NEW YORK MORTGAGE TRUST INC
Form 10-K
March 31, 2008

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2007

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

Title of Each Class	**Name of Each Exchange on Which Registered**
None	N/A

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

Common Stock

(Title of Class)

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

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

Yes o No x

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

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

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer x Smaller Reporting Company 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 aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2007 was approximately $29.9 million.

The number of shares of the Registrant's Common Stock outstanding on February 29, 2008 was 3,640,209.

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DOCUMENTS INCORPORATED BY REFERENCE

Document	**Where Incorporated**
1. Portions of the Registrant's Definitive Proxy Statement relating to its 2008 Annual Meeting of Stockholders scheduled for June 2008 to be filed with the Securities and Exchange Commission by no later than April 30, 2008.	**Part III, Items 10-14**

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NEW YORK MORTGAGE TRUST, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2007

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PART I

Item 1. *BUSINESS*

General

New York Mortgage Trust, Inc. together with its consolidated subsidiaries (“NYMT”, the “Company”, “we”, “our”, and “us”) a self-advised real estate investment trust, or REIT, in the business of investing in residential adjustable rate mortgage-backed securities issued by a United States government-sponsored enterprise (“GSE” or “Agency”), such as the Federal National Mortgage Association (“Fannie Mae”), or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), prime credit quality residential adjustable-rate mortgage (“ARM”) loans, or prime ARM loans, and non-agency mortgage-backed securities. We refer to residential adjustable rate mortgage-backed securities throughout this Annual Report on Form 10-K as “MBS” and MBS issued by a GSE as “Agency MBS”. We seek attractive long-term investment returns by investing our equity capital and borrowed funds in such securities. 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 interest-earning assets and the interest expense we pay on the borrowings that we use to finance these assets, which we refer to as our net interest income.

Prior to the sale of our retail mortgage lending platform on March 31, 2007, a significant part of our business involved the origination of mortgage loans, which we either sold to third parties or retained in our portfolio of mortgage securities. Since March 31, 2007, we have exclusively focused our resources and efforts on investing, on a leveraged basis, in MBS.

As of December 31, 2007, our assets were comprised of primarily Agency MBS securities and prime ARM loans held in securitization trusts. As of December 31, 2007, we had approximately $809.3 million of total assets as compared to $1.3 billion at December 31, 2006.

Recent Events

Recent Market Volatility

Recently, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions, including recent defaults, credit losses and liquidity concerns. During March 2008, news of potential and actual security liquidations has increased the price volatility and liquidity of many financial assets, including Agency MBS and other high-quality mortgage securities and loans. As a result, market values for, and available liquidity to finance, certain mortgage securities, including some of our Agency MBS and AAA-rated non-Agency MBS, have been negatively impacted. As a response to these changed conditions, which have impacted a relatively broad range of leveraged public and private companies with investment and financing strategies similar to ours, the Company undertook a number of strategic actions to reduce leverage and raise liquidity in the portfolio of Agency MBS. Since March 7, 2008, the Company sold, in aggregate, approximately $598.9 million of Agency MBS that comprised $516.4 million of Agency hybrid ARM MBS and $82.5 million of Agency CMO floating rate MBS. These sales resulted in a loss of $15.4 million. Additionally, as a result of these sales of MBS, we terminated associated interest rate swaps that were used to hedge our liability costs with a notional balance of $297.7 million at a cost of $2.0 million. As of March 31, 2008, our MBS portfolio totaled approximately $507.0 million and was comprised of $259.6 million of Agency hybrid ARM MBS, $216.3 million of Agency CMO floating rate MBS (“CMO Floaters”) and $31.1 million of AAA-rated non-Agency MBS. As of March 31, 2008, in aggregate, our Agency MBS portfolio was financed with approximately $431.7 million of reverse repurchase agreement borrowings (referred to as “repo” borrowings) with an average advance rate of 91% that implies an average haircut of 9% for the entire portfolio. Within our total portfolio, our Agency hybrid ARM MBS is financed with $230.2 million of repo funding equating to an advance rate of 93% that implies a haircut of 7% and our Agency CMO Floaters are financed with $180.7 million of repurchase agreement financing equating to an advance rate of 88% that implies a haircut of 12%. The Company also owns approximately $401.4 million of adjustable rate mortgages that were deemed to be of “prime” or high quality at the time of origination. These loans are permanently financed with approximately $388.3 million of collateralized debt obligations and are held in securitization trusts.

We generally finance our portfolio of Agency MBS and non-Agency MBS through repurchase agreements. As a result of recent market disruptions that included company or hedge fund failures and securities portfolio foreclosures by repurchase agreement lenders, among other events, repurchase agreement lenders have tightened their lending standards and have done so in a manner that now distinguishes between “type” of Agency MBS. For example, during the month of March 2008, lenders generally increased haircuts on Agency Hybrid ARMs from 3% to 7% and also increased haircuts on Agency CMO Floaters from 5% to a range of 10% to 30%, largely dependent upon cash flow structure. Given the volatility in haircuts on Agency CMO Floaters, in March 2008 we sold approximately $82.5 million of Agency CMO Floaters at a loss of $4.7 million rather than meet the significant increase in required haircuts on these securities. Although we sold the Agency CMO Floaters that were subject to the greatest increase in haircuts, we cannot assure you that the haircuts on the remaining Agency CMO Floaters in our MBS portfolio will not increase from their current haircut average of 12%.A material increase in haircuts on these securities (or on our Agency hybrid ARM MBS) would likely result in further securities sales that would likely negatively affect our profitability, liquidity and the results of operations.

Private Placement of Common Stock

On February 21, 2008, we completed the issuance and sale of 15.0 million shares of our common stock to certain accredited investors (as such term is defined in Rule 501 of Regulation D of the Securities Act of 1933, as amended, or Securities Act) at a price of $4.00 per share. This private offering of our common stock generated net proceeds to us of approximately $57.0 million after payment of private placement fees, but before expenses. Prior to this issuance of common stock, we had 3,640,209 shares of common stock outstanding.

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Private Placement of Convertible Preferred Stock to JMP Group Inc. and Certain of its Affiliates

On January 18, 2008, we issued 1.0 million shares of our Series A Cumulative Redeemable Convertible Preferred Stock, which we refer to as our Series A Preferred Shares, to JMP Group, Inc. and certain of its affiliates for an aggregate purchase price of $20.0 million. The Series A Preferred Shares entitle the holders to receive a cumulative dividend of 10% per year, subject to an increase to the extent any future quarterly common stock dividends exceed $0.10 per share. The Series A Preferred Shares mature on December 31, 2010, and are convertible into shares of our common stock based on a conversion price of $4.00 per share of common stock, which represents a conversion rate of five shares of common stock for each Series A Preferred Share. Under certain circumstances, the Series A Preferred Shares will automatically convert into shares of our common stock. In addition, under the terms of the Series A Preferred Shares, holders have the option to convert, at any time, the Series A Preferred Shares into shares of our common stock. The Series A Preferred Shares may also be redeemed by the Company in connection with certain change of control events. The Series A Preferred Shares have voting rights that allow the holders to vote with the common stock, voting together as a single class on an “as converted” basis, and the holders have the right to appoint one additional “independent” director, as such term is defined under the rules of the NASDAQ Stock Market, to stand for election to our board of directors at our next annual meeting of stockholders in June 2008. At their option, the holders may purchase up to an additional $20.0 million of Series A Preferred Shares, on identical terms, through April 4, 2008.

In connection with this private offering of our Series A Preferred Shares, we entered into a registration rights agreement under which we agreed to file with the SEC by no later than June 30, 2008, a resale shelf registration statement to register for resale the Series A Preferred Shares and the shares of our common stock into which the Series A Preferred Shares are convertible. Under the terms of the Series A Preferred Shares, in the event we fail to file a resale registration statement with the SEC on or before June 30, 2008, holders of our Series A Preferred Shares may be entitled to receive an additional cash dividend at the rate of $0.10 per quarter per share for each calendar quarter after June 30, 2008 until we file such resale registration statement.

Advisory Agreement with JMP Asset Management LLC

Concurrent with the issuance of the Series A Preferred Shares, we entered into an advisory agreement with JMP Asset Management LLC (“JMPAM”), an affiliate of JMP Group, Inc. Under the agreement, JMPAM advises two of our wholly-owned subsidiaries, Hypotheca Capital, LLC, or HC (formerly known as The New York Mortgage Company, LLC), and New York Mortgage Funding, LLC, as well as any additional subsidiaries acquired or formed in the future to hold investments made on our behalf by JMPAM. We refer to these subsidiaries throughout this Annual Report on Form 10-K as the “Managed Subsidiaries.” As described below under “Sale of Mortgage Lending Platform in 2007”, we have an approximately $62.0 million net operating loss carry-forward that remains with the Company after the sale of our mortgage lending business. As an advisor to the Managed Subsidiaries, we expect that JMPAM will, at some point in the future, focus on the acquisition of alternative mortgage related investments on behalf of the Managed Subsidiaries. Some of those investments may allow us to utilize all or a portion of the net operating loss carry-forward, to the extent available by law. Because we intend to focus our investment efforts on Agency MBS, we currently have no plans to acquire alternative mortgage related investments to be held in the Managed Subsidiaries. The commencement of any activity by JMPAM must be approved by the board of directors and any subsequent investment on behalf of Managed Subsidiaries must adhere to investment guidelines adopted by our board of directors. For a description of the economic and other material terms of the advisory agreement, see “Advisory Agreement” below.

Changes in the Composition of the Board of Directors

Upon completion of the issuance and sale of the Series A Preferred Shares on January 18, 2008 and pursuant to the stock purchase agreement providing for the sale of the Series A Preferred Shares, James J. Fowler and Steven M. Abreu were appointed to our board of directors, with Mr. Fowler being appointed the non-executive chairman of our board of directors. Mr. Fowler also serves as the Chief Investment Officer of the Managed Subsidiaries. Mr. Fowler is a managing director of JMPAM and president of JMP Realty Trust, Inc., a private REIT that is externally managed by JMPAM and an investor in our Series A Preferred Shares. In addition, concurrent with the completion of the issuance and sale of the Series A Preferred Shares and pursuant to the stock purchase agreement, Steven B. Schnall, Mary Dwyer Pembroke, Jerome F. Sherman and Thomas W. White resigned as members of our board of directors. The board of directors is currently comprised of seven directors, four of whom are “independent” (in accordance with the applicable standards for independence prescribed by the rules of the NASDAQ Stock Market).

Sale of Mortgage Lending Platform in 2007

Prior to March 31, 2007, a significant part of our business involved the origination of mortgage loans through HC. HC offered a broad range of residential mortgage loan products to consumers, with a primary focus on prime, or high credit quality, residential mortgage loans. We historically sold all fixed-rate and most of the adjustable rate loans that we originated to third parties while retaining selected adjustable-rate hybrid mortgage loans in our portfolio. However, beginning in March 2006, we began to sell all loans originated by HC in an effort to increase gain on sale revenue.

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In connection with our exploration of strategic alternatives and the significant operating and financial challenges facing our mortgage lending business, we completed two separate strategic transactions during the first quarter of 2007 that resulted in our exit from the mortgage lending business. On February 22, 2007, we completed the sale of our wholesale lending business to Tribeca Lending Corp., or Tribeca Lending, a subsidiary of Franklin Credit Management Corporation, for an estimated purchase price of $485,000. Shortly thereafter, on March 31, 2007, we completed the sale of substantially all of the operating assets related to the retail mortgage lending platform of HC to Indymac Bank, F.S.B., ("Indymac"), for a purchase price of approximately $13.5 million in cash and the assumption of certain of our liabilities. Pursuant to this transaction, Indymac purchased substantially all of the operating assets related to HC's retail mortgage lending platform, including, among other things, leases held by HC for approximately 30 retail mortgage lending offices (excluding our corporate headquarters), the tangible personal property located in those retail mortgage banking offices, HC's pipeline of residential mortgage loan applications, or pipeline loans, and escrowed deposits related to the pipeline loans. In addition, Indymac assumed the obligations of HC under the pipeline loans and substantially all of HC's liabilities under the purchased contracts and purchased assets arising after the closing date. Indymac also agreed to pay (i) the first $500,000 in severance expenses with respect to "transferred employees" (as defined in the asset purchase agreement for this transaction) and (ii) severance expenses in excess of $1.1 million arising after the closing with respect to transferred employees. Under the terms of this transaction with Indymac, approximately $2.3 million was placed in escrow to support warranties and indemnifications provided to Indymac by HC as well as other purchase price adjustments. As of January 28, 2008, approximately $970,000 has been paid to Indymac and approximately $469,000 has been released to us from the escrow account. We expect to pay Indymac an additional approximately $150,000 out of the escrow account, with the remaining approximately $750,000 to be released to us from escrow by not later than September 30, 2008. Indymac hired substantially all of our branch employees and loan officers and a majority of HC employees based out of our corporate headquarters. We have an approximately $62.0 million gross operating loss carry-foward that remains with the Company after the sale of the mortgage lending business.

Although we sold substantially all of our mortgage lending assets, we retain certain liabilities associated with the mortgage lending 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.

In connection with the sale of our mortgage lending assets, during the fourth quarter of 2006 we classified substantially all of the assets, liabilities and operations of our mortgage lending business as a discontinued operation in accordance with the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). As a result, we have reported revenues and expenses related to the mortgage lending business 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 that remains with the Company after the sale of the mortgage lending business, and certain liabilities, such as subordinated debt and liabilities related to leased facilities not assigned to Indymac, are considered part of the ongoing operations of our Company and accordingly, we have not classified as a discontinued in accordance with the provisions of SFAS No. 144. See Note 9 in the notes of our consolidated financial statements.

Our Business

We are a self-advised REIT in the business of investing, on a leveraged basis, in Agency MBS, prime ARM loans and non-Agency MBS. We seek to acquire and manage investment securities that will, over the long-term, generate positive net interest income for our shareholders. We believe that the best approach to generating a positive net interest income is to manage our liabilities, principally in the form of short-term indebtedness (maturities of one year or less), in relation to the interest rate risks of our investments. To help achieve this result, we employ repurchase agreement financing, generally short-term, and over time will combine our financings with hedging techniques, primarily interest rate swaps. We may, subject to maintaining our REIT qualification, also employ other hedging techniques from time to time, including interest rate caps, floors and swap options to protect against adverse interest rate movements.

Our Co-Chief Executive Officers have an average of 22 years experience managing short duration MBS and mortgage loan portfolios through different economic cycles and during past market dislocations. In particular, we believe our reputation among and relationships with key financial institutions have helped us to endure recent dislocation and uncertainty in the MBS liquidity market.

As of December 31, 2007, our investment portfolio was comprised of approximately $350.5 million in MBS, including $318.7 of Agency MBS, approximately $31.8 million of non-Agency MBS of which $30.6 million are rated in the highest category by two rating agencies and $430.7 million of prime ARM loans held in securitization trusts.

Our Investment Strategy

Since inception, our investment portfolio strategy has focused on the acquisition of high-credit quality ARM loans and securities that we believe are likely to generate attractive long-term risk-adjusted returns on capital invested. In managing our mortgage portfolio, we:

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

- finance our portfolio by entering into repurchase agreements, or issuing 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 securitized mortgage loan portfolio.

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We will in the future focus on the acquisition of Agency MBS, 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 and managing for these investments.

We entered into an advisory agreement with JMPAM pursuant to which JMPAM will advise the Managed Subsidiaries and is expected, at some point in the future, to implement an alternative mortgage related investment strategy for the Managed Subsidiaries. Although we currently have no plans to acquire alternative mortgage related investments to be held in the Managed Subsidiaries, we do expect that JMPAM will, in the future, as an advisor to the Managed Subsidiaries, focus on the acquisition of alternative mortgage investments on behalf of the Managed Subsidiaries that will allow us to utilize all or a portion of the net operating loss carry-forward to the extent available by law. This strategy, if and when implemented, will vary from our core strategy. We can make no assurance that we or JMPAM will be successful at implementing any alternative investment strategy.

Our Targeted Asset Class

With respect to ARM and hybrid ARM securities, we typically purchase, and will focus primarily on the purchase and management of hybrid MBS issued by either Fannie Mae or Freddie Mac. Hybrid ARM MBS are adjustable rate mortgage assets that have a rate that is fixed for a period of three to ten years initially, before becoming annual or semi-annual adjustable rate mortgages. Typically we seek to acquire hybrid ARM MBS with fixed periods of five years of less. In most cases we are required to pay a premium, a price above the par value, for these assets, which generally is between 101% and 102% of the par value, depending on the pass-through rates of the security, the months remaining before it converts to an ARM, and other considerations.

Fannie Mae guarantees to the holder of a Fannie Mae MBS that it will distribute amounts representing scheduled principal and interest on the mortgage loans in the pool underlying the Fannie Mae certificate, whether or not received, and the full principal amount of any such mortgage loan foreclosed or otherwise finally liquidated, whether or not the principal amount is actually received. Freddie Mac guarantees to each holder of certain Freddie Mac certificates the timely payment of interest at the applicable pass-through rate and principal on the holder’s pro rata share of the unpaid principal balance of the related mortgage loans. We prefer Fannie Mae hybrid ARM MBS due to their shorter remittance cycle; the time between when a borrower makes a payment, and the investor received the net payment.

The obligations of Fannie Mae and Freddie Mac, under their respective guaranties are solely those of Fannie Mae and Freddie Mac respectively, and are not backed by the full faith and credit of the United States. If Fannie Mae or Freddie Mac were unable to satisfy their respective obligations, distributions to holders of the respective MBS would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, defaults and delinquencies on the underlying mortgage loans would adversely affect monthly distributions to holders of the respective MBS.

Our investment portfolio also includes prime ARM Loans held in securitization trusts. The loans held in securitization trusts are loans that primarily were originated by our discontinued mortgage lending business, and to a lesser extent purchased, that we securitized in 2005. These loans are substantially prime full documentation interest only hybrid ARMs on residential properties located in New York and Massachusetts. All are first lien mortgages.

Our Financing Strategy

To finance our MBS investment portfolio, we generally seek to borrow between eight and 12 times the amount of our equity. At December 31, 2007 our leverage ratio for our MBS investment portfolio, which we define as our outstanding indebtedness under repurchase agreements divided by total stockholders’ equity, was 17.1 to one. This definition of the leverage ratio is consistent with the manner in which the credit providers under our repurchase agreement calculate our leverage. The Company also has $45 million of subordinated trust preferred securities outstanding and $417.0 million of collateralized debt obligations outstanding both of which are not dependent on market values of pledged securities or changing credit conditions by our lenders. As of March 31, 2008 our estimated leverage ratio was 7.2 to 1 for our MBS investment portfolio.

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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, or CDOs, in order to finance our investment portfolio. Repurchase agreements provide us with short-term borrowings that are secured by the securities in our investment portfolio. These short-term borrowings bear interest rates that are closely linked to the LIBOR, a short term market interest rate used to determine short term loan rates. Pursuant to these repurchase agreements, the financial institution that serves as a counterparty will generally agree to provide us with financing based on to the market value of the securities that we pledge as collateral less a haircut. Our repurchase agreements may require us to deposit additional collateral pursuant to a margin call if the market value of our pledged collateral declines or if unscheduled principal payments on the mortgages underlying our pledged securities increase at a higher than anticipated rate. To reduce the risk that we would be required to sell portions of our portfolio at a loss to meet margin calls, we intend to maintain a balance of cash or cash equivalent reserves and a balance of unpledged mortgage securities to use as collateral for additional borrowings. As of December 31, 2007, we had repurchase agreements outstanding with four different counterparties totaling $315.7 million.

As of December 31, 2007, we financed approximately $430.7 million of loans we hold in securitization trusts permanently with approximately $13.7 million of our own equity investment in the securitization trusts and the issuance of approximately $417.0 million of CDOs. During 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 haircuts. See "Management's Discussion and Analysis of Results of Operations and Financial Condition Liquidity and Capital Resources" for further discussion on our financing activities.

Our Hedging and Interest Rate Risk Management Strategies

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 initial fixed rates of interest for a period of time ranging from two to five 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 utilize interest rate swaps to effectively extend the maturity of our short term borrowings to better match the interest rate sensitivity to the underlying assets being financed. By extending the maturities on our short term borrowings, we attempt to lock in a spread between the interest income generated by the interest earning assets in our investment portfolio and the interest expense related to the financing of such assets in order to maintain a net duration gap of less than one year. As we acquire mortgage-backed securities, 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 variety 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.

Changes in Strategies

Currently we are following a portfolio strategy that is focused on investments in Agency MBS. During the time we operated a mortgage lending business we sought to invest in both Agency MBS and residential prime whole loan securitizations. We no longer intend to invest in residential whole loan securitizations. Due to changes in market conditions and subject to our intent to qualify for an exemption from registration under the Investment Company Act of 1940, as amended, or Investment Company Act, our board of directors may vary our investment strategy, our financing strategy, or our hedging strategy at any time.

Our Investment Guidelines

In acquiring assets for our portfolio and subsequently managing those assets, we adhere to certain investment guidelines and policies. Our investment guidelines define the following classifications for securities we own:

- Category I investments are mortgage-backed securities that are either rated within one of the two highest rating categories by at least one of the Rating Agencies, or have their repayment guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae.

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

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

The Company's current investment strategy described above will only focus on Category I investments.

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

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

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

To achieve our portfolio strategy and mitigate risk, we:

- attempt to maintain a net duration, or duration gap, of one year or less on our ARM portfolio, related borrowings and hedging instruments;
- structure our liabilities to mitigate potential negative effects of changes in the relationship between short- and longer-term interest rates;
- focus on holding hybrid ARM MBS and hybrid ARM loans in securitized trusts rather than fixed-rate MBS or loans, as we believe we will be adversely affected to a lesser extent by early repayments due to falling interest rates or a reduction in our net interest income due to rising interest rates.

The Co-Chief Executive Officers have the authority to approve, without the need of further authorization of our board of directors, the following transactions from time to time, any of which may be entered into by us or any of our subsidiaries:

- the purchase and sale of Agency and non-Agency MBS, subject to the limitations described above;
- securitizations of our mortgage loan portfolio;
- the purchase and sale of agency debt;
- the purchase and sale of U.S. Treasury securities;
- the purchase and sale of overnight investments;
- the purchase and sale of money market funds;
- hedging arrangements using:

- interest rate swaps and Eurodollar contracts;
- caps, floors and collars;
- financial futures; and

· options on any of the above; and

· the incurrence of indebtedness using:

· repurchase agreements;

· term repurchase agreements.

Our Relationship with JMPAM and the Advisory Agreement

JMPAM, an external advisor to the managed subsidiaries, is a wholly-owned subsidiary of JMP Group Inc., an investor in each of our two private offerings, and manages a family of single-strategy and multi-manager hedge fund products. JMPAM also sponsors and partners with other alternative investment firms. JMPAM was founded by Joseph Jolson in 1999. As of December 31, 2007 JMPAM had $275.5 million in client assets under management.

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Advisory Agreement

As described above, on January 18, 2008, we entered into an advisory agreement with JMPAM. The following is a summary of the key economic terms of the advisory agreement:

Type	Description
Base Advisory Fee	A base advisory fee of 1.50% per annum of the "equity capital" of the Managed Subsidiaries is payable by us to JMPAM in cash, quarterly in arrears. Equity capital of the Managed Subsidiaries is defined as, for any fiscal quarter, the greater of (i) the net asset value of the investments of the Managed Subsidiaries as of the end of the fiscal quarter, excluding any investments made prior to the date of the advisory agreement and any assets contributed by us to the Managed Subsidiaries for the purpose of facilitating compliance with our exclusion from regulation under the Investment Company Act, or (ii) the sum of $20,000,000 plus 50% of the net proceeds to us or our subsidiaries of any offering of common or preferred stock completed by us during the term of the advisory agreement.
Incentive Compensation	The advisory agreement calls for incentive compensation to be paid by us to JMPAM under certain circumstances. If earned, incentive compensation is paid quarterly in arrears in cash*; provided, however,* that a portion of the incentive compensation may be paid in shares of our common stock. For the first three fiscal quarters of each fiscal year, 25% of the core earnings of the Managed Subsidiaries attributable to the investments that are managed by JMPAM that exceed a hurdle rate equal to the greater of (i) 2.00% or (ii) 0.50% plus one-fourth of the ten year treasury rate for such quarter. For the fourth fiscal quarter of each fiscal year, the difference between (i) 25% of the GAAP (as defined in Item 7 below) net income of the Managed Subsidiaries attributable to the investments that are managed by JMPAM that exceeds a hurdle rate equal to the greater of (a) 8.00% and (b) 2.00% plus the ten year treasury rate for such fiscal year, and (ii) the amount of incentive compensation paid for the first three fiscal quarters of such fiscal year.
Termination Fee	If we terminate the advisory agreement for cause, no termination fee is payable. Otherwise, if we terminate the advisory agreement or elect not to renew it, we will pay a cash termination fee equal to the sum of (i) the average annual base advisory fee and (ii) the average annual incentive compensation earned during the 24-month period immediately preceding the date of termination.

As of March 1, 2008, JMPAM was not managing any assets in the Managed Subsidiaries, but was earning a base advisory fee on the net proceeds to us from our private offerings in each of January 2008 and February 2008.

Conflicts of Interest with JMPAM; Equitable Allocation of Investment Opportunities

JMPAM manages, and is expected to continue to manage, other client accounts with similar or overlapping investment strategies. JMPAM has agreed to make available to the Managed Subsidiaries all investment opportunities that it determines, in its reasonable and good faith judgment, based on their investment objectives, policies and strategies, and other relevant factors, are appropriate for them in accordance with JMPAM’s written allocation procedures and policies.

Since many of the Managed Subsidiaries’ targeted investments are typically available only in specified quantities and since many of their targeted investments may also be targeted investments for other JMPAM accounts, JMPAM may not be able to buy as much of any given investment as required to satisfy the needs of all of its clients’ accounts. In these cases, JMPAM’s allocation procedures and policies would typically allocate such investments to multiple accounts in proportion to the needs of each account. The policies permit departure from proportional allocation when the total JMPAM allocation would result in an inefficiently small amount of the security being purchased for an account. In that case, the policy allows for a “rotational” protocol of allocating subsequent investments so that, on an overall basis, each account is treated equitably.

JMPAM is authorized to follow broad investment guidelines. Our board of directors will periodically review the investment guidelines and the Managed Subsidiaries’ investment portfolios. However, our board of directors generally will not review individual investments. James J. Fowler became our non-executive chairman of the board upon closing of the Series A Preferred Shares on January 18, 2008 and also serves as the Chief Investment Officer of our Managed Subsidiaries. Mr. Fowler is a managing director of JMPAM and president of JMP Realty Trust Inc., a private REIT that is externally managed by JMPAM and one of the investors in our Series A Preferred Shares. In conducting periodic reviews of the investments held by our Managed Subsidiaries, our directors will rely primarily on information provided to them by JMPAM. Furthermore, the Managed Subsidiaries may use complex investment strategies and transactions, which may be difficult or impossible to unwind by the time they are reviewed by our directors. JMPAM has great latitude within our Managed Subsidiaries’ broad investment guidelines to determine the types of assets it may decide are proper investments for the Managed Subsidiaries. The investment guidelines do not permit JMPAM to invest in agency securities, since these investments are made by us. As of the date of this report, our board of directors has not authorized JMPAM to commence the acquisition of investment assets on behalf of the Managed Subsidiaries.

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The advisory agreement does not restrict the ability of JMPAM or its affiliates from engaging in other business ventures of any nature (including other REITs), whether or not such ventures are competitive with the Managed Subsidiaries' business so long as JMPAM's management of other REITs or funds does not disadvantage us or the Managed Subsidiaries.

JMPAM may engage other parties, including its affiliates, to provide services to us or our subsidiaries; provided that any such agreements with affiliates of JMPAM shall be on terms no more favorable to such affiliate than would be obtained from a third party on an arm's-length basis and, in certain circumstances, approved by a majority of our independent directors. With respect to portfolio management services, any agreements with affiliates shall be subject to our prior written approval and JMPAM shall remain liable for the performance of such services. With respect to monitoring services, any agreements with affiliates shall be subject to our prior written approval and the base advisory fee payable to JMPAM shall be reduced by the amount of any fees payable to such other parties, although we will reimburse any out-of-pocket expenses incurred by such other parties that are reimbursable by us.

Company History

We were formed as a Maryland corporation in September 2003. In June 2004, we sold 15.0 million shares (or 3.0 million shares as adjusted for the reverse stock split) of our common stock in an initial public offering, or IPO, at a price to the public of $9.00 (or $45.0 per share as adjusted for the reverse stock split) per share. Concurrent with our IPO, we issued 2,750,000 shares of common stock in exchange for the contribution to us of 100% of the equity interests of HC, which, prior to our acquisition of such entity, sold or brokered all of the loans it originated to third parties. Prior to the IPO, we did not have recurring business operations. Effective with the completion of our IPO, we operated two business segments: (i) our mortgage portfolio management segment and (ii) our mortgage lending segment. Under this business model, we would retain and either finance in our portfolio selected adjustable-rate and hybrid mortgage loans that we originated or we would sell them to third parties, while continuing to sell all fixed-rate loans originated by HC to third parties. Commencing in March 2006, we stopped retaining all loans originated by HC and began to sell these loans to third parties. As set forth above, we exited the mortgage lending business on March 31, 2007 and now exclusively focus our efforts and resources on our mortgage portfolio management business.

Our shares of common stock were listed on the New York Stock Exchange, or NYSE, until September 11, 2007, at which time our common stock was de-listed from the NYSE because our average global market capitalization was less than $25 million over a consecutive 30 trading day period. Commencing on September 11, 2007, our common stock began trading on the Over the Counter Bulletin Board ("OTCBB"). In October 2007, we completed a 1-for-5 reverse stock split of our common stock. As of March 31, 2008, our common stock continued to trade on the OTCBB under the symbol "NMTR.OB."

Certain Federal Income Tax Considerations and Our Status as a REIT

We have elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code (IRC) of 1986, as amended, for federal income tax purposes, commencing with our taxable year ended December 31, 2004, and we believe that our current and proposed method of operation will enable us to continue to qualify as a REIT for our taxable year ended December 31, 2007 and thereafter. We hold our mortgage portfolio investments directly or in a qualified REIT subsidiary, or QRS. Accordingly, the net interest income we earn on these assets is generally not subject to federal income tax as long as we distribute at least 90% of our REIT taxable income in the form of a dividend to our stockholders each year and comply with various other requirements. Taxable income generated by HC, our taxable REIT subsidiary, or TRS, is subject to regular corporate income tax.

The benefit of REIT tax status is a tax treatment that avoids "double taxation," or taxation at both the corporate and stockholder levels, that generally applies to distributions by a corporation to its stockholders. Failure to qualify as a

REIT would subject our Company to federal income tax (including any applicable minimum tax) on its taxable income at regular corporate rates and distributions to its stockholders in any such year would not be deductible by our Company.

Summary Requirements for Qualification

Organizational Requirements

A REIT is a corporation, trust, or association that meets each of the following requirements:

1) It is managed by one or more trustees or directors.

2) Its beneficial ownership is evidenced by transferable shares, or by transferable certificates of beneficial interest.

3) It would be taxable as a domestic corporation, but for the REIT provisions of the federal income tax laws.

4) It is neither a financial institution nor an insurance company subject to special provisions of the federal income tax laws.

5) At least 100 persons are beneficial owners of its shares or ownership certificates.

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6) Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the federal income tax laws define to include certain entities, during the last half of any taxable year.

7) It elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status.

8) It meets certain other qualification tests, described below, regarding the nature of its income and assets.

We must meet requirements 1 through 4 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

Qualified REIT Subsidiaries. A corporation that is a "qualified REIT subsidiary" is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a "qualified REIT subsidiary" are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A "qualified REIT subsidiary" is a corporation, all of the capital stock of which is owned by the REIT. Thus, in applying the requirements described herein, any "qualified REIT subsidiary" that we own will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit.

Taxable REIT Subsidiaries. A REIT is permitted to own up to 100% of the stock of one or more "taxable REIT subsidiaries," or TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs.

A TRS will pay income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. We have elected for HC to be treated as a TRS. HC is subject to corporate income tax on its taxable income.

Qualified REIT Assets

On the last day of each calendar quarter, at least 75% of the value of our assets (which includes any assets held through a qualified REIT subsidiary) must consist of qualified REIT assets — primarily, real estate, mortgage loans secured by real estate, and certain mortgage-backed securities ("Qualified REIT Assets"), government securities, cash, and cash items. We believe that substantially all of our assets are and will continue to be Qualified REIT Assets. On the last day of each calendar quarter, of the assets not included in the foregoing 75% asset test, the value of securities that we hold issued by any one issuer may not exceed 5% in value of our total assets and we may not own more than 10% of the voting power or value of any one issuer's outstanding securities (with an exception for securities of a qualified REIT subsidiary or of a taxable REIT subsidiary). In addition, the aggregate value of our securities in taxable REIT subsidiaries cannot exceed 20% of our total assets. We monitor the purchase and holding of our assets for purposes of the above asset tests and seek to manage our portfolio to comply at all times with such tests.

We intend to limit substantially all of the assets that we acquire to Qualified REIT Assets. Our strategy to maintain REIT status may limit the type of assets, including hedging contracts and other assets that we otherwise might acquire.

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

Gross Income Tests

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

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

2. The 95% Test. At least 95% of our gross income for the taxable year must be derived from the sources that are qualifying for purposes of the 75% test, and from dividends, interest or gains from the sale or disposition of stock or other assets that are not dealer property.

Distributions

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

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Investment Company Act Exemption

We operate our business so as to be exempt from registration under the Investment Company Act. We rely on the exemption provided by Section 3(c)(5)(C) of the Investment Company Act. We monitor our portfolio periodically and prior to each investment to confirm that we continue to qualify for the exemption. To qualify for the exemption, we make investments so that at least 55% of the assets we own consist of qualifying mortgages and other liens on and interests in real estate, which are collectively referred to as "qualifying real estate assets," and so that at least 80% of the assets we own consist of real estate-related assets (including our qualifying real estate assets, both as measured on an unconsolidated basis). We generally expect that our investments will be considered either qualifying real estate assets or real estate-related assets under Section 3(c)(5)(C) of the Investment Company Act. Qualification for the Section 3(c)(5)(C) exemption may limit our ability to make certain investments. In addition, we must ensure that each of our subsidiaries qualifies for the Section 3(c)(5)(C) exemption or another exemption available under the Investment Company Act.

Competition

Our success depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. When we invest in mortgage-backed securities, mortgage loans and other investment assets, we compete with a variety of institutional investors, including other REITs, insurance companies, mutual funds, hedge funds, pension funds, investment banking firms, banks and other financial institutions that invest in the same types of assets. Many of these investors have greater financial resources and access to lower costs of capital than we do. The existence of these competitive entities, as well as the possibility of additional entities forming in the future, may increase the competition for the available supply of mortgage assets suitable for purchase, resulting in higher prices and lower yields on assets.

Personnel

As of December 31, 2007 we employed eight people.

Corporate Office

Our corporate headquarters is located at 1301 Avenue of the Americas, New York, New York and our telephone number is (212) 792-0107.

Access to our Periodic SEC Reports and Other Corporate Information

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements. Forward looking statements are those which are not historical in nature and can often be identified by their inclusion of words such as "will," "anticipate," “estimate,” “should,” “expect,” “believe,” “intend” and similar expressions. Any projection of revenues, earnings or 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 proposed portfolio strategy;
- future performance, developments, market forecasts or projected dividends; and
- projected capital expenditures.

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

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

- our proposed portfolio strategy may be changed or modified by our management without advance notice to stockholders, and that we may suffer losses as a result of such modifications or changes;
- market changes in the terms and availability of repurchase agreements used to finance our investment portfolio activities;
- interest rate mismatches between our mortgage-backed securities and our borrowings used to fund such purchases;
- our ability to minimize losses associated with delinquent loans in our securitization trusts.
- 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;
- changes in the U.S. economy
- 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;
- there are conflicts of interest in our relationship with JMPAM, which could result in decisions that are not in the best interests of our stockholders;
- termination of the advisory agreement may be difficult and costly;
- we may be required to pay liquidated damages in the event we fail to satisfy certain obligations under the Common Stock Registration Rights Agreement; and
- the other important factors described in this Annual Report on Form 10-K, including those under the captions "Item 1A. Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures about Market Risk."

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.

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Item 1A. *RISK FACTORS*

Set forth below are the risks that we believe are material to stockholders. You should carefully consider the following risk factors and the various other factors identified in or incorporated by reference into any other documents filed by us with the SEC in evaluating our company and our business. The risks discussed herein can adversely affect our business, liquidity, operating results, prospects, and financial condition. This could cause the market price of our securities to decline. The risk factors described below are not the only risks that may affect us. Additional risks and uncertainties not presently known to us also may adversely affect our business, liquidity, operating results, prospects, and financial condition.

Risks Related to Our Business

Interest rate fluctuations may cause losses.

We believe our primary interest rate exposure relates to our mortgage loans, MBS and variable-rate debt, as well as the interest rate swaps and caps that we utilize for risk management purposes. Changes in interest rates may affect our net interest income, which is the difference between the interest income we earn on our interest-earning assets and the interest expense we incur in financing these assets. Changes in the level of interest rates also can affect our ability to acquire mortgage loans or MBS, the value of our assets and our ability to realize gains from the sale of such assets. In a period of rising interest rates, our interest expense could increase while the interest we earn on our assets would not change as rapidly. This would adversely affect our profitability.

Our operating results depend in large part on differences between income received from our assets, net of credit losses, and our financing costs. We anticipate that in most cases, for any period during which our assets are not match-funded, the income from such assets will adjust more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence our net income. We anticipate that increases in interest rates will tend to decrease our net income. Interest rate fluctuations resulting in our interest expense exceeding our interest income would result in operating losses for us and may limit or eliminate our ability to make distributions to our stockholders.

We may experience a decline in the market value of our assets.

The market value of the interest-bearing assets that we have acquired and intend to continue to acquire, most notably MBS and purchased prime ARM loans and any related hedging instruments, may move inversely with changes in interest rates. We anticipate that increases in interest rates will tend to decrease our net income. A decline in the market value of our investment securities, such as the decline we experienced during March 2008, primarily as a result of news of potential security liquidations, may adversely affect us, particularly where we have borrowed money based on the market value of those investment securities. In such case, the lenders may require, and have required, us to post additional collateral to support the borrowing. If we cannot post the additional collateral, we may have to rapidly liquidate assets at a time when we might not otherwise choose to do so and we may still be unable to post the required collateral, further harming our liquidity and subjecting us to liability to our lenders for the declines in the market values of the collateral. For example, in March 2008, due in part to decreases in the market value of certain of our investment securities and the anticipated increase in collateral requirements by our lenders as a result of such decrease in the market value of such securities, we elected to increase our liquidity by reducing our leverage through the sale of an aggregate of approximately $598.9 million of Agency MBS, which resulted in an aggregate loss of approximately $15.4 million. If we liquidate investment securities at prices lower than the amortized costs of such investment securities, we will incur losses.

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Changes in prepayment rates on our investment securities may decrease our net interest income.

Pools of mortgage loans underlie the investment securities that we acquire. We will generally receive principal distributions from the principal payments that are made on these underlying mortgage loans. When borrowers repay their mortgage loans faster than expected, this will result in prepayments that are faster than expected on the investment securities. Prepayment rates are influenced by changes in current interest rates and a variety of economic, geographic and other factors, all of which are beyond our control. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate and adjustable-rate mortgage loans. Faster than expected prepayments could adversely affect our profitability, including in the following ways:

- We have purchased, and may purchase in the future, investment securities that have a higher interest rate than the market interest rate at the time of purchase. In exchange for this higher interest rate, we are required to pay a premium over the face amount of the security to acquire the security. In accordance with accounting rules, we amortize this premium over the anticipated term of the mortgage security. If principal distributions are received faster than anticipated, we would be required to expense the premium faster. We may not be able to reinvest the principal distributions received on these investment securities in similar new mortgage-related securities and, to the extent that we can do so, the effective interest rates on the new mortgage-related securities will likely be lower than the yields on the mortgages that were prepaid.

- We also may acquire investment securities at a discount. If the actual prepayment rates on a discount mortgage security are slower than anticipated at the time of purchase, we would be required to recognize the discount as income more slowly than anticipated. This would adversely affect our profitability. Slower than expected prepayments also may adversely affect the market value of a discount mortgage security.

A disproportionate rise in short-term interest rates as compared to longer-term interest rates may adversely affect our income.

The relationship between short-term and longer-term interest rates is often referred to as the “yield curve.” Ordinarily, short-term interest rates are lower than longer-term interest rates. If short-term interest rates rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our assets. Because we expect our investments, on average, generally will bear interest based on longer-term rates than our borrowings, a flattening of the yield curve would tend to decrease our net income and the market value of our net assets. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields on the new investments and available borrowing rates may decline, which would likely decrease our net income. It is also possible that short-term interest rates may exceed longer-term interest rates (a yield curve inversion), in which event our borrowing costs may exceed our interest income and we could incur operating losses.

A flat or inverted yield curve may adversely affect prepayment rates on and supply of our investment securities.

Our net interest income varies primarily as a result of changes in interest rates as well as changes in interest rates across the yield curve. We believe that when the yield curve is relatively flat, borrowers have an incentive to refinance into hybrid mortgages with longer initial fixed rate periods and fixed rate mortgages, causing our investment securities to experience faster prepayments. In addition, a flatter yield curve generally leads to fixed-rate mortgage rates that are closer to the interest rates available on hybrid ARMs and ARMs, possibly decreasing the supply of the investment securities we seek to acquire. At times, short-term interest rates may increase and exceed long-term interest rates, causing an inverted yield curve. When the yield curve is inverted, fixed-rate mortgage rates may approach or be lower than hybrid ARMs or ARM rates, further increasing prepayments on, and negatively impacting the supply of, our investment securities. Increases in prepayments on our portfolio will cause our premium amortization to accelerate, lowering the yield on such assets. If this happens, we could experience a decrease in net income or incur a net loss during these periods, which may negatively impact our distributions to stockholders.

Interest rate mismatches between our adjustable-rate agency securities and our borrowings used to fund our purchases of these securities may reduce our income during periods of changing interest rates.

Our borrowings have interest rates that adjust more frequently than the interest rate indices and repricing terms of the investment securities we seek to acquire and currently hold in our portfolio. Accordingly, if short-term interest rates increase, our borrowing costs may increase faster than the interest rates on our investment securities adjust. As a result, in a period of rising interest rates, we could experience a decrease in net income or a net loss.

Our current portfolio is comprised primarily of, and we intend that most of the investment securities we acquire in the future will be, adjustable-rate securities. This means that their interest rates may vary over time based upon changes in an identified short-term interest rate index. In most cases, the interest rate indices and repricing terms of the investment securities that we acquire and our borrowings will not be identical, thereby potentially creating an interest rate mismatch between our investments and our borrowings. While the historical spread between relevant short-term interest rate indices has been relatively stable, there have been periods when the spread between these indices was volatile. During periods of changing interest rates, these interest rate index mismatches could reduce our net income or produce a net loss, and adversely affect our dividends and the market price of our common stock.

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Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors, all of which are beyond our control.

Interest rate caps on our adjustable-rate investment securities may reduce our income or cause us to suffer a loss during periods of rising interest rates.

The mortgage loans underlying our adjustable-rate investment securities typically will be subject to periodic and lifetime interest rate caps. Additionally, we may invest in ARMs with an initial “teaser” rate that will provide us with a lower than market interest rate initially, which may accordingly have lower interest rate caps than ARMs without such teaser rates. Periodic interest rate caps limit the amount an interest rate can increase during a given period. Lifetime interest rate caps limit the amount an interest rate can increase through maturity of a mortgage loan. If these interest rate caps apply to the mortgage loans underlying our adjustable-rate investment securities, the interest distributions made on the related securities will be similarly impacted. Our borrowings may not be subject to similar interest rate caps. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while caps would limit the interest distributions on our adjustable-rate investment securities. Further, some of the mortgage loans underlying our adjustable-rate investment securities may be subject to periodic payment caps that result in a portion of the interest on those loans being deferred and added to the principal outstanding. As a result, we could receive less interest distributions on adjustable-rate investment securities, particularly those with an initial teaser rate, than we need to pay interest on our related borrowings. These factors could lower our net interest income, cause us to suffer a net loss or cause us to incur additional borrowings to fund interest payments during periods of rising interest rates or sell our investments at a loss.

Continued adverse developments in the residential mortgage market may adversely affect the value of the mortgage-related securities in which we invest and our ability to finance or sell any securities that we acquire.

Recently, the residential mortgage market in the United States has experienced a variety of difficulties and changes in economic conditions, including recent defaults, credit losses and liquidity concern. Securities backed by residential mortgage loans originated in 2006 and 2007 have had a higher and earlier than expected rate of delinquencies, and many MBS have been downgraded by the Rating Agencies since the 2007 second quarter. In addition, during March 2008, news of potential security liquidations increased the volatility of many financial assets, including Agency MBS and other high-quality MBS assets. As a result, values for MBS assets, including some of our Agency MBS and other AAA-rated non-Agency MBS, have been negatively impacted. Further increased volatility and deterioration in the broader residential mortgage and MBS markets may adversely affect the performance and market value of the investment securities in our portfolio.

Fannie Mae or Freddie Mac guarantee the payments on the Agency MBS we purchase even if the borrowers of the underlying mortgages default on their payments. However, rising delinquencies, potential security liquidations or liquidity concerns could negatively affect the value of our investment securities, including Agency MBS, or create market uncertainty about their true value. We use our investment securities as collateral for our financings. Any decline in their value, or perceived market uncertainty about their value, would likely make it more difficult for us to obtain financing on favorable terms or at all, or maintain our compliance with the terms of any financing arrangements already in place. At the same time, market uncertainty about residential mortgages in general could depress the market for mortgage-related securities, including Agency MBS, making it more difficult for us to sell any securities we own on favorable terms, or at all. If market conditions result in a decline in available purchasers, or the value, of any of the securities we hold in or acquire for our portfolio, our financial position and results of operations could be adversely affected.

Competition may prevent us from acquiring mortgage-related assets at favorable yields and that would negatively impact our profitability.

Our net income largely depends on our ability to acquire mortgage-related assets at favorable spreads over our borrowing costs. In acquiring mortgage-related assets, we compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders and other entities that purchase mortgage-related assets, many of which have greater financial resources than us. As a result, we may not in the future be able to acquire sufficient mortgage-related assets at favorable spreads over our borrowing costs which, would adversely affect our profitability.

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Because assets we acquire may experience periods of illiquidity, we may lose profits or be prevented from earning capital gains if we cannot sell the investment securities in our portfolio at an opportune time.

We bear the risk of being unable to dispose of the investment securities held in our portfolio at advantageous times or in a timely manner because these 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.

We currently leverage our equity, which will exacerbate any losses we incur on our current and future investments and may reduce cash available for distribution to our stockholders.

We currently leverage our equity through borrowings, generally through the use of repurchase agreements and CDOs, which are obligations issued in multiple classes secured by an underlying portfolio of securities, and we may, in the future, utilize bank credit facilities and other forms of borrowing. The amount of leverage we incur varies depending on our ability to obtain credit facilities and our lenders' estimates of the value of our portfolio's cash flow. The return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets we hold in our investment portfolio. Further, the leverage on our equity may exacerbate any losses we incur.

Our debt service payments will reduce the net income available for distributions to our stockholders. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to sale to satisfy our debt obligations. A decrease in the value of the assets may lead to margin calls under our repurchase agreements which we will have to satisfy. Significant decreases in asset valuation, such as occurred during March 2008, could lead to increased margin calls, and we may not have the funds available to satisfy any such margin calls. We have a target overall leverage amount of eight to 12 times our equity, but there is no established limitation, other than may be required by our financing arrangements, on our leverage ratio or on the aggregate amount of our borrowings.

If we are unable to leverage our equity to the extent we currently anticipate, the returns on our MBS portfolio could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.

If we are limited in our ability to leverage our assets, the returns on our portfolio may be harmed. A key element of our strategy is our use of leverage to increase the size of our MBS portfolio in an attempt to enhance our returns. To finance our MBS investment portfolio, we generally seek to borrow between eight and 12 times the amount of our equity. At December 31, 2007 our leverage ratio for our MBS investment portfolio, which we define as our outstanding indebtedness under repurchase agreements divided by total stockholders' equity, was 17.1 to one. This definition of the leverage ratio is consistent with the manner in which the credit providers under our repurchase agreement calculate our leverage. The Company also has $45 million of subordinated trust preferred securities outstanding and $417.0 million of collateralized debt obligations outstanding both of which are not dependent on market values of pledged securities or changing credit conditions by our lenders. Our repurchase agreements are not currently committed facilities, meaning that the counterparties to these agreements may at any time choose to restrict or eliminate our future access to the facilities and we have no other committed credit facilities through which we may leverage our equity. If we are unable to leverage our equity to the extent we currently anticipate, the returns on our portfolio could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.

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

The 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 that were sold to third parties under agreements include 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 are dependent on certain key personnel.

We are dependent upon the efforts of James J. Fowler, the Chairman of our board of directors. In addition, we are dependent upon the services of David A. Akre, our Vice Chairman and Co-Chief Executive Officer, and Steven R. Mumma, our Co-Chief Executive Officer, President and Chief Financial Officer. The loss of any of these individuals or their services could have an adverse effect on our operations.

Risk Related to Our Debt Financing

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 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.

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If we are unable to renew our borrowings at favorable rates, it may force us to sell assets and our profitability may be adversely affected.

Since we rely primarily on borrowings under repurchase agreements to finance our mortgage-backed securities, our ability to achieve our investment objectives depends on our ability to borrow money in sufficient amounts and on favorable terms and on our ability to renew or replace maturing borrowings on a continuous basis. In response to the recent mortgage securities market disruption, investors and financial institutions that lend in the mortgage securities repurchase market, including the lenders under our repurchase agreements, have further tightened lending standards in an effort to reduce the leverage of their borrowers. While the haircut required by our lenders increased in 2007, primarily on non-Agency MBS, during March 2008, we have experienced further increases in the amount of haircut required to obtain financing for both our Agency MBS and non-Agency MBS. Our ability to enter into repurchase agreements in the future will depend on the market value of our mortgage-backed securities pledged to secure the specific borrowings, the availability of adequate financing and other conditions existing in the lending market at that time. If we are not able to renew or replace maturing borrowings on favorable terms, we would be forced to sell some of our assets under possibly adverse market conditions, which may adversely affect our profitability.

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. For example, in March 2008, news of potential security liquidations by certain of our competitors negatively impacted the market value of certain of the investment securities in our portfolio. In connection with this market disruption and the anticipated increase in collateral requirements by our lenders as a result of such decrease in the market value of such securities, we elected to increase our liquidity by reducing our leverage through the sale of an aggregate of approximately $598.9 million of Agency MBS, which resulted in an aggregate loss of approximately $15.4 million. 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 similar to our sales in March 2008, thus harming our operating results, net profitability and ability to make distributions to you.

Adverse developments involving major financial institutions or involving one of our lenders could result in a rapid reduction in our ability to borrow and adversely affect our business and profitability.

The recent turmoil in the financial markets as it relates to the solvency of major financial institutions has raised concerns that a material adverse development involving one or more major financial institutions could result in our lenders reducing our access to funds available under our repurchase agreements. Because all of our repurchase agreements are uncommitted, such a disruption could cause our lenders to determine to reduce or terminate our access to future borrowings, which could adversely affect our business and profitability.

If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying security back to us at the end of the transaction term or if we default on our obligations under the repurchase agreement, we would incur losses.

When we engage in repurchase transactions, we generally sell securities to lenders (i.e., repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same securities back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the securities to the lender is less than the value of those securities (this difference is referred to as the "haircut"), if the lender defaults on its obligation to resell the same securities back to us we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). Further, if we default on one of our obligations under a repurchase transaction, the lender can terminate the transaction and cease entering into any other repurchase transactions with us. Our repurchase agreements contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default. Any losses we incur on our repurchase transactions could adversely affect our earnings and thus our cash available for distribution to our stockholders.

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.

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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 value. 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 and financial condition. 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.

Our hedging transactions may limit our gains or result in losses.

We use derivatives, primarily interest rate swaps and caps, to hedge our liabilities and this has certain risks, including the risk that losses on a hedging transaction will reduce the amount of cash available for distribution to our stockholders and that such losses may exceed the amount invested in such instruments. Our board of directors has adopted a general policy with respect to the use of derivatives, and which generally allows us to use derivatives when we deem appropriate for risk management purposes, but does not set forth specific guidelines. To the extent consistent with maintaining our status as a REIT, we may use derivatives, including interest rate swaps and caps, options, term repurchase contracts, forward contracts and futures contracts, in our risk management strategy to limit the effects of changes in interest rates on our operations. However, a hedge may not be effective in eliminating the risks inherent in any particular position. Our profitability may be adversely affected during any period as a result of the use of derivatives in a hedging transaction.

Our use of hedging strategies to mitigate our interest rate exposure may not be effective and may expose us to counterparty risks.

In accordance with our operating policies, we may pursue various types of hedging strategies, including swaps, caps and other derivative transactions, to seek to mitigate or reduce our exposure to losses from adverse changes in interest rates. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and financing sources used and other changing market conditions. No hedging strategy, however, can completely insulate us from the interest rate risks to which we are exposed or that the implementation of any hedging strategy would have the desired impact on our results of operations or financial condition. Certain of the U.S. federal income tax requirements that we must satisfy in order to qualify as a REIT may limit our ability to hedge against such risks. We will not enter into derivative transactions if we believe that they will jeopardize our qualification as a REIT.

Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability;
- the amount of income that a REIT may earn from hedging transactions (other than through taxable REIT subsidiaries (or TRSs)) to offset interest rate losses is limited by U.S. federal tax provisions governing REITs;
-

the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and

- the party owing money in the hedging transaction may default on its obligation to pay.

We primarily use swaps to hedge against anticipated future increases in interest rates on our repurchase agreements. Should a swap counterparty be unable to make required payments pursuant to such swap, the hedged liability would cease to be hedged for the remaining term of the swap. In addition, we may be at risk for any collateral held by a hedging counterparty to a swap, should such counterparty become insolvent or file for bankruptcy. Our hedging transactions, which are intended to limit losses, may actually adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

Hedging instruments involve risk since they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of hedging instruments may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in its default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in losses.

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Since we invest in Agency MBS that are guaranteed by Fannie Mae and Freddie Mac, we are subject to the risk that these U.S. Government-sponsored entities may not be able to fully satisfy their guarantee obligations, which may adversely affect the value of our investment portfolio and our ability to sell or finance these securities.

The payments we receive on the Agency MBS in which we invest are guaranteed by Fannie Mae or Freddie Mac. Unlike the securities issued by Ginnie Mae, the principal and interest on securities issued by Fannie Mae and Freddie Mac are not guaranteed by the U.S. Government. The recent economic challenges in the residential mortgage market have affected the financial results of Fannie Mae and Freddie Mac. For the year ended December 31, 2007, both Fannie Mae and Freddie Mac reported substantial losses. Fannie Mae recently stated that it expects losses on guarantees of agency securities to continue and expects significant increases in credit-related expenses and credit losses through 2008. If Fannie Mae and Freddie Mac continue to suffer significant losses, their ability to honor their respective agency securities guarantees may be adversely affected. Further, any actual or perceived financial challenges at either Fannie Mae or Freddie Mac could cause the Rating Agencies to downgrade securities issued by Fannie Mae or Freddie Mac. On January 9, 2008, Moody's Investors Service placed Freddie Mac's A- bank financial strength rating, which measures the likelihood it will require financial assistance from third parties, on review for possible downgrade. Any failure to honor guarantees on agency securities by Fannie Mae or Freddie Mac or any downgrade of securities issued by Fannie Mae or Freddie Mac by the Rating Agencies could cause a significant decline in the cash flow from, and the value of, any Agency MBS we may own, and we may then be unable to sell or finance Agency MBS on favorable terms or at all.

New laws may be passed affecting the relationship between Fannie Mae and Freddie Mac, on the one hand, and the U.S. Government, on the other, which could adversely affect the price of agency securities.

Legislation has been and may be proposed to change the relationship between Fannie Mae and Freddie Mac, on the one hand, and the U.S. Government, on the other hand, or that requires Fannie Mae and Freddie Mac to reduce the amount of mortgages they own or limit the amount of guarantees they provide on agency securities.

If any such legislation is enacted into law, it may lead to market uncertainty and the actual or perceived impairment in the credit quality of securities issued by Fannie Mae or Freddie Mac. This may increase the risk of loss on investments in Fannie Mae- and/or Freddie Mac-issued securities. Any legislation requiring Fannie Mae or Freddie Mac to reduce the amount of mortgages they own or for which they guarantee payments on agency securities could adversely affect the availability and pricing of agency securities and therefore, adversely affect the value of our portfolio and our profitability.

Our directors have approved broad investment guidelines for us and do not approve each investment we make.

Our board of directors has given us substantial discretion to invest in accordance with our broad investment guidelines. Our board of directors periodically reviews our investment guidelines and our portfolio. However, our board of directors does not review each proposed investment. In addition, in conducting periodic reviews, our directors rely primarily on information provided to them by our executive officers. Furthermore, transactions entered into by us may be difficult or impossible to unwind by the time they are reviewed by our directors. Our management substantial discretion within our broad investment guidelines in determining the types of assets we may decide are proper investments for us.

We may change our investment strategy, operating policies and/or asset allocations without stockholder consent.

We may change our investment strategy, operating policies and/or asset allocation with respect to investments, acquisitions, leverage, growth, operations, indebtedness, capitalization and distributions at any time without the consent of our stockholders. A change in our investment strategy may increase our exposure to interest rate and/or credit risk, default risk and real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from our historical investments. These changes could adversely affect our financial condition, results of operations, the market price of our common stock or our ability to pay dividends or distributions.

Risks Related to the Advisory Agreement with JMPAM

We are dependent on JMPAM and certain of its key personnel and may not find a suitable replacement if JMPAM terminates the advisory agreement or such key personnel are no longer available to us.

Pursuant to the advisory agreement, subject to oversight by our board of directors, JMPAM advises the Managed Subsidiaries. JMPAM identifies, evaluates, negotiates, structures, closes and monitors investments of the Managed Subsidiaries, other than assets that we contributed to the Managed Subsidiaries to facilitate compliance with our exclusion from regulation under the Investment Company Act. The departure of any of the senior officers of JMPAM, or of a significant number of investment professionals or principals of JMPAM, could have a material adverse effect on our ability to achieve our investment objectives. We are subject to the risk that JMPAM will terminate the advisory agreement or that we may deem it necessary to terminate the advisory agreement or prevent certain individuals from performing services for us, and that no suitable replacement will be found to manage the Managed Subsidiaries.

Pursuant to the advisory agreement, JMPAM is entitled to receive an advisory fee payable regardless of the performance of the assets of the Managed Subsidiaries.

We will pay JMPAM substantial advisory fees, based on the Managed Subsidiaries’ equity capital (as defined in the advisory agreement), regardless of the performance of the Managed Subsidiaries’ portfolio. In addition, pursuant to the advisory agreement, we will pay JMPAM a base advisory fee even if they are not managing any assets of the Managed Subsidiaries' portfolio. JMPAM’s entitlement to non-performance based compensation may reduce its incentive to devote the time and effort of its professionals to seeking profitable opportunities for the Managed Subsidiaries’ portfolio, which could result in a lower performance of their portfolio and negatively affect our ability to pay distributions to our stockholders or to achieve capital appreciation.

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Pursuant to the advisory agreement, JMPAM is entitled to receive an incentive fee, which may induce it to make certain investments, including speculative or high risk investments.

In addition to its advisory fee, JMPAM is entitled to receive incentive compensation based, in part, upon the Managed Subsidiaries' achievement of targeted levels of net income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead JMPAM to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining liquidity and/or management of credit risk or market risk, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. In addition, JMPAM has broad discretion regarding the types of investments it will make pursuant to the advisory agreement. This could result in increased risk to the value of the Managed Subsidiaries' invested portfolio.

We compete with JMPAM's other clients for access to JMPAM.

JMPAM has sponsored and/or currently manages other pools of capital and investment vehicles with an investment focus that overlaps with the Managed Subsidiaries' investment focus, and is expected to continue to do so in the future. Furthermore, JMPAM is not restricted in any way from sponsoring or accepting capital from new clients or vehicles, even for investing in asset classes or investment strategies that are similar to, or overlapping with, the Managed Subsidiaries' asset classes or investment strategies. Therefore, the Managed Subsidiaries compete for access to the benefits that their relationship with JMPAM provides them. For the same reasons, the personnel of JMPAM may be unable to dedicate a substantial portion of their time managing the Managed Subsidiaries' investments if JMPAM manages any future investment vehicles.

There are conflicts of interest in our relationship with JMPAM, which could result in decisions that are not in the best interests of our stockholders.

The Managed Subsidiaries may have investments in securities in which JMPAM has an interest. Similarly, JMPAM may invest in securities in which the Managed Subsidiaries have or may have an interest. Although such investments may present conflicts of interest, we nonetheless may pursue and consummate such transactions. Additionally, the Managed Subsidiaries may engage in transactions directly with JMPAM, including the purchase and sale of all or a portion of a portfolio investment.

JMPAM may from time to time simultaneously seek to purchase investments for the Managed Subsidiaries and other entities with similar investment objectives for which it serves as a manager, or for its clients or affiliates and has no duty to allocate such investment opportunities in a manner that favors the Managed Subsidiaries. Additionally, such investments for entities with similar investment objectives may be different from those made on the Managed Subsidiaries' behalf. JMPAM may have economic interests in or other relationships with others in whose obligations or securities the Managed Subsidiaries may invest. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities and otherwise create conflicts of interest. In such instances, JMPAM may in its discretion make investment recommendations and decisions that may be the same as or different from those made with respect to the Managed Subsidiaries' investments and may take actions (or omit to take actions) in the context of these other economic interests or relationships the consequences of which may be adverse to the Managed Subsidiaries' interests.

Although the officers and employees of JMPAM devote as much time to the Managed Subsidiaries as JMPAM deems appropriate, the officers and employees may have conflicts in allocating their time and services among the Managed Subsidiaries and JMPAM's and its affiliates' other accounts. In addition, JMPAM and its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict JMPAM from purchasing securities or selling securities for itself or its clients (including the Managed Subsidiaries) or otherwise using such information for the benefit of its clients or itself.

Termination of the advisory agreement may be difficult and costly.

Termination of the advisory agreement without cause is subject to several conditions which may make such a termination difficult and costly. The advisory agreement provides that it may only be terminated without cause following the initial three year period upon the affirmative vote of at least two-thirds of our independent directors, based either upon unsatisfactory performance by JMPAM that is materially detrimental to us or upon a determination that the management fee payable to JMPAM is not fair, subject to JMPAM's right to prevent such a termination by accepting a mutually acceptable reduction of management fees. JMPAM will be paid a termination fee equal to the amount of two times the sum of the average annual base advisory fee and the average annual incentive compensation earned by it during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. These provisions may increase the effective cost to us of terminating the advisory agreement, thereby adversely affecting our ability to terminate JMPAM without cause.

Risks Related to an Investment in Our Common Stock

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 Bulletin Board, or OTCBB. 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. A substantial sale, or series of sales, of our common stock could have a material adverse effect on the market price of our common stock. 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.

The market price and trading volume of our common stock may be volatile.

The market price of our common stock is highly volatile and subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could result in fluctuations in the price or trading volume of our common stock include, among other things: actual or anticipated changes in our current or future financial performance; changes in market interest rates and general market and economic conditions. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly.

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 herein. Beginning in July 2007, our board of directors elected to suspend the payment of quarterly dividends on our common stock and, as of the date of this report, has yet to reinstate a quarterly dividend. The board of directors' decision reflected our focus on the elimination of operating losses through the sale 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.

Upon conversion of our Series A Preferred Shares, we will be required to issue shares of common stock to holders of our Series A Preferred Shares, which will dilute the holders of our outstanding common stock. Our outstanding Series A Preferred Shares are senior to our common stock for purposes of dividend and liquidation distributions and have voting rights equal to those of our common stock.

On January 18, 2008, we completed the issuance and sale of 1.0 million Series A Preferred Shares to a group of investors that are affiliated with JMP Group Inc. for an aggregate purchase price of $20.0 million. The Series A Preferred Shares entitle the holders to receive a cumulative dividend of 10% per year, subject to an increase to the extent any future quarterly common stock dividends exceed $0.10 per share. Holders of our Series A Preferred Shares have dividend and liquidating distribution preferences over holders of our common stock, which may negatively affect your ability to receive dividends or liquidating distributions on your Shares. The Series A Preferred Shares also have voting rights equal to the voting rights attached to our common stock, except that each Series A Preferred Share is entitled to a number of votes equal to the conversion rate for the Series A Preferred Shares.

The Series A Preferred Shares are convertible into shares of our common stock based on a conversion price of $4.00 per share of common stock, which represents a conversion rate of five shares of common stock for each Series A Preferred Share. Upon conversion of the Series A Preferred Shares, we will issue common stock to the holders of our Series A Preferred Shares, which will dilute the holders of our outstanding common stock. Additionally, the holders of our Series A Preferred Shares have the ability to purchase an additional $20.0 million of Series A Preferred Shares, on identical terms, through April 4, 2008.

The Series A Preferred Shares represent approximately 21% of our outstanding capital stock, on a fully diluted basis, as of March 1, 2008, excluding the purchase option that expires on April 4, 2008. Therefore, the holders of our Series A Preferred Shares have voting control over us.

The Series A Preferred Shares represent approximately 21% of our outstanding capital stock, on a fully diluted basis, as of March 1, 2008, excluding the purchase option described below. The Series A Preferred Shares also have voting rights equal to the voting rights attached to our common stock, except that each Series A Preferred Share is entitled to a number of votes equal to the conversion rate. In addition, the holders of our Series A Preferred Shares have the ability to purchase an additional $20.0 million of Series A Preferred Shares, on identical terms, through April 4, 2008. Therefore, the holders of our Series A Preferred Shares have voting control over us, which may limit your ability to effect corporate change through the shareholder voting process.

Future offerings of debt securities, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

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Future sales of our common stock could have an adverse effect on our stock price.

We cannot predict the effect, if any, of future sales of common stock, or the availability of shares for future sales, on the market price of our common stock. For example, upon conversion of our Series A Preferred Shares, we will be required to issue shares of our common stock to holders of our Series A Preferred Shares, which will increase the number of shares available for sale and dilute existing holders of our common stock. Sales of substantial amounts of common stock, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Under the registration rights agreement we entered in connection with our private placement of common stock in February 2008, we will pay liquidated damages to the holders of the shares of common stock purchased in that private placement if we breech certain provisions.

Under the registration rights agreement we entered in connection with our private placement of common stock in February 2008, we will pay liquidated damages if any of the following events occur: (i) we fail to file a registration statement covering all of the shares sold in that private placement before the filing deadline; (ii) a registration statement covering all of the shares sold in that private placement is not declared effective prior to the effectiveness deadline; (iii) the registration statement is not continuously kept effective, except during an allowable grace period; (iv) a grace period exceeds the allowable grace period under the registration rights agreement; or (v) the shares sold in that private placement may not be sold pursuant to Rule 144 under the Securities Act due to our failure to satisfy the adequate public information condition of Rule 144(c) under the Securities Act. The liquidated damages will be payable in an amount equal to the product of one-thirtieth of (i) 0.5% multiplied by $4.00 for each day that such events shall occur and be continuing during the first 90 days of such non-compliance, and (ii) 1.0% multiplied by $4.00 for each day after the 90th day of such non-compliance for each share sold in the February 2008 private placement which is then held by the investors in that offering.

Risks Related to Our Company, Structure and Change in Control Provisions

Our Co-Chief Executive Officers have agreements that provide them with benefits in the event their employment is terminated following a change in control.

We have entered into agreements with our Co-Chief Executive Officers, David A. Akre and Steven R. Mumma, that provide them with severance benefits if their employment ends under specified circumstances following a change in control. These benefits could increase the cost to a potential acquirer of us and thereby prevent or discourage a change in control that might involve a premium price for your shares or otherwise be in your best interest.

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The stock ownership limit imposed by our charter may inhibit market activity in our common stock and may restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Internal Revenue Code, not more than 50% in value of the issued and outstanding shares of our capital stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year (other than our first year as a REIT). Attribution rules in the Internal Revenue Code apply to determine if any individual or entity actually or constructively owns our capital stock for purposes of this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of each taxable year (other than our first year as a REIT). To help ensure that we meet these tests, our charter restricts the acquisition and ownership of shares of our capital stock. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and provides that, unless exempted by our board of directors, no person may own more than 9.9% in value of the outstanding shares of our capital stock. Our board of directors may grant an exemption from that ownership limit in its sole discretion, subject to such conditions, representations and undertakings as it may determine. This ownership limit could delay or prevent a transaction or a change in control of our company under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then current market price for our common stock or would otherwise be in the best interests of our stockholders.

Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control which could have an adverse effect on the value of our securities.

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

- our charter provides that, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed with or without cause only by the affirmative vote of holders of at least two-thirds of all votes entitled to be cast by our stockholders generally in the election of directors;
- our bylaws provide that only our board of directors shall have the authority to amend our bylaws;
- under our charter, our board of directors has authority to issue preferred stock from time to time, in one or more series and to establish the terms, preferences;
- and rights of any such series, all without the approval of our stockholders;
- the Maryland Business Combination Act; and
- the Maryland Control Share Acquisition Act.

Although our board of directors has adopted a resolution exempting us from application of the Maryland Business Combination Act and our bylaws provide that we are not subject to the Maryland Control Share Acquisition Act, our board of directors may elect to make the “business combination” statute and “control share” statute applicable to us at any time and may do so without stockholder approval.

Maintenance of our Investment Company Act exemption imposes limits on our operations.

We have conducted and intend to continue to conduct our operations so as not to become regulated as an investment company under the Investment Company Act. We believe that there are a number of exemptions under the Investment Company Act that are applicable to us. To maintain the exemption, the assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act. In addition, we could, among other things, be required either (a) to change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have an adverse effect on our operations and the market price for our securities.

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Tax Risks Related to Our Structure

Failure to qualify as a REIT would adversely affect our operations and ability to make distributions.

We have operated and intend to continue to operate so to qualify as a REIT for federal income tax purposes. Our continued qualification as a REIT will depend on our ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income, and the amount of our distributions to our stockholders.

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. In addition, if we do not qualify for certain statutory relief provisions we generally would be disqualified from treatment as a REIT for the four taxable years following the year in which we lost our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability, and we would no longer be required to make distributions to stockholders. Additionally, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

REIT distribution requirements could adversely affect our liquidity.

In order to qualify as a REIT, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income, excluding any net capital gain. To the extent that we distribute at least 90%, but less than 100% of our REIT taxable income, we will be subject to corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of (i) 85% of our ordinary REIT income for that year, (ii) 95% of our REIT capital gain net income for that year, and (iii) 100% of our undistributed REIT taxable income from prior years.

We have made and intend to continue to make distributions to our stockholders to comply with the 90% distribution requirement and to 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 90% distribution requirement 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. Such 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 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 future acquisitions, capital expenditures or repayment of debt in order to comply with the REIT distribution requirements.

Further, amounts distributed will not be available to fund investment activities. We expect to fund our investments generally through borrowings from financial institutions, along with securitization financings. If we fail to obtain debt or equity capital in the future, it could limit our ability to grow, which could have a material adverse effect on the value of our common stock.

Dividends payable by REITs do not qualify for the reduced tax rates on dividend income from regular corporations.