NEW YORK MORTGAGE TRUST INC
Form 10-Q
August 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from_______ to_______

Commission file number **001-32216**

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

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

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

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

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

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

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

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

The number of shares of the registrant's common stock, par value $.01 per share, outstanding on August 1, 2007 was 18,179,271.

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NEW YORK MORTGAGE TRUST, INC.
FORM 10-Q

PART I: FINANCIAL INFORMATION
Item 1. Financial Statements
NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollar amounts in thousands)

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 1,883	$ 969
Restricted cash	4,198	3,151
Investment securities - available for sale	454,935	488,962
Accounts and accrued interest receivable	4,528	5,189
Mortgage loans held in securitization trusts	504,522	588,160
Prepaid and other assets	20,343	20,951
Derivative assets	2,486	2,632
Property and equipment (net)	89	89
Assets related to discontinued operation	11,700	212,805
Total Assets	$ 1,004,684	$ 1,322,908
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$ 423,741	$ 815,313
Collateralized debt obligations	465,761	197,447
Accounts payable and accrued expenses	5,139	5,871
Subordinated debentures	45,000	45,000
Liabilities related to discontinued operation	9,317	187,705
Total liabilities	$ 948,958	$ 1,251,336
Commitments and Contingencies (note 10)		
Stockholders' Equity:		
Common stock, $0.01 par value, 400,000,000 shares authorized, 18,179,271 shares issued and outstanding at June 30, 2007 and 18,325,187 shares issued and 18,077,880 outstanding at December 31, 2006	182	183
Additional paid-in capital	99,068	99,509
Accumulated other comprehensive loss	(848)	(4,381)
Accumulated deficit	(42,676)	(23,739)
Total stockholders' equity	55,726	71,572
Total Liabilities and Stockholders' Equity	$ 1,004,684	$ 1,322,908

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

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

	For the Six Months Ended June 30, 2007	For the Six Months Ended June 30, 2006	For the Three Months Ended June 30, 2007	For the Three Months Ended June 30, 2006
REVENUE:				
Interest income investment securities and loans held in securitization trusts	$ 26,611	$ 33,052	$ 12,898	$ 15,468
Interest expense investment securities and loans held in securitization trusts	24,976	26,438	11,892	12,359
Net interest income from investment securities and loans held in securitization trusts	1,635	6,614	1,006	3,109
Interest expense - subordinated debentures	1,776	1,779	894	894
Net interest (expense) income	(141)	4,835	112	2,215
OTHER EXPENSE:				
Realized loss on sale of investment securities	—	(969)	—	—
Impairment loss on investment securities	(3,821)	—	(3,821)	—
Loan loss reserve on loans held in securitization trusts	(940)	—	(940)	—
Total other expenses	(4,761)	(969)	(4,761)	—
EXPENSES:				
Salaries and benefits	496	452	151	202
Marketing and promotion	62	34	39	26
Data processing and communications	93	119	56	63
Professional fees	205	365	105	271
Depreciation and amortization	149	127	81	60
Other	171	223	97	136
Total expenses	1,176	1,320	529	758
(LOSS) INCOME FROM CONTINUING OPERATIONS	(6,078)	2,546	(5,178)	1,457
Loss from discontinued operation - net of tax	(12,859)	(4,164)	(9,018)	(1,279)
NET (LOSS) INCOME	$ (18,937)	$ (1,618)	$ (14,196)	$ 178
Basic (loss) income per share	$ (1.05)	$ (0.09)	$ (0.79)	$ 0.01
Diluted (loss) income per share	$ (1.05)	$ (0.09)	$ (0.79)	$ 0.01
Weighted average shares outstanding-basic	18,096	17,950	18,113	17,933
Weighted average shares outstanding-diluted	18,096	17,950	18,113	18,296

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	For the Six Months Ended June 30, 2007					
	Common Stock	**Additional Paid-In Capital**	**Stockholders' Deficit**	**Accumulated Other Comprehensive (Loss)/Income**	**Comprehensive (Loss)/Income**	**Total**
	(dollar amounts in thousands) (unaudited)					
Balance, January 1, 2007 - Stockholders' Equity	$ 183	$ 99,509	$ (23,739)	$ (4,381)	—	$ 71,572
Net loss	—	—	(18,937)	—	$ (18,937)	(18,937)
Dividends declared	—	(909)	—	—	—	(909)
Vested restricted stock	(1)	468	—	—	—	467
Decrease in net unrealized loss on available for sale securities	—	—	—	3,287	3,287	3,287
Decrease in net unrealized gain on derivative instruments	—	—	—	246	246	246
Comprehensive loss	—	—	—	—	$ (15,404)	—
Balance, June 30, 2007 - Stockholders' Equity	$ 182	$ 99,068	$ (42,676)	$ (848)		$ 55,726

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30, 2007	For the Six Months Ended June 30, 2006
	(dollar amounts in thousands) (unaudited)	
Cash Flows from Operating Activities:		
Net loss	$ (18,937)	$ (1,618)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	601	1,086
Amortization of premium on investment securities and mortgage loans	1,103	1,187
Gain on sale of retail lending platform	(4,946)	—
Loss on sale of current period securitized loans	—	747
Loss on sale of securities and related hedges	3,821	969
Restricted stock compensation expense	467	433
Stock option grants - compensation expense	—	(3)
Deferred tax benefit	—	(4,579)
Change in value of derivatives	347	(313)
Loss on disposal of fixed assets	367	—
Loan losses	6,372	—
(Increase) decrease in operating assets:		
Purchase of mortgage loans held for sale	—	(213,367)
Origination of mortgage loans held for sale	(300,863)	(940,456)
Proceeds from sales of mortgage loans	398,418	1,176,475
Due from loan purchasers	87,982	45,674
Escrow deposits - pending loan closings	3,814	49
Accounts and accrued interest receivable	2,009	4,352
Prepaid and other assets	1,946	(3,886)
Decrease in operating liabilities:		
Due to loan purchasers	(7,162)	(783)
Accounts payable and accrued expenses	(3,452)	(1,889)
Other liabilities	(96)	(211)
Net cash provided by operating activities	171,791	63,867
Cash Flows from Investing Activities:		
Restricted cash	(1,047)	4,213
Purchase of investment securities	(49,557)	(388,398)
Principal repayments received on mortgage loans held in securitization trusts	82,136	90,074
Proceeds from sale of investment securities	—	356,896
Proceeds from sale of retail lending platform	12,936	—
Principal paydown on investment securities	82,622	88,529
Purchases of property and equipment	(396)	(1,049)
Disposal of fixed assets	485	—
Net cash provided by investing activities	127,179	150,265

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (continued)

	For the Six Months Ended June 30, 2007		For the Six Months Ended June 30, 2006	
	(dollar amounts in thousands) (unaudited)			
Cash Flows from Financing Activities:				
Repurchase of common stock		—		(300)
Change in financing arrangements, net		(296,230)		(209,605)
Dividends paid		(1,826)		(6,372)
Net cash used in financing activities		(298,056)		(216,277)
Net Increase (Decrease) in Cash and Cash Equivalents		914		(2,145)
Cash and Cash Equivalents - Beginning of Period		969		9,056
Cash and Cash Equivalents - End of Period	$	1,883	$	6,911
Supplemental Disclosure				
Cash paid for interest	$	29,613	$	22,102
Non Cash Financing Activities				
Dividends declared to be paid in subsequent period	$	—	$	2,566

See notes to consolidated financial statements.

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

1. Summary of Significant Accounting Policies

Organization— New York Mortgage Trust, Inc. (“NYMT” or the “Company”) is a self-advised real estate investment trust ("REIT") that invests in and manages a portfolio of mortgage loans and mortgage-backed securities. Until March 31, 2007, when the Company sold substantially all of the assets of its mortgage origination business and exited the mortgage lending business, the Company originated mortgage loans through its wholly-owned subsidiary, The New York Mortgage Company, LLC (“NYMC”).

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

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

In connection with the sale of the assets of our wholesale mortgage origination platform assets on February 22, 2007 and the sale of the assets of our retail mortgage lending platform on March 31, 2007, during the fourth quarter of 2006, we classified our mortgage lending segment as a discontinued operation in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”. As a result, we have reported revenues and expenses related to the segment as a discontinued operation and the related assets and liabilities as assets and liabilities related to the discontinued operation for all periods presented in the accompanying consolidated financial statements. Certain assets, such as the deferred tax asset, and certain liabilities, such as subordinated debt and liabilities related to leased facilities not assigned to Indymac will become part of the ongoing operations of NYMT and accordingly, have not been classified as a discontinued operation in accordance with the provisions of SFAS No. 144. (See note 9)

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

Basis of Presentation— The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions are eliminated in consolidation. Certain prior period amounts have been reclassified to conform to current period classifications. In addition, certain previously reported discontinued operation balances have been reclassified to continuing operations, including $1.1 million in restricted cash, $1.0 million derivative asset balance related to interest rate caps, $0.1 million in property and equipment net and $0.3 million in accounts payable and accrued expenses.

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

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
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(unaudited)

Concurrent with the closing of the Company's initial public offering ("IPO") on June 24, 2004, 100,000 of the 2,750,000 shares exchanged for the equity interests of NYMC, were placed in escrow through December 31, 2004 and were available to satisfy any indemnification claims the Company may have had against Steven B. Schnall, the Company's Chairman, and then President and Co-Chief Executive Officer, Joseph V. Fierro, the then Chief Operating Officer of NYMC, and each of their affiliates, as the contributors of NYMC, for losses incurred as a result of defaults on any residential mortgage loans originated by NYMC and closed prior to the completion of the IPO. As of December 31, 2004, the amount of escrowed shares was reduced by 47,680 shares, representing $493,000 for estimated losses on loans closed prior to the Company's IPO. Furthermore, the contributors of NYMC amended the escrow agreement to extend the escrow period to December 31, 2005 for the remaining 52,320 shares. On or about December 31, 2005, the escrow period was extended for an additional year to December 31, 2006. During 2006 the Company concluded that all indemnification claims related to the escrowed shares have been determined and that no additional losses were incurred by the Company as a result of defaults on any residential mortgage loans originated by NYMC and closed prior to completion of the IPO. Accordingly, we have concluded that no further indemnification was necessary. The remaining 52,320 shares were then released from escrow.

Use of Estimates— The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's estimates and assumptions primarily arise from risks and uncertainties associated with interest rate volatility, prepayment volatility and credit exposure. Although management is not currently aware of any factors that would significantly change its estimates and assumptions in the near term, future changes in market conditions may occur which could cause actual results to differ materially.

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

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

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

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

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

When the fair value of an available for sale security is less than amortized cost, management considers whether there is an other-than-temporary impairment in the value of the security (e.g., whether the security will be sold prior to the recovery of fair value). Management considers at a minimum the following factors that, both individually or in combination, could indicate the decline is "other-than-temporary:" 1) the length of time and extent to which the market value has been less than book value; 2) the financial condition and near-term prospects of the issuer; or 3) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value. If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and the unrealized loss is transferred from accumulated other comprehensive income as an immediate reduction of current earnings (i.e., as if the loss had been realized in the period of impairment). Even though no credit concerns exist with respect to an available for sale security, an other-than-temporary impairment may be evident if management determines that the Company does not have the intent and ability to hold an investment until a forecasted recovery of the value of the investment. For the three months ended June 30, 2007, the Company incurred an impairment charge of $3.8 million related to non-agency ARM securities for which it determined it no longer had the intent to hold until recovery. (see note 2)

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

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

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

Estimation involves the consideration of various credit-related factors including but not limited to, macro-economic conditions, the current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's credit and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the value of the property. If there is a doubt as to the objectivity of the original property value assessment, or if the loan is seasoned or in an area deemed to be declining in value, we utilize various internet based property data services to look at comparable properties in the same area or consult with a realtor in the property's area.

Comparing the current loan balance to the property value determines the current loan-to-value ("LTV") ratio of the loan. Generally, we estimate that a first lien loan on a property that goes into a foreclosure process and becomes real estate owned ("REO"), results in the property being disposed of at approximately 68% of the property's original value. This estimate is based on management's long term experience in similar market conditions. It is possible however that given today's deteriorating market conditions, we may realize less than that return in certain cases. Thus, for a first lien loan that is delinquent, we will adjust the property value down to approximately 68% of the original property value and compare that to the current balance of the loan. The difference, plus an estimate of past interest due, determines the base reserve taken for that loan. This base reserve for a particular loan may be adjusted if we are aware of specific circumstances that may affect the outcome of the loss mitigation process for that loan. Predominately, however, we use the base reserve number for our reserve.

At June 30, 2007, we had a loan loss reserve of $0.9 million on mortgage loans held in securitization trusts. (see note 3)

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

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

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

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

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

Subordinated Debentures— Subordinated debentures are trust preferred securities that are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities are classified as subordinated debentures in the liability section of the Company's consolidated balance sheet. (see note 8)

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

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

All derivative financial instruments are reported as either assets or liabilities in the consolidated balance sheet at fair value. The gains and losses associated with changes in the fair value of derivatives not designated as hedges are reported in current earnings. If the derivative is designated as a fair value hedge and is highly effective in achieving offsetting changes in the fair value of the asset or liability hedged, the recorded value of the hedged item is adjusted by its change in fair value attributable to the hedged risk. If the derivative is designated as a cash flow hedge, the effective portion of change in the fair value of the derivative is recorded in OCI and is recognized in the income statement when the hedged item affects earnings. The Company calculates the effectiveness of these hedges on an ongoing basis, and, to date, has calculated effectiveness of approximately 100%. Ineffective portions, if any, of changes in the fair value or cash flow hedges are recognized in earnings. (see note 5)

Discontinued Operation (see note 9)

Mortgage Loans Held for Sale— Mortgage loans held for sale represent originated mortgage loans held for sale to third party investors. The loans are initially recorded at cost based on the principal amount outstanding net of deferred direct origination costs and fees. The loans are subsequently carried at the lower of cost or fair value. Fair value is determined by examining outstanding commitments from investors or current investor yield requirements, calculated on an aggregate loan basis, less an estimate of the costs to close the loan, and the deferral of fees and points received, plus the deferral of direct origination costs. Gains or losses on sales are recognized at the time title transfers to the investor which is typically concurrent with the transfer of the loan files and related documentation and are based upon the difference between the sales proceeds from the final investor and the adjusted book value of the loan sold.

Loan Loss Reserves on Mortgage Loans —We established a reserve for loan losses based on management's judgment and estimate of credit losses for residential mortgage loans held for sale using the same methodology used in establishing loan loss reserves for loans held in securitization trusts described above.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
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Reserves for second liens are larger than that for first liens as second liens are in a junior position and only receive proceeds after the claims of the first lien holder are satisfied. Given the softness in the housing market due to the increased properties listed for sale, we currently are assuming that second mortgages will return approximately 5% or less of their original balance for loans that go through foreclosure. For second liens that we hold on our balance sheet currently, if the loan is more than 60 days delinquent, or unless we have direct knowledge of the borrower's intention or situation, we assume that all will go through the foreclosure process and that we will realize only 5% or less of the original balance returned.

*Loan Loss Reserves on Repurchase Requests and Mortgage Under Indemnification Agreements—*We establish reserves for loans we have been requested to repurchase from investors and for loans subject to indemnification agreements. Generally loans wherein the borrowers do not make all the first three payments to the new investor once the loan has been sold, require us, under the terms of purchase and sale agreement entered into with the investor, to repurchase the loan. During the three month period ended June 30, 2007, due to market conditions the amount of repurchase requests increased from approximately $14.3 million at the quarter end March 31, 2007 to approximately $25.2 million as of June 30, 2007.

An alternative to repurchasing loans is to sign indemnification agreements with loan investors. Generally these agreements specify that if a loan goes delinquent and the investor realizes a loss as a result of foreclosure, the Company will reimburse the investor for their loss. During the quarter ended June 30, 2007 the amount of loans subject to indemnification agreements was the same as of the quarter ended March 31, 2007.

At June 30, 2007, we had a loan loss reserve of $1.6 million on mortgage loans held for sale, $5.3 million in reserves for indemnifications and repurchase requests. All of these items are included in discontinued operations and had incurred $8.2 million of loan losses during the six months ended June 30, 2007.

Risk Management— Derivative transactions are entered into by the Company solely for risk management purposes. The decision of whether or not an economic risk within a given transaction (or portion thereof) should be hedged for risk management purposes is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including the financial impact on income, asset valuation and restrictions imposed by the Internal Revenue Code among others. In determining whether to hedge a risk, the Company may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken to hedge certain market risks are entered into with a view towards minimizing the potential for economic losses that could be incurred by the Company. Under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended and interpreted, ("SFAS No. 133"), the Company is required to formally document its hedging strategy before it may elect to implement hedge accounting for qualifying derivatives. Accordingly, all qualifying derivatives are intended to qualify as fair value, or cash flow hedges, or free standing derivatives. To this end, terms of the hedges are matched closely to the terms of hedged items with the intention of minimizing ineffectiveness.

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

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

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

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

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

- the items to be hedged expose the Company to interest rate risk; and

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

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

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

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

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

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

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

Employee Benefits Plans— The Company sponsors a defined contribution plan (the "Plan") for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Plan, participating employees may defer up to 15% of their pre-tax earnings, subject to the annual Internal Revenue Code contribution limit. The Company matches contributions up to a maximum of 25% of the first 5% of salary. Employees vest immediately in their contribution and vest in the Company's contribution at a rate of 25% after two full years and then an incremental 25% per full year of service until fully vested at 100% after five full years of service. The Company's total contributions to the Plan were $18,495 and $0.2 million for the six month periods ended June 30, 2007 and 2006 respectively.

Stock Based Compensation— The Company accounts for its stock options and restricted stock grants in accordance with SFAS No. 123R, "Share-Based Payment," ("SFAS No. 123R") which requires all companies to measure compensation costs for all share-based payments, including employee stock options, at fair value. (see note 15)

Income Taxes— The Company operates so as to qualify as a REIT under the requirements of the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of the Company's stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. The remaining balance may extend until timely filing of the Company's tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income. (see note 13)

NYMC is a taxable REIT subsidiary and therefore, is subject to corporate Federal income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings Per Share— Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. (see note 16)

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

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 establishes presentation and disclosure requirements and requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS No. 159 also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is in the process of analyzing the impact of the adoption of SFAS No. 159 on our consolidated financial statements.

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

In June 2007, the AICPA issued SOP No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-1"). SOP 07-1 addresses whether the accounting principles of the AICPA Audit and Accounting Guide *Investment Companies* may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 is effective for fiscal years beginning on or after December 15, 2007 with earlier adoption encouraged. The adoption of SOP 07-1 is not expected to have a material impact on the Company.

2. Investment Securities Available for Sale

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

	June 30, 2007	December 31, 2006
Amortized cost	$ 455,463	$ 492,777
Gross unrealized gains	374	623

Gross unrealized losses		(902)		(4,438)
Fair value	$	454,935	$	488,962

The amortized cost balance includes approximately $231.8 million of certain lower-yielding private label ARM securities that the Company had concluded it no longer had the intent to hold until their values recovered. Upon such determination, the Company recorded an other-than-temporary impairment loss of $3.8 million. Subsequent to June 30, 2007, these securities were sold with no additional loss recognized.

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

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

	June 30, 2007							
	Less than 6 Months		More than 6 Months to 24 Months		More than 24 Months to 60 Months		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Agency REMIC CMO Floating Rate	$ 187,472	6.51%	$ —	—	$ —	—	$ 187,472	6.51%
Private Label Floaters	5,583	6.22%	—	—	—	—	5,583	6.22%
Private Label ARMs	14,563	6.45%	123,816	5.92%	104,243	6.02%	242,622	6.00%
NYMT Retained Securities	2,593	6.86%	—	—	16,665	7.52%	19,258	7.44%
Total/Weighted Average	$ 210,211	6.50%	$ 123,816	5.92%	$ 120,908	6.24%	$ 454,935	6.27%

The NYMT retained securities includes $1.8 million of residual interests related to the NYMT 2006-1 transaction. The residual interest carrying-values are determined by obtaining dealer quotes.
The residual interest carrying values are determined by dealer quotes. These quotes take into consideration certain pricing assumptions including, constant prepayment rate, discount rate, loss frequency and severity rates.

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

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

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

	June 30, 2007					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency REMIC CMO floating rate	$ 103,954	$ 409	$ —	$ —	$ 103,954	$ 409
Private label floaters	3,719	2	—	—	3,719	2
Private label ARMs	—	—	10,779	183	10,779	183
NYMT retained securities	9,164	186	2,751	122	11,915	308
Total	$ 116,837	$ 597	$ 13,530	$ 305	$ 130,367	$ 902

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

3. Mortgage Loans Held in Securitization Trusts

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

	June 30, 2007	December 31, 2006
Mortgage loans principal amount	$ 502,222	$ 584,358
Deferred origination costs - net	3,240	3,802
Reserve for loan losses	(940)	—
Total mortgage loans held in securitization trusts	$ $504,522	$ 588,160

Substantially all of the Company's mortgage loans held in securitization trusts are pledged as collateral for borrowings under financing arrangements (see note 6) or for the collateralized debt obligation (see note 7).

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

June 30, 2007

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	3	$ 1,117	0.22%
61-90	—	—	0.00%
90+	7	6,935	1.38%
Real estate owned	2	$ 1,774	0.35%

December 31, 2006

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio

30-60	1	$	166	0.03%
61-90	1		193	0.03%
90+	4		5,819	0.99%
Real estate owned	1	$	625	0.11%

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Delinquencies on loans held in securitization trusts increased from December 31, 2006 to June 30, 2007 by approximately 0.55%, while real estate owned increased by approximately 0.24% during the same period. This trend is primarily due to the increasing age of the loans held in securitization trusts, a deteriorating real estate market as evidenced by increased homes listed for sale, decreased appreciation rates for home prices, and in certain markets, deteriorating home prices.

4. Property and Equipment — Net

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

	June 30, 2007	December 31, 2006
Office and computer equipment	$ 152	$ 156
Furniture and fixtures	175	147
Total equipment, furniture and fixtures	327	303
Less: accumulated depreciation	(238)	(214)
Property and equipment - net	$ 89	$ 89

5. **Derivative Instruments and Hedging Activities**

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

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

	June 30, 2007	December 31, 2006
Derivative Assets:		
Interest rate caps	$ 1,688	$ 2,011
Interest rate swaps	798	621
Total derivative assets, continuing operations	$ 2,486	$ 2,632

The notional amounts of the Company's interest rate swaps and interest rate caps as of June 30, 2007 were $275.0 million and $1.4 billion, respectively.

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

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The Company estimates that over the next twelve months, approximately $1.0 million of the net unrealized losses on the interest rate swaps will be reclassified from accumulated OCI into earnings.

6. Financing Arrangements, Portfolio Investments

The Company has entered into repurchase agreements with third party financial institutions to finance its residential mortgage-backed securities and certain mortgage loans held in the securitization trusts not financed by collateralized debt obligations. The repurchase agreements are short-term borrowings that bear interest rates based on a spread to LIBOR, and are secured by the residential mortgage-backed securities and mortgage loans held in the securitization trusts which they finance. At June 30, 2007, the Company had repurchase agreements with an outstanding balance of $423.7 million and a weighted average interest rate of 5.34%. As of December 31, 2006, the Company had repurchase agreements with an outstanding balance of $815.3 million and a weighted average interest rate of 5.37%. At June 30, 2007 and December 31, 2006 securities and mortgage loans pledged as collateral for repurchase agreements had estimated fair values of $443.6 million and $850.6 million, respectively. The Company had $36.5 million of unencumbered securities to meet additional liquidity requirements or margin calls as of June 30, 2007. As of June 30, 2007 all of the repurchase agreements will mature within 30 days, with weighted average days to maturity equal to 17 days. At June 30, 2007, the Company had repurchase agreements with 21 different counter-parties to finance its investment portfolio activities.

In the event we are unable to obtain sufficient short-term financing through repurchase agreements or otherwise, or our lenders start to require additional collateral, we may have to liquidate our investment securities at a disadvantageous time, and result in losses. Any losses resulting from the disposition of our investment securities in this manner could have a material adverse effect on our operating results and net profitability.

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

Repurchase Agreements by Counterparty

Counterparty Name	June 30, 2007	December 31, 2006
Barclays	$ 17,927	$ —
Countrywide Securities Corporation	154,421	168,217
Goldman, Sachs & Co.	17,482	121,824
HSBC	72,946	—
J.P. Morgan Securities Inc.	30,397	33,631
Nomura Securities International, Inc.	86,594	156,352
SocGen/SG Americas Securities	43,974	87,995
West LB	—	247,294
Total Financing Arrangements, Portfolio Investments	$ 423,741	$ 815,313

Subsequent to June 30, 2007, the market for short-term collateralized borrowing through repurchase agreements has tightened considerably, primarily as a result of the fall-out from increasing defaults in the sub-prime mortgage market and losses incurred at a number of larger companies in the mortgage industry. At June 30, 2007, we had outstanding balances under repurchase agreements with seven different counterparties and, as of the date of this report, we have been successful at resetting all outstanding balances under our various repurchase agreements to new counterparties as they have become due. In the event a counterparty elected to not reset the outstanding balance into a new repurchase agreement, we would be required to repay the outstanding balance with proceeds received from a new counterparty or to surrender the mortgage-backed securities that serve as collateral for the outstanding balance. If we are unable to secure financing from another counterparty and surrender the collateral, we would expect to incur a loss. Although we presently expect the short-term collateralized borrowing markets to continue providing us with necessary financing through repurchase agreements, we cannot assure you that this form of financing will be available to us in the future on comparable terms, if at all.

7. Collateralized Debt Obligations

The Company had CDOs outstanding of $465.8 million with a weighted average interest rate of 5.65% as of June 30, 2007 and $197.4 million with a weighted average interest rate of 5.72% as of December 31, 2006. The CDOs include amortizing interest rate cap contracts with a notional amount of $585.6 million as of June 30, 2007 and a notional amount of $187.5 million as of December 31, 2006, which are recorded as an asset of the Company. The Company's CDOs are secured by ARM loans pledged as collateral which are recorded as an asset of the Company. The pledged ARM loans included in mortgage loans held in securitization trust have a principal balance of $502.2 million and $204.6 million at June 30, 2007 and December 31, 2006, respectively.

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8. Subordinated Debentures

On September 1, 2005 the Company closed a private placement of $20.0 million of trust preferred securities to Taberna Preferred Funding II, Ltd., a pooled investment vehicle. The securities were issued by NYM Preferred Trust II and are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities have a fixed interest rate equal to 8.35% up to and including July 30, 2010, at which point the interest rate is converted to a floating rate equal to one-month LIBOR plus 3.95% until maturity. The securities mature on October 30, 2035 and may be called at par by the Company any time after October 30, 2010. In accordance with the guidelines of SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (“SFAS No. 150”), the issued preferred stock of NYM Preferred Trust II has been classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

On March 15, 2005, the Company closed a private placement of $25.0 million of trust preferred securities to Taberna Preferred Funding I, Ltd., a pooled investment vehicle. The securities were issued by NYM Preferred Trust I and are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities have a floating interest rate equal to three-month LIBOR plus 3.75%, resetting quarterly (9.11% at June 30, 2007 and 9.12% at December 31, 2006). The securities mature on March 15, 2035 and may be called at par by the Company any time after March 15, 2010. NYMC entered into an interest rate cap agreement to limit the maximum interest rate cost of the trust preferred securities to 7.5%. The term of the interest rate cap agreement is five years and resets quarterly in conjunction with the reset periods of the trust preferred securities. The interest rate cap agreement is accounted for as a cash flow hedge transaction in accordance with SFAS No.133. In accordance with the guidelines of SFAS No. 150, the issued preferred stock of NYM Preferred Trust I has been classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

9. Discontinued Operation

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

Balance Sheet

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

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

	June 30, 2007	December 31, 2006
Due from loan purchasers	$ 369	$ 88,351
Escrow deposits-pending loan closings	—	3,814
Accounts and accrued interest receivable	505	2,488
Mortgage loans held for sale	8,389	106,900
Prepaid and other assets	2,422	4,654
Derivative assets	—	171
Property and equipment, net	15	6,427
	$ 11,700	$ 212,805

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

	June 30, 2007	December 31, 2006
Financing arrangements, mortgage loans held for sale	$ —	$ 172,972
Due to loan purchasers	5,535	8,334
Accounts payable and accrued expenses	3,747	6,066
Derivative liabilities	—	216
Other liabilities	35	117
	$ 9,317	$ 187,705

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

	June 30, 2007	December 31, 2006
Mortgage loans principal amount	$ 9,988	$ 110,804
Deferred origination costs - net	(45)	138
Reserve for loan losses	(1,554)	(4,042)
Mortgage loans held for sale	$ 8,389	$ 106,900

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

June 30,	
2007	2006

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

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

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

As of June 30, 2007, the Company had no outstanding financing arrangements secured by mortgage loans held for sale. During the three months ended June 30, 2007, the Company utilized the CSFB warehouse facility to dispose of substantially all of the mortgage loans held for sale from the discontinued operation. The Company did not seek to renew the CSFB facility and accordingly it expired on June 29, 2007.

Statements of Operations

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

	For the six months ended June 30,		For the three months ended June 30,	
	2007	**2006**	**2007**	**2006**
Revenues:				
Net interest income	$ 752	$ 2,328	$ 156	601
Gain on sale of mortgage loans	2,550	10,051	213	5,981
Loan losses	(8,242)	—	(5,081)	—
Brokered loan fees	2,316	6,270	181	3,493
Gain on sale of retail lending segment	4,525	—	(635)	—
Other income (expense)	15	(480)	(12)	174
Total net revenues	1,916	18,169	(5,178)	10,249
Expenses:				
Salaries, commissions and benefits	6,084	11,890	1,078	5,799
Brokered loan expenses	1,731	4,935	8	2,767
Occupancy and equipment	2,210	2,615	898	1,290
General and administrative	4,750	7,472	1,856	3,335
Total expenses	14,775	26,912	3,840	13,191

Loss before income tax benefit		(12,859)		(8,743)		(9,018)		(2,942)
Income tax benefit		—		4,579		—		1,663
Loss from discontinued operations - net of tax	$	(12,859)	$	(4,164)	$	(9,018)	$	(1,279)

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

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

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

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

10. Commitments and Contingencies

Loans Sold to Investors— The Company is not exposed to long term credit risk on its loans sold to investors. In the normal course of business, however, the Company is obligated to repurchase loans based on violations of representations and warranties, or early payment defaults. For the six months ended June 30, 2007, we repurchased a total of $6.5 million of mortgage loans that were originated in either 2005 or 2006, the majority of which were due to early payment defaults. Of the repurchased loans originated in 2006, a majority were Alt-A. As of June 30, 2007 we had approximately $25.2 million of repurchase requests pending, against which the Company has taken a reserve of $4.9 million included in due to loan purchasers within liabilities related to discontinued operations. Subsequent to June 30, 2007 the Company has settled 52% of the claims resulting in a loss of $1.8 million which was previously reserved.

Outstanding Litigation— The Company has at times been subject to various legal proceedings arising in the ordinary course of its discontinued mortgage lending business. Other than as described in the following paragraphs, the Company does not believe that any of its current legal proceedings, individually or in the aggregate, will have a material adverse effect on its operations or financial condition.

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On December 13, 2006, Steven B. Yang and Christopher Daubiere (“Plaintiffs”), filed suit in the United States District Court for the Southern District of New York (the “Court”) against NYMC and our Company alleging that we failed to pay them, and similarly situated employees, overtime in violation of the Fair Labor Standards Act (“FLSA”) and New York State law. Plaintiffs, former employees in our discontinued Mortgageline division who purport to bring a FLSA "collective action" on behalf of similarly situated loan officers in our now discontinued mortgage lending operations, are seeking unspecified amounts for alleged unpaid overtime wages, liquidated damages, attorney's fees and costs. As of July 31, 2007, Plaintiffs had yet to apply to the Court for permission to certify the class or send notice of the collective action to prospective collective action members.

We are currently engaged in discovery and continue to investigate Plaintiffs’ claims. This case involves complex issues of law and fact and has not yet progressed to the point where the Company can: (1) predict its outcome; (2) precisely estimate damages that might result from such case due to the uncertainty of the class certification and the number of potential participants in any class that may be certified; or (3) predict the effect that final resolution of this litigation might have on it, its business, financial condition or results of operations, although such effect could be materially adverse. After consulting with counsel, the Company believes that it has defenses to the claims against it in these cases and is vigorously defending these proceedings.

Leases— The Company leases its corporate offices and certain retail facilities and equipment under short-term lease agreements expiring at various dates through 2010. All such leases are accounted for as operating leases. Total rental expense for property and equipment amounted to $2.2 million and $2.6 million for the six months ended June 30, 2007 and 2006, respectively.

On November 13, 2006, the Company entered into an Assignment and Assumption of Sublease and an Escrow Agreement, each with Lehman Brothers Holdings Inc. (“Lehman”) (collectively, the “Agreements”). Under the Agreements, the Company assigned and Lehman has assumed the sublease for the Company's corporate headquarters at 1301 Avenue of the Americas. Pursuant to the Agreements, Lehman has funded an escrow account in the amount of $3.0 million for the benefit of NYMC. The current agreement provides that the escrow amount shall be reduced by $0.2 million for each month the Company remains in the leased space beginning July 1, 2007. The entire remaining amount held in the escrow account will be released to the Company when it vacates the leased space. Pursuant to the provisions of the sale transaction with IndyMac, beginning August 1, 2007, so long as IndyMac continues to occupy and use the leased space at the Company’s corporate headquarters, IndyMac will pay rent equal to Company’s cost, including any penalties and foregone bonuses resulting from the delayed vacation of the leased premises. The Company intends to relocate its corporate headquarters to a smaller facility at a location that is yet to be determined.

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

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

11. Concentrations of Credit Risk

At June 30, 2007 and December 31, 2006, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within mortgage loans held in the securitization trusts as follows:

	June 30, 2007	December 31, 2006
New York	30.0%	29.1%
Massachusetts	17.5%	17.5%
California	9.4%	11.4%
Florida	7.8%	7.5%
New Jersey	5.5%	5.1%

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12. Fair Value of Financial Instruments

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

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

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

The fair value of certain assets and liabilities approximate cost due to their short-term nature, terms of repayment or interest rates associated with the asset or liability. Such assets or liabilities include cash and cash equivalents, escrow deposits, unsettled mortgage loan sales, and financing arrangements. All forward delivery commitments and option contracts to buy securities are to be contractually settled within six months of the balance sheet date.

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

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

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

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

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

	June 30, 2007		
	Notional Amount	**Carrying Amount**	**Estimated Fair Value**
Investment securities available for sale	$ 458,101	$ 454,935	$ 454,935
Mortgage loans held in the securitization trusts	502,222	504,522	498,349
Commitments and contingencies:			
Interest rate swaps	275,000	798	798
Interest rate caps	1,446,891	1,688	1,688

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

13. Income Taxes

All income tax benefits relate to NYMC and are included in the results of operations of the discontinued operation (see note 9). A reconciliation of the statutory income tax provision (benefit) to the effective income tax provision for the six months ended June 30, 2007 and June 30, 2006, is as follows (dollar amounts in thousands).

	June 30, 2007	**June 30, 2006**
Benefit at statutory rate (35%)	$ (6,628)	$ (2,169)
Non-taxable REIT income (loss)	1,523	(1,454)
Transfer pricing of loans sold to nontaxable parent	—	11
State and local tax benefit	(1,343)	(956)
Valuation allowance	6,436	—
Miscellaneous	12	(11)
Total benefit	$ 0	$ (4,579)

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

		Deferred
Federal	$	(3,623)
State		(956)
Total tax benefit	$	(4,579)

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

Deferred tax assets:		
Net operating loss carryover	$	24,601
Restricted stock, performance shares and stock option expense		418
Mark to market adjustment		28
Sec. 267 disallowance		268
Charitable contribution carryforward		34
GAAP reserves		3,303
Rent expense		385
Loss on sublease		85
Gross deferred tax asset		29,122
Valuation allowance		(10,705)
Net deferred tax asset	$	18,417
Deferred tax liabilities:		
Depreciation	$	65
Total deferred tax liability	$	65

The deferred tax asset at December 31, 2006 includes a deferred tax asset of $18.4 million and a deferred tax liability of $0.1 million which represents the tax effect of differences between tax basis and financial statement carrying amounts of assets and liabilities. The major sources of temporary differences and their deferred tax effect at December 31, 2006 are as follows (dollar amounts in thousands):

Deferred tax assets:		
Net operating loss carryover	$	19,949
Restricted stock, performance shares and stock option expense		410
Mark to market adjustment		2
Sec. 267 disallowance		268
Charitable contribution carryforward		35
GAAP reserves		1,399
Rent expense		518
Loss on sublease		121
Gross deferred tax asset		22,702

Valuation allowance		(4,269)
Net deferred tax asset	$	18,433
Deferred tax liabilities:		
Management compensation	$	16
Depreciation		65
Total deferred tax liability	$	81

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The net deferred tax asset is included in prepaid and other assets on the accompanying consolidated balance sheet. Management has established a valuation allowance for the portion of the net deferred tax asset that it believes is more likely, based upon the weight of available evidence, will not be realized.

Although realization is not assured, management believes it is more likely than not that the remaining deferred tax assets, for which valuation allowance has not been established, will be realized. The net operating loss carry-forward expires at various intervals between 2012 and 2027. The charitable contribution carry-forward will expire in 2011.

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

14. Segment Reporting

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

15. **Stock Incentive Plans**

2004 Stock Incentive Plan

The Company adopted the 2004 Stock Incentive Plan (the "2004 Plan") during 2004. The 2004 Plan provided for the issuance of options to purchase shares of common stock, stock awards, stock appreciation rights and other equity-based awards, including performance shares, and all employees and non-employee directors were eligible to receive these awards under the 2004 Plan. During 2004 and 2005, the Company granted stock options, restricted stock and performance shares to certain of its employees and non-employee directors under the 2004 Plan, including performance shares awarded to certain employees in connection with the Company's November 2004 acquisition of Guaranty Residential Lending, Inc. The maximum number of options that could be issued under the 2004 Plan was 706,000 shares and the maximum number of restricted stock awards that could be granted was 794,250.

2005 Stock Incentive Plan

At the Annual Meeting of Stockholders held on May 31, 2005, the Company's stockholders approved the adoption of the Company's 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan replaced the 2004 Plan, which was terminated on the same date. The 2005 Plan provides that up to 1,031,111 shares of the Company's common stock may be issued thereunder. The 2005 Plan provides that the number of shares available for issuance under the 2005 Plan may be increased by the number of shares covered by 2004 Plan awards that were forfeited or terminated after

March 10, 2005. On October 12, 2006, the Company filed a registration statement on Form S-8 registering the issuance or resale of 1,031,111 shares under the 2005 Plan. As of June 30, 2007, 182,432 shares awarded under the 2005 Plan had been forfeited or terminated.

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Options

Each of the 2005 and 2004 Plans provide for the exercise price of options to be determined by the Compensation Committee of the Board of Directors ("Compensation Committee") but the exercise price may not to be less than the fair market value on the date the option is granted. Options expire ten years after the grant date. As of June 30, 2007, 591,500 options had been granted pursuant to the Company's stock incentive plans and 231,500 remain outstanding.

The Company accounts for the fair value of its grants in accordance with SFAS No. 123R. The compensation cost charged against income exclusive of option forfeitures during the six months ended June 30, 2007 and 2006 was approximately $0 and $17,813, respectively. As of June 30, 2007, there was no unrecognized compensation cost related to non-vested share-based compensation awards granted under the stock option plans. No cash was received for the exercise of stock options during the six month periods ended June 30, 2007 and 2006.

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

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2007	466,500	$ 9.52
Granted	—	—
Cancelled	(235,000)	9.83
Exercised	—	—
Outstanding at June 30, 2007	231,500	$ 9.20
Options exercisable at June 30, 2007	231,500	$ 9.20

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

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2006	541,500	$ 9.56
Granted	—	—
Cancelled	(75,000)	9.83
Exercised	—	—