Loss on sublease		121
Gross deferred tax asset		22,702
Valuation allowance		(4,269)
Net deferred tax asset	$	18,433
Deferred tax liabilities:		
Management compensation	$	16
Depreciation		65

Total deferred tax liability	$	81
Net deferred tax asset	$	18,352

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The net operating loss carry-forward expires at various intervals between 2012 and 2027. The charitable contribution carry-forward will expire in 2011.

On January 1, 2007, the Company adopted FIN 48, “Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. 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 de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Interest and penalties are accrued and reported as interest expenses and other expenses reported in the consolidated statement of income are booked when incurred. In addition, the 2003-2006 tax years remain open to examination by the major taxing jurisdictions. The adoption of FIN 48 has had no material impact on the Company's consolidated financial statements.

13. Segment Reporting

Until March 31, 2007, the Company operated two reportable segments, the mortgage portfolio management segment and the mortgage lending segment. Upon the sale of substantially all the mortgage lending operating assets on March 31, 2007, the Company exited the mortgage lending business and accordingly will no longer report segment information.

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14. Stock Incentive Plans

A summary of the status of the Company's options as of September 30, 2007 and changes during the nine months then ended is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2007	93,300	$ 47.60
Granted	-	-
Cancelled	(93,300)	47.60
Exercised	-	-
Outstanding at September 30, 2007	-	$ -
Options exercisable at September 30, 2007	-	$ -

A summary of the status of the Company's options as of December 31, 2006 and changes during the year then ended is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2006	108,300	$ 47.80
Granted	-	-
Cancelled	(15,000)	49.15
Exercised	-	-
Outstanding at December 31, 2006	93,300	$ 47.60
Options exercisable at December 31, 2006	93,300	$ 47.60

There were no stock options outstanding at September 30, 2007.

The following table summarizes information about stock options at December 31, 2006:

		Options Outstanding			Options Exercisable		
Range of Exercise Prices	Date of Grants	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercise Price	Number Exercisable	Exercise Price	Fair Value of Options Granted
$9.00	6/24/04	35,300	7.5	$ 45.00	35,300	$ 45.00	$ 0.39

$9.83	12/2/04	58,000	7.9	49.15	58,000	49.15	0.29
Total		93,300	7.8	$ 47.60	93,300	$ 47.60	$ 0.33

The fair value of each option grant is estimated on the date of grant using the Binomial option-pricing model with the following weighted-average assumptions:

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Risk free interest rate	4.5%
Expected volatility	10%
Expected life	10 years
Expected dividend yield	10.48%

Restricted Stock

Through September 30, 2007, the Company has awarded 136,867 shares of restricted stock under the 2005 Plan, of which 100,380 shares have fully vested and 36,486 shares were forfeited and are available for re-issuance. During the nine months ended September 30, 2007, the Company recognized non-cash compensation expense of $0.5 million relating to the vested portion of restricted stock grants. Dividends are paid on all restricted stock issued, whether those shares are vested or not. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

A summary of the status of the Company's non-vested restricted stock as of September 30, 2007 and changes during the nine months then ended is presented below:

	Number of Non-vested Restricted Shares	Weighted Average Grant Date Fair Value
Non-vested shares at beginning of year, January 1, 2007	42,701	$ 31.80
Granted	-	-
Forfeited	(31,178)	27.90
Vested	(11,523)	43.15
Non-vested shares as of September 30, 2007	-	$ -
Weighted-average fair value of restricted stock granted during the period	-	$ -

A summary of the status of the Company's non-vested restricted stock as of December 31, 2006 and changes during the year then ended is presented below:

	Number of Non-vested Restricted Shares	Weighted Average Grant Date Fair Value
Non-vested shares at beginning of year, January 1, 2006	44,211	$ 44.25
Granted	25,831	21.80
Forfeited	(4,341)	46.00
Vested	(23,000)	41.85
Non-vested shares as of December 31, 2006	42,701	$ 31.80
Weighted-average fair value of restricted stock granted during the period	112,509	$ 21.80

15. Capital Stock and Earnings per Share

The Company had 400,000,000 shares of common stock, par value $0.01 per share, authorized with 3,635,854 shares issued and outstanding as of September 30, 2007. Of the common stock authorized, 206,222 shares (plus forfeited shares previously granted) were reserved for issuance as equity awards to employees, officers and directors pursuant to the 2005 Stock Incentive Plan. As of September 30, 2007, 271,887 shares remain reserved for issuance.

The Board of Directors declared a one for five reverse stock split of its common stock, providing shareholders of record as of October 9, 2007, with one share of common stock for each five shares owned as of the record date. The reduction in shares resulting from the split was effective on October 9, 2007 decreasing the number of common shares outstanding to 3.6 million. All per share and share amounts provided in the quarterly report have been restated to give effect to the reverse stock split.

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The Company calculates basic net income per share by dividing net income (loss) for the period by weighted-average shares of common stock outstanding for that period. Diluted net income (loss) per share takes into account the effect of dilutive instruments, such as stock options and unvested restricted or performance stock, but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding. Since the Company is in a loss position for the period ended September 30, 2007 and 2006, the calculation of basic and diluted earnings per share is the same since the effect of common stock equivalents would be anti-dilutive.

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

	For Nine Months Ended September 30,	
	2007	**2006**
Numerator:		
Net loss	$ (39,653)	$ (5,486)
Denominator:	-	-
Weighted average number of common shares outstanding - basic	3,625	3,595
Net effect of unvested restricted stock	-	-
Performance shares	-	-
Net effect of stock options	-	-
Weighted average number of common shares outstanding - dilutive	3,625	3,595
Net loss per share - basic and diluted	$ (10.94)	$ (1.53)

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

- our proposed portfolio strategy may be changed or modified by our management without advance notice to stockholders and we may suffer losses as a result of such modifications or changes;
- market changes in the terms and availability of repurchase agreements used to finance our investment portfolio activities;
- reduced demand for our securities in the mortgage securitization and secondary markets;
- interest rate mismatches between our mortgage-backed securities and our borrowings used to fund such purchases;
- changes in interest rates and mortgage prepayment rates;
- effects of interest rate caps on our adjustable-rate mortgage-backed securities;
-

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

- potential impacts of our leveraging policies on our net income and cash available for distribution;
- our board's ability to change our operating policies and strategies without notice to you or stockholder approval;
- our ability to manage, minimize or eliminate liabilities stemming from the discontinued operations including, among other things, litigation, repurchase obligations on the sales of mortgage loans and property leases; and
- the other important factors identified, or incorporated by reference into this report, including, but not limited to those under the captions “Management's Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures about Market Risk”, and those described under the caption “Part I. Item 1A. Risk Factors” in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2007.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events described by our forward-looking events might not occur. We qualify any and all of our forward-looking statements by these cautionary factors. In addition, you should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission.

This Quarterly Report on Form 10-Q contains market data, industry statistics and other data that have been obtained from, or compiled from, information made available by third parties. We have not independently verified their data.

General Overview

New York Mortgage Trust, Inc. (“we,” “us,” “our,” “NYMT” or the “Company”) is a self-advised real estate investment trust ("REIT") that invests in and manages a portfolio of mortgage-backed securities and mortgage loans. Our investment portfolio consists primarily of Agency mortgage-backed securities ("MBS") and, to a lesser extent, high quality adjustable rate mortgage (“ARM”) securities primarily rated in the highest rating categories by at least one of the Rating Agencies. Our principal business objective is to generate net income for distribution to our stockholders resulting from the spread between the interest and other income we earn on our investments in purchased residential mortgage-backed securities collateralized mortgage obligations, ARM loans and securitized loans, and the interest expense we pay on the borrowings that we use to finance these investments and our operating costs.

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

Discontinued Operation

Until March 31, 2007, the company operated a mortgage lending business through its wholly-owned, taxable REIT subsidiary, Hypotheca Capital, LLC (formerly known as The New York Mortgage Company, LLC) (“HC” or our “TRS”).

On March 31, 2007, we completed the sale of substantially all of the operating assets related to HC's retail mortgage lending platform to IndyMac Bank, F.S.B. (“Indymac”), a wholly-owned subsidiary of Indymac Bancorp, Inc. On February 22, 2007, we completed the sale of substantially all of the operating assets related to HC's wholesale mortgage lending platform to Tribeca Lending Corp. (“Tribeca Lending”), a wholly-owned subsidiary of Franklin Credit Management Corporation.

While the Company sold substantially all of the assets of its wholesale and retail mortgage lending platforms and exited the mortgage lending business as of March 31, 2007, it retains certain liabilities associated with that former line of business. Among these liabilities are the costs associated with the disposal of the mortgage loans held for sale, potential repurchase and indemnification obligations (including early payment defaults) on previously sold mortgage loans and remaining lease payment obligations on real and personal property.

Strategy

The Company invests in high-quality MBS, including agency and non-agency ARM securities and residential mortgage loans. Our investment portfolio, consisting primarily of residential mortgage-backed securities and mortgage loans held in securitization trusts, generates a substantial portion of our earnings. In managing our investment in a mortgage portfolio, we:

· invest in high-credit quality Agency and non-Agency MBS including ARM securities, collateralized mortgage obligation floaters ("CMO Floaters") and high-credit quality mortgage loans;

· finance our portfolio by entering into repurchase agreements, or issue collateral debt obligations relating to our securitizations;

· generally operate as a long-term portfolio investor; and

· generate earnings from the return on our mortgage securities and spread income from our mortgage loan portfolio.

We have acquired and increasingly seek to acquire additional assets that will produce competitive returns, taking into consideration the amount and nature of the anticipated returns from the investment, our ability to pledge the investment for secured, collateralized borrowings and the costs associated with obtaining, financing, managing, securitizing and reserving for these investments.

Investment Portfolio Credit Quality. We retain in our portfolio primarily high-credit quality loans that we originated or acquired from third parties. In the future, we expect to obtain mortgage loans in bulk purchases exclusively from third party originators. Retaining high credit quality mortgage loans generally leads to improved portfolio liquidity and generally provides for financing opportunities that are available on favorable terms. At September 30, 2007, the Company had $9.0 million in delinquent loans held in securitization trusts, against which it had a $1.0 million credit reserve.

In addition, 99% of the mortgage backed securities portfolio is either Agency or “AAA” rated. Our portfolio is comprised of: $326.4 million Agency securities; $32.0 million non-Agency “AAA” rated; and $1.5 million NYMT residual retained securities.

Securitizations. The portion of our investment portfolio categorized as mortgage loans held in securitization trusts consists of securitized prime adjustable-rate mortgage loans that we either originated or acquired from third parties. We aggregate high credit quality, adjustable-rate mortgage loans until we have a pool of loans of sufficient size to securitize. Historically, we obtained the loans we securitize from either our TRS or from third parties. In the future we will obtain mortgage loans in bulk purchases from third party originators. Our first securitization occurred on February 25, 2005 and we completed our second and third loan securitizations on July 28, 2005 and December 20, 2005, respectively. These securitization transactions, through which we financed the adjustable-rate and hybrid mortgage loans that we retained, were structured as financings for both tax and financial accounting purposes. Therefore, we do not expect to generate a gain or loss on sales from these activities, and, following the securitizations, the loans are classified on our consolidated balance sheet as mortgage loans held in securitization trusts. From each of our securitizations, we issued investment grade securities to third parties and recorded the securitization debt as a liability. On March 30, 2006 we completed our fourth securitization, New York Mortgage Trust 2006-1. This securitization was structured as a sale for accounting purposes.

Funding Diversification. We strive to maintain and achieve a balanced and diverse funding mix to finance our investment portfolio and assets. We rely primarily on repurchase agreements and collateralized debt obligations (“CDOs”) in order to finance our investment portfolio of mortgage-backed securities and residential loans. As of September 30, 2007, we had repurchase agreements outstanding with four different counterparties totaling $327.9 million, including approximately $102.2 million maturing on February 22, 2008.

During the nine months ended September 30, 2007, we sold approximately $339.0 million of previously retained securitizations resulting in the issuance of non-recourse debt and eliminating any risk of counterparty financing changes, such as increased margins due to declines in the market value of our securities or reduced availability of liquidity. This CDO issuance replaced short-term repurchase agreements freeing up approximately $17.5 million in capital needed for repurchase agreement margin. As of September 30, 2007 we had $444.2 million of outstanding CDOs.

In 2005, we further diversified our sources of financing with the issuance of $45.0 million of trust preferred securities classified as subordinated debentures. See “Liquidity and Capital Resources” for further discussion on our financing

activities.

Interest Rate Risk Management- A significant risk to our operations, relating to our portfolio management, is the risk that interest rates on our assets will not adjust at the same times or amounts that rates on our liabilities adjust. Even though we retain and invest in ARM securities, many of the underlying hybrid ARM loans in our securities portfolio have fixed rates of interest for a period of time ranging from two to seven years. Our funding costs are variable and the maturities are short term in nature. We use hedging instruments to reduce our risk associated with changes in interest rates that could affect our investment portfolio of mortgage loans and securities. Typically, we utilized interest rate swaps to extend the maturity of our short borrowings to better match the interest rate sensitivity to the underlying assets being financed. We hedge our financing costs in an attempt to maintain a net duration gap of less than one year; as of September 30, 2007, our net duration gap was approximately 3 months.

As we acquire mortgage-backed securities or loans, we seek to hedge interest rate risk in order to stabilize net asset values and earnings during periods of rising interest rates. To do so, we use hedging instruments in conjunction with our borrowings to approximate the re-pricing characteristics of such assets. The Company utilizes a model based risk analysis system to assist in projecting portfolio performances over a scenario of different interest rates and market stresses. The model incorporates shifts in interest rates, changes in prepayments and other factors impacting the valuations of our financial securities, including mortgage-backed securities, repurchase agreements, interest rate swaps and interest rate caps. However, given the prepayment uncertainties on our mortgage assets, it is not possible to definitively lock-in a spread between the earnings yield on our investment portfolio and the related cost of borrowings. Nonetheless, through active management and the use of evaluative stress scenarios of the portfolio, we believe that we can mitigate a significant amount of both value and earnings volatility. See further discussion of interest rate risk at the “Quantitative And Qualitative Disclosures About Market Risk - Interest Rate Risk” section of this document.

Other Risk Considerations. Our business is affected by a variety of economic and industry factors. Management periodically reviews and assesses these factors and their potential impact on our business. The most significant risk factors management considers while managing the business and which could have a material adverse effect on our financial condition and results of operations are:

- a decline in the market value of our assets due to rising interest rates;
- increasing or decreasing levels of prepayments on the mortgages underlying our mortgage-backed securities;
- our ability to dispose of the remaining loans held for sale at levels for which we have currently reserved;
- the overall leverage of our portfolio and the ability to obtain financing to leverage our equity, including the availability of repurchase agreements to finance our investment portfolio activities;
- the concentration of our mortgage loans in specific geographic regions;
- our ability to use hedging instruments to mitigate our interest rate and prepayment risks;
- declining real estate values;
- reduced demand in the secondary markets for our securities created by our securitizations,
- if our assets are insufficient to meet the collateral requirements of our lenders, we might be compelled to liquidate particular assets at inopportune times and at disadvantageous prices;
- if we are disqualified as a REIT, we will be subject to tax as a regular corporation and face substantial tax liability; and
- compliance with REIT requirements might cause us to forgo otherwise attractive opportunities.

Known Material Trends and Commentary

Liquidity. We depend on the capital markets to finance our investments in mortgage-backed securities and mortgage loans. To finiance our investment portfolio, we entered into repurchase agreements for short term financing. Commercial and investment banks have historically provided significant liquidity to finance our operations. Recent market events have caused providers of liquidity to increase their credit review standards and decrease the amount of fair value against they will lend, resulting in a decrease in overall market liquidity. While these events have not adversely affected our liquidity currently, management cannot predict the future availability of these sources of liquidity. We have issued collateralized debt obligations to finance our mortgage loans held in securitization trusts.

Although we are not a participant in the sub-prime mortgage sector and exited the mortgage lending business at the end of the first quarter of 2007, the current default trends in the sub-prime mortgage sector, and the resulting weakness in the broader mortgage market, could adversely affect one or more of the Company's lenders and could cause one or more of the Company's lenders to be unwilling or unable to provide it with additional financing. This could potentially increase the Company's financing costs and reduce liquidity. If one or more major market participants failed, it could negatively impact the marketability of all fixed income securities, including Agency MBS, and this could negatively impact the value of the securities in the Company's portfolio, thus reducing its net book value. In the event the Company's lenders are unwilling or unable to provide it with additional financing, we could be forced to sell our investment securities at an inopportune time on unfavorable terms. However, because the Company's investment portfolio is comprised of 91% Agency and 8% “AAA” rated mortgage backed securities, the Company believes that it is better positioned to convert its investment securities to cash or to negotiate an extended financing term should it lenders reduce the amount of the liquidity available to it. See "Liquidity and Capital Resources" below for further discussion.

Subsequent to its exit from the mortgage origination business, the Company has continued the process of exploring strategic alternatives while continuing its passive REIT strategy. There can be no assurances that the Company will be successful in entering into a strategic alternative. Should the Company be unsuccessful in doing so, it will operate at a higher expense ratio relative to its peers, and will have to reevaluate its long term viability.

EPDs. The occurrence of early payment defaults (“EPD”), which generally are mortgage loans for which a borrower has missed one of his/her first three payments when due, has greatly affected the mortgage lending industry. As the incidence of EPDs on loans originated in the second half of 2006 and the first quarter of 2007 increased dramatically, the frequency of loans we were requested to repurchase increased. These EPDs pertain only to loans originated in our discontinued mortgage lending operation. These repurchases are predominately made with cash and the reacquired loans are held on the balance sheet until they are re-sold. EPD loans are typically re-sold at a loss and result in a reduction of our working capital.

The majority of our EPDs to date are associated with borrowers whose loans were underwritten to loan programs where the borrower was not required to provide full income and or asset verification in order to qualify for the loan. These alternative documentation programs, also known as “Alternative-A” or “Alt-A” programs, offered to many investors for whom we once originated loans, combined with reduced amounts of required down payments, made it easier for many borrowers to obtain mortgage financing.

The increased incidence of EPDs has made many loan buyers and investors cautious when it comes to the purchase of mortgage loans. This has affected our ability to sell these mortgage loans held for sale in that loan purchasers are more cautious in their approach to loan review. The increased number of EPDs also caused these investors to change their underwriting guidelines resulting in further difficulty in selling the loans underwritten to the prior guidelines. During the three months ended September 30, 2007, no mortgage loans held for sale were sold. The Company continues to review and assess its portfolio of mortgage loans held for sale to find the best execution on their sale.

During the three months ended September 30, 2007, we did not repurchase any mortgage loans. For the nine months ended September 30, 2007, we repurchased a total of $6.5 million of mortgage loans. All mortgage loans repurchased to date were originated in either 2005 or 2006 and the majority of the repurchase requests were due to EPDs. Of the repurchased mortgage loans originated in 2006, the majority were Alt-A. As of June 30, 2007, we had $25.2 million of repurchase requests pending, against which the Company had taken a reserve of $4.9 million.
During the three months ended September 30, 2007, we received $1.0 million of new repurchase requests and had $0.5 million existing repurchase requests rescinded. Also during the three months ended September 30, 2007, we eliminated $18.4 million in repurchase requests by entering into settlement and release agreements with the parties requesting the repurchases. The settlements provided for a payment of a negotiated amount taking into account the loss incurred or otherwise borne by the loan purchaser in return for the elimination of the repurchase request, and in a majority of the cases, a release from all future claims due to EPDs, quality control issues, and indemnification obligations (discussed below). As of September 30, 2007, we had $7.3 million in outstanding repurchase requests and a reserve of $0.6 million.

From time to time, as an alternative to repurchasing loans, we sign indemnification agreements with loan investors. Generally these agreements specify that if a loan goes delinquent and the investor realizes a loss as a result of foreclosure, the Company will reimburse the investor for their loss. As of June 30, 2007, we had outstanding indemnification agreements on $7.4 million of mortgage loans, against which the Company had taken a reserve of $0.4 million. During the three months ended September 30, 2007, we entered into no new indemnification agreements and eliminated $5.3 million in existing indemnification obligations by entering into settlement and release agreements with the parties pertaining to repurchase requests. As of September 30, 2007, we had outstanding indemnification agreements on $2.1 million of mortgage loans, against which the Company maintained a reserve of $0.4 million.

All reserves taken by the Company reflect management's expectations based on current market conditions. If future market conditions deteriorate further, these reserves may be insufficient to cover current identified obligations.

Loan Sale Environment. The current environment for loans sales has become significantly more challenging as loan purchasers have become increasingly reluctant to purchase loans. This reluctance stems from concerns about increasing mortgage loan delinquencies, decreasing access to liquidity to fund such loans purchases and unfavorable changes in securitization structuring and support requirements by rating agencies. All of these factors have negatively impacted mortgage loan sale prices and decreased or eliminated certain loan purchasers' demand for mortgage loans. As of September 30, 2007, the Company had reserves of $1.6 million to cover the disposition of the mortgage loans held for sale. If these market conditions do not improve, there could be a further depression in the prices at which we can sell our mortgage loans held for sale. Such conditions could have a material adverse effect on our liquidity and overall financial condition.

Until the Company disposes of all the mortgage loans held for sale and the repurchase periods set forth in the loan sale agreements expire, the Company may continue to incur losses on these loans beyond what reserves have been made against such loans.

Presentation Format

In connection with the sale of substantially all of our wholesale and retail mortgage lending platform assets during the first quarter of 2007, we classified certain assets and liabilities related to our mortgage lending segment as a discontinued operation in accordance with the provisions of Statement of Financial Accounting Standards No. 144. As a result, we have reported revenues and expenses related to the segment as a discontinued operation and the related assets and liabilities as assets and liabilities related to a discontinued operation for all periods presented in the accompanying consolidated financial statements. Our continuing operations are primarily comprised of what had been our portfolio management operations. In addition, certain assets such as the deferred tax asset, and certain liabilities,

such as subordinated debt and liabilities related to leased facilities not assigned to Indymac, will become part of the ongoing operations of NYMT and accordingly, we have not classified as a discontinued operation in accordance with the provisions of Statement of Financial Accounting Standards No. 144.

The Board of Directors declared a one for five reverse stock split of our common stock, providing shareholders of record as of October 9, 2007, with one share of common stock for each five shares owned of record as of October 9, 2007 (the "Reverse Stock Split"). The reduction in shares resulting from the reverse stock split was effective on October 9, 2007, decreasing the number of common shares outstanding to approximately 3.6 million. Prior year share amounts and earnings per share disclosures have been restated to reflect the reverse stock split.

Significance of Estimates and Critical Accounting Policies

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, many of which require the use of estimates, judgments and assumptions that affect reported amounts. These estimates are based, in part, on our judgment and assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. The results of these estimates affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented.

Changes in the estimates and assumptions could have a material effect on these financial statements. Accounting policies and estimates related to specific components of our consolidated financial statements are disclosed in the notes to our consolidated financial statements. In accordance with SEC guidance, those material accounting policies and estimates that we believe are most critical to an investor's understanding of our financial results and condition and which require complex management judgment are discussed below.

Revenue Recognition. Interest income on our residential mortgage loans and mortgage-backed securities is a combination of the interest earned based on the outstanding principal balance of the underlying loan/security, the contractual terms of the assets and the amortization of yield adjustments, principally premiums and discounts, using generally accepted interest methods. The net GAAP cost over the par balance of self-originated mortgage loans held for investment and the premium and discount associated with the purchase of mortgage-backed securities and loans are amortized into interest income over the lives of the underlying assets using the effective yield method as adjusted for the effects of estimated prepayments. Estimating prepayments and the remaining term of our interest yield investments require management judgment, which involves, among other things, consideration of possible future interest rate environments and an estimate of how borrowers will react to those environments, historical trends and performance of those interest yield investments. The actual prepayment speed and actual lives could be more or less than the amount estimated by management at the time of origination or purchase of the assets or at each financial reporting period.

Fair Value. Generally, the financial instruments we utilize are widely traded and there is a ready and liquid market in which these financial instruments are traded. The fair values for such financial instruments are generally based on market prices provided by five to seven dealers who make markets in these financial instruments. If the fair value of a financial instrument is not reasonably available from a dealer, management estimates the fair value based on characteristics of the security that the Company receives from the issuer and on available market information.

Impairment of and Basis Adjustments on Investment Securities- As previously described herein, we regularly securitize our mortgage loans and retain the beneficial interests created. Such assets are evaluated for impairment on a quarterly basis or, if events or changes in circumstances indicate that these assets or the underlying collateral may be impaired, on a more frequent basis. We evaluate whether these assets are considered impaired, whether the impairment is other-than-temporary and, if the impairment is other-than-temporary, recognize an impairment loss equal to the difference between the asset's amortized cost basis and its fair value. These evaluations require management to make estimates and judgments based on changes in market interest rates, credit ratings, credit and delinquency data and other information to determine whether unrealized losses are reflective of credit deterioration and our ability and intent to hold the investment to maturity or recovery. This other-than-temporary impairment analysis requires significant management judgment and we deem this to be a critical accounting estimate.

The Company sold approximately $246.9 million of non-Agency ARM securities, including $225.4 million of lower yielding non-Agency ARM securities previously designated as impaired, with a reserve of $3.8 million. The Company incurred an additional net loss of $1.0 million in the sale of the incremental $21.5 million in securities.

At September 30, 2007, we have gross unrealized losses of $7.7 million on the remaining securities in our portfolio. As of September 30, 2007, we do not consider this impairment to be other-than-temporary.

Securitizations. We create securitization entities as a means of either:

- creating securities backed by mortgage loans which we will continue to hold and finance that will be more liquid than holding whole loan assets; or

- securing long-term collateralized financing for our residential mortgage loan portfolio and matching the income earned on residential mortgage loans with the cost of related liabilities,

otherwise referred to a match funding our balance sheet.

Residential mortgage loans are transferred to a separate bankruptcy-remote legal entity from which private-label multi-class mortgage-backed notes are issued. On a consolidated basis, securitizations are accounted for as secured financings as defined by SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” (“SFAS No. 140”), and, therefore, no gain or loss is recorded in connection with the securitizations. Each securitization entity is evaluated in accordance with Financial Accounting Standards Board Interpretation (“FIN”) 46(R), “Consolidation of Variable Interest Entities”, and we have determined that we are the primary beneficiary of the securitization entities. As such, the securitization entities are consolidated into our consolidated balance sheet subsequent to securitization. Residential mortgage loans transferred to securitization entities collateralize the mortgage-backed notes issued, and, as a result, those investments are not available to us, our creditors or stockholders. All discussions relating to securitizations are on a consolidated basis and do not necessarily reflect the separate legal ownership of the loans by the related bankruptcy-remote legal entity.

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

All derivative financial instruments are reported as either assets or liabilities in the consolidated balance sheet at fair value. The gains and losses associated with changes in the fair value of derivatives not designated as hedges are reported in current earnings. If the derivative is designated as a fair value hedge and is highly effective in achieving offsetting changes in the fair value of the asset or liability hedged, the recorded value of the hedged item is adjusted by its change in fair value attributable to the hedged risk. If the derivative is designated as a cash flow hedge, the effective portion of change in the fair value of the derivative is recorded in OCI and is recognized in the income statement when the hedged item affects earnings. The Company calculates the effectiveness of these hedges on an ongoing basis, and, to date, has calculated effectiveness of approximately 100% of these hedges. Ineffective portions, if any, of changes in the fair value or cash flow hedges are recognized in earnings.

Recent Accounting Pronouncements- In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No.157”). SFAS No.157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No.157 will be applied under other accounting principles that require or permit fair value measurements, as this is a relevant measurement attribute. This statement does not require any new fair value measurements. We will adopt the provisions of SFAS No.157 beginning January 1, 2008. We are currently evaluating the impact of this statement on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“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 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 the 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 Company 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. The Company is in the process of analyzing the impact of SFAS No. 159 on its consolidated financial statements.

In June 2007, the EITF reached consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* ("EITF 06-11"). EITF 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007, and the Company expects to adopt the provisions of EITF 06-11 beginning in the first quarter of 2008. The Company is currently evaluating the potential effect on the financial statements of adopting EITF 06-11.

In June 2007, the AICPA issued SOP No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (“SOP 07-1”). SOP 07-1 addresses whether the accounting principles of the AICPA Audit and Accounting Guide *Investment Companies* may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. In October of 2007, the provisions of SOP 07-1 were deferred indefinitely. The Company has not determined whether or not SOP 07-1 will have an impact if it is ultimately implemented.

Loan Loss Reserves on Mortgage Loans— We evaluate a reserve for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of mortgage loans held for sale and mortgage loans held in securitization trusts.

Estimation involves the consideration of various credit-related factors including but not limited to, the current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's credit and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the value of the property. Using the lower of the original purchase price or appraised value as a benchmark, we either utilize various internet based property data services to look at comparable properties in the same area, or consult with a realtor in the property's area, to determine the property’s current value.

Comparing the current loan balance to the current property value determines the current loan-to-value ("LTV") ratio of the loan. Generally we estimate that for the mortgage loans held in securitization trusts, a first lien loan on a property that goes into a foreclosure process and becomes real estate owned ("REO") results in the property being disposed of at approximately 68% of the property's original value. With respect to our portfolio of mortgage loans held for sale, which generally consists of mortgage loans originated in 2006 and 2007, we assume a first lien loan on a property that goes into a foreclosure process and becomes REO will result in the property being disposed of at approximately 65% of the property's original value This estimate is based on management's long term experience in similar market conditions. Thus, for a first lien loan that is delinquent, we will adjust the property value down to approximately 68% or 65%, as applicable depending on the loan classification, of the original property's current value and compare that to the current balance of the loan. The difference determines the base reserve taken for that loan. This base reserve for a particular loan may be adjusted if we are aware of specific circumstances that may affect the outcome of the loss mitigation process for that loan. Predominately, however, we use the base reserve number for our reserve.

Reserves for second liens, all of which are mortgage loans held for sale, are larger than that for first liens as second liens are in a junior position and only receive proceeds after the claims of the first lien holder are satisfied. Given the softness in the housing market due to the increased properties listed for sale, we currently assume that second mortgages will return approximately 5% or less of their original balance for loans that go through foreclosure. As with first liens, we may occasionally alter the base reserve calculation but that is in a minority of the cases and only if we are aware of specific circumstances that pertain to that specific loan.

At September 30, 2007, we had a loan loss reserve of $1.6 million on mortgage loans held for sale, $1.0 million in reserves for indemnifications and repurchase requests and a $1.0 million loan loss reserve for mortgage loans held in securitization trusts. The Company incurred $9.4 million of loan losses during the nine months ended September 30, 2007, including $8.4 million of loan losses in the discontinued operations.

Overview of Performance

For the three months ended September 30, 2007, we reported a net loss of $20.7 million and compared to a net loss of $3.9 million for the three months ended September 30, 2006. For the nine months ended September 30, 2007, we reported a net loss of $39.7 million, as compared to a net loss of $5.5 million for the nine months ended September 30, 2006.

The main components of the increase in loss for the three and nine months ended September 30, 2007 as compared to the same periods for the previous year are detailed in the following table:

Detailed Components of increase in loss	**for the three months ended September 30,**			**for the nine months ended September 30,**		
	2007	**2006**	**Difference**	**2007**	**2006**	**Difference**
Net interest income on investment portfolio	$ 1,164	$ 1,116	$ 48	$ 2,799	$ 7,730	$ (4,931)
Loss on other-than temporary impaired/ Realized loss on investment securities	(1,013)	440	(1,453)	(4,834)	(529)	(4,305)
Loan loss reserve on loans held in securitization trust	(99)	-	(99)	(1,039)	-	(1,039)
Allowance for deferred tax asset	(18,352)	-	(18,352)	(18,352)	-	(18,352)
	$ (675)	$ (4,136)	$ 3,461	$ (13,534)	$ (8,160)	$ (5,374)

Loss from discontinued operations - net of tax	

Summary of Operations and Key Performance Measurements

For the nine months ended September 30, 2007, our income was dependent upon our mortgage portfolio management operations and the net interest (interest income on portfolio assets net of the interest expense and hedging costs associated with the financing of such assets) generated from our portfolio, mortgage loans held in the securitization trusts and residential mortgage-backed securities.

The key performance measures for our portfolio management activities are:

- net interest spread on the portfolio;
- characteristics of the investments and the underlying pool of mortgage loans including but not limited to credit quality, coupon and prepayment rates; and
- return on our mortgage asset investments and the related management of interest rate risk.

Financial Condition

As of September 30, 2007, we had approximately $0.9 billion of total assets, as compared to approximately $1.3 billion of total assets as of December 31, 2006. The decline in total assets results primarily from a decline in assets related to our discontinued operations of $202.9 million and a decline of $258.3 million related to investment portfolio assets.

Balance Sheet Analysis - Asset Quality

Investment Securities - Available for Sale- Our securities portfolio consists of Agency securities or AAA-rated residential mortgage-backed securities. At September 30, 2007 and December 31, 2006, we had no investment securities in a single issuer or entity (other than a government sponsored agency of the U.S. Government) that had an aggregate book value in excess of 10% of our total assets. The following tables set forth the credit characteristics of our securities portfolio as of September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

Credit Characteristics of Our Investment Securities

		September 30, 2007				
	Sponsor or Rating	Par Value	Carrying Value	% of Portfolio	Coupon	Yield
Agency REMIC CMO floaters	FNMA/FHLMC	$ 332,649	$ 326,422	90.7%	6.47%	6.53%
Non-Agency floaters	AAA	30,403	29,813	8.3%	6.00%	6.01%
Non-Agency ARMs	AAA	-	-	0.0%	-	-
NYMT retained securities	AAA-BBB	2,169	2,175	0.6%	6.29%	6.37%
NYMT retained securities	Below Investment Grade	2,759	1,462	0.4%	5.68%	14.32%
Total/Weighted average		$ 367,980	$ 359,872	100.0%	6.42%	6.54%

		December 31, 2006				
	Sponsor or Rating	Par Value	Carrying Value	% of Portfolio	Coupon	Yield
Agency REMIC CMO floaters	FNMA/FHLMC	$ 163,121	$ 163,898	33.5%	6.72%	6.40%
Non-Agency floaters	AAA	22,392	22,284	4.6%	6.12%	6.46%
Non-Agency Arms	AAA	280,992	278,850	57.0%	4.80%	5.68%
NYMT retained securities	AAA-BBB	22,022	21,918	4.5%	5.64%	6.15%
NYMT retained securities	Below Inv Grade	2,767	2,012	0.4%	5.67%	21.00%
Total/Weighted average		$ 491,294	$ 488,962	100.0%	5.54%	6.06%

The following table sets forth the stated reset periods and weighted average yields of our investment securities at September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

Reset/ Yield of our Investment Securities

	September 30, 2007							
	Less than 6 Months		More than 6 Months To 24 Months		More than 24 Months To 60 Months		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Agency REMIC CMO floaters	$ 326,422	6.53%	$ -	-	$ -	-	$ 326,422	6.53%
Non-Agency floaters	29,813	6.01%	-	-	-	-	29,813	6.01%
Non-Agency ARMs	-	-	-	-	-	-	-	-
NYMT retained securities	2,175	6.37%	-	-	1,462	14.32%	3,637	10.82%
Total/Weighted average	$ 358,410	6.48%	$ -	-	$ 1,462	14.32%	$ 359,872	6.54%

	December 31, 2006							
	Less than 6 Months		More than 6 Months To 24 Months		More than 24 Months To 60 Months		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Agency REMIC CMO Floating Rate	$ 163,898	6.40%	$ -	-	$ -	-	$ 163,898	6.40%
Private Label Floating Rate	22,284	6.46%	-	-	-	-	22,284	6.46%
Private Label ARMs	16,673	5.60%	78,565	5.80%	183,612	5.64%	278,850	5.68%
NYMT Retained Securities	6,024	7.12%	-	-	17,906	7.83%	23,930	7.66%
Total/Weighted Average	$ 208,879	6.37%	$ 78,565	5.80%	$ 201,518	5.84%	$ 488,962	6.06%

Mortgage Loans Held in Securitization Trusts - Included in our portfolio are adjustable-rate mortgage loans that we originated or purchased in bulk from third parties that meet our investment criteria and portfolio requirements. If the securitization qualifies as a financing for SFAS No. 140 purposes the loans are classified as “mortgage loans held in securitization trusts.”

The NYMT 2006-1 securitization qualified as a sale under SFAS No. 140, which resulted in the recording of residual assets and mortgage servicing rights. The residual assets total $1.5 million and are included in investment securities available for sale. The residual interest carrying values are determined by dealer quotes. These quotes take into consideration certain pricing assumptions including, constant prepayment rate, discount rate, loan loss frequency and loan loss severity rates.

At September 30, 2007, mortgage loans held in securitization trusts totaled $459.0 million, or 54% of total assets. Of this portfolio of mortgage loans held in securitization trusts, all are traditional or hybrid ARMs and 76.7% are loans that are interest only. On our hybrid ARMs, interest rate reset periods are predominately five years or less and the interest-only/amortization period is typically 10 years, which mitigates the “payment shock” at the time of interest rate reset. No loans in our investment portfolio of mortgage loans are option-ARMs or ARMs with negative amortization.

Characteristics of Our Mortgage Loans Held in Securitization Trusts and Retained Interests in Securitization:

The following table sets forth the composition of our portfolio of mortgage loans held in securitization trusts and retained interests in our REMIC securitization, NYMT 2006-1 as of September 30, 2007 (dollar amounts in thousands):

	# of Loans	Par Value	Carrying Value
Loan Characteristics:			
Mortgage loans held in securitization trusts	1,035	$ 457,057	$ 458,968
Retained interest in securitization (included in Investment securities available for sale)	397	212,574	3,637
Total Loans Held	1,432	$ 669,631	$ 462,605

	Average	High	Low
General Loan Characteristics:			

Original Loan Balance	$ 488	$ 3,500	$ 48
Coupon Rate	5.78%	9.50%	4.00%
Gross Margin	2.34%	6.50%	1.13%
Lifetime Cap	11.17%	13.75%	9.00%
Original Term (Months)	360	360	360
Remaining Term (Months)	333	342	298

The following table sets forth the composition of our portfolio mortgage loans held in securitization trusts and retained interests in our REMIC securitization, NYMT 2006-1 as of December 31, 2006:

	# of Loans	Par Value	Carrying Value
Loan Characteristics:			
Mortgage loans held in securitization trusts	1,259	$ 584,358	$ 588,160
Retained interest in securitization (included in Investment securities available for sale)	458	249,627	23,930
Total Loans Held	1,717	$ 833,985	$ 612,090

General Loan Characteristics:	Average	High	Low
Original Loan Balance	$ 501	$ 3,500	$ 48
Coupon Rate	5.67%	8.13%	3.88%
Gross Margin	2.36%	6.50%	1.13%
Lifetime Cap	11.14%	13.75%	9.00%
Original Term (Months)	360	360	360
Remaining Term (Months)	340	351	307

The following tables provide additional characteristics of the mortgage loans held in securitization trusts and retained interests in securitization as of September 30, 2007 and December 31, 2006:

Arm Loan Type:	September 30, 2007 Percentage	December 31, 2006 Percentage
Traditional ARMs	2.3%	2.9%
2/1 Hybrid ARMs	2.1%	3.8%
3/1 Hybrid ARMs	11.8%	16.8%
5/1 Hybrid ARMs	81.4%	74.5%
7/1 Hybrid ARMs	2.4%	2.0%
Total	100.0%	100.0%
Percent of ARM loans that are Interest Only	76.7%	75.9%
Weighted average length of interest only period	8.2 years	8.0 years

Traditional ARMs - Periodic Cap(1):	September 30, 2007 Percentage	December 31, 2006 Percentage
None	69.9%	61.9%
1%	5.4%	8.8%
Over 1%	24.7%	29.3%
Total	100.0%	100.0%

(1) Periodic caps refer to the maximum amount by which the mortgage rate on any mortgage loan may increase or decrease on an adjustment date.

Hybrid ARMs - Initial Cap(2):	September 30, 2007 Percentage	December 31, 2006 Percentage
3.00% or less	9.7%	14.8%
3.01%-4.00%	5.9%	7.5%
4.01%-5.00%	83.5%	76.6%
5.01%-6.00%	.9%	1.1%
Total	100.0%	100.0%

(2) Initial caps refer to a fixed percentage specified in the related mortgage note by which the related mortgage rate generally will not increase or decrease on the first adjustment date more than such fixed percentage.

FICO Scores:	September 30, 2007 Percentage	December 31, 2006 Percentage
650 or less	3.9%	3.8%
651 to 700	17.1%	16.9%

701 to 750	32.6%	34.0%
751 to 800	42.2%	41.5%
801 and over	4.2%	3.8%
Total	100.0%	100.0%
Average FICO Score	738	737

Loan to Value (LTV):	**September 30, 2007 Percentage**	**December 31, 2006 Percentage**
50% or less	9.7%	9.8%
50.01% - 60.00%	8.8%	8.8%
60.01% - 70.00%	27.6%	28.1%
70.01% - 80.00%	51.7%	51.1%
80.01% and over	2.2%	2.2%
Total	100.0%	100.0%
Average LTV	69.6%	69.4%

Property Type:	**September 30, 2007 Percentage**	**December 31, 2006 Percentage**
Single Family	51.1%	52.3%
Condominium	23.0%	22.9%
Cooperative	9.9%	8.8%
Planned Unit Development	12.8%	13.0%
Two to Four Family	3.2%	3.0%
Total	100.0%	100.0%

Occupancy Status:	**September 30, 2007 Percentage**	**December 31, 2006 Percentage**
Primary	84.4%	85.3%
Secondary	11.9%	10.7%
Investor	3.7%	4.0%
Total	100.0%	100.0%

Documentation Type:	**September 30, 2007 Percentage**	**December 31, 2006 Percentage**
Full Documentation	72.1%	70.1%
Stated Income	19.7%	21.3%
Stated Income/ Stated Assets	6.8%	7.2%
No Documentation	0.9%	0.9%
No Ratio	0.5%	0.5%
Total	100.0%	100.0%

Loan Purpose:	**September 30, 2007 Percentage**	**December 31, 2006 Percentage**
Purchase	58.0%	57.3%
Cash out refinance	16.1%	26.1%
Rate and term refinance	25.9%	16.6%
Total	100.0%	100.0%

Geographic Distribution: (5% or more in any one state)	**September 30, 2007 Percentage**	**December 31, 2006 Percentage**

NY	31.2%	29.1%
MA	17.5%	17.5%
FL	8.0%	11.4%
CA	7.9%	7.5%
NJ	5.7%	5.1%
Other (less than 5% individually)	29.7%	29.4%
Total	100.0%	100.0%

Delinquency Status - As of September 30, 2007 and December 31, 2006, we had 13 delinquent loans totaling $9.0 million and 6 delinquent loans totaling $6.2 million, respectively, categorized as mortgage loans held in securitization trusts. The table below shows delinquencies in our loan portfolio as of September 30, 2006 (dollar amounts in thousands):

The following tables set forth delinquent loans in our portfolio as of September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

September 30, 2007

Days Late:	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	1	$ 246	0.05%
61-90	2	1,131	0.25%
90+	10	$ 7,604	1.66%

As of September 30, 2007, we had no REO.

December 31, 2006

Days Late:	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	1	$ 166	0.03%
61-90	1	193	0.03%
90+	4	5,819	0.99%
REO	1	$ 625	0.11%

Interest is recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in no case beyond when payment on a loan becomes 90 days delinquent. Interest collected on loans for which accrual has been discontinued is recognized as income upon receipt.

The Company has established a $1.0 million loan loss reserve for delinquent mortgage loans held in securitization trusts.

The following table details loan summary information for loans held in securitization trust at September 30, 2007 (all amounts in thousands)

Description			Interest Rate %			Final Maturity		Periodic Payment		Face Amount of Mortgage	Carrying Amount of Mortgage	Principal amount of loans subject to delinquent principal or interest
Property Type	Balance	Loan Count	Max	Min	Avg	Min	Max	Term (months)	Prior Liens			
Single Family	<= $100	17	8.38	4.75	6.04	07/01/33	11/01/35	360	NA	$ 3,502	$ 1,181	$ -
	<=$250	115	9.50	4.50	5.73	09/01/32	12/01/35	360	NA	21,483	20,777	435
	<=$500	187	7.93	4.25	5.68	09/01/32	01/01/36	360	NA	67,320	65,178	500
	<=$1,000	83	8.50	4.38	5.89	07/01/33	01/01/36	360	NA	60,723	58,513	816
	>$1,000	44	8.13	4.88	5.89	06/01/33	01/01/36	360	NA	75,698	74,983	3,250
	Summary	**446**	**9.50**	**4.25**	**5.77**	**09/01/32**	**01/01/36**	**360**	NA	**$ 228,726**	**$ 220,632**	**$ 5,001**
2-4 FAMILY	<= $100	1	6.63	6.63	6.63	02/01/35	02/01/35	360	NA	$ 80	$ 78	$ -
	<=$250	8	6.75	4.38	5.81	12/01/34	11/01/35	360	NA	1,529	1,455	-
	<=$500	29	7.63	5.13	6.02	07/01/33	01/01/36	360	NA	10,650	10,445	1,368
	<=$1,000	4	6.88	4.75	5.69	07/01/35	10/01/35	360	NA	3,068	3,055	-
	>$1,000	2	5.63	5.50	5.56	12/01/34	08/01/35	360	NA	4,008	4,008	-
	Summary	**44**	**7.63**	**4.38**	**5.95**	**07/01/33**	**01/01/36**	**360**	NA	**$ 19,335**	**$ 19,041**	**$ 1,368**
Condo	<= $100	20	7.38	4.38	5.80	01/01/35	12/01/35	360	NA	$ 3,528	$ 1,479	$ -
	<=$250	108	9.00	4.25	5.69	08/01/32	01/01/36	360	NA	20,345	19,748	230
	<=$500	124	8.13	4.00	5.52	08/01/32	01/01/36	360	NA	44,225	42,885	378
	<=$1,000	51	7.75	4.50	5.49	08/01/33	11/01/35	360	NA	38,981	35,953	-
	>$1,000	17	8.00	4.63	5.76	07/01/34	09/01/35	360	NA	27,513	25,325	1,149
	Summary	**320**	**9.00**	**4.00**	**5.60**	**08/01/32**	**01/01/36**	**360**	NA	**$ 134,592**	**$ 125,390**	**$ 1,757**
CO-OP	<= $100	7	5.50	4.75	5.07	10/01/34	06/01/35	360	NA	$ 1,099	$ 365	$ -
	<=$250	32	7.63	4.00	5.52	09/01/34	12/01/35	360	NA	5,913	5,611	-
	<=$500	61	7.63	4.25	5.52	08/01/34	12/01/35	360	NA	23,640	22,280	-
	<=$1,000	34	6.75	4.50	5.30	10/01/34	11/01/35	360	NA	24,832	23,879	-
	>$1,000	7	7.38	4.88	5.61	11/01/34	12/01/35	360	NA	9,814	9,612	-
	Summary	**141**	**7.75**	**4.00**	**5.40**	**08/01/34**	**12/01/35**	**360**	NA	**$ 65,298**	**$ 61,747**	**$ -**
PUD	<= $100	1	5.63	5.63	5.63	07/01/35	07/01/35	360	NA	$ 100	$ 97	$ -
	<=$250	35	7.76	4.00	5.75	07/01/33	12/01/35	360	NA	6,816	6,257	-
	<=$500	34	8.88	4.63	6.19	08/01/32	12/01/35	360	NA	12,592	11,937	-
	<=$1,000	10	7.92	4.75	5.93	08/01/33	12/01/35	360	NA	6,827	6,730	855
	>$1,000	4	7.80	5.63	6.36	04/01/34	12/01/35	360	NA	5,233	5,226	-
	Summary	**84**	**8.88**	**4.00**	**5.98**	**08/01/32**	**01/01/36**	**360**	NA	**$ 31,568**	**$ 30,247**	**$ 855**
Summary	<= $100	46	8.38	4.38	5.79	07/01/33	12/01/35	360	NA	$ 8,309	$ 3,200	$ -
	<=$250	298	9.50	4.00	5.70	08/01/32	01/01/36	360	NA	56,086	53,848	665
	<=$500	435	8.88	4.00	5.68	08/01/32	01/01/36	360	NA	114,202	152,725	2,246
	<=$1,000	182	8.50	4.38	5.67	07/01/33	01/01/36	360	NA	134,431	128,130	1,671
	>$1,000	74	8.13	4.63	5.85	06/01/33	01/01/36	360	NA	122,266	119,154	4,399
	Grand Total	**1,035**	**9.50**	**4.00**	**5.69**	**08/01/32**	**01/01/36**	**360**	NA	**$ 479,519**	**$ 457,057**	**$ 8,981**

The following table details activity for loans held in securitization trust for the nine months ended September 30, 2007.

	Principal	Premium	Loan Reserve	Net Carrying Value
Balance, January 1, 2007	**$ 584,358**	**$ 3,802**	**$ 0**	**$ 588,160**
Additions	-	-	-	-
principal repayments	(127,301)	-	-	(127,301)
Reserve for loan loss	-	-	(1,011)	(1,011)
Amortization for premium	-	(880)	-	(880)
Balance, September 30, 2007	$ 457,057	$ 2,922	($1,011)	$ 458,968

Cash and cash equivalents - We had unrestricted cash and cash equivalents of $11.1 million at September 30, 2007 versus $1.0 million at December 31, 2006.

Restricted Cash - Restricted cash includes amounts held by counterparties as collateral for hedging instruments, amounts held as collateral for two letters of credit related to the Company's lease of office space, including its corporate headquarters, and amounts held in an escrow account to support warranties and indemnifications related to the sale of the retail mortgage lending platform to IndyMac.

Accounts and accrued interest receivable - Accounts and accrued interest receivable includes accrued interest receivable for investment securities and mortgage loans held in securitization trusts are also included.

Prepaid and other assets - Prepaid and other assets totaled $2.4 million as of September 30, 2007 as compared to $20.6 million as of December 31, 2006. The December 31, 2006 balance included $18.4 million of a net deferral tax asset that was fully reserved for during the three months ended September 30, 2007.

Property and Equipment, Net - Property and equipment totaled $0.1 million as of September 30, 2007 and $0.1 million as of December 31, 2006 and have estimated lives ranging from three to ten years, and are stated at cost less accumulated depreciation and amortization. Depreciation is determined in amounts sufficient to charge the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

Assets Related to Discontinued Operations

The balances of the following assets related to the discontinued operation have declined as of September 30, 2007 as compared to December 31, 2006, primarily due to our exit from the mortgage lending business:

Mortgage Loans Held for Sale - Mortgage loans that we have originated but do not intend to hold for investment and are held pending sale to investors are classified as “mortgage loans held for sale.” We had mortgage loans held for sale of $8.0 million at September 30, 2007 as compared to $106.9 million at December 31, 2006. We use cash on a short-term basis to finance our mortgage loans held for sale.

Due from Purchasers - We had no amounts due from loan purchasers that were outstanding at September 30, 2007, as compared to $88.4 million at December 31, 2006. Amounts due from loan purchasers are a receivable for the principal and premium due to us for loans that have been shipped to permanent investors but for which payment has not yet been received at period end.

Balance Sheet Analysis - Financing Arrangements

Financing Arrangements, Portfolio Investments -As of September 30, 2007 and December 31, 2006, there were $327.9 million and $815.3 million, respectively, of repurchase borrowings outstanding. The Company entered into a six month repurchase agreement with Credit Suisse totaling approximately $102 million. The repurchase agreement will mature on February 22, 2008 with interest rates to reset monthly. All outstanding borrowings under other repurchase agreements mature within 30 days. At September 30, 2007 average days to maturity for our repurchase agreements was 56 days. The weighted average borrowing rate on these financing facilities was 5.28% and 5.37% as of September 30, 2007 and December 31, 2006, respectively.

Collateralized Debt Obligations - There were no new securitization transactions accounted for as a financing during the nine months ended September 30, 2007 or during the year ended December 31, 2006. We had $444.2 million and $197.4 million of CDOs outstanding as of September 30, 2007 and December 31, 2006, respectively. The weighted average borrowing rate on these CDOs was 5.51% and 5.72% as of September 30, 2007 and December 31, 2006, respectively. The increase in the amount of CDOs outstanding between December 31, 2006 and September 30, 2007 is

due to the sale of $339.0 million on previously retained securitizations of NYMT 2005-2 securities on February 26, 2007 and $148.0 million of NYMT 2005-1 securities on March 26, 2007. The sales were treated as financings in accordance with SFAS No. 140.

Derivative Assets and Liabilities - We generally hedge only the risk related to changes in the benchmark interest rate used in the variable rate index, usually a London Interbank Offered Rate, known as LIBOR, or a U.S. Treasury rate.

In order to reduce these risks, we enter into interest rate swap agreements whereby we receive floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to a fixed rate. We also enter into interest rate cap agreements whereby, in exchange for a fee, we are reimbursed for interest paid in excess of a contractually specified capped rate.

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

We enter into derivative transactions solely for risk management purposes and not for speculation. The decision of whether or not a given transaction (or portion thereof) is hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including the financial impact on income and asset valuation and the restrictions imposed on REIT hedging activities by the Internal Revenue Code, among others. In determining whether to hedge a risk, we may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as a hedge are entered into with a view towards minimizing the potential for economic losses that could be incurred by us. Generally, all derivatives entered into are intended to qualify as hedges in accordance with GAAP, unless specifically precluded under SFAS No. 133. To this end, the terms of the hedges are matched closely to the terms of the hedged items.

The following table summarizes the estimated fair value of derivative assets as of September 30, 2007 and December 31, 2006 (dollar amounts in thousands):

	September 30, 2007	December 31, 2006
Derivative Assets:		
Interest rate caps	$ 977	$ 2,011
Interest rate swaps	-	621
Total derivative assets	$ 977	$ 2,632
Derivative Liabilities:		
Interest rate caps	$ -	$ -
Interest rate swaps	1,601	-
Total derivative Liabilities	$ 1,601	$ -

Subordinated Debentures - As of September 30, 2007, we had trust preferred securities outstanding of $45.0 million. The securities are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities are classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

$25.0 million of our subordinated debentures have a floating interest rate equal to three-month LIBOR plus 3.75%, resetting quarterly (9.11% at September 30, 2007 and 9.12% at December 31, 2006). These securities mature on March 15, 2035 and may be called at par by the Company any time after March 15, 2010. HC entered into an interest rate cap agreement to limit the maximum interest rate cost of the trust preferred securities to 7.5%. The term of the interest rate cap agreement is five years and resets quarterly in conjunction with the reset periods of the trust preferred securities.

$20 million of our subordinated debentures have a fixed interest rate equal to 8.35% up to and including July 30, 2010, at which point the interest rate is converted to a floating rate equal to one-month LIBOR plus 3.95% until maturity. The securities mature on October 30, 2035 and may be called at par by the Company any time after October 30, 2010.

Balance Sheet Analysis - Stockholders' Equity

Stockholders' equity at September 30, 2007 was $24.9 million and included $10.9 million of net unrealized losses on available for sale securities and cash flow hedges presented as accumulated other comprehensive income.

Prepayment Experience

The cumulative prepayment rate (“CPR”) on our mortgage portfolio averaged approximately 20% during the nine month period ended September 30, 2007 as compared to 20% for the nine month period ended September 30, 2006. CPRs on our purchased portfolio of investment securities averaged approximately 14% while the CPRs on mortgage loans held for investment or held in our securitization trusts averaged approximately 26% during the nine month period ended September 30, 2007. The CPR on our mortgage portfolio averages 20% for the three months ended September 30, 2007, as compared to 21% for the three months ended June 30, 2007 and 21% for the three months ended September 30, 2006. When prepayment expectations over the remaining life of assets increase, we have to amortize premiums over a shorter time period resulting in a reduced yield to maturity on our investment assets. Conversely, if prepayment expectations decrease, the premium would be amortized over a longer period resulting in a higher yield to maturity. We monitor our prepayment experience on a monthly basis and adjust the amortization of our net premiums accordingly.

Results of Operations

Our results of operations for our mortgage portfolio during a given period typically reflect the net interest spread earned on our investment portfolio of residential mortgage loans and mortgage-backed securities. The net interest spread is impacted by factors such as our cost of financing, the interest rate our investments are earning and our interest hedging strategies. Furthermore, the amount of premium or discount paid on purchased portfolio investments and the prepayment rates on portfolio investments will impact the net interest spread as such factors will be amortized over the expected term of such investments.

Other Operational Information

	2007 (1)	September 30, 2006	% change
Loan officers	-	378	(100.0)%
Other employees	9	307	(97.1)%
Total employees	9	685	(98.7)%
Number of sales locations	-	50	(100.0)%

(1) In connection with the sale of our mortgage lending platform assets at the end of the first quarter of 2007, the Company exited the mortgage lending business and significantly reduced its staffing needs. As of March 31, 2007, the Company did not employ any loan officers and did not maintain any sales locations.

Comparative Net Loss

	for the Three Months Ended September 30,			for the Nine Months Ended September 30,		
	2007	2006	% Change	2007	2006	% Change
Net interest income	$ 269	$ 239	12.6%	$ 128	$ 5,074	(97.5)%
Total other (expenses) income	(1,112)	440	(352.7)%	(5,873)	(529)	(1010.2)%
Total expenses	846	411	105.8%	2,022	1,871	8.1%
(Loss) income for continuing operations	(20,041)	268	(7,578.0)%	(26,119)	2,674	(1,076.8)%
Loss from discontinued operations	(675)	(4,136)	116.3%	(13,534)	(8,160)	(65.9)%
Net loss	(20,716)	(3,868)	(336.3)%	(39,653)	(5,486)	(622.0)%
EPS Basic and Diluted	$ (5.70)	$ (1.07)	(442.9)%	$ (10.94)	$ (1.53)	(605.8)%

For the three months ended September 30, 2007, we reported a net loss of $20.7 million, as compared to a net loss of $3.9 million for the three months ended September 30, 2006. For the nine months ended September 30, 2007, we reported a net loss of $39.7 million, as compared to a net loss of $5.5 million for the nine months ended September 30, 2006. The table below will detail the material components of the change in net loss for the three month and nine month ended periods.

See the following table for the selected components of the increase net loss for the three and nine months ended September 30, 2007 and 2006.

	for the Three Months Ended September 30,			for the Nine Months Ended September 30,		
	2007	2006	% Change	2007	2006	% Change
Net interest income on investment portfolio	$ 1,164	$ 1,116	4.3%	$ 2,799	$ 7,730	(63.8)%
Realized (loss) gain on sale of investment securities	(1,013)	440	(330.2)%	(4,834)	(529)	(813.8)%
Loan loss reserve on loans held in securitization trust	(99)	-	(100.0)%	(1,039)	-	(100.0)%

Allowance for deferred tax asset	(18,352)	-	(100.0)%	(18,352)	-	(100.0)%
Loss from discontinued operations - net of tax	$ (675)	$ (4,136)	83.7%	$ (13,534)	$ (8,160)	(65.9)%

For the three months ended September 30, 2007, we reported a net loss of $20.7 million, as compared to a net loss of $3.9 million for the three months ended September 30, 2006. The increase in net loss of $16.8 million for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 is primarily due to an allowance for deferred tax asset of $18.4 million. For the nine months ended September 30, 2007, we reported a net loss of $39.7 million, as compared to a net loss of $5.5 million for the nine months ended September 30, 2006. The increase in net loss of $34.2 million is due mainly to a decrease in net interest income from the investment portfolio of $4.9 million, an increase in realized losses from sale of investment securities totaling $4.3 million, an increase in net loss from discontinued operations of $5.4 million and a $18.4 million allowance for the deferred tax asset.

Comparative Net Interest Income

The following table sets forth the changes in net interest income, yields earned on mortgage loans and securities and rates on financial arrangements for the three and nine months ended September 30, 2007 and 2006:

	For the Three Months Ended September 30,					
	2007			2006		
	Average Balance	Amount ($ Millions)	Yield/ Rate	Average Balance	Amount ($ Millions)	Yield/ Rate
Interest income:						
Investment securities and loans held in the securitization trusts	$ 863.7	$ 12,813	5.93%	$ 1,281.3	$ 17,632	5.50%
Amortization of net premium	1.5	(437)	(0.21)%	6.4	(634)	(0.22)%
Interest income/weighted average	$ 865.2	$ 12,376	5.72%	$ 1,287.7	$ 16,998	5.28%
Interest expense:						
Investment securities and loans held in the securitization trusts	$ 817.6	$ 11,212	5.49%	$ 1,214.4	$ 15,882	5.12%
Subordinated debentures	45.0	895	7.96%	45.0	877	7.80%
Interest expense/weighted average	$ 862.6	$ 12,107	5.61%	$ 1,259.4	$ 16,759	5.21%
Net interest income/weighted average		$ 269	0.11%		$ 239	0.07%

	For the Nine Months Ended September 30,					
	2007			2006		
	Average Balance	Amount ($ Millions)	Yield/ Rate	Average Balance	Amount ($ Millions)	Yield/ Rate
Interest income:						
Investment securities and loans held in the securitization trusts	$ 942.3	$ 40,415	5.72%	$ 1,322.6	$ 51,682	5.21%
Amortization of net premium	3.2	(1,428)	(0.22)%	6.1	(1,632)	(0.18)%
Interest income/weighted average	$ 945.5	$ 38,987	5.50%	$ 1,328.7	$ 50,050	5.03%
Interest expense:						
Investment securities and loans held in the securitization trusts	$ 891.4	$ 36,188	5.41%	$ 1,248.7	$ 42,320	4.47%
Subordinated debentures	45.0	2,671	7.83%	45.0	2,656	7.87%
Interest expense/weighted average	$ 936.4	$ 38,859	5.47%	$ 1,293.7	$ 44,976	4.59%

Net interest income/weighted average	$ 128	0.03%	$ 5,074	0.44%

The decrease in net interest margin of $4.9 million for the nine months ended September 30, 2007 as compared to the nine months end September 30, 2006 is primarily due to a decrease in average earning assets of $383.2 million as well as a reduction in net interest margin of 41 basis points.

The following table sets forth the net interest spread since inception for our portfolio of investment securities available for sale, mortgage loans held for investment and mortgage loans held in securitization trust, excluding the costs of our subordinated debentures.

As of the Quarter Ended	Average Interest Earning Assets ($ millions)	Weighted Average Coupon	Weighted Average Cash Yield on Interest Earning Assets	Cost of Funds	Net Interest Spread
September 30, 2007	$ 865.7	5.93%	5.72%	5.38%	0.34%
June 30, 2007	$ 948.6	5.66%	5.55%	5.43%	0.12%
March 31, 2007	$ 1,022.7	5.59%	5.36%	5.34%	0.02%
December 31, 2006	$ 1,111.0	5.53%	5.35%	5.26%	0.09%
September 30, 2006	$ 1,287.6	5.50%	5.28%	5.12%	0.16%
June 30, 2006	$ 1,217.9	5.29%	5.08%	4.30%	0.78%
March 31, 2006	$ 1,478.6	4.85%	4.75%	4.04%	0.71%
December 31, 2005	$ 1,499.0	4.84%	4.43%	3.81%	0.62%
September 30, 2005	$ 1,494.0	4.69%	4.08%	3.38%	0.70%
June 30, 2005	$ 1,590.0	4.50%	4.06%	3.06%	1.00%
March 31, 2005	$ 1,447.9	4.39%	4.01%	2.86%	1.15%
December 31, 2004	$ 1,325.7	4.29%	3.84%	2.58%	1.26%
September 30, 2004	$ 776.5	4.04%	3.86%	2.45%	1.41%

Comparative Expenses

	for the Three Months Ended September 30,			for the Nine Months Ended September 30,		
	2007	2006	% Change	2007	2006	% Change
Salaries and benefits	$ 178	$ 166	7.2%	$ 674	$ 618	9.1%
Marketing and promotion	37	20	85.0%	99	54	83.3%
Data processing and communications	50	58	(13.8)%	143	177	(19.2)%
Professional fees	266	82	224.4%	471	447	5.4%
Depreciation and amortization	93	131	29.0%	242	398	(39.2)%
Other	222	(46)	(582.6)%	393	177	(122.0)%
	$ 846	$ 411	105.8%	$ 2,022	$ 1,871	8.1%

The increase in professional fees of $0.2 million for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 is due mainly to legal and accounting fees related to continued review our strategic alternative initiatives. The increase in other expenses of $0.3 million for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 is due primarily to the change in allocation of certain expenses previously allocated to the discontinued mortgage lending operation. Also, the decrease of $0.2 million in depreciation and amortization for the nine months ended September 30, 2007 as compared the same period in 2006 is due to the sale of fixed assets in the first quarter related to the disposal of the mortgage lending business.

Discontinued Operation

	for the Three Months Ended September 30,	for the Nine Months Ended September 30,

	2007	2006	% Change	2007	2006	% Change
Revenues:						
Net interest income	$ 179	$ 543	(67.0)%	$ 931	$ 2,871	(67.6)%
(Loss) gain on sale of mortgage loans	(10)	4,311	(100.2)%	2,540	14,362	(82.3)%
Loan (losses)	(172)	(4,077)	(95.8)%	(8,414)	(4,077)	(106.4)%
Brokered loan fees	3	2,402	(99.9)%	2,319	8,672	(73.3)%
Gain on sale of retail lending segment	-	-	-%	4,525	-	100.0%
Other (expense) income	(39)	43	(190.7)%	(24)	(437)	94.5%
Total net revenues	$ (39)	$ 3,222	(101.2)%	$ 1,877	$ 21,391	(91.2)%
Expenses:						
Salaries, commissions and benefits	$ 424	$ 5,212	(91.9)%	$ 6,508	$ 17,102	(61.9)%
Brokered loan expenses	-	1,674	(100.0)%	1,731	6,609	(73.8)%
Occupancy and equipment	(86)	1,255	(106.9)%	2,124	3,870	(45.1)%
General and administrative	298	3,132	(90.5)%	5,048	10,464	(51.8)%
Total expenses	636	11,273	(94.4)%	15,411	38,045	(59.5)%
Loss before income tax benefit	(675)	(8,051)	(91.6)%	(13,534)	(16,654)	(18.7)%
Income tax (provision) benefit	-	3,915	(100.0)%	-	8,494	(100.0)%
Loss from discontinued operations - net of tax	$ (675)	$ (4,136)	83.7%	$ (13,534)	$ (8,160)	(65.9)%

The majority of the decreases in revenues and expenses are due to the Company's exit from the mortgage lending business in the first quarter of 2007. In addition, the Company experienced loan losses of $8.4 million and $4.1 million for the nine months ended September 30, 2007 and 2006, respectively. This increase in loan losses for the nine months ended September 30, 2007 from the same period in 2006 is largely attributable to decrease in real estate values. The Company recorded a net gain of $4.5 million for the sale of the retail segment during the nine months ending September 30, 2007. In addition, the Company incurred an $18.4 valuation allowance for the deferred tax asset, in the three months ended September 30, 2007.

Off-Balance Sheet Arrangements

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

Liquidity and Capital Resources

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

As of the date of this report, we believe our existing cash balances, funds available under our current repurchase agreements and cash flows from operations will be sufficient for our liquidity requirements for at least the next 12 months. At September 30, 2007, we had cash balances of $11.1 million and borrowings of $327.9 million under outstanding repurchase agreements. At September 30, 2007, we also had longer-term capital resources from CDOs outstanding of $444.2 million and from subordinated debt of $45.0 million.

We had outstanding repurchase agreements, a form of collateralized short-term borrowing, with 4 different financial institutions as of September 30, 2007. These agreements are secured by our mortgage-backed securities and bear interest rates that have historically moved in close relationship to LIBOR. Our borrowings under repurchase agreements are based on the fair value of our mortgage backed securities portfolio. See "Market (Fair Value) Risk" under Item 3 of this Form 10-Q. Interest rate changes can have a negative impact on the valuation of these securities, reducing the amount we can borrow under these agreements. Moreover because these lines of financing are not committed, meaning the counterparty can call the loan at any time, interest rate changes, concern regarding the fair value of our mortgage-backed securities portfolio, and shared concerns in the credit markets may lead to margin calls initiated by the repurchase agreement providers. External disruptions to credit markets might also impair access to additional liquidity. See "Risk Factors" relating to liquidity under Part II, Item 1A of this Form 10-Q and "Liquidity and Funding Risk" under Item 3 of this Form 10-Q for a discussion of additional risks and uncertainties relating to our liquidity.

During and subsequent to the month of August, 2007, the availability of short-term collateralized borrowing through repurchase agreements worsened considerably, primarily as a result of the fall-out from increasing defaults in the sub-prime mortgage market and losses incurred at a number of larger companies in the mortgage industry. At September 30, 2007, we had outstanding balances under repurchase agreements with four different counterparties and, as of the date of this report, we have been successful at resetting all outstanding balances under our various repurchase agreements as they have become due. In the event a counterparty elected to not reset the outstanding balance into a

new repurchase agreement, we would be required to repay the outstanding balance with proceeds received from a new counterparty or to surrender the mortgage-backed securities that serve as collateral for the outstanding balance. If we are unable to secure financing from another counterparty and surrender the collateral, we would expect to incur a significant loss. Although we presently expect the short-term collateralized borrowing markets to continue providing us with necessary financing through repurchase agreements, we cannot assure you that this form of financing will be available to us in the future on comparable terms, if at all.

Our investments and assets will also generate liquidity on an ongoing basis through mortgage principal and interest payments, pre-payments and net earnings held prior to payment of dividends. Should our liquidity needs ever exceed the on-going or immediate sources of liquidity discussed above, we believe that our securities could be sold to raise additional cash. Such sales might occur at prices lower than the carrying value of the assets, which would result in losses.

To finance our investment portfolio, we generally seek to borrow between eight and 12 times the amount of our equity. At September 30, 2007, our leverage ratio defined as financing arrangements, portfolio investments divided by total stockholders' equity was 13 to 1. Collateralized debt obligations are not included in leverage ratio calculations as they do not require any upfront or market valuation over collateralization. We, and the providers of our financing facilities, generally view our $45.0 million of subordinated trust preferred debentures outstanding at September 30, 2007 as a form of equity which would result in an adjusted leverage ratio of 5 to 1.

We enter into interest rate swap agreements to extend the maturity of our repurchase agreements as a mechanism to reduce the interest rate risk of the securities portfolio. As of September 30, 2007, we had $220.0 million in interest rate swaps outstanding with two different financial institutions. The weighted average maturity of the swaps was 560 days at September 30, 2007. The impact of the interest swaps extends the maturity of the repurchase agreements to 13 months.

On September 27, 2007, the Company's board of directors elected to omit the quarterly dividend for holders of the Company's common stock for the 2007 third quarter. The board of director's decision continues to reflect the Company's focus on elimination of operating losses related to the discontinued mortgage lending business with a view to conserving capital to build future earnings from our portfolio management operations. The Company's board of directors will continue to evaluate the Company's dividend policy each quarter and will make adjustments as necessary, based on a variety of factors, including, among other things, the Company's financial condition, liquidity, earnings projections and business prospects. Our dividend policy does not constitute an obligation to pay dividends, which only occurs when the board of directors declares a dividend. Including this omitted dividend, during the nine months ended September 30, 2007, we distributed approximately $1.8 million in common stock dividends.

We intend to make distributions to our stockholders to comply with the various requirements to maintain our REIT status and to minimize or avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the REIT distribution requirements and to avoid corporate income tax and the nondeductible excise tax.

Certain of our assets may generate substantial mismatches between REIT taxable income and available cash. These assets could include mortgage-backed securities we hold that have been issued at a discount and require the accrual of taxable income in advance of the receipt of cash. As a result, our REIT taxable income may exceed our cash available for distribution and the requirement to distribute a substantial portion of our net taxable income could cause us to:

- sell assets in adverse market conditions;
- borrow on unfavorable terms; or
- distribute amounts that would otherwise be invested in assets or repayment of debt, in order to comply with the REIT distribution requirements.

Repurchase requests from mortgage loan investors are an important factor affecting our liquidity. Repurchase requests predominately result from early payment defaults ("EPDs") (i.e., where the borrowers have not timely made some or all of their first three mortgage payments) or in the event of a breach of a representation, warranty or covenant under the loan sale agreement. While in the past we complied with the repurchase demands by repurchasing the loan and reselling it at a loss, more recently we have addressed these requests by negotiation of a net cash settlement based on the actual or assumed loss on the loan in lieu of repurchasing the loans. New repurchase demands increased during the three months ended September 30, 2007 by approximately $1.0 million, while $0.5 million of existing repurchase requests were rescinded. In addition, we settled $18.4 million in repurchase requests, reducing the total outstanding repurchase requests to approximately $7.3 million, as compared to $25.2 million for the three months ended June 30,

2007. We cannot assure you that we will be successful in settling the remaining repurchase demands on favorable terms, or at all. If the Company cannot continue to resolve its current repurchase demands through negotiated net cash settlements, the Company's liquidity could be adversely affected. In addition, we may be subject to new repurchase requests from investors with whom we have not settled or with respect to repurchase obligations not covered under the settlement.

Inflation

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices and equity prices. Because we are invested solely in U.S.-dollar denominated instruments, primarily residential mortgage instruments, and our borrowings are also domestic and U.S. dollar denominated, we are not subject to foreign currency exchange, or commodity and equity price risk; the primary market risk that we are exposed to is interest rate risk and its related ancillary risks. Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. All of our market risk sensitive assets, liabilities and related derivative positions are for non-trading purposes only.

Management recognizes the following primary risks associated with our business and the industry in which we conduct business:

- Interest rate risk
- Market (fair value) risk
- Credit spread risk
- Liquidity and funding risk
- Prepayment risk
- Credit risk

Interest Rate Risk

Our primary interest rate exposure relates to the portfolio of adjustable-rate mortgage loans and mortgage-backed securities we acquire, as well as our variable-rate borrowings and related interest rate swaps and caps. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows, especially the speed at which prepayments occur on our residential mortgage related assets.

Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest bearing debt and liabilities. Changes in interest rates can also affect, among other things, our ability to acquire loans and securities, the value of our loans, mortgage pools and mortgage-backed securities, and our ability to realize gains from the resale and settlement of such originated loans.

In our investment portfolio, our primary market risk is interest rate risk. Interest rate risk can be defined as the sensitivity of our portfolio, including future earnings potential, prepayments, valuations and overall liquidity to changes in interest rates. We attempt to manage interest rate risk by adjusting portfolio compositions, liability maturities and utilizing interest rate derivatives including interest rate swaps and caps. Management's goal is to maximize the earnings potential of the portfolio while maintaining long term stable portfolio valuations.

We utilize a model based risk analysis system to assist in projecting portfolio performances over a scenario of different interest rates. The model incorporates shifts in interest rates, changes in prepayments and other factors impacting the valuations of our financial securities, including mortgage-backed securities, repurchase agreements,

interest rate swaps and interest rate caps.

Based on the results of this model, as of September 30, 2007, an instantaneous shift of 100 basis points in interest rates would result in an approximate decrease in the net interest spread by 10-15 basis points as compared to our base line projections over the next year.

The following tables set forth information about financial instruments (dollar amounts in thousands):

	September 30, 2007		
	Notional Amount	Carrying Amount	Estimated Fair Value
Investment securities available for sale	$ 367,980	$ 359,872	$ 359,872
Mortgage loans held in the securitization trusts	457,057	458,968	453,067
Commitments and contingencies:			
Interest rate swaps	220,000	(1,601)	(1,601)
Interest rate caps	$ 783,334	$ 977	$ 977

	December 31, 2006		
	Notional Amount	Carrying Amount	Estimated Fair Value
Investment securities available for sale	$ 491,293	$ 488,962	$ 488,962
Mortgage loans held in the securitization trusts	584,358	588,160	582,504
Commitments and contingencies:			
Interest rate swaps	285,000	621	621
Interest rate caps	$ 1,540,518	$ 2,011	$ 2,011

The impact of changing interest rates may be mitigated by portfolio prepayment activity that we closely monitor and the portfolio funding strategies we employ. First, our floating rate borrowings may react to changes in interest rates before our adjustable rate assets because the weighted average next re-pricing dates on the related borrowings may have shorter time periods than that of the adjustable rate assets. Second, interest rates on adjustable rate assets may be limited to a “periodic cap” or an increase of typically 1% or 2% per adjustment period, while our borrowings do not have comparable limitations. Third, our adjustable rate assets typically lag changes in the applicable interest rate indices by 45 days due to the notice period provided to adjustable rate borrowers when the interest rates on their loans are scheduled to change.

In a period of declining interest rates or nominal differences between long-term and short-term interest rates, the rate of prepayment on our mortgage assets may increase. Increased prepayments would cause us to amortize any premiums paid for our mortgage assets faster, thus resulting in a reduced net yield on our mortgage assets. Additionally, to the extent proceeds of prepayments cannot be reinvested at a rate of interest at least equal to the rate previously earned on such mortgage assets, our earnings may be adversely affected.

Conversely, if interest rates rise or if the differences between long-term and short-term interest rates increase the rate of prepayment on our mortgage assets may decrease. Decreased prepayments would cause us to amortize the premiums paid for our ARM assets over a longer time period, thus resulting in an increased net yield on our mortgage assets. Therefore, in rising interest rate environments where prepayments are declining, not only would the interest rate on the ARM Assets portfolio increase to re-establish a spread over the higher interest rates, but the yield also would rise due to slower prepayments. The combined effect could mitigate other negative effects that rising short-term interest rates might have on earnings.

Interest rates can also affect our net return on hybrid adjustable rate (“hybrid ARM”) securities and loans net of the cost of financing hybrid ARMs. We continually monitor and estimate the duration of our hybrid ARMs and have a policy to hedge the financing of the hybrid ARMs such that the net duration of the hybrid ARMs, our borrowed funds related to such assets, and related hedging instruments are less than one year. During a declining interest rate environment, the prepayment of hybrid ARMs may accelerate (as borrowers may opt to refinance at a lower rate) causing the

amount of liabilities that have been extended by the use of interest rate swaps to increase relative to the amount of hybrid ARMs, possibly resulting in a decline in our net return on hybrid ARMs as replacement hybrid ARMs may have a lower yield than those being prepaid. Conversely, during an increasing interest rate environment, hybrid ARMs may prepay slower than expected, requiring us to finance a higher amount of hybrid ARMs than originally forecast and at a time when interest rates may be higher, resulting in a decline in our net return on hybrid ARMs. Our exposure to changes in the prepayment speed of hybrid ARMs is mitigated by regular monitoring of the outstanding balance of hybrid ARMs and adjusting the amounts anticipated to be outstanding in future periods and, on a regular basis, making adjustments to the amount of our fixed-rate borrowing obligations for future periods.

Interest rate changes may also impact our net book value as our securities, certain mortgage loans and related hedge derivatives are marked-to-market each quarter. Generally, as interest rates increase, the value of our fixed income investments, such as mortgage loans and mortgage-backed securities, decreases and as interest rates decrease, the value of such investments will increase. We seek to hedge to some degree changes in value attributable to changes in interest rates by entering into interest rate swaps and other derivative instruments. In general, we would expect that, over time, decreases in value of our portfolio attributable to interest rate changes will be offset to some degree by increases in value of our interest rate swaps, and vice versa. However, the relationship between spreads on securities and spreads on swaps may vary from time to time, resulting in a net aggregate book value increase or decline. However, unless there is a material impairment in value that would result in a payment not being received on a security or loan, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to make a distribution to our stockholders.

In order to minimize the negative impacts of changes in interest rates on earnings and capital, we closely monitor our asset and liability mix and utilize interest rate swaps and caps, subject to the limitations imposed by the REIT qualification tests.

Movements in interest rates can pose a major risk to us in either a rising or declining interest rate environment. We depend on substantial borrowings to conduct our business. These borrowings are all made at variable interest rate terms that will increase as short term interest rates rise. Additionally, when interest rates rise, mortgage loans held for sale and any applications in process with interest rate lock commitments, or IRLCs, decrease in value. To preserve the value of such loans or applications in process with IRLCs, we may enter into forward sale loan contracts, or FSLCs, to be settled at future dates with fixed prices.

Our hedging transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to our derivative arrangements are major financial institutions and securities dealers that are well capitalized with high credit ratings and with which we may also have other financial relationships. While we do not anticipate nonperformance by any counterparty, we are exposed to potential credit losses in the event the counterparty fails to perform. Our exposure to credit risk in the event of default by a counterparty is the difference between the value of the contract and the current market price. There can be no assurance that we will be able to adequately protect against the forgoing risks and will ultimately realize an economic benefit that exceeds the related expenses incurred in connection with engaging in such hedging strategies.

Market (Fair Value) Risk

For certain of the financial instruments that we own, fair values will not be readily available since there are no active trading markets for these instruments as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values. These estimates and assumptions are indicative of the interest rate environments as of September 30, 2007, and do not take into consideration the effects of subsequent interest rate fluctuations.

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

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

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

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

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

The fair value of mortgage loans held for investment are determined by the loan pricing sheet which is based on internal management pricing and third party competitors in similar products and markets.

The fair value of loan commitments to fund with agreed upon rates are estimated using the fees and rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current market interest rates and the existing committed rates.

The fair value of commitments to deliver mortgages is estimated using current market prices for dealer or investor commitments relative to our existing positions.

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

As a financial institution that has only invested in U.S.-dollar denominated instruments, primarily residential mortgage instruments, and has only borrowed money in the domestic market, we are not subject to foreign currency exchange or commodity price risk. Rather, our market risk exposure is largely due to interest rate risk. Interest rate risk impacts our interest income, interest expense and the market value on a large portion of our assets and liabilities. The management of interest rate risk attempts to maximize earnings and to preserve capital by minimizing the negative impacts of changing market rates, asset and liability mix, and prepayment activity.

The table below presents the sensitivity of the market value of our portfolio using a discounted cash flow simulation model. Application of this method results in an estimation of the percentage change in the market value of our assets, liabilities and hedging instruments per 100 basis point (“bp”) shift in interest rates expressed in years - a measure commonly referred to as duration. Positive portfolio duration indicates that the market value of the total portfolio will decline if interest rates rise and increase if interest rates decline. The closer duration is to zero, the less interest rate changes are expected to affect earnings. Included in the table is a “Base Case” duration calculation for an interest rate scenario that assumes future rates are those implied by the yield curve as of September 30, 2007. The other two scenarios assume interest rates are instantaneously 100 and 200 bps higher that those implied by market rates as of September 30, 2007.

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

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

Net Portfolio Duration
September 30, 2007

			Basis point increase	
-100	**Base**		**+100**	**+200**

Mortgage Portfolio	0.27	0.36 years	0.60 years	0.90 years
Borrowings (including hedges)	0.34	0.34 years	0.34 years	0.34 years
Net	(0.07)	0.02 years	0.26 years	0.56 years

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

Based on the assumptions used, the model output suggests a very low degree of portfolio price change given increases in interest rates, which implies that our cash flow and earning characteristics should be relatively stable for comparable changes in interest rates.

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

There are a number of key assumptions in our earnings simulation model. These key assumptions include changes in market conditions that affect interest rates, the pricing of ARM products, the availability of ARM products and the availability and the cost of financing for ARM products. Other key assumptions made in using the simulation model include prepayment speeds and management's investment, financing and hedging strategies, and the issuance of new equity. We typically run the simulation model under a variety of hypothetical business scenarios that may include different interest rate scenarios, different investment strategies, different prepayment possibilities and other scenarios that provide us with a range of possible earnings outcomes in order to assess potential interest rate risk. The assumptions used represent our estimate of the likely effect of changes in interest rates and do not necessarily reflect actual results. The earnings simulation model takes into account periodic and lifetime caps embedded in our ARM Assets in determining the earnings at risk.

Credit Spread Risk

The mortgage-backed securities we currently, and will in the future, own are also subject to spread risk. The majority of these securities will be adjustable-rate securities that are valued based on a market credit spread to U.S. Treasury security yields. In other words, their value is dependent on the yield demanded on such securities by the market based on their credit relative to U.S. Treasury securities. Excessive supply of such securities combined with reduced demand will generally cause the market to require a higher yield on such securities, resulting in the use of a higher or wider spread over the benchmark rate (usually the applicable U.S. Treasury security yield) to value such securities. Under such conditions, the value of our securities portfolio would tend to decline. Conversely, if the spread used to value such securities were to decrease or tighten, the value of our securities portfolio would tend to increase. Such changes in the market value of our portfolio may affect our net equity, net income or cash flow directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital.

Furthermore, shifts in the U.S. Treasury yield curve, which represents the market's expectations of future interest rates, would also affect the yield required on our securities and therefore their value. These shifts, or a change in spreads, would have a similar effect on our portfolio, financial position and results of operations.

Liquidity and Funding Risk

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

As it relates to our investment portfolio, derivative financial instruments we use also subject us to “margin call” risk based on their market values. Under our interest rate swaps, we pay a fixed rate to the counterparties while they pay us a floating rate. When floating rates are low, on a net basis we pay the counterparty and visa-versa. In a declining interest rate environment, we would be subject to additional exposure for cash margin calls due to accelerating prepayments of mortgage assets. However, the asset side of the balance sheet should increase in value in a further declining interest rate scenario. Most of our interest rate swap agreements provide for a bi-lateral posting of margin, the effect being that either swap party must post margin, depending on the change in value of the swap over time. Unlike typical unilateral posting of margin only in the direction of the swap counterparty, this provides us with additional flexibility in meeting our liquidity requirements as we can call margin on our counterparty as swap values increase.

Incoming cash on our mortgage loans and securities is a principal source of cash. The volume of cash depends on, among other things, interest rates. The volume and quality of such incoming cash flows can be impacted by severe and

immediate changes in interest rates. If rates increase dramatically, our short-term funding costs will increase quickly. While many of our investment portfolio loans are hybrid ARMs, they typically will not reset as quickly as our funding costs creating a reduction in incoming cash flow. Our derivative financial instruments are used to mitigate the effect of interest rate volatility.

We manage liquidity to ensure that we have the continuing ability to maintain cash flows that are adequate to meet commitments on a timely and cost-effective basis. Our principal sources of liquidity are the repurchase agreement market, the issuance of CDOs, loan warehouse facilities as well as principal and interest payments from portfolio assets. We believe our existing cash balances and cash flows from operations will be sufficient for our liquidity requirements for at least the next 12 months.

Prepayment Risk

When borrowers repay the principal on their mortgage loans before maturity or faster than their scheduled amortization, the effect is to shorten the period over which interest is earned, and therefore, reduce the cash flow and yield on our ARM assets. Furthermore, prepayment speeds exceeding or lower than our reasonable estimates for similar assets, impact the effectiveness of any hedges we have in place to mitigate financing and/or fair value risk. Generally, when market interest rates decline, borrowers have a tendency to refinance their mortgages. The higher the interest rate a borrower currently has on his or her mortgage the more incentive he or she has to refinance the mortgage when rates decline. Additionally, when a borrower has a low loan-to-value ratio, he or she is more likely to do a "cash-out" refinance. Each of these factors increases the chance for higher prepayment speeds during the term of the loan.

We mitigate prepayment risk by constantly evaluating our ARM portfolio at a range of reasonable market prepayment speeds observed at the time for assets with a similar structure, quality and characteristics. Furthermore, we stress-test the portfolio as to prepayment speeds and interest rate risk in order to develop an effective hedging strategy.

For the nine and three months ended September 30, 2007, our mortgage assets paid down at an approximate average annualized constant paydown rate ("CPR") of 20% and 20%, respectively, compared to 20% and 21%, respectively, for the comparable periods in 2006 and 19% for the year ended December 31, 2006. When prepayment experience increases, we have to amortize our premiums over a shorter time period, resulting in a reduced yield to maturity on our ARM Assets. Conversely, if actual prepayment experience decreases, we would amortize the premium over a longer time period, resulting in a higher yield to maturity. We monitor our prepayment experience on a monthly basis and adjust the amortization of the net premium, as appropriate.

Credit Risk

Credit risk is the risk that we will not fully collect the principal we have invested in mortgage loans or securities. As previously noted, we were predominately a high-quality loan originator and our underwriting guidelines are intended to evaluate the credit history of the potential borrower, the capacity and willingness of the borrower to repay the loan, and the adequacy of the collateral securing the loan. Along with this however, during 2006 and the first quarter of 2007, immediately prior to our sale of our mortgage lending operation, there was a growing percentage of loans underwritten with stated income and/or stated assets. These loan types make credit risk assessment more difficult.

We mitigate credit risk by establishing and applying criteria that identifies high-credit quality borrowers. With regard to the purchased mortgage security portfolio, we rely on the credit worthiness of Fannie Mae, Freddie Mac or the AAA/Aaa rating established by the Rating Agencies.

With regard to loans included in our securitization, factors such as FICO score, LTV, debt-to-income ratio, and other borrower and collateral factors are evaluated. Credit enhancement features, such as mortgage insurance may also be factored into the credit decision. In some instances, when the borrower exhibits strong compensating factors, exceptions to the underwriting guidelines may be approved.

Our mortgage loans held in securitization are concentrated in geographic markets that are generally supply constrained. We believe that these markets have less exposure to sudden declines in housing values than those markets which have an oversupply of housing.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures- We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange

Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management timely. An evaluation was performed under the supervision and with the participation of our management, including our Co-Chief Executive Officers and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2007. Based upon that evaluation, our management, including our Co-Chief Executive Officers and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2007.

Changes in Internal Control over Financial Reporting- Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our Company, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability, preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles.

As previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on April 2, 2007, we identified a material weakness in our internal control over financial reporting as of December 31, 2006. A material weakness is a control deficiency or combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The material weakness identified was an inadequacy in the operation of our control activities involving the completion and review of the accounting period closing process. The sale of substantially all of the operating assets of our mortgage lending platform to IndyMac Bank, F.S.B., which closed as of March 31, 2007, significantly increased the workload demands of the existing accounting staff, thereby disrupting the timely completion and review of the accounting period closing process. In addition, in connection with the uncertainty of the consummation and effect of the Indymac transaction, the accounting department was affected by the departure of certain key accounting personnel during this time. The increased workload and decreased staff levels resulted in a significant number of post-closing journal entries and contributed to a request for additional time to file our Annual Report on Form 10-K.

In making our assessment of the internal control over financial reporting, our management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.* Because of the material weaknesses described above, management concluded that our internal control over financial reporting was not effective as of December 31, 2006. At March 31, 2007, due to post-closing transition requirements related to the IndyMac transaction, we determined that the material weakness had not yet been remediated. Although we believe the actions and events outlined below have improved our internal controls, we determined that the material weakness had not been remediated at September 30, 2007.

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006, and in our quarterly reports on Form 10-Q for the three months ended March 31, 2007 and June 30, 2007, during the first, second and third quarters of 2007, our management actively assessed our accounting needs to determine appropriate staffing levels. Subsequent to March 31, 2007, management identified and engaged certain accounting consultants to perform the functions of controller for the Company. Effective October 1, 2007, the Company employed a full-time controller. In addition, with the completion of substantially all of the post-closing requirements related to the IndyMac transaction the workload demands on our accounting staff and disruptions to the accounting period closing process have been greatly reduced. Management believes that our internal controls have improved as a result of these actions and events and will continue to assess the Company's accounting needs and take such steps as necessary to maintain effective controls.

PART II: OTHER INFORMATION

Item 1A. Risk Factors

We previously disclosed risk factors under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006. In addition to those risk factors and the other information included elsewhere in this report, you should also carefully consider the risk factors discussed below. The risks described below and in our Annual Report on Form 10-K for the year ended December 31, 2006, are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

Possible market developments could reduce the amount of liquidity available to us and could cause our lenders to require us to pledge additional assets as collateral. If we are unable to obtain sufficient short-term financing or our assets are insufficient to meet the collateral requirements, then we may be compelled to liquidate particular assets at an inopportune time.

Possible market developments, including a sharp rise in interest rates, a change in prepayment rates or increasing market concern about the value or liquidity of one or more types of mortgage-related assets in which our portfolio is concentrated may reduce the market value of our portfolio, which may reduce the amount of liquidity available to us or may cause our lenders to require additional collateral. If we are unable to obtain sufficient short-term financing or our lenders start to require additional collateral, we may be compelled to liquidate our assets at a disadvantageous time, thus harming our operating results, net profitability and ability to make distributions to you.

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

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

The Company's liquidity may be adversely affected by margin calls under its repurchase agreements because they are dependent in part on the lenders' valuation of the collateral securing the financing.

Each of these repurchase agreements allows the lender, to varying degrees, to revalue the collateral to values that the lender considers to reflect market. If a lender determines that the value of the collateral has decreased, it may initiate a margin call requiring the Company to post additional collateral to cover the decrease. When the Company is subject to such a margin call, it must provide the lender with additional collateral or repay a portion of the outstanding borrowings with minimal notice. Any such margin call could harm the Company's liquidity, results of operation, financial condition, and business prospects. Additionally, in order to obtain cash to satisfy a margin call, the Company may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses and adversely affect its results of operations and financial condition.

The Company's loan delinquencies may increase as a result of significantly increased monthly payments required from ARM borrowers after the initial fixed period.

Scheduled increase in monthly payments on adjustable rate mortgage loans may result in higher delinquency rates on mortgage loans and could have a material adverse affect on our net income and results of operations. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with adjustable rate mortgage loans. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to fund available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance their loans or sell their homes. In addition, these mortgage loans may have prepayment premiums that inhibit refinancing.

We may be required to repurchase loans if we breached representations and warranties from loan sale transactions, which could harm our profitability and financial condition.

Loans from our discontinued mortgage lending operations are sold to third parites under agreements with numerous representations and warranties regarding the manner in which the loan was originated, the property securing the loan and the borrower. If these representations or warranties are found to have been breached, we may be required to repurchase such loan. We may be forced to resell these repurchased loans at a loss, which could harm our profitability and financial condition.

We may incur increased borrowing costs related to repurchase agreements and that would harm our profitability.

Currently, a significant portion of our borrowings are collateralized borrowings in the form of repurchase a agreements. If the interest rates on these agreements increase, that would harm our profitability.

Our borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon:

- the movement of interest rates;
- the availability of financing in the market; and

- the value and liquidity of our mortgage-related assets.

Because assets we acquire may experience periods of illiquidity, we may lose profits or be prevented from earning capital gains if we cannot sell mortgage-related assets at an opportune time.

We bear the risk of being unable to dispose of our mortgage-related assets at advantageous times or in a timely manner because mortgage-related assets generally experience periods of illiquidity. The lack of liquidity may result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale. As a result, the illiquidity of mortgage-related assets may cause us to lose profits and the ability to earn capital gains.

Our common stock is currently quoted for trading on the Over the Counter Bulletin Board which may adversely impact the liquidity of our shares and reduce the value of an investment in our stock.

Effective September 11, 2007, our common stock was delisted from quotation on the New York Stock Exchange and on the same day our common stock became quoted on the Over the Counter exchange. We have applied to list our common stock on another national securities exchange, however, we can provide no assurance that our common stock will be approved for listing on another national securities exchange in the future. Our common stock has historically been sporadically or “thinly traded” (meaning that the number of persons interested in purchasing our shares at or near ask prices at any given time may be relatively small or non-existent) and no assurances can be given that a broader or more active public trading market for our common stock will develop or be sustained in the future or that current trading levels will be sustained. You may be unable to sell at or near ask prices or at all if you desire to liquidate your shares. This situation is attributable to a number of factors, including, among other things, the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price.

We have not established a minimum dividend payment level for our common stockholders and there are no assurances of our ability to pay dividends to them in the future.

We intend to pay quarterly dividends and to make distributions to our common stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Code. We have not established a minimum dividend payment level for our common stockholders and our ability to pay dividends may be harmed by the risk factors described above and in our annual report on Form 10-K. On July 23, 2007, our board of directors elected to omit declaring and paying a dividend to common stockholders for the 2007 second quarter. The board of directors' decision reflected the Company's focus on elimination of operating losses through the sole of our mortgage lending business with a view to conserving capital to build future earnings from our portfolio management operations. All distributions to our common stockholders will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future.

Item 6. Exhibits

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

SIGNATURES

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

NEW YORK MORTGAGE TRUST, INC.

Date: November 14, 2007	By:	/s/ David A. Akre David A. Akre Co-Chief Executive Officer
Date: November 14, 2007	By:	/s/ Steven R. Mumma Steven R. Mumma Chief Financial Officer

EXHIBIT INDEX

No.	Description
3.1(a)	Articles of Amendment and Restatement of the Registrant (incorporated by reference to Exhibit 3.01 to our Registration Statement on Form S-11/A filed on June 18, 2004 (Registration No. 333-111668)).
3.1(b)	Articles of Amendment of the Registrant (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on October 4, 2007.)
3.1(c)	Articles of Amendment of the Registrant (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on October 4, 2007.)
3.2(a)	Bylaws of the Registrant (incorporated by reference to Exhibit 3.02 to our Registration Statement on Form S-11/ A filed on June 18, 2004 (Registration No. 333-111668)).
3.2(b)	Amendment No. 1 to Bylaws of Registrant (incorporated by reference to Exhibit 3.2(b) to Registrant's Annual Report on Form 10-K filed on March 16, 2006)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.01 to our Registration Statement on Form S-11/ A filed on June 18, 2004 (Registration No. 333-111668)).
4.2(a)	Junior Subordinated Indenture between The New York Mortgage Company, LLC and JPMorgan Chase Bank, National Association, as trustee, dated September 1, 2005 (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on September 6, 2005).
4.2(b)	Amended and Restated Trust Agreement among The New York Mortgage Company, LLC, JPMorgan Chase Bank, National Association, Chase Bank USA, National Association and the Administrative Trustees named therein, dated September 1, 2005 (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on September 6, 2005).
10.1	Fourth Amendment to Assignment and Assumption of Sublease dated as of August 30, 2007 by and between The New York Mortgage Company, LLC and Lehman Brothers Holdings, Inc.*
31.1	Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
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.*

* Filed herewith