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AMERICAN HOME MORTGAGE INVESTMENT CORP
Form 10-Q
November 09, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006.

OR

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

For the transition period from _____ to _____.

Commission File Number: 001-31916

AMERICAN HOME MORTGAGE INVESTMENT CORP.

(Exact Name of Registrant as Specified in its Charter)

Maryland

20-0103914

(State or Other Jurisdiction of Incorporation or Organization)

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

538 Broadhollow Road, Melville, New York

11747

(Address of Principal Executive Offices)

(Zip Code)

(516) 949-3900

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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As of November 3, 2006, there were 50,192,257 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES TABLE OF CONTENTS

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PART I - FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

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(Dollars in thousands, except per share amounts)

	September 30, 2006 ----- (Unaudited)	December 2005 -----
Assets:		
Cash and cash equivalents	\$ 298,079	\$ 57
Accounts receivable and servicing advances	350,965	32
Mortgage-backed securities (including securities pledged of \$7,424,977 as of September 30, 2006 and \$10,063,621 as of December 31, 2005)	8,957,373	10,60
Mortgage loans held for sale, net	1,365,595	2,20
Mortgage loans held for investment, net of allowance of \$10,903 as of September 30, 2006 and \$2,142 as of December 31, 2005	5,797,801	3,47
Derivative assets	26,323	4
Mortgage servicing rights	460,913	31
Premises and equipment, net	82,288	6
Goodwill	111,890	9
Other assets	53,100	2
	-----	-----
Total assets	\$ 17,504,327	\$ 17,75
	=====	=====
Liabilities and Stockholders' Equity:		
Liabilities:		
Warehouse lines of credit	\$ 1,890,034	\$ 3,47
Drafts payable	8,749	2
Commercial paper	1,283,858	1,07
Reverse repurchase agreements	7,232,503	9,80
Collateralized debt obligations	3,484,873	1,05
Payable for securities purchased	1,221,105	26
Derivative liabilities	40,170	1
Trust preferred securities	282,340	20
Accrued expenses and other liabilities	383,585	27
Notes payable	317,161	31
Income taxes payable	95,808	3
	-----	-----
Total liabilities	16,240,186	16,54
	-----	-----
Commitments and contingencies	-	
Stockholders' Equity:		
Preferred Stock, par value \$0.01 per share, 10,000,000 shares authorized:		
9.75% Series A Cumulative Redeemable, 2,150,000 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	50,857	5
9.25% Series B Cumulative Redeemable, 3,450,000 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	83,183	8
Common Stock, par value \$0.01 per share, 100,000,000 shares authorized, 50,182,257 and 49,639,646 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	502	
Additional paid-in capital	962,903	94
Retained earnings	245,473	20
Accumulated other comprehensive loss	(78,777)	(7

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Total stockholders' equity	1,264,141	1,20
Total liabilities and stockholders' equity	\$ 17,504,327	\$ 17,75

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months End September 30	
	2006	2005	2006	2005
Net interest income:				
Interest income	\$ 332,875	\$ 180,038	\$ 963,684	\$ 46
Interest expense	(289,878)	(133,169)	(823,905)	(31
Total net interest income	42,997	46,869	139,779	15
Provision for loan losses	(5,365)	-	(10,655)	
Total net interest income after provision for loan losses	37,632	46,869	129,124	15
Non-interest income:				
Gain on sales of mortgage loans	210,621	123,658	607,122	23
Gain on sales of current period securitized mortgage loans	-	19,960	-	19
Gain on sales of mortgage-backed securities and derivatives	9,849	6,116	8,952	1
Unrealized gain (loss) on mortgage-backed securities and derivatives	1,050	(10,965)	2,635	3
Loan servicing fees	43,379	21,099	98,129	4
Amortization and impairment of mortgage servicing rights	-	(3,478)	-	(4
Change in fair value of mortgage servicing rights:				
Due to realization of cash flows	(28,839)	-	(73,880)	
Due to changes in valuation assumptions, net of hedge gain (loss)	(16,799)	-	(9,209)	
Net loan servicing (loss) fees	(2,259)	17,621	15,040	
Other non-interest income	2,018	1,585	5,912	

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Total non-interest income	221,279	157,975	639,661	49
Non-interest expenses:				
Salaries, commissions and benefits, net	105,676	101,378	308,100	26
Occupancy and equipment	19,228	15,328	56,961	4
Data processing and communications	5,700	6,479	19,559	1
Office supplies and expenses	5,346	5,024	14,823	1
Marketing and promotion	4,868	5,104	17,051	1
Travel and entertainment	7,798	4,670	22,344	1
Professional fees	6,076	3,744	16,420	1
Other	16,588	7,360	49,662	2
Total non-interest expenses	171,280	149,087	504,920	40
Net income before income tax expense (benefit)	87,631	55,757	263,865	24
Income tax expense (benefit)	15,611	2,549	65,035	(
Net income	\$ 72,020	\$ 53,208	\$ 198,830	\$ 24
Dividends on preferred stock	3,305	3,304	9,914	
Net income available to common shareholders	\$ 68,715	\$ 49,904	\$ 188,916	\$ 23
Per share data:				
Basic	\$ 1.37	\$ 1.10	\$ 3.78	\$
Diluted	\$ 1.36	\$ 1.09	\$ 3.75	\$
Weighted average number of shares - basic	50,148	45,174	49,975	4
Weighted average number of shares - diluted	50,553	45,669	50,363	4

See notes to consolidated financial statements (unaudited).

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumu Oth Compreh Los
	-----	-----	-----	-----	-----
Balance at January 1, 2005	\$ 134,040	\$ 403	\$ 631,530	\$ 99,628	\$ (
Comprehensive income:					
Net income	-	-	-	244,088	
Net change in unrealized loss on					

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mortgage-backed securities available for sale	-	-	-	-	
Net change in unrealized gain on cash flow hedges, net of amortization	-	-	-	-	
Comprehensive income					
Issuance of common stock - offering	-	90	304,033	-	
Issuance of common stock - earnouts	-	2	5,990	-	
Issuance of common stock - 1999 Omnibus					
Stock Incentive Plan	-	1	1,914	-	
Tax benefit for stock options exercised	-	-	2,638	-	
Dividends declared on Series A Preferred Stock	-	-	-	(3,930)	
Dividends declared on Series B Preferred Stock	-	-	-	(5,983)	
Dividends declared on Common Stock	-	-	-	(98,247)	
	-----	-----	-----	-----	-----
Balance at September 30, 2005	\$ 134,040	\$ 496	\$ 946,105	\$235,556	\$ (
	=====	=====	=====	=====	=====
	-----	-----	-----	-----	-----
Balance at January 1, 2006	\$ 134,040	\$ 496	\$ 947,512	\$203,778	\$ (
	-----	-----	-----	-----	-----
Comprehensive income:					
Net income	-	-	-	198,830	
Net change in unrealized loss on mortgage-backed securities available for sale	-	-	-	-	
Net change in unrealized gain on cash flow hedges, net of amortization	-	-	-	-	
Comprehensive income					
Cumulative effect adjustment as of beginning of year	-	-	-	(2,917)	
Issuance of common stock - earnouts	-	3	9,851	-	
Issuance of common stock - 1999 Omnibus Stock Incentive Plan	-	3	3,190	-	
Stock-based employee compensation expense	-	-	820	-	
Tax benefit for stock options exercised	-	-	1,530	-	
Dividends declared on Series A Preferred Stock	-	-	-	(3,931)	
Dividends declared on Series B Preferred Stock	-	-	-	(5,983)	
Dividends declared on Common Stock	-	-	-	(144,304)	
	-----	-----	-----	-----	-----
Balance at September 30, 2006	\$ 134,040	\$ 502	\$ 962,903	\$245,473	\$ (
	=====	=====	=====	=====	=====

See notes to consolidated financial statements (unaudited).

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income	\$ 72,020	\$ 53,208	\$ 198,830	\$ 147,100
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization	4,275	3,098	13,242	10,812
Provision for loan losses	5,365	-	10,655	10,655
Change in fair value of mortgage servicing rights	52,753	-	90,204	10,204
Amortization and impairment of mortgage servicing rights	-	3,478	-	-
Accretion and amortization of mortgage- backed securities, net	4,696	(2,571)	9,033	9,033
Deferred cash flow hedge gain, net of amortization	5,509	1,689	19,927	19,927
(Gain) loss on sales of mortgage- backed securities and derivatives	(4,735)	2,819	(4,735)	(4,735)
Unrealized (gain) loss on mortgage- backed securities	(1,588)	74,595	16,093	16,093
Unrealized loss (gain) on free standing derivatives	20,629	(31,137)	14,826	14,826
Increase (decrease) in forward delivery contracts	42,315	(12,820)	12,238	12,238
Capitalized mortgage servicing rights on securitized loans	-	(27,536)	-	-
Capitalized mortgage servicing rights on sold loans	(79,493)	(14,762)	(230,290)	(230,290)
(Increase) decrease in interest rate lock commitments	(5,069)	14,501	(2,385)	(2,385)
(Increase) decrease in mortgage loan basis adjustments	(10,125)	(12,649)	(7,550)	(7,550)
Excess tax benefits from share-based payment arrangements	(332)	-	(1,530)	(1,530)
Other	(569)	1,469	(1,400)	(1,400)
(Increase) decrease in operating assets:				
Accounts receivable	2,740	(218,519)	(3,937)	(3,937)
Servicing advances	(11,461)	(382)	(15,894)	(15,894)
Income taxes receivable	-	-	-	-
Other assets	(18,648)	(10,512)	(23,681)	(23,681)
Increase in operating liabilities:				
Accrued expenses and other liabilities	25,988	53,657	86,887	86,887
Income taxes payable	15,611	8,557	62,495	62,495
Origination of mortgage loans held for sale	(14,664,704)	(12,394,139)	(41,239,157)	(30,239,157)
Principal received from sales of mortgage loans held for sale	14,241,440	9,448,293	41,627,935	16,627,935
Proceeds from securitizations of mortgage loans held for sale	-	2,993,315	-	16,627,935
Additions to mortgage-backed securities				

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and derivatives	-	(1,191,209)	-	(4,
Principal proceeds from sales of self-originated mortgage-backed securities	-	-	1,908,882	1,
Cash received from residual assets in securitizations	16,785	35,431	65,085	
Principal repayments of mortgage-backed securities	35,677	274,035	190,007	
	-----	-----	-----	-----
Net cash (used in) provided by operating activities	(250,921)	(948,091)	2,795,780	
	-----	-----	-----	-----
Cash flows from investing activities:				
Purchases of premises and equipment	(6,267)	(5,831)	(26,748)	
Origination of mortgage loans held for investment	(599,384)	(1,301,364)	(2,129,722)	(1,
Proceeds from repayments of mortgage loans held for investment	446,199	5,108	824,147	
Purchases of mortgage-backed securities	(1,666,650)	(2,417,565)	(3,517,111)	(3,
Principal proceeds from sales of purchased mortgage-backed securities	1,503,760	518,517	1,503,760	1,
Principal repayments of purchased mortgage-backed securities	529,441	414,667	1,468,977	1,
Net increase in investment in Federal Home Loan Bank stock, at cost	(54)	-	(162)	
Acquisition of business	-	-	(550,077)	
	-----	-----	-----	-----
Net cash provided by (used in) investing activities	207,045	(2,786,468)	(2,426,936)	(1,
	-----	-----	-----	-----
Cash flows from financing activities:				
Increase (decrease) in warehouse lines of credit, net	413,076	1,499,457	(1,584,157)	1,
(Decrease) increase in reverse repurchase agreements, net	(1,707,283)	1,703,949	(2,573,641)	
(Decrease) increase in collateralized debt obligations	(240,005)	-	2,426,967	(2,
Increase in payable for securities purchased	1,221,105	554,717	959,566	
Increase in commercial paper, net	395,382	42,612	204,679	
Decrease in drafts payable, net	(3,600)	(7,775)	(12,005)	
Increase in trust preferred securities	29,560	48,550	78,652	
(Decrease) increase in notes payable, net	(20,539)	49,706	(2,148)	
Proceeds from issuance of Common Stock	1,068	304,522	2,847	
Excess tax benefits from share-based payment arrangements	332	-	1,530	
Dividends paid	(51,409)	(34,130)	(148,705)	
	-----	-----	-----	-----
Net cash provided by (used in) financing activities	37,687	4,161,608	(646,415)	2,
	-----	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(6,189)	427,049	(277,571)	
Cash and cash equivalents, beginning of period	304,268	197,375	575,650	
	-----	-----	-----	-----
Cash and cash equivalents, end of period	\$ 298,079	\$ 624,424	\$ 298,079	\$
	=====	=====	=====	=====
Supplemental disclosure of cash flow information:				
Interest paid	\$ 264,303	\$ 111,172	\$ 786,400	\$
Income taxes paid	2	118	2,540	
Supplemental disclosure of non-cash				

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

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

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

Allowance for Losses on Mortgage Loans Held for Investment - The Company maintains an allowance for loan losses for its mortgage loans held for investment, based on the Company's estimate of current existing losses. Additions to the allowance for loan losses are based on assessments of certain factors, including historical loan loss experience of similar types of loans, the Company's loan loss experience, the

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amount of past due and nonperforming loans, specific known risks, the value of collateral securing the loans, and current and anticipated economic and interest rate conditions. Evaluation of these factors involves subjective estimates and judgments that may change. Additions to the allowance for loan losses are provided through a charge to income and recorded within provision for loan losses in the consolidated statements of income. The allowance for loan losses is reduced by subsequent charge-offs, net of recoveries.

Mortgage Servicing Rights - In March 2006, the Financial Accounting Standards Board ("FASB") released Statement of Financial Accounting Standards ("SFAS") No. 156, "Accounting for Servicing Financial Assets, an amendment of SFAS No. 140" ("SFAS No. 156"). SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and liabilities be initially measured at fair value, if practical. The effective date of this statement is as of the beginning of the entity's first fiscal year that begins after September 15, 2006; however, early adoption is permitted as of the beginning of any fiscal year, provided the entity has not issued financial statements for the interim period. The initial recognition and measurement of servicing assets and servicing liabilities are required to be applied prospectively to transactions occurring after the effective date. The Company elected to early adopt SFAS No. 156 as of January 1, 2006, and has recorded its mortgage servicing rights

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("MSRs") at fair value. The Company's election increased MSRs by \$1.2 million. Prior to January 1, 2006, MSRs were carried at the lower of cost or fair value, based on defined interest rate risk strata, and the gross MSR asset was amortized in proportion to and over the period of estimated net servicing income. The Company estimates the fair value of its MSRs by obtaining market information from one of the market's primary independent MSR brokers.

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

Goodwill - Goodwill represents the excess purchase price over the fair value of net assets acquired from business acquisitions. The Company tests for impairment at least annually and will test for impairment more frequently if events or circumstances indicate that an asset may be impaired. The Company tests for impairment by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. The discounted cash flow calculation related to the Company's loan origination segment includes a forecast of the expected future loan originations and the related revenues and expenses. The discounted cash flow calculation related to the Company's mortgage holdings segment includes a forecast of the expected future net interest income, gain on mortgage-backed securities and the related revenues and expenses. These cash flows are discounted using a rate that is estimated to be a weighted-average cost of capital for similar companies. We further test to ensure that the fair value of all of our business units does not exceed our total market capitalization.

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

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

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

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

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consolidated balance sheet. The securities begin to mature in 2035 and bear interest at rates ranging from LIBOR +240 basis points to LIBOR +300 basis points.

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

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

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Interest Rate Lock Commitments ("IRLCs"). The Company's mortgage committed pipeline includes IRLCs that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria and have locked their terms and rates. The Company uses mortgage forward delivery contracts to economically hedge the IRLCs. The Company classifies and accounts for the IRLCs associated with loans expected to be sold as free-standing derivatives. Accordingly, IRLCs related to loans held for sale are recorded at fair value with changes in fair value recorded to current earnings.

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

Forward Delivery Commitments Used to Hedge Mortgage Loans Held for Sale. The Company's risk management objective for its mortgage loans held for sale is to protect earnings from an unexpected charge due to a decline in value. The Company's strategy is to engage in a risk management program involving the use of mortgage forward delivery contracts designated as fair value hedging instruments to hedge 100% of its agency-eligible conforming loans and most of its non-conforming loans held for sale. At the inception of the hedge, to qualify for hedge accounting, the Company formally documents the relationship between the forward delivery contracts and the mortgage inventory as well as its objective and strategy for undertaking the hedge transaction. For conventional conforming fixed-rate loans, the notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount of the mortgage inventory being hedged; hence, the forward delivery contracts effectively fix the forward sales price and thereby substantially eliminate interest rate and price risk to the Company. The Company classifies and accounts for these forward delivery contracts as fair value hedges. The derivatives are carried at fair value with the changes in fair value recorded to current earnings. When the hedges are deemed highly effective, the book value of the hedged loans held for sale is adjusted for its change in fair value during the hedge period.

Total Return Swaps Used to Economically Hedge MSRs. The Company uses agency trust principal only total return swaps to economically hedge its MSRs, which are also classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

Interest Rate Swap Agreements. The Company enters into interest rate swap agreements which require it to pay a fixed interest rate and receive a variable interest rate based on LIBOR. The fair value of interest rate swap agreements is

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

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

Gain on Sale of Loans - The Company recognizes gain on sale of loans for the difference between the sales price and the adjusted book value of the loans at the time of sale. The adjusted book value of the loans includes the original principal amount plus SFAS No. 133 basis adjustments plus deferrals of fees and points received and direct loan origination costs.

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Loan Origination Fees and Direct Origination Costs - The Company records loan fees, discount points and certain direct origination costs as an adjustment of the cost of the loan or security and such amounts are included in revenues when the loan or security is sold. When loans held for investment are securitized, net deferred origination costs are amortized over the life of the loan using the level-yield method and such amounts adjust interest income. When loans are securitized and held as trading securities, net deferred origination costs are an adjustment to the cost of the security and such amounts affect the amount

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recorded as unrealized gain on mortgage-backed securities and derivatives.

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

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

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

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

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

Stock Option Plans - In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). Prior to January 1, 2006, the Company accounted for the Plan using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"), and provided pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value based method, as required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS No. 148"), had been applied. Prior to January 1, 2006, in accordance with APB Opinion No. 25, no stock-based compensation cost was reflected in the Company's net income for grants of stock options to employees because the Company granted stock options with an exercise price equal to the market value of the stock on the date of grant. Had the Company used the fair value based accounting method for stock compensation expense prescribed by SFAS Nos. 123 and 148 for the three and nine months ended September 30, 2005, the Company's consolidated net income and earnings per share would have been reduced to the pro-forma amounts presented in the following table:

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

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	2005	2005
	-----	-----
(In thousands, except per share data)		
Net income available to common shareholders - as reported	\$ 49,904	\$ 234,175
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related effects	(268)	(953)
	-----	-----
Net income available to common shareholders - pro forma	\$ 49,636	\$ 233,222
	=====	=====
Earnings per share:		
Basic - as reported	\$ 1.10	\$ 5.58
Basic - pro forma	\$ 1.10	\$ 5.56
Diluted - as reported	\$ 1.09	\$ 5.51
Diluted - pro forma	\$ 1.09	\$ 5.49

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), which requires that the compensation cost relating to share-based payment transactions (including employee stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans) be recognized as an expense in the Company's consolidated financial statements. Under SFAS No. 123R, the related compensation cost is measured based on the fair value of the award at the date of grant. In March 2005, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment," which expresses views of the SEC Staff about the application of SFAS No. 123R. SFAS No. 123 requires only that the expense relating to employee stock options be disclosed in the footnotes to the consolidated financial statements. SFAS No. 123R replaced SFAS No. 123 and superseded APB Opinion No. 25. While SFAS No. 123R was originally to have been effective for interim and annual reporting periods beginning after June 15, 2005, the SEC, in April 2005, deferred the compliance date to the first annual reporting period beginning after June 15, 2005.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective method. Under this method, compensation cost in the nine months ended September 30, 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated using a binomial lattice-based option valuation model. Results of prior periods do not reflect any restated amounts and the Company had no cumulative effect adjustment upon adoption of SFAS No. 123R under the modified prospective method. The Company's policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. Additionally, the Company's policy is to issue authorized but unissued shares of common stock to satisfy stock option exercises.

During the nine months ended September 30, 2006, the Company's adoption of SFAS No. 123R decreased income before income taxes by \$820 thousand, decreased net income by \$655 thousand and decreased basic and diluted net income per share by

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\$0.01 per share. The income tax benefit recognized in income for the nine months ended September 30, 2006 for stock options was \$165 thousand. The expense, before income tax effect, is included in salaries, commissions and benefits expense.

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

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

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Recently Issued Accounting Standards - In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of SFAS No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the potential impact of FIN 48 on its consolidated financial statements.

On September 13, 2006, the SEC issued SAB No. 108 on quantifying financial statement misstatements. In summary, SAB No. 108 was issued to address the diversity in practice of evaluating and quantifying financial statement misstatements and the related accumulation of such misstatements. SAB No. 108 states that both a balance sheet approach and an income statement approach should be used when quantifying and evaluating the materiality of a potential misstatement and contains guidance for correcting errors under this dual perspective. SAB No. 108 is effective for the Company's financial statements beginning January 1, 2007. The Company does not expect that the adoption of SAB No. 108 will have a significant impact on its consolidated financial statements.

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

NOTE 2 - MORTGAGE-BACKED SECURITIES

The following tables present the Company's mortgage-backed securities available for sale as of September 30, 2006 and December 31, 2005:

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September 30, 2006

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Agency securities	\$ 110,732	\$ -	\$ (4,247)	\$ 106,485
Privately issued:				
Rated	8,037,091	1,215	(52,462)	7,985,844
Unrated	5,539	153	-	5,692
Securities available for sale	\$ 8,153,362	\$ 1,368	\$ (56,709)	\$8,098,021

December 31, 2005

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Agency securities	\$ 135,545	\$ -	\$ (5,225)	\$ 130,320
Privately issued:				
Rated	7,282,916	4,562	(49,963)	7,237,515
Unrated	7,176	25	-	7,201
Securities available for sale	\$ 7,425,637	\$ 4,587	\$ (55,188)	\$7,375,036

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The following tables present the Company's mortgage-backed securities available for sale in an unrealized loss position as of September 30, 2006 and December 31, 2005:

September 30, 2006

	Less Than 12 Months		12 Months or More		Fair Value
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
(In thousands)					
Agency securities	\$ -	\$ -	\$ 106,485	\$ (4,247)	\$ 106,485
Privately issued:					
Rated	3,066,177	(7,524)	3,489,505	(44,938)	6,555,680

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Securities available for sale	\$ 3,066,177	\$ (7,524)	\$3,595,990	\$ (49,185)	\$6,662,16
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	December 31, 2005				
	Less Than 12 Months		12 Months or More		Fair Value
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
(In thousands)					
Agency securities	\$ -	\$ -	\$ 130,320	\$ (5,225)	\$ 130,32
Privately issued:					
Rated	3,834,893	(29,230)	926,942	(20,733)	4,761,83
Securities available for sale	\$ 3,834,893	\$ (29,230)	\$1,057,262	\$ (25,958)	\$4,892,15

The Company has evaluated its mortgage-backed securities available for sale in an unrealized loss position for twelve months or more and determined there was no other-than-temporary impairment as of September 30, 2006. The Company has the ability and intent to hold its mortgage-backed securities available for sale in an unrealized loss position until a market price recovery or maturity.

The following table presents the Company's mortgage-backed trading securities as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
	Fair Value	
(In thousands)		
Privately issued:		
Rated	\$ 647,188	\$ 2,997,650
Unrated	212,164	229,418
Trading securities	\$ 859,352	\$ 3,227,068

During the three months ended September 30, 2006, the Company recorded \$1.6 million in unrealized gains on trading securities that related to trading securities held at September 30, 2006. During the three months ended September 30, 2005, the Company recorded \$37.6 million in unrealized losses on trading securities that related to trading securities held at September 30, 2005.

During the nine months ended September 30, 2006, the Company recorded \$12.0 million in unrealized losses on trading securities that related to trading securities held at September 30, 2006. During the nine months ended September 30, 2005, the Company recorded \$7.2 million in unrealized gains on trading securities that related to trading securities held at September 30, 2005.

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During the three months ended September 30, 2006, the Company sold \$1.5 billion of mortgage-backed securities and realized \$9.8 million in gains, net of hedges. The \$1.5 billion of mortgage-backed securities sold were market-purchased.

During the three months ended September 30, 2005, the Company sold \$521 million of mortgage-backed securities, excluding securities sold contemporaneously with the execution of securitization transactions, and realized \$5.8 million in gains, net of hedges. The \$521 million of mortgage-backed securities sold were primarily market-purchased. During the three months ended September 30, 2005, the Company securitized and held in its portfolio \$1.2 billion of mortgage-backed securities.

During the nine months ended September 30, 2006, the Company sold \$3.4 billion of mortgage-backed securities and realized \$9.0 million in gains, net of hedges. The \$3.4 billion of mortgage-backed securities sold were primarily self-originated.

During the nine months ended September 30, 2005, the Company sold \$2.8 billion of mortgage-backed securities, excluding securities sold contemporaneously with the execution of securitization transactions, and realized \$6.7 million in gains, net of hedges. During the nine months ended September 30, 2005, the Company securitized and held in its portfolio \$4.4 billion of mortgage-backed securities.

The Company's mortgage-backed securities held at September 30, 2006 were primarily either agency obligations or were rated AAA or AA by Standard & Poor's.

The Company has credit exposure on \$11.7 billion and \$15.1 billion of loans it has securitized privately as of September 30, 2006 and December 31, 2005, respectively. The following tables summarize the loan delinquency information as of September 30, 2006 and December 31, 2005:

September 30, 2006				
(Dollars in thousands)				
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio	Percentage Total Asset
60 to 89 days	37	\$ 4,439	0.04%	0.
90 and greater days	97	20,000	0.17%	0.
Pending foreclosure	1,054	236,757	2.03%	1.
Loans 60 days and greater delinquent	1,188	\$ 261,196	2.24%	1.

December 31, 2005

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(Dollars in thousands)

Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio	Percentage Total Asset
60 to 89 days	49	\$ 10,194	0.07%	0.
90 and greater days	82	13,596	0.09%	0.
Pending foreclosure	451	119,181	0.79%	0.
Loans 60 days and greater delinquent	582	\$ 142,971	0.95%	0.

As of September 30, 2006 and December 31, 2005, the fair value of residual assets from securitizations reported in mortgage-backed securities was \$224.3 million and \$276.0 million, respectively.

The significant assumptions used in estimating the fair value of residual cash flows as of September 30, 2006 and December 31, 2005 were as follows:

	September 30, 2006	December 31, 2005
Weighted-average prepayment speed (CPR)	31.45%	30.63%
Weighted-average discount rate	16.34%	16.52%
Weighted-average annual default rate	0.54%	0.54%

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NOTE 3 - MORTGAGE LOANS, NET

Mortgage Loans Held For Sale, Net

The following table presents the Company's mortgage loans held for sale, net, as of September 30, 2006 and December 31, 2005:

(In thousands)	September 30, 2006	December 31, 2005
Mortgage loans held for sale	\$ 1,353,674	\$ 2,190,062
SFAS No. 133 basis adjustments	1,154	(2,099)
Deferred origination costs, net	10,767	20,786
Mortgage loans held for sale, net	\$ 1,365,595	\$ 2,208,749

During the three months ended September 30, 2006, the Company sold mortgage loans to third parties totaling \$14.3 billion and realized \$210.6 million in gains.

During the nine months ended September 30, 2006, the Company sold mortgage loans to third parties totaling \$41.7 billion and realized \$607.1 million in gains.

During the three and nine months ended September 30, 2006, the Company deferred \$192.0 million and \$481.7 million, respectively, of loan origination costs as an

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adjustment to the cost basis for additions to mortgage loans held for sale. The Company's gain on sale of loans was reduced by \$192.1 million and \$491.8 million of deferred origination costs associated with mortgage loans sold during the three and nine months ended September 30, 2006, respectively.

The following tables summarize delinquency information as of September 30, 2006 and December 31, 2005 for the Company's mortgage loans held for sale:

September 30, 2006			
(Dollars in thousands)			
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
60 to 89 days	21	\$ 2,733	0.20%
90 and greater days	96	11,970	0.88%
Pending foreclosure	262	41,010	3.02%
Loans 60 days and greater delinquent	379	\$ 55,713	4.10%

December 31, 2005			
(Dollars in thousands)			
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
60 to 89 days	15	\$ 2,404	0.11%
90 and greater days	51	6,530	0.30%
Pending foreclosure	32	4,824	0.22%
Loans 60 days and greater delinquent	98	\$ 13,758	0.63%

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Mortgage Loans Held For Investment, Net

The following table presents the Company's mortgage loans held for investment, net, as of September 30, 2006 and December 31, 2005:

(In thousands)	September 30, 2006	December 31, 2005
Mortgage loans held for investment	\$ 5,750,950	\$ 3,438,425
SFAS No. 133 basis adjustments	(4,147)	-
Deferred origination costs, net	61,901	43,438
Allowance for loan losses	(10,903)	(2,142)

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Mortgage loans held for investment, net	\$ 5,797,801	\$ 3,479,721
	=====	=====

In June 2006, the Company transferred \$964.9 million of its mortgage loans held for investment to American Home Mortgage Investment Trust 2006-2 (the "2006-2 Trust") in a securitization transaction accounted for as a financing of the loans held for investment.

In March 2006, the Company transferred \$2.0 billion of its mortgage loans held for investment to American Home Mortgage Investment Trust 2006-1 (the "2006-1 Trust") in a securitization transaction accounted for as a financing of the loans held for investment.

During the three and nine months ended September 30, 2006, the Company deferred \$8.7 million and \$29.1 million, respectively, of loan origination costs as an adjustment to the cost basis for mortgage loans added to its held for investment portfolio. The Company's interest income was reduced by \$4.3 million and \$10.6 million of deferred origination cost amortization on mortgage loans held for investment during the three and nine months ended September 30, 2006, respectively.

The following table presents the activity in the Company's allowance for loan losses for the three and nine months ended September 30, 2006:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
	-----	-----
	(In thousands)	
Balance at beginning of period	\$ 6,885	\$ 2,142
Provision for loan losses	5,365	10,655
Charge-offs	(1,347)	(1,894)
	-----	-----
Balance at end of period	\$ 10,903	\$ 10,903
	=====	=====

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The following tables summarize delinquency information as of September 30, 2006 and December 31, 2005 for the Company's mortgage loans held for investment:

	September 30, 2006		

(Dollars in thousands)			
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
-----	-----	-----	-----
60 to 89 days	51	\$ 5,419	0.09%
90 and greater days	176	11,122	0.19%
Pending foreclosure	347	71,611	1.24%
	-----	-----	-----
Loans 60 days and greater delinquent	574	\$ 88,152	1.52%
	=====	=====	=====

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December 31, 2005

(Dollars in thousands)

Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
60 to 89 days	23	\$ 2,898	0.08%
90 and greater days	26	2,489	0.07%
Pending foreclosure	49	8,797	0.26%
Loans 60 days and greater delinquent	98	\$ 14,184	0.41%

NOTE 4 - DERIVATIVE ASSETS AND LIABILITIES

The following table presents the Company's derivative assets and liabilities as of September 30, 2006 and December 31, 2005:

(In thousands)	September 30, 2006	December 31, 2005
Derivative Assets		
Interest rate lock commitments	\$ 16,471	\$ 14,086
Interest rate swaps	9,749	30,508
Total return swaps	103	-
Derivative assets	\$ 26,323	\$ 44,594
Derivative Liabilities		
Forward delivery contracts - loan commitments	\$ 17,599	\$ 8,659
Forward delivery contracts - loans held for sale	11,412	8,114
Interest rate swaps	9,906	-
Other	1,253	-
Derivative liabilities	\$ 40,170	\$ 16,773

As of September 30, 2006, the notional amount of forward delivery contracts and interest rate swap agreements was approximately \$3.6 billion and \$8.7 billion, respectively.

As of December 31, 2005, the notional amount of forward delivery contracts and interest rate swap agreements was approximately \$2.2 billion and \$8.7 billion, respectively.

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As of September 30, 2006, the notional amount of total return swaps was approximately \$126.5 million.

During the three months ended September 30, 2006, the Company recognized in earnings \$564 thousand in unrealized losses on free standing derivatives. During the three months ended September 30, 2005, the Company recognized in earnings \$26.6 million in unrealized gains on free standing derivatives.

During the nine months ended September 30, 2006, the Company recognized in earnings \$14.6 million in unrealized gains on free standing derivatives. During the nine months ended September 30, 2005, the Company recognized in earnings \$29.1 million in unrealized gains on free standing derivatives. These gains are recorded in unrealized gain (loss) on mortgage-backed securities and derivatives in the consolidated statements of income.

During the three months ended September 30, 2005, the Company realized \$0.3 million in gains on sales of interest rate swap agreements associated with its securitizations of mortgage loans.

During the nine months ended September 30, 2005, the Company realized \$6.1 million in gains on sales of interest rate swap agreements associated with its securitizations of mortgage loans. These gains are recorded in gain on sales of mortgage-backed securities and derivatives in the consolidated statements of income.

The Company's forward delivery contracts have a high correlation to the price movement of the loans being hedged. The ineffectiveness in hedging loans held for sale recorded on the consolidated balance sheets was insignificant as of September 30, 2006 and December 31, 2005.

As of September 30, 2006, the unrealized loss on interest rate swap agreements, interest rate caps and other derivative liabilities relating to cash flow hedges recorded in accumulated other comprehensive loss was \$23.4 million. The Company estimates that \$6.2 million of this unrealized loss will be reclassified from accumulated other comprehensive loss to interest expense for the twelve months ended September 30, 2007. As of December 31, 2005, the unrealized loss on interest rate swap agreements relating to cash flow hedges recorded in accumulated other comprehensive loss was \$28.2 million.

NOTE 5 - MORTGAGE SERVICING RIGHTS

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

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

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The following table presents the activity in the Company's MSRs for the three and nine months ended September 30, 2006 and 2005:

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(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Balance at beginning of period	\$ 434,173	\$ 290,756	\$ 340,377	\$ 1,156
Cumulative-effect adjustment as of beginning of year	-	-	1,156	-
Fair value measurement method adjustment	-	-	(20,706)	-
Additions	79,493	42,298	230,290	1,156
Amortization	-	(15,055)	-	-
Changes in fair value resulting from:				
Realization of cash flows	(28,839)	-	(73,880)	-
Changes in valuation assumptions	(23,914)	-	(16,324)	-
Balance at end of period	\$ 460,913	\$ 317,999	\$ 460,913	\$ 317,999
Impairment allowance:				
Balance at beginning of period	\$ -	\$ (28,917)	\$ (20,706)	\$ (28,917)
Fair value measurement method adjustment	-	-	20,706	-
Impairment recovery (provision)	-	11,577	-	-
Balance at end of period	\$ -	\$ (17,340)	\$ -	\$ (17,340)
Mortgage servicing rights	\$ 460,913	\$ 300,659	\$ 460,913	\$ 300,659

The amount of contractually specified servicing fees earned by the Company during the three months ended September 30, 2006 and 2005 were \$27.3 million and \$18.4 million, respectively.

The amount of contractually specified servicing fees earned by the Company during the nine months ended September 30, 2006 and 2005 were \$67.4 million and \$43.9 million, respectively. The Company reports contractually specified servicing fees in loan servicing fees in the consolidated statements of income.

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

The Company uses free standing derivatives (economic hedges) to hedge the risk of changes in fair value of MSR, with the resulting gain or loss reflected in income. During the three months ended September 30, 2006, the Company recognized in earnings \$7.1 million in unrealized gains on free standing derivatives used to economically hedge the MSR. These gains are recorded in change in fair value of mortgage servicing rights due to changes in valuation assumptions, net of hedge gain (loss), in the consolidated statements of income.

The significant assumptions used in estimating the fair value of MSR at September 30, 2006 and December 31, 2005 were as follows:

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	September 30, 2006	December 31, 2005
	-----	-----
Weighted-average prepayment speed (PSA)	501	315
Weighted-average discount rate	11.60%	11.94%
Weighted-average default rate	2.39%	2.78%

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The following table presents certain information regarding the Company's servicing portfolio of loans serviced for others at September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
	-----	-----
	(Dollars in thousands)	
Loan servicing portfolio - loans sold or securitized	\$ 35,932,126	\$ 25,044,676
ARM loans as a percentage of total loans	75%	73%
Average loan size	\$ 230	\$ 194
Weighted-average servicing fee	0.339%	0.330%
Weighted-average note rate	6.77%	5.79%
Weighted-average remaining term (in months)	362	337
Weighted-average age (in months)	15	15

NOTE 6 - GOODWILL

The following table presents the activity in the Company's goodwill for the nine months ended September 30, 2006 and 2005:

(In thousands)	Loan Origination Segment	Mortgage Holdings Segment	Total
	-----	-----	-----
Balance at January 1, 2005	\$ 66,037	\$ 24,840	\$ 90,877
Earnouts from previous acquisitions	8,391	-	8,391
	-----	-----	-----
Balance at September 30, 2005	\$ 74,428	\$ 24,840	\$ 99,268
	=====	=====	=====
Balance at January 1, 2006	\$ 74,687	\$ 24,840	\$ 99,527
Acquisitions	1,099	-	1,099
Earnouts from previous acquisitions	11,264	-	11,264
	-----	-----	-----
Balance at September 30, 2006	\$ 87,050	\$ 24,840	\$ 111,890
	=====	=====	=====

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As of December 31, 2005, the Company completed a goodwill impairment test by comparing the fair value of goodwill with its carrying value and did not recognize impairment.

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

Warehouse Lines of Credit

To originate a mortgage loan, the Company draws against either a \$3.3 billion SLN commercial paper program, a \$2.0 billion pre-purchase facility with UBS Real Estate Securities Inc., a facility of \$2.5 billion with Bear Stearns, a \$1.3 billion bank syndicated facility led by Bank of America, N.A. (which includes a \$438 million term loan facility which the Company uses to finance its MSRs), a facility of \$750 million with Morgan Stanley Bank ("Morgan Stanley"), a facility of \$125 million with J.P. Morgan Chase, a \$750 million facility with IXIS Real Estate Capital, Inc. ("IXIS"), a \$350 million facility with Credit Suisse First Boston Mortgage Capital LLC, and a \$1.4 billion syndicated facility led by Calyon New York Branch ("Calyon"). The Bank of America, IXIS, Morgan Stanley and Calyon facilities are committed facilities. The interest rate on outstanding balances fluctuates daily based on a spread to the LIBOR and interest is paid monthly.

The facilities are secured by mortgage loans and other assets of the Company. The facilities contain various covenants pertaining to maintenance of net worth, working capital and maximum leverage. At September 30, 2006, the Company was in compliance with respect to the loan covenants.

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Included within the Bank of America line of credit, the Company has a working capital sub-limit that allows for borrowings up to \$50 million at a rate based on a spread to the LIBOR that may be adjusted for earnings on compensating balances on deposit at creditors' banks. As of September 30, 2006, borrowings under the working capital line of credit were \$44.0 million.

As of September 30, 2006, the Company had \$1.9 billion of warehouse lines of credit outstanding with a weighted-average borrowing rate of 5.89%. As of December 31, 2005, the Company had \$3.5 billion of warehouse lines of credit outstanding with a weighted-average borrowing rate of 4.78%.

Reverse Repurchase Agreements

The Company has arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with seventeen different financial institutions and on September 30, 2006 had borrowed funds from ten of these firms. Because the Company borrows money under these agreements based on the fair value of its mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, the Company's borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of the Company's mortgage-backed securities declines for other reasons.

As of September 30, 2006, the Company had \$7.2 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 5.39% and a weighted-average remaining maturity of 1.1 years. As of December 31, 2005, the Company had \$9.8 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 4.40% and a weighted-average remaining

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maturity of four months.

As of September 30, 2006 and December 31, 2005, the Company's reverse repurchase agreements had the following remaining maturities:

	September 30, 2006	December 31, 2005	
	-----	-----	
	(In thousands)		
Within 30 days	\$ 607,243	\$ 689,469	
31 to 89 days	293,504	4,817,885	
90 to 365 days	304,103	4,298,790	
Greater than 1 year	6,027,653	-	
	-----	-----	
Reverse repurchase agreements	\$ 7,232,503	\$ 9,806,144	
	=====	=====	

The Company's average reverse repurchase agreements outstanding were \$8.8 billion and \$6.5 billion for the three months ended September 30, 2006 and 2005, respectively.

The Company's average reverse repurchase agreements outstanding were \$9.0 billion and \$6.6 billion for the nine months ended September 30, 2006 and 2005, respectively.

Commercial Paper

The Company maintains a wholly owned special purpose entity for the purpose of issuing commercial paper in the form of short-term SLNs to finance certain portions of the Company's mortgage loans. The special purpose entity allows for issuance of short-term SLNs with maturities of up to 180 days, extendable up to 300 days. The SLNs bear interest at prevailing money market rates approximating the LIBOR. The SLN program capacity, based on aggregate commitments of underlying credit enhancers, was \$3.3 billion at September 30, 2006.

As of September 30, 2006, the Company had \$1.3 billion of SLNs outstanding, with an average interest cost of 5.39%. The SLNs were collateralized by mortgage loans held for sale, mortgage loans held for investment and cash with a balance of \$1.4 billion as of September 30, 2006. As of December 31, 2005, the Company had \$1.1 billion of SLNs outstanding, with an average interest cost of 4.35%. The SLNs were collateralized by mortgage loans held for sale, mortgage loans held for investment and cash with a balance of \$1.2 billion as of December 31, 2005.

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As of September 30, 2006 and December 31, 2005, the Company's SLNs had the following remaining maturities:

	September 30, 2006	December 31, 2005	
	-----	-----	
	(In thousands)		
Within 30 days	\$ 1,234,238	\$ 1,079,179	
31 to 89 days	49,620	-	
	-----	-----	
Commercial paper	\$ 1,283,858	\$ 1,079,179	
	=====	=====	

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NOTE 8 - COLLATERALIZED DEBT OBLIGATIONS

In June 2006, the Company transferred \$964.9 million of its mortgage loans held for investment to the 2006-2 Trust in a securitization transaction. In this transaction, the Company issued \$944.7 million of CDOs in the form of AAA and AA-rated floating-rate pass-through certificates to third-party investors and the Company retained \$20.2 million of subordinated certificates, which provide credit support to the certificates issued to third parties. The Company's CDOs are collateralized by loans held for investment transferred to the 2006-2 Trust. The interest rates on the floating-rate pass-through certificates reset monthly and are indexed to one-month LIBOR. In the second quarter of 2006, the Company incurred CDO issuance costs of \$2.1 million, which were deducted from the proceeds of the transactions and are being amortized over the expected life of the CDOs. This securitization transaction was accounted for as a financing of the mortgage loans held for investment.

In March 2006, the Company transferred \$2.0 billion of its mortgage loans held for investment to the 2006-1 Trust in a securitization transaction. In this transaction, the Company issued \$1.9 billion of CDOs in the form of AAA and AA-rated floating-rate pass-through certificates to third-party investors and the Company retained \$61.3 million of subordinated certificates, which provide credit support to the certificates issued to third parties. The Company's CDOs are collateralized by loans held for investment transferred to the 2006-1 Trust. The interest rates on the floating-rate pass-through certificates reset monthly and are indexed to one-month LIBOR. In the first quarter of 2006, the Company incurred CDO issuance costs of \$4.0 million, which were deducted from the proceeds of the transactions and are being amortized over the expected life of the CDOs. This securitization transaction was accounted for as a financing of the mortgage loans held for investment.

In the fourth quarter of 2005, the Company transferred \$1.2 billion of its mortgage loans held for investment to two American Home Mortgage Investment Trusts (the "2005 Trusts") in two securitization transactions. In these transactions, the Company issued \$1.1 billion of CDOs in the form of AAA and AA-rated floating-rate pass-through certificates to third-party investors and the Company retained \$134.6 million of subordinated certificates, which provide credit support to the certificates issued to third parties. The Company's CDOs are collateralized by loans held for investment transferred to the 2005 Trusts. The interest rates on the floating-rate pass-through certificates reset monthly and are indexed to one-month LIBOR. In the fourth quarter of 2005, the Company incurred CDO issuance costs of \$5.5 million, which were deducted from the proceeds of the transactions and are being amortized over the expected life of the CDOs. These securitization transactions were accounted for as financings of the mortgage loans held for investment.

In December 2004, the Company transferred \$3.5 billion of its mortgage loans held for sale to American Home Mortgage Investment Trust 2004-4 (the "2004-4 Trust") in a securitization transaction. In the transaction, the Company issued \$2.0 billion of CDOs, which were collateralized by loans held for sale transferred to the 2004-4 Trust. This securitization transaction was accounted for as a financing of the mortgage loans held for sale. This securitization transaction qualified for sale treatment under SFAS No. 140 in the first quarter of 2005, and consequently the loans were derecognized.

As of September 30, 2006, the Company's CDOs had a balance of \$3.5 billion and an effective interest cost of 5.55%. As of September 30, 2006, the CDOs were collateralized by mortgage loans held for investment of \$3.5 billion.

As of December 31, 2005, the Company's CDOs had a balance of \$1.1 billion and an effective interest cost of 4.54%. As of December 31, 2005, the CDOs were

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collateralized by mortgage loans held for investment of \$1.1 billion.

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As of September 30, 2006 and December 31, 2005, the Company's CDOs had the following remaining contractual maturities:

	September 30, 2006	December 31, 2005
	-----	-----
	(In thousands)	
15 to 20 years	\$ 39,147	\$ 68,214
20 to 25 years	175,125	177,016
25 to 30 years	763,833	34,316
Greater than 30 years	2,506,768	778,360
	-----	-----
Collateralized debt obligations	\$ 3,484,873	\$ 1,057,906
	=====	=====

NOTE 9 - NOTES PAYABLE

Notes payable primarily consist of amounts borrowed under a term loan facility with a bank syndicate led by Bank of America. Under the terms of this facility, the Company may borrow the lesser of 70% of the value of its MSRs, or \$437.5 million. As of September 30, 2006, borrowings under the term loan were \$201.0 million. This term loan expires on August 9, 2007, but the Company has an option to extend the term for twelve additional months at a higher interest rate. Interest is based on a spread to the LIBOR and may be adjusted for earnings on compensating balances. As of September 30, 2006, the interest rate was 6.05%.

In 2005, the Company sold \$85.0 million in Mortgage Warehouse Subordinated Notes ("Subordinated Notes"). The Company received a premium, net of issuance costs, of \$1.5 million related to the Subordinated Notes offering, which is being amortized to interest expense over the expected life of the Subordinated Notes. As of September 30, 2006, the balance of Subordinated Notes outstanding, net of unamortized premium and issuance costs, was \$86.0 million. The Subordinated Notes mature on May 20, 2009. The interest rates on the Subordinated Notes reset monthly and are indexed to one-month LIBOR. As of September 30, 2006, the interest rate was 7.33%.

As of September 30, 2006, included in notes payable is a mortgage note of \$25.6 million on an office building located in Melville, New York at a rate of 5.82%, and a mortgage note of \$1.0 million on an office building located in Mount Prospect, Illinois at a rate of 7.18%.

As of September 30, 2006, the Company had \$3.6 million of Federal Home Loan Bank ("FHLB") advances with an interest rate of 5.34% and with remaining maturities within 30 days. Advances from the FHLB are collateralized by pledges of one-to-four family first mortgage loans with an aggregate principal balance of \$7.3 million.

The following table presents the Company's notes payable as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
	-----	-----
(In thousands)		
Term loan	\$ 201,000	\$ 206,188
Subordinated note	86,006	86,322

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Notes - office buildings	26,555	26,799
FHLB advances	3,600	-
	-----	-----
Notes payable	\$ 317,161	\$ 319,309
	=====	=====

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The following table presents the maturities of the Company's notes payable as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
	-----	-----
	(In thousands)	
Within 1 year	\$ 205,463	\$ 207,009
1 to 2 years	1,413	843
2 to 3 years	64,579	1,540
3 to 4 years	21,729	85,606
4 to 5 years	468	447
Greater than 5 years	23,509	23,864
	-----	-----
Notes payable	\$ 317,161	\$ 319,309
	=====	=====

NOTE 10 - COMMON STOCK AND PREFERRED STOCK

In August 2005, the Company issued 9,000,000 shares of its common stock, par value \$0.01 per share ("Common Stock") at a price of \$35.50 per share. The total proceeds to the Company were \$319.5 million, before underwriting discounts, commissions and other offering expenses.

Under the Company's charter, the Company's Board of Directors is authorized to issue 110,000,000 shares of stock, of which up to 100,000,000 shares may be Common Stock and up to 10,000,000 shares may be preferred stock. As of September 30, 2006, there were 50,182,257 shares of Common Stock issued and outstanding, 2,150,000 shares of 9.75% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") issued and outstanding and 3,450,000 shares of 9.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") issued and outstanding. On or after July 7, 2009, the Company may, at its option, redeem the Series A Preferred Stock, in whole or part, at any time and from time to time, for cash at a price of \$25 per share, plus accumulated or unpaid dividends (whether or not declared), if any, to the date of redemption. On or after December 15, 2009, the Company may, at its option, redeem the Series B Preferred Stock, in whole or part, at any time and from time to time, for cash at a price of \$25 per share, plus accumulated or unpaid dividends (whether or not declared), if any, to the date of redemption.

During the three months ended September 30, 2006, the Company declared dividends totaling \$50.7 million, or \$1.01 per share of Common Stock, which were paid on October 30, 2006. During the three months ended September 30, 2005, the Company declared dividends totaling \$38.8 million, or \$0.86 per share of Common Stock, which were paid on October 27, 2005.

During the nine months ended September 30, 2006, the Company declared dividends totaling \$144.3 million, or \$2.88 per share of Common Stock. During the nine

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months ended September 30, 2005, the Company declared dividends totaling \$98.2 million, or \$2.33 per share of Common Stock.

During the three months ended September 30, 2006, the Company declared dividends totaling \$1.3 million, or \$0.609375 per share of Series A Preferred Stock, which were paid on October 31, 2006. During the three months ended September 30, 2005, the Company declared dividends totaling \$1.3 million, or \$0.609375 per share of Series A Preferred Stock, which were paid on October 31, 2005.

During the nine months ended September 30, 2006, the Company declared dividends totaling \$3.9 million, or \$1.828125 per share of Series A Preferred Stock. During the nine months ended September 30, 2005, the Company declared dividends totaling \$3.9 million, or \$1.828125 per share of Series A Preferred Stock.

During the three months ended September 30, 2006, the Company declared dividends totaling \$2.0 million, or \$0.578125 per share of Series B Preferred Stock, which were paid on October 31, 2006. During the three months ended September 30, 2005, the Company declared dividends totaling \$2.0 million, or \$0.578125 per share of Series B Preferred Stock, which were paid on October 31, 2005.

During the nine months ended September 30, 2006, the Company declared dividends totaling \$6.0 million, or \$1.734375 per share of Series B Preferred Stock. During the nine months ended September 30, 2005, the Company declared dividends totaling \$6.0 million, or \$1.734375 per share of Series B Preferred Stock.

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NOTE 11 - INCOME TAXES

A reconciliation of the statutory income tax provision to the effective income tax expense (benefit) is as follows:

	Three Months Ended September 30,				Nine Months Ended	
	2006		2005		2006	
	(Dollars in thousands)					
Tax provision at statutory rate	\$ 30,670	35.0%	\$ 19,516	35.0%	\$ 92,351	35.0%
Non-taxable REIT income	(14,033)	(16.0)	(17,487)	(31.4)	(34,152)	(12.9)
State and local taxes, net of federal income tax benefit	(1,385)	(1.6)	253	0.5	5,693	2.2
Meals and entertainment	320	0.4	218	0.4	1,187	0.4
Other	39	-	49	0.1	(44)	-
Income tax expense (benefit)	\$ 15,611	17.8%	\$ 2,549	4.6%	\$ 65,035	24.7%
	=====	=====	=====	=====	=====	=====

The major sources of temporary differences and their deferred tax effect at September 30, 2006 and December 31, 2005 are as follows:

September 30,	December 31,
2006	2005

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	-----	-----
	(In thousands)	
Deferred income tax liabilities:		
Capitalized cost of mortgage servicing rights	\$ 165,154	\$ 150,926
Loan origination costs	28,356	8,973
Depreciation	1,667	3,083
Deferred state income taxes	-	1,465
Mark-to-market adjustments	10,522	-
Other	-	11
	-----	-----
Deferred income tax liabilities	205,699	164,458
	-----	-----
Deferred income tax assets:		
Tax loss carryforwards	95,195	109,145
Allowance for bad debts and foreclosure reserve	8,831	2,817
Deferred state income taxes	414	-
Mark-to-market adjustments	-	10,721
AMT credit	1,745	1,745
Broker fees	-	958
Bonus accrual	1,209	8,399
Deferred compensation	5,754	3,436
Other	390	-
	-----	-----
Deferred income tax assets	113,538	137,221
	-----	-----
Net deferred income tax liabilities	\$ 92,161	\$ 27,237
	=====	=====

American Home Mortgage Servicing, Inc. has approximately \$40 million of separate company federal net operating loss carryforwards which begin to expire in 2008. In addition, American Home Mortgage Holdings, Inc. has approximately \$274 million of federal and approximately \$203 million of state net operating loss carryforwards which begin to expire in 2024 and 2009, respectively. The weighted average of the expiration of the state net operating loss carryforwards is approximately sixteen years.

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At September 30, 2006 and December 31, 2005, no valuation allowance has been established against deferred tax assets since it is more likely than not that the deferred tax assets will be realized.

The Company has been audited by various state tax jurisdictions which have settled with a "no change" decision. In addition, the Company is currently under examination by other tax jurisdictions which the Company expects to result in no material assessments. The Company regularly assesses the likelihood of additional assessments in each of the tax jurisdictions in the calculation of its provision and maintains an appropriate reserve as needed.

NOTE 12 - EARNINGS PER SHARE

The following is a reconciliation of the denominators used in the computations of basic and diluted earnings per share for the three and nine months ended September 30, 2006 and 2005:

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(Dollars in thousands, except per share amounts)	Three Months Ended September 30,		Nine Mon Septem
	2006	2005	2006
Numerator for basic earnings per share - Net income available to common shareholders	\$ 68,715	\$ 49,904	\$ 188,916
Denominator:			
Denominator for basic earnings per share			
Weighted average number of common shares outstanding during the period	50,148,422	45,173,834	49,975,027
Net effect of dilutive stock options	404,333	494,784	387,852
Denominator for diluted earnings per share	50,552,755	45,668,618	50,362,879
Net income per share available to common shareholders:			
Basic	\$ 1.37	\$ 1.10	\$ 3.78
Diluted	\$ 1.36	\$ 1.09	\$ 3.75

NOTE 13 - STOCK INCENTIVE PLAN

Pursuant to the Plan, eligible employees, officers and directors may be offered the opportunity to acquire the Company's Common Stock through the grant of options and the award of restricted stock under the Plan. The total number of shares that may be optioned or awarded under the Plan is 4,000,000 shares of Common Stock. The Plan provides for the granting of options at the fair market value on the date of grant. The options issued primarily vest 50% on the two-year anniversary of the grant date and 50% on the three-year anniversary of the grant date, and expire ten years from the grant date.

Effective January 1, 2006, the Company adopted SFAS No. 123R, which requires that the compensation cost relating to share-based payment transactions (including employee stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans) be recognized as an expense in the Company's consolidated financial statements. Under SFAS No. 123R, the related compensation cost is measured based on the fair value of the award at the date of grant. The Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective method. Under this method, compensation cost in the nine months ended September 30, 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of, December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated using a binomial lattice-based option valuation model.

During the nine months ended September 30, 2006, the Company recognized compensation expense of \$820 thousand relating to stock options granted under the Plan. The expense, before income tax effect, is included in salaries, commissions and benefits expense. The income tax benefit recognized in income for the nine months ended September 30, 2006 for stock options was \$165 thousand. No compensation cost was recognized for the nine months ended September 30, 2005.

During the nine months ended September 30, 2006, the fair value of the options granted was estimated using the binomial lattice option-pricing model. Under the binomial lattice option-pricing model, the fair value of each option award is estimated, with the assistance of an outside consulting service, on the date of grant, which incorporates ranges of assumptions for inputs as shown in the following table. The assumptions are as follows:

Dividend yield range: The expected dividend yield assumption is based on the Company's current dividend yield as the best estimate of projected dividend yield for periods within the contractual life of the option.

Expected volatility: The expected volatility assumption is a blend of implied volatility based on market-traded options on the Company's Common Stock and historical volatility of the Company's Common Stock over the contractual life of the options.

Risk-free interest rate range: The risk-free interest rate assumption is based on the U.S. Treasury yield curve in effect at the time of grant for periods within the contractual life of the option.

Expected term range: The Company uses historical data to estimate option exercise and employee termination behavior within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected life of options granted is derived from the output of the option valuation model and represents the period of time the options are expected to be outstanding.

The weighted-average fair value per share of options granted during the nine months ended September 30, 2006 was \$4.65. The fair value of the options granted during the nine months ended September 30, 2006 was estimated using the binomial lattice option-pricing model with the following assumptions used for the grants:

	Nine Months Ended September 30, 2006

Dividend yield range	11.9% - 13.1%
Expected volatility	39.1 %
Risk-free interest rate range	4.3% - 5.0%
Expected term range (in years)	7.0 - 7.9

Prior to adoption of SFAS No. 123R as of January 1, 2006, the Company's pro forma disclosures reflected the fair value of each option grant estimated on the date of grant using the Black-Scholes option-pricing model. Under the Black-Scholes option-pricing model, the Company estimated volatility using only its historical share price performance over the expected life of the option.

The weighted-average fair value per share of options granted during the nine months ended September 30, 2005 was \$3.82 . The fair value of the options granted during the nine months ended September 30, 2005 was estimated using the

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Black-Scholes option-pricing model with the following assumptions used for the grants:

	Nine Months Ended September 30, 2005
Dividend yield	9.1 %
Expected volatility	29.1 %
Risk-free interest rate	5.0 %
Expected term (in years)	3.0

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The following table presents a summary of the Company's stock option activity for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,				Nine Mo	
	2006		2005		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	W A E
Options outstanding - beginning of period	1,747,433	\$ 25.56	1,535,321	\$ 22.28	1,501,384	\$
Granted	-	-	25,000	34.18	452,159	\$
Exercised	(57,903)	18.46	(46,448)	10.56	(205,513)	\$
Canceled	(5,000)	28.45	-	-	(63,500)	\$
Options outstanding - end of period	1,684,530	\$ 25.80	1,513,873	\$ 22.83	1,684,530	\$
Options exercisable - end of period	489,352	\$ 16.98			489,352	\$

The intrinsic value of an option is defined as the difference between an option's current market value and the grant price. The intrinsic value of options exercised during the three and nine months ended September 30, 2006 was \$0.9 million and \$3.9 million, respectively.

As of September 30, 2006, the intrinsic value and weighted-average remaining life of the Company's options outstanding were \$15.3 million and 8.1 years, respectively.

As of September 30, 2006, the intrinsic value of the Company's exercisable options outstanding was \$8.8 million.

As of September 30, 2006, the total remaining unrecognized compensation expense

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related to the Company's unvested stock options was \$2.7 million. This unrecognized compensation expense is expected to be recognized over a weighted-average period of 2.1 years.

As of September 30, 2006, the Company has awarded 230,496 shares of restricted stock under the Plan. During the three months ended September 30, 2006 and 2005, the Company recognized compensation expense of \$176 thousand and \$212 thousand, respectively, relating to shares of restricted stock granted under the Plan. During the nine months ended September 30, 2006 and 2005, the Company recognized compensation expense of \$346 thousand and \$527 thousand, respectively, relating to shares of restricted stock granted under the Plan. As of September 30, 2006, 198,453 shares are vested. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

NOTE 14 - CONCENTRATIONS OF CREDIT RISK

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers with similar characteristics, which would cause their ability to meet contractual obligations to be similarly impacted by economic or other conditions. The Company invests in negative amortization ARM, interest-only ARM, HELOC and certain other types of loans described in FSP SOP 94-6-1, "Terms of Loan Products that May Give Rise to a Concentration of Credit Risk." The Company, however, generally has purchased supplemental credit insurance for the loans of these types retained in the Company's portfolio if such loans have an initial loan-to-value ratio between 75% and 80%. In addition, the Company generally is the beneficiary of a borrower-paid insurance policy on these types of loans if the initial loan-to-value ratio is greater than 80%. A substantial portion of the Company's mortgage loans held for investment at September 30, 2006 are the types of loans described in FSP SOP 94-6-1.

The Company had originations of loans during the nine months ended September 30, 2006 exceeding 5% of total originations in the following states:

	Nine Months Ended September 30, 2006
California	24.8 %
Florida	12.1
Illinois	6.7
Virginia	5.0

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During the nine months ended September 30, 2006, the three institutions that bought the most loans from the Company accounted for 44% of the Company's total loan sales.

NOTE 15 - ACQUISITIONS

Waterfield Financial Corporation

On January 12, 2006, American Home Mortgage Corp. ("AHM"), an indirect, wholly-owned subsidiary of the Company, entered into a Stock and Mortgage Loan Purchase Agreement with Union Federal Bank of Indianapolis ("Union Federal") and Waterfield Financial Corporation ("WFC"), pursuant to which AHM agreed to purchase from Union Federal 100% of the outstanding capital stock of WFC and certain mortgage loans held by Union Federal, comprised of warehouse loans held for sale by Union Federal as of December 31, 2005 (the "Warehouse Loans"), construction loans held by Union Federal as of the closing (the "Construction

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Loans") and certain other loans held by Union Federal as of the closing, for a cash purchase price equal to the net book value of such assets, as modified by certain agreed upon adjustments, as of the respective closing dates (or, in the case of the Warehouse Loans, as of January 12, 2006).

The following table summarizes the fair value of the assets acquired and liabilities assumed as of the date of the acquisition:

(In thousands)

Mortgage loans held for sale, net	\$559,340
Accounts receivable	2,002
Other assets	2,442

Total assets acquired	563,784

Other liabilities	13,707

Total liabilities assumed	13,707

Net assets acquired	550,077
Cash paid	550,077

Goodwill	\$ -
	=====

NOTE 16 - SEGMENTS AND RELATED INFORMATION

The Company has three segments, the Mortgage Holdings segment, the Loan Origination segment and the Loan Servicing segment. The Mortgage Holdings segment uses the Company's equity capital and borrowed funds to invest in mortgage-backed securities and mortgage loans held for investment, thereby producing net interest income. The Loan Origination segment originates mortgage loans through the Company's retail and wholesale loan production offices and its correspondent channel, as well as its direct-to-consumer channel supported by its call center. The Loan Servicing segment includes investments in MSRs as well as servicing operations primarily for other financial institutions. The Company's segments are presented on a consolidated basis and do not include the effects of separately recording intercompany transactions.

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

The Loan Origination segment includes unrealized gains or losses that exist on the date of securitization of self-originated loans that are classified as trading securities.

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Three Months Ended September 30,

(In thousands)

	Mortgage Holdings Segment	Loan Origination Segment	Loan Servicing Segment
Net interest income:			
Interest income	\$ 195,654	\$ 137,221	
Interest expense	(167,222)	(118,706)	(3,000)
Net interest income	28,432	18,515	(3,000)
Provision for loan losses	(1,343)	(4,022)	
Net interest income after provision for loan losses	27,089	14,493	(3,000)
Non-interest income:			
Gain on sales of mortgage loans	-	210,621	
Gain on sales of mortgage-backed securities and derivatives	9,849	-	
Unrealized gain on mortgage-backed securities and derivatives	1,050	-	
Loan servicing fees	-	-	43,000
Change in fair value of mortgage servicing rights			
Due to realization of cash flows	-	-	(28,000)
Due to changes in valuation assumptions, net of hedge gain (loss)	-	-	(16,000)
Net loan servicing loss	-	-	(2,000)
Other non-interest income	-	1,352	
Total non-interest income	10,899	211,973	(1,000)
Non-interest expenses:			
Salaries, commissions and benefits, net	2,734	99,292	3,000
Occupancy and equipment	2	18,928	
Data processing and communications	76	5,619	
Office supplies and expenses	65	4,871	
Marketing and promotion	4	4,862	
Travel and entertainment	37	7,677	
Professional fees	30	5,971	
Other	5,184	5,415	5,000
Total non-interest expenses	8,132	152,635	10,000
Net income before income tax expense (benefit)	29,856	73,831	(16,000)

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Non-interest expenses:		
Salaries, commissions and benefits, net	1,488	96,738
Occupancy and equipment	2	14,985
Data processing and communications	22	6,373
Office supplies and expenses	4	4,616
Marketing and promotion	-	5,088
Travel and entertainment	-	4,588
Professional fees	807	2,753
Other	1,726	3,123

Total non-interest expenses	4,049	138,264
-----------------------------	-------	---------

Net income before income tax (benefit) expense	(20,199)	65,925
------------------------------------------------	----------	--------

Income tax (benefit) expense	-	(1,221)
------------------------------	---	---------

Net income	\$ (20,199)	\$ 67,146	\$
------------	-------------	-----------	----

Dividends on preferred stock	3,304	-
------------------------------	-------	---

Net income available to common shareholders	\$ (23,503)	\$ 67,146	\$
---------------------------------------------	-------------	-----------	----

September 30, 2005

Segment assets	\$ 9,432,484	\$ 4,197,165	\$
----------------	--------------	--------------	----

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Nine Months Ended September

(In thousands)

	Mortgage Holdings Segment	Loan Origination Segment	Loan Se Segm
Net interest income:			
Interest income	\$ 531,866	\$ 431,818	
Interest expense	(448,974)	(364,022)	
Net interest income	82,892	67,796	
Provision for loan losses	(6,239)	(4,416)	

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Net interest income after provision for loan losses	76,653	63,380	

Non-interest income:			
Gain on sales of mortgage loans	-	607,122	
Gain on sales of mortgage-backed securities and derivatives	8,952	-	
Unrealized gain on mortgage-backed securities and derivatives	2,360	275	
Loan servicing fees	-	-	
Change in fair value of mortgage servicing rights			
Due to realization of cash flows	-	-	
Due to changes in valuation assumptions, net of hedge gain (loss)	-	-	

Net loan servicing fees	-	-	

Other non-interest income	-	3,802	

Total non-interest income	11,312	611,199	

Non-interest expenses:			
Salaries, commissions and benefits, net	10,344	286,312	
Occupancy and equipment	5	56,050	
Data processing and communications	136	19,257	
Office supplies and expenses	78	14,176	
Marketing and promotion	11	16,794	
Travel and entertainment	39	22,140	
Professional fees	2,408	13,925	
Other	7,507	24,750	

Total non-interest expenses	20,528	453,404	

Net income before income tax expense (benefit)	67,437	221,175	

Income tax expense (benefit)	-	73,628	

Net income	\$ 67,437	\$ 147,547	\$
=====			
Dividends on preferred stock	9,914	-	

Net income available to common shareholders	\$ 57,523	\$ 147,547	\$
=====			

September 30, 2006			

Segment assets	\$ 12,796,523	\$ 4,057,868	\$
=====			

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	Nine Months Ended September	
	(In thousands)	
	Mortgage Holdings Segment	Loan Origination Segment

Net interest income:		
Interest income	\$ 219,906	\$ 242,344
Interest expense	(154,168)	(152,799)

Total net interest income	65,738	89,545

Non-interest income:		
Gain on sales of mortgage loans	-	236,288
Gain on sales of current period securitized mortgage loans	-	194,256
Gain on sales of mortgage-backed securities and derivatives	6,725	6,143
Unrealized (loss) gain on mortgage-backed securities and derivatives	(41,496)	77,738
Loan servicing fees	-	-
Amortization and impairment of mortgage servicing rights	-	-

Net loan servicing fees	-	-

Other non-interest income	-	3,722

Total non-interest income	(34,771)	518,147

Non-interest expenses:		
Salaries, commissions and benefits, net	6,057	250,179
Occupancy and equipment	5	41,645
Data processing and communications	64	17,953
Office supplies and expenses	5	13,955
Marketing and promotion	2	14,281
Travel and entertainment	5	13,589
Professional fees	2,829	7,060
Other	6,331	9,439

Total non-interest expenses	15,298	368,101

Net income before income tax expense (benefit)	15,669	239,591

Income tax expense (benefit)	-	3,777

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Net income	\$	15,669	\$	235,814	\$
Dividends on preferred stock		9,913		-	
Net income available to common shareholders	\$	5,756	\$	235,814	\$
				September 30, 2005	
Segment assets	\$	9,432,484	\$	4,197,165	\$

NOTE 17 - SUBSEQUENT EVENT

On October 19, 2006, the Company, through its wholly-owned subsidiary, American Home Mortgage Holdings, Inc., completed its acquisition of Flower Bank, fsb, ("Flower"), of Chicago, Illinois. In connection with its acquisition, the Company recapitalized Flower through a \$50 million investment in its new subsidiary. Flower is expected to hold mortgages, consumer loans and securities as its primary assets, and fund its holdings through deposits including the escrow balances. The Company recorded approximately \$17 million of goodwill as a result of the Flower acquisition.

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ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of the federal securities laws. Some of the forward-looking statements can be identified by the use of forward-looking words. When used in this report, statements that are not historical in nature, including, but not limited to, the words "anticipate," "may," "estimate," "should," "seek," "expect," "plan," "believe," "intend," and similar words, or the negatives of those words, are intended to identify forward-looking statements. In addition, statements that contain a projection of revenues, earnings (loss), capital expenditures, dividends, capital structure or other financial terms are intended to be forward-looking statements. Certain statements regarding the following particularly are forward-looking in nature:

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

It is important to note that the description of our business in general, and our

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mortgage-backed securities holdings in particular, is a statement about our operations as of a specific point in time. It is not meant to be construed as an investment policy, and the types of assets we hold, the amount of leverage we use, the liabilities we incur and other characteristics of our assets and liabilities are subject to reevaluation and change without notice.

The forward-looking statements in this report are based on our management's beliefs, assumptions and expectations of our future economic performance, taking into account the information currently available to it. These statements are not statements of historical fact and are not guarantees of future performance, events or results. Forward-looking statements are subject to a number of factors, risks and uncertainties, some of which are not currently known to us, that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial position. These factors include, without limitation, those factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005, entitled "Risk Factors," as well as general economic, political, market, financial or legal conditions and any other factors, risks and uncertainties discussed in filings we make with the Securities and Exchange Commission ("SEC").

In light of these risks, uncertainties and assumptions, any forward-looking events discussed in this report might not occur, and we qualify any and all of our forward-looking statements entirely by these cautionary factors. You are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements are inherently uncertain, and you must recognize that actual results may differ from expectations. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies and Estimates

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

Mortgage-Backed Securities - We record our mortgage-backed securities at fair value. The fair values of our mortgage-backed securities are generally based on market prices provided by certain dealers who make markets in these financial instruments.

Mortgage Loans Held for Sale - Mortgage loans held for sale are carried at the lower of cost or aggregate market value. For mortgage loans held for sale that are hedged with forward sale commitments, the carrying value is adjusted for the change in market during the time the hedge was deemed to be highly effective. The market value is determined by outstanding commitments from investors or current yield requirements calculated on an aggregate basis.

Mortgage Loans Held for Investment - Mortgage loans held for investment are carried at the aggregate of their remaining unpaid principal balances, plus net deferred origination costs, less any related charge-offs and allowance for loan losses. Our periodic evaluation of the adequacy of the allowance for loan losses is based on our past loan loss experience, known and inherent risks in the loan portfolio, adverse

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circumstances which may affect the borrowers' ability to repay, the estimated value of the underlying real estate collateral and current market conditions within the geographic areas surrounding the underlying real estate. The

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allowance for loan losses is increased by provision to loan losses charged to income and reduced by charge-offs, net of recoveries.

Mortgage Servicing Rights ("MSRs") - When we acquire servicing assets through either purchase or origination of loans and sell or securitize those loans with servicing assets retained, the fair value attributable to the servicing assets is capitalized as MSRs on the consolidated balance sheets. We estimate the fair value of the servicing assets by obtaining market information from one of the market's primary independent MSR brokers.

Derivative Assets and Derivative Liabilities - Our mortgage-committed pipeline includes interest rate lock commitments ("IRLCs") that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria and have locked their terms and rates. IRLCs associated with loans expected to be sold are recorded at fair value with changes in fair value recorded to current earnings.

We use other derivative instruments, including mortgage forward delivery contracts and treasury futures options, to economically hedge the IRLCs, which are also classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

We use mortgage forward delivery contracts designated as fair value hedging instruments to hedge 100% of our agency-eligible conforming fixed-rate loans and most of our non-conforming fixed-rate loans held for sale. At the inception of the hedge, we formally document the relationship between the forward delivery contracts and the mortgage inventory, as well as our objective and strategy for undertaking the hedge transactions. In the case of our conventional conforming fixed-rate loan products, the notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount of the mortgage inventory being hedged; hence, the forward delivery contracts effectively fix the forward sales price and thereby substantially eliminate interest rate and price risk to us. We classify and account for these forward delivery contracts as fair value hedges. The derivatives are carried at fair value with the changes in fair value recorded to current earnings. When the hedges are deemed to be highly effective, the book value of the hedged loans held for sale is adjusted for its change in fair value during the hedge period.

We enter into interest rate swap agreements to manage our interest rate exposure when financing our mortgage-backed securities and certain ARM loans. Certain swap agreements accounted for as cash flow hedges and certain swap agreements not designated as cash flow hedges are both carried on the balance sheet at fair value. The fair values of our swap agreements are generally based on market prices provided by certain dealers who make markets in these financial instruments or by third-party pricing services.

We use agency trust principal only total return swaps to economically hedge the MSRs. Total return swaps are classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

Goodwill - Goodwill represents the excess purchase price over the fair value of net assets stemming from business acquisitions, including identifiable intangibles. We test for impairment, at least annually, by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. The discounted cash flow calculation related to our loan origination segment includes a forecast of the expected future loan originations and the related revenues and expenses. The discounted cash flow calculation related to our

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Mortgage Holdings segment includes a forecast of the expected future net interest income, gain on mortgage-backed securities and the related revenues and expenses. These cash flows are discounted using a rate that is estimated to be a weighted-average cost of capital for similar companies. We further test to ensure that the fair value of all our business units does not exceed our total market capitalization.

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Financial Condition

The following table presents the Company's consolidated balance sheets as of September 30, 2006 and December 31, 2005:

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2006	December 31, 2005
	-----	-----
Assets:		
Cash and cash equivalents	\$ 298,079	\$ 575,650
Accounts receivable and servicing advances	350,965	329,132
Mortgage-backed securities	8,957,373	10,602,104
Mortgage loans held for sale, net	1,365,595	2,208,749
Mortgage loans held for investment, net	5,797,801	3,479,721
Derivative assets	26,323	44,594
Mortgage servicing rights	460,913	319,671
Premises and equipment, net	82,288	68,782
Goodwill	111,890	99,527
Other assets	53,100	26,815
	-----	-----
Total assets	\$ 17,504,327	\$ 17,754,745
	=====	=====
Liabilities and Stockholders' Equity:		
Liabilities:		
Warehouse lines of credit	\$ 1,890,034	\$ 3,474,191
Drafts payable	8,749	20,754
Commercial paper	1,283,858	1,079,179
Reverse repurchase agreements	7,232,503	9,806,144
Collateralized debt obligations	3,484,873	1,057,906
Payable for securities purchased	1,221,105	261,539
Derivative liabilities	40,170	16,773
Trust preferred securities	282,340	203,688
Accrued expenses and other liabilities	383,585	277,476
Notes payable	317,161	319,309
Income taxes payable	95,808	30,770
	-----	-----
Total liabilities	16,240,186	16,547,729
	-----	-----
Stockholders' Equity:		
Preferred Stock	134,040	134,040
Common Stock	502	496
Additional paid-in capital	962,903	947,512
Retained earnings	245,473	203,778
Accumulated other comprehensive loss	(78,777)	(78,810)
	-----	-----

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Total stockholders' equity	1,264,141	1,207,016
	-----	-----
Total liabilities and stockholders' equity	\$ 17,504,327	\$ 17,754,745
	=====	=====

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Total assets at September 30, 2006 were \$17.5 billion, a \$250.4 million decrease from \$17.8 billion at December 31, 2005. . The decrease in total assets primarily reflects a decrease in mortgage-backed securities of \$1.6 billion and a decrease in mortgage loans held for sale of \$843.2 million, partially offset by an increase in mortgage loans held for investment of \$2.3 billion. . At September 30, 2006, 51.2% of our total assets were mortgage-backed securities, 33.1% were mortgage loans held for investment and 7.8% were mortgage loans held for sale, compared to 59.7%, 19.6% and 12.4%, respectively, at December 31, 2005.

The following tables summarize our mortgage-backed securities owned at September 30, 2006 and December 31, 2005, classified by type of issuer and by ratings categories:

September 30, 2006						
Trading Securities		Securities Available for Sale		Total		
Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	
(Dollars in thousands)						
Agency securities	\$ --	--%	\$ 106,485	1.3%	\$ 106,485	1.2%
Privately issued:						
AAA	296,154	34.5	7,971,179	98.4	8,267,333	92.3
AA	47,534	5.5	7,961	0.1	55,495	0.6
A	166,568	19.4	4,765	0.1	171,333	1.9
BB	4,650	0.5	--	--	4,650	0.1
BBB	132,282	15.4	1,939	0.0	134,221	1.5
Unrated	212,164	24.7	5,692	0.1	217,856	2.4
Total	\$ 859,352	100.0%	\$8,098,021	100.0%	\$ 8,957,373	100.0%
	=====	=====	=====	=====	=====	=====

December 31, 2005						
Trading Securities		Securities Available for Sale		Total		
Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	
(Dollars in thousands)						
Agency securities	\$ --	--%	\$ 130,320	1.8%	\$ 130,320	1.2%

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The following tables classify our mortgage loans held for investment and mortgage-backed securities portfolio by product type at September 30, 2006 and December 31, 2005:

	September 30, 2006					
	Trading Securities		Securities Available for Sale		Loans Held for Investment	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
	(Dollars in thousands)					
Product:						
ARMs less than 3 years	\$ 630,024	73.3%	\$ 377,979	4.7%	\$2,659,194	45.0%
3/1 Hybrid ARM	154,714	18.0	169,474	2.1	50,513	0.8
5/1 Hybrid ARM	74,614	8.7	6,787,690	83.8	378,191	6.1
Home equity/Second	--	--	762,878	9.4	197,190	3.2
Other ARM	--	--	--	--	446,793	7.3
Fixed rate	--	--	--	--	2,065,920	33.8
Total	\$ 859,352	100.0%	\$8,098,021	100.0%	\$5,797,801	100.0%

	December 31, 2005					
	Trading Securities		Securities Available for Sale		Loans Held for Investment	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
	(Dollars in thousands)					
Product:						
ARMs less than 3 years	\$ 700,164	21.7%	\$ 487,122	6.6%	\$2,628,977	75.0%
3/1 Hybrid ARM	194,313	6.0	262,598	3.6	11,563	0.3
5/1 Hybrid ARM	2,332,591	72.3	6,625,316	89.8	121,227	3.5
Home equity/Second	--	--	--	--	611,370	17.7
Other ARM	--	--	--	--	31,862	0.9
Fixed rate	--	--	--	--	74,722	2.2
Total	\$3,227,068	100.0%	\$7,375,036	100.0%	\$3,479,721	100.0%

During the three and nine months ended September 30, 2006, we purchased \$1.7 billion and \$3.5 billion of mortgage-backed securities, respectively.

During the three and nine months ended September 30, 2006, we sold \$1.5 billion and \$3.4 billion of mortgage-backed securities, respectively.

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During the three and nine months ended September 30, 2006, we added \$906.8 million and \$3.1 billion of loans held for investment to our portfolio, respectively.

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Results of Operations

The following tables present our consolidated and segment statements of income:

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

	Sept. 30, 2006	June 30, 2006
Net interest income:		
Interest income	\$ 332,875	\$ 330,196
Interest expense	(289,878)	(279,992)
Net interest income	42,997	50,204
Provision for loan losses	(5,365)	(3,979)
Net interest income after provision for loan losses	37,632	46,225
Non-interest income:		
Gain on sales of mortgage loans	210,621	224,594
Gain on sales of current period securitized mortgage loans	--	--
Gain (loss) on sales of mortgage-backed securities and derivatives	9,849	(47)
Unrealized gain (loss) on mortgage-backed securities and derivatives	1,050	(7,730)
Loan servicing fees	43,379	30,417
Amortization and impairment of mortgage servicing rights	--	--
Change in fair value of mortgage servicing rights:		
Due to realization of cash flows	(28,839)	(26,306)
Due to changes in valuation assumptions, net of hedge gain (loss)	(16,799)	7,476
Net loan servicing (loss) fees	(2,259)	11,587
Other non-interest income	2,018	2,125
Non-interest income	221,279	230,529
Non-interest expenses:		
Salaries, commissions and benefits, net	105,676	103,157
Occupancy and equipment	19,228	19,763
Data processing and communications	5,700	6,733
Office supplies and expenses	5,346	5,145
Marketing and promotion	4,868	6,383
Travel and entertainment	7,798	7,793
Professional fees	6,076	5,013
Other	16,588	17,192
Non-interest expenses	171,280	171,179

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Net income before income tax expense (benefit)	87,631	105,575
Income tax expense (benefit)	15,611	33,224
Net income	\$ 72,020	\$ 72,351
Dividends on preferred stock	3,305	3,304
Net income available to common shareholders	\$ 68,715	\$ 69,047
Per share data:		
Basic	\$ 1.37	\$ 1.38
Diluted	\$ 1.36	\$ 1.37
Weighted average number of shares - basic	50,148	50,056
Weighted average number of shares - diluted	50,553	50,487

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

	Nine Months Ended September 30,	
	2006	2005
Net interest income:		
Interest income	\$ 963,684	\$ 462,2
Interest expense	(823,905)	(311,5
Total net interest income	139,779	150,6
Provision for loan losses	(10,655)	
Total net interest income after provision for loan losses	129,124	150,6
Non-interest income:		
Gain on sales of mortgage loans	607,122	236,2
Gain on sales of current period securitized mortgage loans	--	194,2
Gain on sales of mortgage-backed securities and derivatives	8,952	12,8
Unrealized gain on mortgage-backed securities and derivatives	2,635	36,2
Loan servicing fees	98,129	49,3
Amortization and impairment of mortgage servicing rights	--	(41,7
Change in fair value of mortgage servicing rights:		
Due to realization of cash flows	(73,880)	
Due to changes in valuation assumptions, net of hedge gain (loss)	(9,209)	
Net loan servicing fees	15,040	7,5
Other non-interest income	5,912	5,5
Total non-interest income	639,661	492,8
Non-interest expenses:		

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Salaries, commissions and benefits, net	308,100	264,7
Occupancy and equipment	56,961	42,3
Data processing and communications	19,559	18,3
Office supplies and expenses	14,823	15,1
Marketing and promotion	17,051	14,3
Travel and entertainment	22,344	14,0
Professional fees	16,420	10,6
Other	49,662	21,0
	-----	-----
Total non-interest expenses	504,920	400,7
	-----	-----
Net income before income tax expense (benefit)	263,865	242,7
Income tax expense (benefit)	65,035	(1,3
	-----	-----
Net income	\$ 198,830	\$ 244,0
	=====	=====
Dividends on preferred stock	9,914	9,9
	-----	-----
Net income available to common shareholders	\$ 188,916	\$ 234,1
	=====	=====
Per share data:		
Basic	\$ 3.78	\$ 5.
Diluted	\$ 3.75	\$ 5.
Weighted average number of shares - basic	49,975	41,9
Weighted average number of shares - diluted	50,363	42,4

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
MORTGAGE HOLDINGS SEGMENT
(In thousands)

	Nine Months Ended September 30,	
	2006	2005
	-----	-----
Net interest income:		
Interest income	\$ 531,866	\$ 219,90
Interest expense	(448,974)	(154,16
	-----	-----
Net interest income	82,892	65,73
	-----	-----
Provision for loan losses	(6,239)	-
	-----	-----
Net interest income after provision for loan losses	76,653	65,73
	-----	-----
Non-interest income:		
Gain on sales of mortgage-backed securities and derivatives	8,952	6,72
Unrealized gain (loss) on mortgage-backed securities and derivatives	2,360	(41,49
	-----	-----
Non-interest income	11,312	(34,77
	-----	-----
Non-interest expenses:		

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Salaries, commissions and benefits, net	10,344	6,05
Occupancy and equipment	5	
Data processing and communications	136	6
Office supplies and expenses	78	
Marketing and promotion	11	
Travel and entertainment	39	
Professional fees	2,408	2,82
Other	7,507	6,33
	-----	-----
Non-interest expenses	20,528	15,29
	-----	-----
Net income before income tax expense	67,437	15,66
Income tax expense	--	--
	-----	-----
Net income	\$ 67,437	\$ 15,66
	=====	=====
Dividends on preferred stock	9,914	9,91
	-----	-----
Net income available to common shareholders	\$ 57,523	\$ 5,75
	=====	=====

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
LOAN ORIGINATION SEGMENT
(In thousands)

	Nine Months Ended September 30,	
	2006	2005
	-----	-----
Net interest income:		
Interest income	\$ 431,818	\$ 242,344
Interest expense	(364,022)	(152,799)
	-----	-----
Net interest income	67,796	89,545
	-----	-----
Provision for loan losses	(4,416)	--
	-----	-----
Net interest income after provision for loan losses	63,380	89,545
	-----	-----
Non-interest income:		
Gain on sales of mortgage loans	607,122	236,288
Gain on sales of current period securitized mortgage loans	--	194,256
Gain on sales of mortgage-backed securities and derivatives	--	6,143
Unrealized gain on mortgage-backed securities and derivatives	275	77,738
Other non-interest income	3,802	3,722
	-----	-----
Non-interest income	611,199	518,147
	-----	-----
Non-interest expenses:		
Salaries, commissions and benefits, net	286,312	250,179
Occupancy and equipment	56,050	41,645
Data processing and communications	19,257	17,953

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Office supplies and expenses	14,176	13,955
Marketing and promotion	16,794	14,281
Travel and entertainment	22,140	13,589
Professional fees	13,925	7,060
Other	24,750	9,439
	-----	-----
Non-interest expenses	453,404	368,101
	-----	-----
Net income before income tax expense	221,175	239,591
Income tax expense	73,628	3,777
	-----	-----
Net income	\$ 147,547	\$ 235,814
	=====	=====
Dividends on preferred stock	--	--
	-----	-----
Net income available to common shareholders	\$ 147,547	\$ 235,814
	=====	=====

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
LOAN SERVICING SEGMENT
(In thousands)

	Nine Months Ended September 30,	
	2006	2005
	-----	-----
Net interest income:		
Interest income	\$ --	\$ --
Interest expense	(10,909)	(4,629)
	-----	-----
Net interest income	(10,909)	(4,629)
	-----	-----
Non-interest income:		
Loan servicing fees	98,129	49,381
Amortization and impairment of mortgage servicing rights	--	(41,790)
Change in fair value of mortgage servicing rights		
Due to realization of cash flows	(73,880)	--
Due to changes in valuation assumptions, net of hedge gain (loss)	(9,209)	--
	-----	-----
Net loan servicing fees	15,040	7,591
	-----	-----
Other non-interest income	2,110	1,872
	-----	-----
Non-interest income	17,150	9,463
	-----	-----
Non-interest expenses:		
Salaries, commissions and benefits, net	11,444	8,476
Occupancy and equipment	906	746
Data processing and communications	166	369
Office supplies and expenses	569	1,150
Marketing and promotion	246	77
Travel and entertainment	165	431

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Professional fees	87	757
Other	17,405	5,302
	-----	-----
Non-interest expenses	30,988	17,308
	-----	-----
Net income before income tax benefit	(24,747)	(12,474)
Income tax benefit	(8,593)	(5,079)
	-----	-----
Net income	\$ (16,154)	\$ (7,395)
	=====	=====
Dividends on preferred stock	--	--
	-----	-----
Net income available to common shareholders	\$ (16,154)	\$ (7,395)
	=====	=====

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Comparison of the Three Months Ended September 30, 2006 and 2005

Overview

Net income for the three months ended September 30, 2006 was \$72.0 million compared to \$53.2 million for the three months ended September 30, 2005, an increase of \$18.8 million, or 35.4%. The increase in net income was the result of a \$63.3 million increase in non-interest income, partially offset by a \$22.2 million increase in non-interest expenses, a \$13.0 million increase in income tax expense, a \$5.4 million increase in provision for loan losses and a \$3.9 million decrease in net interest income. The \$63.3 million increase in non-interest income consists of an \$87.0 million increase in gain on sales of mortgage loans, a \$15.8 million increase in realized and unrealized gains on mortgage-backed securities and derivatives and a \$0.4 million increase in other non-interest income, partially offset by a \$20.0 million decrease in gain on sales of current period securitized mortgage loans and a \$19.9 million decrease in net loan servicing fees in the three months ended September 30, 2006 versus the three months ended September 30, 2005.

Net Interest Income

The following table presents the average balances for our interest-earning assets, interest-bearing liabilities, corresponding annualized effective rates of interest and the related interest income or expense for the three months ended September 30, 2006 compared to the three months ended September 30, 2005:

(Dollars in thousands)

Three Months Ended September 30,

	2006		2005		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Int
	-----	-----	-----	-----	-----
Interest earning assets:					
Mortgage-backed securities, net (1)	\$ 9,272,899	\$129,241	5.57%	\$ 7,101,548	\$ 8
Mortgage loans held for sale	6,688,543	113,098	6.76%	4,911,711	8
Mortgage loans held for investment	5,135,395	90,536	7.05%	754,057	

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	21,096,837	332,875	6.31%	12,767,316	18
Interest bearing liabilities:					
Warehouse lines of credit	5,466,151	78,741	5.76%	2,689,507	4
Commercial paper (2)	2,404,704	31,605	5.26%	2,787,060	2
Reverse repurchase agreements (3)	8,827,655	114,458	5.19%	6,529,138	6
Collateralized debt obligations (4)	3,666,068	53,393	5.83%	--	
Trust preferred securities	274,163	6,209	9.06%	85,870	
Notes payable	375,069	5,472	5.84%	207,357	
	21,013,810	289,878	5.52%	12,298,932	13
Net interest income		\$ 42,997			\$ 4
Interest rate spread			0.79%		
Net interest margin			0.82%		

- (1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.
- (2) Includes \$403 thousand of net interest income on interest rate swap agreements for the 2006 period.
- (3) Includes \$6.8 million of net interest income and \$3.4 million of net interest expense on interest rate swap agreements for the 2006 and 2005 periods, respectively.
- (4) Includes \$272 thousand of net interest expense on interest rate swap agreements for the 2006 period.

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The following table presents the effects of changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities on our interest income and interest expense for the three months ended September 30, 2006 compared to the three months ended September 30, 2005:

(In thousands)	Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005		
	Average Rate	Average Volume	Total
Mortgage-backed securities, net	\$ 15,976	\$ 28,705	\$ 44,681
Mortgage loans held for sale	(41,365)	64,527	23,162
Mortgage loans held for investment	27,981	57,013	84,994
Interest income	2,592	150,245	152,837
Warehouse lines of credit	(3,469)	42,111	38,642
Commercial paper	25,503	(19,986)	5,517
Reverse repurchase agreements	25,739	25,774	51,513
Collateralized debt obligations	--	53,393	53,393
Trust preferred securities	1,255	3,370	4,625

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Notes payable	738	2,281	3,019
	-----	-----	-----
Interest expense	49,766	106,943	156,709
	-----	-----	-----
Net interest income	\$ (47,174)	\$ 43,302	\$ (3,872)
	=====	=====	=====

Interest Income: Interest income on mortgage-backed securities for the three months ended September 30, 2006 was \$129.2 million, compared to \$84.5 million for the three months ended September 30, 2005, a \$44.7 million, or 52.8%, increase. This increase reflects primarily the growth of our mortgage-backed securities portfolio and higher interest rates in the third quarter of 2006 versus the third quarter of 2005.

Interest income on our mortgage loans held for sale for the three months ended September 30, 2006 was \$113.1 million, compared to \$89.9 million for the three months ended September 30, 2005, an increase of \$23.2 million, or 25.8%. The increase in interest income on mortgage loans held for sale was primarily the result of an increase in average volume in 2006 versus 2005 due to higher mortgage origination volume.

In June 2005, we began our strategy of holding certain loans in our investment portfolio. For the three months ended September 30, 2006, we recognized \$90.5 million of interest income on loans held for investment, compared to \$5.5 million for the three months ended September 30, 2005.

Interest Expense: As of September 30, 2006, we have entered into reverse repurchase agreements, a form of collateralized short-term borrowing, with seventeen different financial institutions and had borrowed funds from ten of these counterparties. We borrow funds under these arrangements based on the fair value of our mortgage-backed securities and loans held for investment. Total interest expense on reverse repurchase agreements for the three months ended September 30, 2006 was \$114.5 million, compared to interest expense for the three months ended September 30, 2005 of \$63.0 million, a \$51.5 million increase. The increase in reverse repurchase agreements interest expense in 2006 versus 2005 was primarily the result of an increase in average rate due to generally higher short-term interest rates in the third quarter of 2006 versus the third quarter of 2005, and an increase in borrowings used to fund the growth of our mortgage-backed securities and loans held for investment portfolio.

We fund our loan inventory primarily through borrowing facilities with several mortgage warehouse lenders and through a \$3.3 billion commercial paper, or secured liquidity note ("SLN"), program. Interest expense on warehouse lines of credit for the three months ended September 30, 2006 was \$78.7 million, compared to interest expense for the three months ended September 30, 2005 of \$40.1 million, a

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\$38.6 million increase. The increase in warehouse lines of credit interest expense was primarily the result of an increase in average volume due to higher mortgage origination volume in the third quarter of 2006 versus the third quarter of 2005.

In May 2004, we formed a wholly-owned special purpose entity for the purpose of issuing commercial paper in the form of SLNs to finance certain portions of our mortgage loans. Interest expense on commercial paper for the three months ended September 30, 2006 was \$31.6 million, versus \$26.1 million for the three months ended September 30, 2005, a \$5.5 million increase. The increase in commercial

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paper interest expense was the result of an increase in average interest rates in the third quarter of 2006 versus the third quarter of 2005, partially offset by a decrease in average volume. The decrease in average volume in the third quarter of 2006 versus the third quarter of 2005 related to lower borrowings used to fund our loan inventory.

For the three months ended September 30, 2006, we recognized \$53.4 million of interest expense on collateralized debt obligations, related to borrowings used to fund our securitizations which were accounted for as financings.

Gain on Mortgage Loans, Mortgage-Backed Securities and Derivatives

Gain on Sales and Securitizations of Mortgage Loans: During the three months ended September 30, 2006, gain on sales and securitizations of mortgage loans in our Loan Origination segment totaled \$210.6 million, or 1.47%, of mortgage loans sold or securitized, compared to \$176.5 million, or 1.42%, of mortgage loans sold or securitized during the three months ended September 30, 2005. The increase primarily reflects a \$1.9 billion increase in mortgage loans sold or securitized to \$14.3 billion in the third quarter of 2006 from \$12.4 billion in the third quarter of 2005.

The following table presents the components of gain on sales and securitizations of mortgage loans in our Loan Origination segment during the three months ended September 30, 2006 and 2005:

Gains on Sales and Securitizations of Mortgage Loans

	Three Months Ended September 30,	
	2006	2005
	-----	-----
(Dollars in thousands)		
Gain on sales of mortgage loans	\$ 210,621	\$ 123,658
Gain on sales of current period securitized mortgage loans	--	19,960
Gain on sales of free standing derivatives	--	300
Unrealized gain on self-originated mortgage-backed securities retained in period	--	22,604
Unrealized gain on free standing derivatives	--	10,012
	-----	-----
Total gain on sales and securitizations of mortgage loans	\$ 210,621	\$ 176,534
	=====	=====
Total mortgage loans sold or securitized	\$ 14,331,910	\$ 12,397,436
	=====	=====
Total gain on sales and securitizations of mortgage loans as a % of total mortgage loans sold or securitized	1.47%	1.42%

Portfolio Gains and Losses: During the three months ended September 30, 2006, portfolio gains and losses in our Mortgage Holdings segment were a portfolio gain of \$10.9 million compared to a portfolio loss of \$37.8 million during the three months ended September 30, 2005. The increase in portfolio gains in the third quarter of 2006 compared to the third quarter of 2005 was the result of a \$44.6 million net increase in unrealized gain on mortgage-backed securities and free standing derivatives, and a \$4.0 million increase in gain on sales of mortgage-backed securities and derivatives.

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The following table presents the components of portfolio gains and losses in our Mortgage Holdings segment during the three months ended September 30, 2006 and 2005:

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Portfolio Gains and Losses

	Three Months Ended September 30,	
	2006	2005
	-----	-----
(In thousands)		
Gain on sales of mortgage-backed securities and derivatives	\$ 9,849	\$ 5,816
Unrealized gain (loss) on mortgage-backed securities	1,615	(60,211)
Unrealized (loss) gain on free standing derivatives	(565)	16,630
	-----	-----
Net unrealized gain (loss) on mortgage-backed securities and free standing derivatives	1,050	(43,581)
	-----	-----
Total portfolio gain (loss)	\$ 10,899	\$ (37,765)
	=====	=====

The following table presents the components of gains on sales of mortgage-backed securities and derivatives shown in our consolidated statements of income:

Components of Gain on Sales of Mortgage-backed Securities and Derivatives

	Three Months Ended September 30,	
	2006	2005
	-----	-----
(In thousands)		
Gain on sales of mortgage-backed securities and derivatives	\$ 9,849	\$ 5,816
Gain on sales of free standing derivatives	--	300
	-----	-----
Gain on sales of mortgage-backed securities and derivatives	\$ 9,849	\$ 6,116
	=====	=====

The following table presents the components of unrealized loss on mortgage-backed securities and derivatives shown in our consolidated statements of income:

Components of Unrealized Gain (Loss) on Mortgage-backed Securities and Derivatives

Three Months

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	Ended September 30,	
	2006	2005
	-----	-----
(In thousands)		
Unrealized gain on self-originated mortgage-backed securities retained in period	\$ --	\$ 22,604
Unrealized gain (loss) on mortgage-backed securities	1,615	(60,211)
Unrealized (loss) gain on free standing derivatives	(565)	26,642
	-----	-----
Unrealized gain (loss) on mortgage-backed securities and derivatives	\$ 1,050	\$(10,965)
	=====	=====

Net Loan Servicing Fees

Net loan servicing fees were a loss of \$2.3 million for the three months ended September 30, 2006, compared to income of \$17.6 million for the three months ended September 30, 2005.

Loan Servicing Fees: Loan servicing fees increased to \$43.4 million for the three months ended September 30, 2006 from \$21.1 million for the three months ended September 30, 2005, an increase of \$22.3 million, or 105.6%. The increase in loan servicing fees in the third quarter of 2006 versus the third quarter of 2005 was primarily the result of an increase in loans serviced for others. At September 30, 2006, the principal amount of loans serviced for others, including loans held for sale and loans held for investment, was \$43.0 billion, compared to \$27.5 billion at September 30, 2005.

Change in Fair Value of MSR: Effective at the beginning of the first quarter of 2006, we adopted Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140" ("SFAS 156"), and elected the fair value option to subsequently measure our MSR. Under the fair value option, all changes in the fair value of MSR are reported in

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the consolidated statements of income. For the three months ended September 30, 2006, the change in fair value of MSR was \$45.6 million. The change in fair value of MSR in the third quarter of 2006 includes a \$28.8 million reduction in fair value due to the realization of servicing cash flows and a \$23.9 million reduction due to changes in valuation assumptions, partially offset by a \$7.1 million gain on MSR related hedges.

Amortization and Impairment of MSR: Amortization and impairment of MSR includes amortization of MSR of \$15.1 million and a temporary impairment recovery of \$11.6 million for the three months ended September 30, 2005. Effective at the beginning of the first quarter of 2006, we adopted the SFAS 156 fair value option and did not recognize amortization and impairment of MSR during the third quarter of 2006.

The following table presents the components of net loan servicing (loss) fees for the three months ended September 30, 2006 and 2005:

Three Months
Ended September 30,

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	----- 2006 -----	----- 2005 -----
(In thousands)		
Loan servicing fees	\$ 43,379	\$ 21,099
Amortization and impairment of mortgage servicing rights	--	(3,478)
Change in fair value of mortgage servicing rights:		
Due to realization of cash flows	(28,839)	--
Due to changes in valuation assumptions	(23,914)	--
Due to gain on related hedges	7,115	--
	-----	-----
Net loan servicing (loss) fees	\$ (2,259)	\$ 17,621
	=====	=====

Other Non-Interest Income

Other non-interest income totaled \$2.0 million for the three months ended September 30, 2006 compared to \$1.6 million for the three months ended September 30, 2005. For the three months ended September 30, 2006, other non-interest income primarily includes reinsurance premiums earned totaling approximately \$1.2 million, rental income of \$0.4 million, and revenue from title services of \$0.2 million. For the three months ended September 30, 2005, other non-interest income primarily includes reinsurance premiums earned totaling approximately \$0.8 million, rental income of \$0.4 million and revenue from title services of \$0.3 million.

Non-Interest Expenses

Our non-interest expenses for the three months ended September 30, 2006 were \$171.3 million compared to \$149.1 million for the three months ended September 30, 2005, an increase of \$22.2 million, or 14.9%. The increase primarily reflects a \$14.4 million rise in our Loan Origination segment non-interest expenses to \$152.6 million, or 1.00% of total loan originations, in the third quarter of 2006, from \$138.2 million, or 1.01% of total loan originations, in the third quarter of 2005.

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

Salaries, Commissions and Benefits, net: Salaries, commissions and benefits, net, for the three months ended September 30, 2006 were \$105.7 million, compared to \$101.4 million for the three months ended September 30, 2005, an increase of \$4.3 million, or 4.2%. The increase in expenses reflects higher origination volume and a resulting higher commission expense and higher salaries due to an increase in employees to 7,400 at September 30, 2006 from 6,467 at September 30, 2005.

Other Operating Expenses: Operating expenses, excluding salaries, commissions and benefits, were \$65.6 million for the three months ended September 30, 2006, compared to \$47.7 million for the three months ended September 30, 2005, an increase of \$17.9 million, or 37.5%. The increase in operating expenses in the third quarter of 2006 versus the third quarter of 2005 includes a \$9.2 million increase in other non-interest expense and a \$3.9 million increase in occupancy

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and equipment expense. The increase in other non-interest expenses in the third quarter of 2006 versus the third quarter of 2005 was primarily due to a \$5.0 million increase in lender-paid private mortgage insurance and the remainder was primarily associated with our acquisition of Waterfield Financial Corporation in January 2006. The increase in occupancy and equipment expense was due to higher lease obligations and certain fixed asset expenses relating to the increased number of branches in the 2006 period.

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We recognized \$15.6 million of income tax expense for the three months ended September 30, 2006, compared to \$2.5 million for the three months ended September 30, 2005. The increase in income tax expense in the third quarter of 2006 versus the third quarter of 2005 reflects an increase in income before income taxes relating to our taxable REIT subsidiary ("TRS").

Loan Originations

We originate and sell or securitize one-to-four family residential mortgage loans. Total loan originations for the three months ended September 30, 2006 were \$15.3 billion compared to \$13.7 billion for the three months ended September 30, 2005, an 11.5% increase. Mortgage brokers, through our wholesale loan production offices, accounted for 55% of our loan originations in the three months ended September 30, 2006 compared to 54% of our originations in the three months ended September 30, 2005. Originations conducted through our retail loan production offices and internet call center were 38% of our loan originations in the three months ended September 30, 2006 compared to 45% of our originations in the three months ended September 30, 2005. During the three months ended September 30, 2006, 7% of our loan originations were purchased from correspondents compared to 1% of our originations in the three months ended September 30, 2005.

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Comparison of the Nine Months Ended September 30, 2006 and 2005

Overview

Net income for the nine months ended September 30, 2006 was \$198.8 million compared to \$244.1 million for the nine months ended September 30, 2005, a decrease of \$45.3 million, or 18.5%. Through the third quarter of 2005, we securitized a substantial portion of our mortgage loans held for sale each quarter and had intended for each of these transactions to qualify as a sale under Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). Our December 2004 securitization ("Q4-04 Securitization") did not qualify as a sale at December 31, 2004 and was accounted for as a financing in accordance with SFAS 140 because we retained a small amount of securities which were benefited by derivative contracts embedded in the securitization trust. These securities were sold during the first quarter of 2005, qualifying the Q4-04 Securitization as a sale at March 31, 2005 in accordance with SFAS 140. Net income for the nine months ended September 30, 2005 includes approximately \$71.4 million of revenues related to the delay in recognizing the Q4-04 Securitization as a sale into the first quarter of 2005. The decrease in net income was the result of a \$104.2 million increase in non-interest expenses, a \$66.3 million increase in income tax expense, a \$10.9 million decrease in net interest income and a \$10.7 million increase in provision for loan losses, partially offset by a \$146.8 million increase in

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non-interest income. The \$146.8 million increase in non-interest income consists of a \$370.8 million increase in gain on sales of mortgage loans, a \$7.5 million increase in net loan servicing fees and a \$0.3 million increase in other non-interest income, partially offset by a \$194.3 million decrease in gain on sales of current period securitized mortgage loans and a \$37.5 million decrease in realized and unrealized gains on mortgage-backed securities and derivatives in the nine months ended September 30, 2006 versus the nine months ended September 30, 2005.

Net Interest Income

The following table presents the average balances for our interest-earning assets, interest-bearing liabilities, corresponding annualized effective rates of interest and the related interest income or expense for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005:

(Dollars in thousands)	Nine Months Ended September 30,				
	2006			2005	
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest
Interest earning assets:					
Mortgage-backed securities, net (1)	\$ 9,561,135	\$394,832	5.51%	\$ 6,591,006	\$219,000
Mortgage loans held for sale	7,076,364	342,553	6.45%	5,002,432	236,000
Mortgage loans held for investment	4,369,363	226,299	6.91%	251,338	5,000
	21,006,862	963,684	6.12%	11,844,776	460,000
Interest bearing liabilities:					
Warehouse lines of credit (2)	6,102,133	249,954	5.46%	2,002,754	77,000
Commercial paper (3)	2,493,043	92,403	4.94%	1,947,314	46,000
Reverse repurchase agreements (4)	9,027,504	344,460	5.09%	6,573,306	161,000
Collateralized debt obligations (5)	2,567,701	106,254	5.52%	655,083	16,000
Trust preferred securities	243,344	15,724	8.62%	37,912	2,000
Notes payable	350,585	15,110	5.75%	182,563	6,000
	20,784,310	823,905	5.29%	11,398,932	311,000
Net interest income		\$139,779			\$150,000
Interest rate spread		=====	0.83%		=====
Net interest margin			0.89%		=====

- (1) The average yield does not give effect to changes in the fair value that are reflected as a component of stockholders' equity.
- (2) Includes \$2.8 million of net interest expense on interest rate swap agreements for the 2005 period.
- (3) Includes \$661 thousand of net interest income on interest rate swap agreements for the 2006 period.

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- (4) Includes \$2.6 million and \$13.9 million of net interest expense on interest rate swap agreements for the 2006 and 2005 periods, respectively.
- (5) Includes \$679 thousand of net interest expense on interest rate swap agreements for the 2006 period.

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The following table presents the effects of changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities on our interest income and interest expense for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005:

(In thousands)	Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005		
	Average Rate	Average Volume	Total
Mortgage-backed securities, net	\$ 60,490	\$ 114,436	\$ 174,926
Mortgage loans held for sale	5,372	100,379	105,751
Mortgage loans held for investment	30,122	190,635	220,757
Interest income	95,984	405,450	501,434
Warehouse lines of credit	5,543	166,769	172,312
Commercial paper	30,236	15,261	45,497
Reverse repurchase agreements	108,507	74,047	182,554
Collateralized debt obligations	15,998	73,490	89,488
Trust preferred securities	1,550	12,108	13,658
Notes payable	1,948	6,852	8,800
Interest expense	163,782	348,527	512,309
Net interest income	\$ (67,798)	\$ 56,923	\$ (10,875)

Interest Income: Interest income on mortgage-backed securities for the nine months ended September 30, 2006 was \$394.8 million, compared to \$219.9 million for the nine months ended September 30, 2005, a \$174.9 million, or 79.5%, increase. This increase reflects primarily the growth of our mortgage-backed securities portfolio and higher interest rates in 2006 versus 2005.

Interest income on our mortgage loans held for sale for the nine months ended September 30, 2006 was \$342.6 million, compared to \$236.7 million for the nine months ended September 30, 2005, an increase of \$105.9 million, or 44.7%. The increase in interest income on mortgage loans held for sale was primarily the result of an increase in average volume in 2006 versus 2005 due to higher mortgage origination volume, and higher interest rates in 2006 versus 2005.

In June 2005, we began our strategy of holding certain loans in our investment portfolio. For the nine months ended September 30, 2006, we recognized \$226.3 million of interest income on loans held for investment, compared to \$5.7 million for the nine months ended September 30, 2005.

Interest Expense: As of September 30, 2006, we have entered into reverse repurchase agreements, a form of collateralized short-term borrowing, with seventeen different financial institutions and had borrowed funds from ten of these counterparties. We borrow funds under these arrangements based on the fair

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value of our mortgage-backed securities and loans held for investment. Total interest expense on reverse repurchase agreements for the nine months ended September 30, 2006 was \$344.5 million, compared to interest expense for the nine months ended September 30, 2005 of \$161.9 million, a \$182.6 million increase. The increase in reverse repurchase agreements interest expense in 2006 versus 2005 was primarily the result of an increase in average rate due to generally higher short-term interest rates in 2006 versus 2005, and an increase in borrowings used to fund the growth of our mortgage-backed securities and loans held for investment portfolio.

We fund our loan inventory primarily through borrowing facilities with several mortgage warehouse lenders and through a \$3.3 billion commercial paper, or secured liquidity note ("SLN"), program. Interest expense on warehouse lines of credit for the nine months ended September 30, 2006 was \$250.0 million, compared to interest expense for the nine months ended September 30, 2005 of \$77.7 million, a \$172.3 million increase. The increase in warehouse lines of credit interest expense was primarily the result of an increase in average volume

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due to higher mortgage origination volume and an increase in average rate due to generally higher short-term interest rates in 2006 versus 2005.

In May 2004, we formed a wholly-owned special purpose entity for the purpose of issuing commercial paper in the form of SLNs to finance certain portions of our mortgage loans. Interest expense on commercial paper for the nine months ended September 30, 2006 was \$92.4 million, versus \$46.9 million for the nine months ended September 30, 2005, a \$45.5 million increase. The increase in commercial paper interest expense was the result of an increase in average interest rates in 2006 versus 2005 and an increase in average volume. The increase in average volume in 2006 versus 2005 related to higher borrowings used to fund our loan inventory. By funding a portion of our loan inventory through the commercial paper program, we were able to reduce our average funding cost versus borrowing exclusively through warehouse lenders.

Interest expense on collateralized debt obligations for the nine months ended September 30, 2006 was \$106.3 million, compared to interest expense for the nine months ended September 30, 2005 of \$16.8 million, an \$89.5 million increase. The increase in collateralized debt obligation interest expense was the result of an increase in average volume and an increase in average interest rates in 2006 versus 2005. The increase in average volume in 2006 versus 2005 related to higher borrowings used to fund our securitizations which were accounted for as financings.

Gain on Mortgage Loans, Mortgage-Backed Securities and Derivatives

Gain on Sales and Securitizations of Mortgage Loans: During the nine months ended September 30, 2006, gain on sales and securitizations of mortgage loans in our Loan Origination segment totaled \$607.4 million, or 1.46%, of mortgage loans sold or securitized, compared to \$514.4 million, or 1.55%, of mortgage loans sold or securitized during the nine months ended September 30, 2005. The increase primarily reflects an \$8.6 billion increase in mortgage loans sold or securitized to \$41.7 billion in the first nine months of 2006 from \$33.1 billion in the first nine months of 2005. The 2005 period includes \$43.4 million recognized in connection with the Q4-04 Securitization.

The following table presents the components of gain on sales and securitizations of mortgage loans in our Loan Origination segment during the nine months ended September 30, 2006 and 2005:

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Gains on Sales and Securitizations of Mortgage Loans

	Nine Months Ended September 30,	
	2006	2005
(Dollars in thousands)		
Gain on sales of mortgage loans	\$ 607,122	\$ 236,288
Gain on sales of current period securitized mortgage loans	--	194,256
Gain on sales of free standing derivatives	--	6,143
Unrealized gain on self-originated mortgage-backed securities retained in period	--	72,806
Unrealized gain on free standing derivatives	275	4,932
	-----	-----
Total gain on sales and securitizations of mortgage loans	\$ 607,397	\$ 514,425
	=====	=====
 Total mortgage loans sold or securitized	 \$ 41,693,619	 \$ 33,101,422
	=====	=====
 Total gain on sales and securitizations of mortgage loans as a % of total mortgage loans sold or securitized	1.46%	1.55%

Portfolio Gains and Losses: During the nine months ended September 30, 2006, portfolio gains and losses in our Mortgage Holdings segment were a portfolio gain of \$11.3 million compared to a portfolio loss of \$34.8 million during the nine months ended September 30, 2005. The increase in portfolio gains in the first nine months of 2006 compared to the first nine months of 2005 was the result of a \$43.9 million net increase in unrealized gain on mortgage-backed securities and free standing derivatives and a \$2.2 million increase in gain on sales of mortgage-backed securities and derivatives.

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The following table presents the components of portfolio gains and losses in our Mortgage Holdings segment during the nine months ended September 30, 2006 and 2005:

Portfolio Gains and Losses

	Nine Months Ended September 30,	
	2006	2005
(In thousands)		
Gain on sales of mortgage-backed securities and derivatives	\$ 8,952	\$ 6,725
Unrealized loss on mortgage-backed securities	(11,982)	(65,640)
Unrealized gain on free standing derivatives	14,342	24,144
	-----	-----
Net unrealized gain (loss) on mortgage-backed securities and free standing derivatives	2,360	(41,496)
	-----	-----
Total portfolio gain (loss)	\$ 11,312	\$ (34,771)

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The following table presents the components of gain on sales of mortgage-backed securities and derivatives shown in our consolidated statements of income:

Components of Gain on Sales of Mortgage-backed Securities and Derivatives

	Nine Months Ended September 30,	
	2006	2005
	-----	-----
(In thousands)		
Gain on sales of mortgage-backed securities and derivatives	\$ 8,952	\$ 6,725
Gain on sales of free standing derivatives	--	6,143
	-----	-----
Gain on sales of mortgage-backed securities and derivatives	\$ 8,952	\$ 12,868
	=====	=====

The following table presents the components of unrealized gain on mortgage-backed securities and derivatives shown in our consolidated statements of income:

Components of Unrealized Gain on Mortgage-backed Securities and Derivatives

	Nine Months Ended September 30,	
	2006	2005
	-----	-----
(In thousands)		
Unrealized gain on self-originated mortgage-backed securities retained in period	\$ --	\$ 72,806
Unrealized loss on mortgage-backed securities	(11,982)	(65,640)
Unrealized gain on free standing derivatives	14,617	29,076
	-----	-----
Unrealized gain on mortgage-backed securities and derivatives	\$ 2,635	\$ 36,242
	=====	=====

Net Loan Servicing Fees

Net loan servicing fees were \$15.0 million for the nine months ended September 30, 2006 compared to \$7.6 million for the nine months ended September 30, 2005.

Loan Servicing Fees: Loan servicing fees increased to \$98.1 million for the nine months ended September 30, 2006 from \$49.4 million for the nine months ended September 30, 2005, an increase of \$48.7 million, or 98.7%. The increase in loan servicing fees in the first nine months of 2006 versus the first nine months of 2005 was primarily the result of an increase in loans serviced for others. At September 30, 2006, the principal amount of loans serviced for others, including loans held for sale and loans held for investment, was \$43.0 billion, compared to \$27.5 billion at September 30, 2005.

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Change in Fair Value of MSRs: Effective at the beginning of the first quarter of 2006, we adopted Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140" ("SFAS 156"), and elected the fair value option to subsequently measure our MSRs. Under the fair value option, all changes in the fair value of MSRs are reported in the consolidated statements of income. For the nine months ended September 30, 2006, the change in fair value of MSRs was \$83.1 million. The change in fair value of MSRs in the first nine months of 2006 includes a \$73.9 million reduction in fair value due to the realization of servicing cash flows and a \$16.3 million reduction due to changes in valuation assumptions, partially offset by a \$7.1 million gain on MSR related hedges.

Amortization and Impairment of MSRs: Amortization and impairment of MSRs includes amortization of MSRs of \$36.4 million and a temporary impairment provision of \$5.4 million for the nine months ended September 30, 2005. Effective at the beginning of the first quarter of 2006, we adopted the SFAS 156 fair value option and did not recognize amortization and impairment of MSRs during the first nine months of 2006.

The following table presents the components of net loan servicing fees for the nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,	
	2006	2005
(In thousands)		
Loan servicing fees	\$ 98,129	\$ 49,381
Amortization and impairment of mortgage servicing rights	--	(41,790)
Change in fair value of mortgage servicing rights:		
Due to realization of cash flows	(73,880)	--
Due to changes in valuation assumptions	(16,324)	--
Due to gain on related hedges	7,115	--
	\$ 15,040	\$ 7,591
	=====	=====

Other Non-Interest Income

Other non-interest income totaled \$5.9 million for the nine months ended September 30, 2006 compared to \$5.6 million for the nine months ended September 30, 2005. For the nine months ended September 30, 2006, other non-interest income primarily includes reinsurance premiums earned totaling approximately \$3.2 million, rental income of \$1.0 million, revenue from title services of \$0.5 million and other fee income of \$0.4 million. For the nine months ended September 30, 2005, other non-interest income primarily includes reinsurance premiums earned totaling approximately \$3.2 million, rental income of \$1.1 million and revenue from title services of \$0.9 million.

Non-Interest Expenses

Our non-interest expenses for the nine months ended September 30, 2006 were \$504.9 million compared to \$400.7 million for the nine months ended September 30, 2005, an increase of \$104.2 million, or 26.0%. The increase primarily reflects an \$85.3 million rise in our Loan Origination segment non-interest expenses to \$453.4 million, or 1.05% of total loan originations in the first nine months of 2006, from \$368.1 million, or 1.16% of total loan originations in the first nine months of 2005.

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

Salaries, Commissions and Benefits, net: Salaries, commissions and benefits, net, for the nine months ended September 30, 2006 were \$308.1 million, compared to \$264.7 million for the nine months ended September 30, 2005, an increase of \$43.4 million, or 16.4%. The increase in expenses reflects higher origination volume and a resulting higher commission expense and higher salaries due to an increase in employees to 7,400 at September 30, 2006 from 6,467 at September 30, 2005.

Other Operating Expenses: Operating expenses, excluding salaries, commissions and benefits, were \$196.8 million for the nine months ended September 30, 2006, compared to \$136.0 million for the nine months ended September 30, 2005, an increase of \$60.8 million, or 44.7%. The increase in operating expenses in the first nine months of 2006 versus the first nine months of 2005 includes a \$28.6 million increase in other non-interest expense and a \$14.6 million increase in occupancy and equipment expense. The increase in other non-interest expenses in the first nine months of 2006 versus the first nine months of 2005 was primarily due to a \$9.1 million increase in lender-paid private mortgage insurance, an \$8.0 million increase in reserves associated with our servicing assets, and the remainder was primarily

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associated with our acquisition of Waterfield Financial Corporation in January 2006. The increase in occupancy and equipment expense was due to higher lease obligations and certain fixed asset expenses relating to the increased number of branches in the 2006 period.

We recognized \$65.0 million of income tax expense for the nine months ended September 30, 2006, compared to a \$1.3 million income tax benefit for the nine months ended September 30, 2005. The increase in income tax expense in the first nine months of 2006 versus the first nine months of 2005 reflects an increase in income before income taxes relating to our taxable REIT subsidiary ("TRS").

Loan Originations

We originate and sell or securitize one-to-four family residential mortgage loans. Total loan originations for the nine months ended September 30, 2006 were \$43.4 billion compared to \$31.7 billion for the nine months ended September 30, 2005, a 36.7% increase. Mortgage brokers, through our wholesale loan production offices, accounted for 56% of our loan originations in the nine months ended September 30, 2006 compared to 52% of our originations in the nine months ended September 30, 2005. Originations conducted through our retail loan production offices and internet call center were 38% of our loan originations in the nine months ended September 30, 2006 compared to 47% of our originations in the nine months ended September 30, 2005. During the nine months ended September 30, 2006, 6% of our loan originations were purchased from correspondents compared to 1% of our originations in the nine months ended September 30, 2005.

Liquidity and Capital Resources

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As of September 30, 2006, we had arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with seventeen different financial institutions and had borrowed funds from ten of these counterparties. Because we borrow money under these agreements based on the fair value of our mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, our borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of our mortgage-backed securities declines for other reasons.

As of September 30, 2006, we had \$7.2 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 5.39% before the impact of interest rate swaps and a weighted-average remaining maturity of 1.1 years.

We issue adjustable-rate collateralized debt obligations to finance certain portions of our mortgage loans held for investment. The collateralized debt obligations are collateralized by adjustable-rate mortgage ("ARM") loans that have been placed in a trust. As of September 30, 2006, our collateralized debt obligations had a balance of \$3.5 billion and an effective interest cost of 5.55%.

To originate a mortgage loan, we draw against either a \$3.3 billion SLN commercial paper program, a \$2.0 billion pre-purchase facility with UBS Real Estate Securities Inc. ("UBS"), a facility of \$2.5 billion with Bear Stearns, a \$1.3 billion bank syndicated facility led by Bank of America, N.A. (which includes a \$437.5 million term loan facility which we use to finance our MSR), a facility of \$750 million with Morgan Stanley Bank ("Morgan Stanley"), a facility of \$125 million with J.P. Morgan Chase, a \$750 million facility with IXIS Real Estate Capital, Inc. ("IXIS"), a \$350 million facility with Credit Suisse First Boston Mortgage Capital LLC, and a \$1.4 billion syndicated facility led by Calyon New York Branch ("Calyon"). The Bank of America, IXIS, Morgan Stanley and Calyon facilities are committed facilities. In addition, we have gestation facilities with UBS, Greenwich Capital Financial Products, Inc. ("Greenwich"), Societe Generale, and Deutsche Bank ("Deutsche"). These facilities are secured by the mortgages owned by us and by certain of our other assets. Advances drawn under these facilities bear interest at rates that vary depending on the type of mortgages securing the advances. These loans are subject to sublimits, advance rates and terms that vary depending on the type of securing mortgages and the ratio of our liabilities to our tangible net worth. At November 3, 2006, the aggregate outstanding balance under the commercial paper program was \$2.7 billion, the aggregate outstanding balance under the warehouse facilities was \$4.6 billion, the aggregate outstanding balance in drafts payable was \$14.0 million and the aggregate maximum amount available for additional borrowings was \$4.5 billion.

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

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

- o the loan is rejected as "unsatisfactory for purchase" by the ultimate investor and has exceeded its permissible 120-day warehouse period;

- o we fail to deliver the applicable mortgage note or other documents evidencing the loan within the requisite time period;
- o the underlying property that secures the loan has sustained a casualty loss in excess of 5% of its appraised value; or
- o the loan ceases to be an eligible loan (as determined pursuant to the applicable facility agreement).

As of September 30, 2006, our aggregate warehouse facility borrowings were \$1.9 billion (including \$44.0 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were \$8.7 million, compared to \$3.5 billion in aggregate warehouse facility borrowings (including \$21.6 million of borrowings under a working capital sub-limit), and outstanding drafts payable of \$20.8 million as of December 31, 2005. As of September 30, 2006, our loans held for investment were \$5.8 billion and our loans held for sale were \$1.4 billion compared to loans held for investment of \$3.5 billion and loans held for sale of \$2.2 billion as of December 31, 2005.

In addition to the warehouse facilities, we have purchase and sale agreements with UBS, Greenwich, Societe Generale, and Deutsche. These agreements allow us to accelerate the sale of our mortgage loan inventory, resulting in a more effective use of the warehouse facilities. Aggregate amounts sold and being held under these agreements as of September 30, 2006 and December 31, 2005 were \$3.6 billion and \$3.2 billion, respectively. Aggregate amounts so held under these agreements at November 3, 2006 were \$2.5 billion. These agreements are not committed facilities and may be terminated at the discretion of the counterparties.

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

We also have a \$438 million term loan facility with a bank syndicate led by Bank of America which we use to finance our MSR's. The term loan facility expires on August 9, 2007, but we have an option to extend the term for twelve additional months at a higher interest rate. We expect to renew the term loan facility at similar or better terms prior to the expiration date. Interest is based on a spread to the LIBOR and may be adjusted for earnings on escrow balances. At September 30, 2006 and December 31, 2005, borrowings under our term loan facility were \$201.0 million and \$206.2 million, respectively.

Cash and cash equivalents decreased to \$298.1 million as of September 30, 2006 from \$575.7 million as of December 31, 2005.

Our primary sources of cash and cash equivalents during the nine months ended September 30, 2006 were as follows:

- o \$41.6 billion of proceeds from principal received from sales of mortgage loans held for sale;

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- o \$3.4 billion of principal proceeds from sales of mortgage-backed securities;
- o \$2.4 billion increase in collateralized debt obligations; and
- o \$1.7 billion of principal repayments of mortgage-backed securities.

Our primary uses of cash and cash equivalents during the nine months ended September 30, 2006 were as follows:

- o \$43.4 billion of origination of mortgage loans;
- o \$3.5 billion of purchases of mortgage-backed securities;
- o \$2.6 million decrease in reverse repurchase agreements, net; and
- o \$1.6 billion decrease in warehouse lines of credit, net.

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Commitments

The Company had the following commitments (excluding derivative financial instruments) at September 30, 2006:

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Y
	-----	-----	-----	-----	-----
(In thousands)					
Warehouse liabilities	\$1,890,034	\$1,890,034	\$ --	\$ --	\$ --
Commercial paper	1,283,858	1,283,858	--	--	--
Reverse repurchase agreements	7,232,503	1,204,850	6,027,653	--	--
Collateralized debt obligations	3,484,873	377,913	2,108,558	804,678	193,724
Trust preferred securities	282,340	--	--	--	282,340
Notes payable	317,161	205,463	65,993	22,197	23,508
Operating leases	144,090	20,512	67,007	35,625	20,956

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ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

Movements in interest rates also impact the value of MSR's. When interest rates decline, the loans underlying the MSR's are generally expected to prepay faster, which reduces the market value of the MSR's. To reduce the sensitivity of earnings to interest rate and market value fluctuations, we may use free-standing derivatives (economic hedges) to hedge the risk of changes in the fair value of MSR's, with the resulting gains or losses reflected in income. Changes in the fair value of the MSR's from changing mortgage interest rates are generally offset by gains or losses in the fair value of the derivatives depending on the amount of MSR's we hedge. We may choose not to fully hedge MSR's, partly because origination volume tends to act as a natural hedge. For example, as interest rates decline, servicing values decrease and fees from origination volume tend to increase. Conversely, as interest rates increase, the fair value of the MSR's increases, while fees from origination volume tend to decline.

The Company enters into interest rate swap agreements to manage its interest rate exposure when financing its ARM loans and its mortgage-backed securities. The Company generally borrows money based on short-term interest rates by entering into borrowings with maturity terms of less than one year, and frequently nine to twelve months. The Company's ARM loans and mortgage-backed securities financing vehicles generally have an interest rate that reprices based on frequency terms of one to twelve months. The Company's mortgage-backed securities have an initial fixed interest rate period of three to five years. When the Company enters into a swap agreement, it generally agrees to pay a fixed rate of interest and to receive a variable interest rate, generally based on LIBOR. These swap agreements have the effect of converting the Company's variable-rate debt into fixed-rate debt over the life of the swap agreements. These instruments are used as a cost-effective way to lengthen the average repricing period of the Company's variable-rate and short-term borrowings such that the average repricing of the borrowings more closely matches the average repricing of the Company's mortgage-backed securities. The Company's duration gap was approximately one month on September 30, 2006.

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The following tables summarize the Company's interest rate sensitive instruments as of September 30, 2006 and December 31, 2005:

	September 30, 2006	
	Carrying Amount	Estimated Fair Value
Assets:		
Mortgage-backed securities	\$ 8,957,373	\$ 8,957,373
Derivative assets (1)	26,323	96,686
Mortgage loans held for sale, net	1,365,595	1,397,843
Mortgage loans held for investment, net	5,797,801	5,912,358
Mortgage servicing rights	460,913	460,913
Liabilities:		
Reverse repurchase agreements	\$ 7,232,503	\$ 7,232,534
Collateralized debt obligations	3,484,873	3,486,483
Derivative liabilities	40,170	40,170

	December 31, 2005	
	Carrying Amount	Estimated Fair Value
Assets:		
Mortgage-backed securities	\$ 10,602,104	\$ 10,602,104
Derivative assets (1)	44,594	96,176
Mortgage loans held for sale, net	2,208,749	2,224,234
Mortgage loans held for investment, net	3,479,721	3,529,844
Mortgage servicing rights	319,671	320,827
Liabilities:		
Reverse repurchase agreements	\$ 9,806,144	\$ 9,805,640
Collateralized debt obligations	1,057,906	1,057,906
Derivative liabilities	16,773	16,773

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

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Changes in fair value that are stated in the table below are derived based upon assuming immediate and equal changes to market interest rates of various maturities. The base or current interest rate curve is adjusted by the levels shown below:

September 30, 2006		
-100 Basis	-50 Basis	+50 Basis

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(In thousands)	Points -----	Points -----	Point -----
Changes in fair value of mortgage-backed securities, net of the related financing and hedges	\$ (51,781)	\$ (15,683)	\$ (2,2
Changes in fair value of mortgage loans held for sale and interest rate lock commitments, net of the related financing and hedges	(10,151)	(4,921)	(3,2
Changes in fair value of mortgage loans held for investment, net of the related financing and hedges	6,278	5,698	(1,1
Changes in fair value of mortgage servicing rights, net of the related financing and hedges	(24,902)	(11,860)	4,0
Net change	----- \$ (80,556) =====	----- \$ (26,766) =====	----- \$ (2,7 =====

ITEM 4.

CONTROLS AND PROCEDURES

Controls and Procedures

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this quarterly report. The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to determine whether any changes occurred during the third quarter of 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the third quarter of 2006.

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PART II-OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

None.

ITEM 1A.

RISK FACTORS

There have been no material changes during the quarter ended September 30, 2006

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to the risk factors previously disclosed in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5.

OTHER INFORMATION

None.

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ITEM 6.

EXHIBITS

The following exhibits are filed with this Quarterly Report on Form 10-Q:

Exhibit No.	Description
10.1	-- Master Repurchase Agreement, dated as of September 13, 2006, by and among American Home Mortgage Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Servicing, Inc., American Home Mortgage Investment Corp., American Home Mortgage Holdings, Inc. and Credit Suisse First Boston Mortgage Capital LLC.
10.2	-- Guaranty, dated as of September 13, 2006, by American Home Mortgage Holdings, Inc. in favor of Credit Suisse First Boston Mortgage Capital LLC.
10.3	-- Custodial Agreement, dated as of September 13, 2006, by and among American Home Mortgage Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Servicing, Inc., American Home Mortgage Investment Corp., Credit Suisse First Boston Mortgage Capital LLC and Deutsche Bank National Trust Company.
10.4	-- Whole Loan Purchase and Sale Agreement, dated as of September 22, 2006, by and among American Home Mortgage Corp., American Home Mortgage Investment

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- Corp., American Home Mortgage Servicing, Inc., Aspen Funding Corp., Gemini Securitization Corp., LLC, Newport Funding Corp. and Sedona Capital Funding Corp., LLC.
- 10.5 -- Whole Loan Custodial Agreement, dated as of September 22, 2006, by and among American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Servicing, Inc., Aspen Funding Corp., Gemini Securitization Corp., LLC, Newport Funding Corp., Sedona Capital Funding Corp., LLC and Deutsche Bank National Trust Company.
- 10.6 -- Amendment No. 1, dated as of September 29, 2006, to the Third Amended and Restated Master Repurchase Agreement, dated as of July 15, 2005, by and among American Home Mortgage Corp., American Home Mortgage Investment Corp., American Home Mortgage Acceptance, Inc., American Home Mortgage Servicing, Inc. and IXIS Real Estate Capital Inc.
- 10.7 -- Mortgage Loan Purchase and Sale Agreement, dated as of October 16, 2006, by and among American Home Mortgage Corp., American Home Mortgage Servicing, Inc., the entities party thereto as conduit purchasers, committed purchasers and funding agents and Societe Generale, as Administrative Agent.
- 10.8 -- Performance Guaranty, dated as of October 16, 2006, by American Home Mortgage Holdings, Inc. and American Home Mortgage Investment Corp. in favor of Societe Generale, as Administrative Agent for the purchasers party to the Mortgage Loan Purchase and Sale Agreement, dated as of October 16, 2006.
- 10.9 -- Custodial Agreement, dated as of October 16, 2006, by and among American Home Mortgage Corp., American Home Mortgage Servicing, Inc., Societe Generale and Deutsche Bank National Trust Company.
- 31.1 -- Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 -- Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 -- Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 -- Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

AMERICAN HOME MORTGAGE INVESTMENT CORP.

(Registrant)

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Date: November 9, 2006

By: /s/ Michael Strauss

 Michael Strauss
 Chairman, Chief Executive Officer
 and President

Date: November 9, 2006

By: /s/ Stephen A. Hozie

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

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