

Edgar Filing: AMERICAN HOME MORTGAGE INVESTMENT CORP - Form 10-Q

AMERICAN HOME MORTGAGE INVESTMENT CORP  
Form 10-Q  
August 09, 2004

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 June 30, 2004.

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.)

520 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 an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

As of August 4, 2004, there were 40,137,829 shares of the registrant's  
common stock, par value \$0.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (Unaudited)  
(Dollars in thousands, except per share amounts)

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|                                                                                                                                                                                          | June 30,<br>2004 | De    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------|
|                                                                                                                                                                                          | -----            | ---   |
| Assets:                                                                                                                                                                                  |                  |       |
| Cash and cash equivalents                                                                                                                                                                | \$ 433,918       |       |
| Accounts receivable and servicing advances                                                                                                                                               | 100,489          |       |
| Mortgage-backed securities (including securities pledged of \$6,786,841 and \$1,426,477 as of June 30, 2004 and December 31, 2003, respectively)                                         | 7,331,162        |       |
| Mortgage loans held for sale, net                                                                                                                                                        | 1,435,998        |       |
| Derivative assets                                                                                                                                                                        | 44,608           |       |
| Mortgage servicing rights, net                                                                                                                                                           | 141,818          |       |
| Premises and equipment, net                                                                                                                                                              | 44,541           |       |
| Goodwill                                                                                                                                                                                 | 88,799           |       |
| Other assets                                                                                                                                                                             | 13,788           |       |
|                                                                                                                                                                                          | -----            | ---   |
| Total assets                                                                                                                                                                             | \$ 9,635,121     | ===== |
|                                                                                                                                                                                          |                  | ===== |
| Liabilities and Stockholders' Equity:                                                                                                                                                    |                  |       |
| Liabilities:                                                                                                                                                                             |                  |       |
| Warehouse lines of credit                                                                                                                                                                | \$ 672,456       |       |
| Drafts payable                                                                                                                                                                           | 86,300           |       |
| Commercial paper                                                                                                                                                                         | 1,047,036        |       |
| Reverse repurchase agreements                                                                                                                                                            | 6,413,506        |       |
| Payable for securities purchased                                                                                                                                                         | 423,909          |       |
| Derivative liabilities                                                                                                                                                                   | 10,098           |       |
| Accrued expenses and other liabilities                                                                                                                                                   | 119,885          |       |
| Notes payable                                                                                                                                                                            | 107,237          |       |
| Income taxes payable                                                                                                                                                                     | 41,128           |       |
|                                                                                                                                                                                          | -----            | ---   |
| Total liabilities                                                                                                                                                                        | 8,921,555        | ----- |
|                                                                                                                                                                                          |                  | ----- |
| Commitments and contingencies                                                                                                                                                            | -                |       |
| Stockholders' Equity:                                                                                                                                                                    |                  |       |
| Preferred stock, \$0.01 per share par value, 10,000,000 shares authorized, none issued and outstanding                                                                                   | -                |       |
| Common stock, \$0.01 per share par value, 100,000,000 shares authorized, 40,111,559 and 25,270,100 shares issued and outstanding as of June 30, 2004 and December 31, 2003, respectively | 401              |       |
| Additional paid-in capital                                                                                                                                                               | 629,203          |       |
| Retained earnings                                                                                                                                                                        | 134,515          |       |
| Accumulated other comprehensive loss                                                                                                                                                     | (50,553)         |       |
|                                                                                                                                                                                          | -----            | ---   |
| Total stockholders' equity                                                                                                                                                               | 713,566          | ----- |
|                                                                                                                                                                                          |                  | ----- |
| Total liabilities and stockholders' equity                                                                                                                                               | \$ 9,635,121     | ===== |
|                                                                                                                                                                                          |                  | ===== |
| See notes to consolidated financial statements.                                                                                                                                          |                  |       |

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|                                                                | Three Months Ended June 30, |           | Si |
|----------------------------------------------------------------|-----------------------------|-----------|----|
|                                                                | 2004                        | 2003      |    |
| Net interest income:                                           |                             |           |    |
| Interest income                                                | \$ 72,404                   | \$ 25,446 |    |
| Interest expense                                               | (52,318)                    | (12,572)  |    |
| Total net interest income                                      | 20,086                      | 12,874    |    |
| Non-interest income:                                           |                             |           |    |
| Gain on sales of mortgage loans and mortgage-backed securities | 59,840                      | 129,282   |    |
| Loan servicing fees                                            | 8,730                       | 9,821     |    |
| Amortization                                                   | (7,764)                     | (17,286)  |    |
| Impairment reserve recovery (provision)                        | 7,252                       | (6,472)   |    |
| Net loan servicing fees (loss)                                 | 8,218                       | (13,937)  |    |
| Other non-interest income                                      | 1,226                       | 1,241     |    |
| Total non-interest income                                      | 69,284                      | 116,586   |    |
| Non-interest expenses:                                         |                             |           |    |
| Salaries, commissions and benefits, net                        | 42,851                      | 54,206    |    |
| Occupancy and equipment                                        | 8,008                       | 6,679     |    |
| Data processing and communications                             | 3,338                       | 2,748     |    |
| Office supplies and expenses                                   | 3,215                       | 3,847     |    |
| Marketing and promotion                                        | 2,196                       | 2,805     |    |
| Travel and entertainment                                       | 2,887                       | 2,891     |    |
| Professional fees                                              | 1,829                       | 1,672     |    |
| Other                                                          | 4,082                       | 8,423     |    |
| Total non-interest expenses                                    | 68,406                      | 83,271    |    |
| Net income before income tax (benefit) expense                 | 20,964                      | 46,189    |    |
| Income tax (benefit) expense                                   | (12,518)                    | 19,312    |    |
| Net income                                                     | \$ 33,482                   | \$ 26,877 |    |
| Per share data:                                                |                             |           |    |
| Basic                                                          | \$ 0.84                     | \$ 1.58   |    |
| Diluted                                                        | \$ 0.83                     | \$ 1.55   |    |
| Weighted average number of shares - basic                      | 40,000                      | 16,981    |    |
| Weighted average number of shares - diluted                    | 40,445                      | 17,348    |    |

See notes to consolidated financial statements.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)  
SIX MONTHS ENDED JUNE 30, 2004 AND 2003

| (Dollars in thousands)                                               | Shares of<br>Common<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings |
|----------------------------------------------------------------------|------------------------------|-----------------|----------------------------------|----------------------|
| Balance at December 31, 2002                                         | 16,717,459                   | \$ 167          | \$ 95,785                        | \$ 68,14             |
| Comprehensive income:                                                |                              |                 |                                  |                      |
| Net income                                                           | -                            | -               | -                                | 43,19                |
| Comprehensive income                                                 |                              |                 |                                  |                      |
| Issuance of common stock, earnouts                                   | 295,976                      | 3               | 3,076                            |                      |
| Issuance of common stock, 1999 Omnibus                               |                              |                 |                                  |                      |
| Stock Incentive Plan                                                 | 190,614                      | 2               | 1,308                            |                      |
| Dividends declared                                                   | -                            | -               | -                                | (2,51                |
| Balance at June 30, 2003                                             | 17,204,049                   | \$ 172          | \$ 100,169                       | \$ 108,81            |
| Balance at December 31, 2003                                         | 25,270,100                   | \$ 252          | \$ 281,432                       | \$ 121,02            |
| Comprehensive income:                                                |                              |                 |                                  |                      |
| Net income                                                           | -                            | -               | -                                | 54,70                |
| Net unrealized loss on mortgage-backed securities available for sale | -                            | -               | -                                |                      |
| Gross unrealized gain on interest rate swaps from cash flow hedges   | -                            | -               | -                                |                      |
| Comprehensive income                                                 |                              |                 |                                  |                      |
| Issuance of common stock, offering                                   | 14,375,000                   | 144             | 339,647                          |                      |
| Issuance of common stock, earnouts                                   | 211,539                      | 2               | 4,692                            |                      |
| Issuance of common stock, 1999 Omnibus                               |                              |                 |                                  |                      |
| Stock Incentive Plan                                                 | 254,920                      | 3               | 1,833                            |                      |
| Tax benefit from stock options exercised                             | -                            | -               | 1,599                            |                      |
| Dividends declared                                                   | -                            | -               | -                                | (41,21               |
| Balance at June 30, 2004                                             | 40,111,559                   | \$ 401          | \$ 629,203                       | \$ 134,51            |
| See notes to consolidated financial statements.                      |                              |                 |                                  |                      |

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(In thousands)

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|                                                                               | Six Months Ended Ju |
|-------------------------------------------------------------------------------|---------------------|
|                                                                               | 2004                |
| Cash flows from operating activities:                                         |                     |
| Net income                                                                    | \$ 54,705           |
| Adjustments to reconcile net income to net cash used in operating activities: |                     |
| Depreciation and amortization                                                 | 3,965               |
| Amortization and impairment of mortgage servicing rights                      | 20,442              |
| Origination of mortgage loans held for sale                                   | (11,032,816)        |
| Proceeds on sales and securitizations of mortgage loans                       | 10,822,945          |
| (Decrease) increase in income taxes payable                                   | (25,674)            |
| Amortization of mortgage-backed securities premiums, net                      | 10,282              |
| Unrealized gain on securities held in trading                                 | (16,486)            |
| Unrealized gain on free standing derivatives                                  | (41,451)            |
| Capitalization of mortgage servicing rights                                   | (44,476)            |
| Other                                                                         | 633                 |
| (Increase) decrease in operating assets:                                      |                     |
| Accounts receivable and servicing advances                                    | (16,178)            |
| Derivative assets                                                             | 14,715              |
| Other assets                                                                  | 128                 |
| Increase (decrease) in operating liabilities:                                 |                     |
| Accrued expenses and other liabilities                                        | 33,160              |
| Forward delivery contracts                                                    | 3,440               |
| Net cash used in operating activities                                         | (212,666)           |
| Cash flows from investing activities:                                         |                     |
| Purchases of premises and equipment, net                                      | (6,768)             |
| Purchases and additions to mortgage-backed securities                         | (7,701,843)         |
| Sales of mortgage-backed securities                                           | 1,735,145           |
| Principal repayments on mortgage-backed securities                            | 356,206             |
| Other                                                                         | (244)               |
| Net cash used in investing activities                                         | (5,617,504)         |
| Cash flows from financing activities:                                         |                     |
| (Decrease) increase in warehouse lines of credit                              | (449,304)           |
| Increase in reverse repurchase agreements                                     | 5,069,179           |
| Increase in payable for securities purchased                                  | 164,208             |
| Increase in commercial paper                                                  | 1,047,036           |
| Increase in drafts payable                                                    | 60,675              |
| Proceeds from issuance of capital stock                                       | 342,211             |
| Dividends paid                                                                | (30,647)            |
| Increase (decrease) in notes payable                                          | 7,582               |
| Net cash provided by financing activities                                     | 6,210,940           |
| Net increase in cash and cash equivalents                                     | 380,770             |
| Cash and cash equivalents, beginning of period                                | 53,148              |
| Cash and cash equivalents, end of period                                      | \$ 433,918          |
| Supplemental disclosure of cash flow information:                             |                     |

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|                   |           |
|-------------------|-----------|
| Interest paid     | \$ 36,598 |
| Income taxes paid | 6,361     |

See notes to consolidated financial statements.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - On December 3, 2003, American Home Mortgage Investment Corp. ("AHM Investment") completed its merger with Apex Mortgage Capital, Inc. ("Apex"), a Maryland corporation that operated and elected to be treated as a real estate investment trust, or REIT. Under the terms of the transaction, American Home Mortgage Holdings, Inc. ("AHM Holdings") reorganized through a reverse triangular merger that caused AHM Investment, a newly formed Maryland corporation that operates and will elect to be treated as a REIT, for federal income tax purposes, to become AHM Holdings' parent. AHM Investment was formed to combine the net assets of Apex, consisting primarily of mortgage-backed securities, with the mortgage origination and servicing businesses of AHM Holdings. As used herein, references to the "Company," "American Home," "we," "our" and "us" refer to AHM Investment collectively with its subsidiaries.

AHM Investment is a mortgage REIT focused on earning net interest income from purchased and self-originated mortgage-backed securities, and through its taxable subsidiaries, on earning income from originating and selling mortgage loans and servicing mortgage loans for institutional investors. Mortgages are originated through a network of loan origination offices as well as through mortgage brokers and are serviced at the Company's Columbia, Maryland servicing center.

Basis of Presentation - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's estimates and assumptions primarily arise from risks and uncertainties associated with interest rate volatility, prepayment volatility, credit exposure and regulatory changes. Although management is not currently aware of any factors that would significantly change its estimates and assumptions in the near term, future changes in market trends and conditions may occur which could cause actual results to differ materially. When necessary, certain reclassifications of prior year financial statement amounts have been made to conform to the current year presentation.

Due to the fact that the Company exercises significant influence on the operations of its joint ventures, their balances and operations have been fully consolidated in the accompanying consolidated financial statements and all intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, amounts due from banks and overnight deposits.

Mortgage-backed Securities - Mortgage-backed securities are classified as either

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trading or available for sale. Trading securities are reported at fair value, and changes in fair value are reported in gain on sales of mortgage loans and mortgage-backed securities in the statements of operations. Available for sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income (loss). Realized gains and losses on sales of available for sale securities are determined on an average cost basis and included in gain on sales of mortgage loans and mortgage-backed securities.

When the fair value of an available for sale security is less than amortized cost, management considers whether there is an other-than-temporary impairment in the value of the security (e.g., whether the security will be sold prior to the recovery of fair value). If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and the unrealized loss is transferred from accumulated other comprehensive income as an immediate reduction of current earnings (i.e., as if the loss had been realized in the period of impairment). 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 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, 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 Servicing Rights** - Mortgage servicing rights ("MSRs") are carried at the lower of cost or fair value, based on defined risk strata, and are amortized in proportion to and over the period of estimated net servicing income. When the Company sells certain loans

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and retains the servicing rights, it allocates the cost basis of the loans between the assets sold and the MSRs based on their relative fair values on the date of sale.

The Company estimates the fair value of its MSRs by obtaining market information from one of the primary MSR brokers. When the book value of capitalized MSRs exceeds its fair value, impairment is recognized through a valuation allowance. In determining impairment, our mortgage servicing portfolio is stratified by the predominant risk characteristic of the underlying mortgage loans. The Company has determined that the predominant risk characteristic is the interest rate on the underlying loans. The Company measures impairment for each stratum by comparing the estimated fair value to the recorded book value. Temporary impairment is recorded through a valuation allowance and amortization expense in the period of occurrence. In addition, the Company periodically evaluates its MSRs for other than temporary impairment to determine if the carrying value before the application of the valuation allowance is recoverable. The Company receives a sensitivity analysis of the estimated fair value of its MSRs assuming a 200-basis-point instantaneous increase in interest rates from an independent MSR broker. The fair value estimate includes changes in market assumptions that would be expected given the increase in mortgage rates (e.g., prepayment speeds would be lower). The Company believes this 200-basis-point increase in mortgage rates to be an appropriate threshold for determining the recoverability of the temporary impairment because that size rate increase is foreseeable and

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consistent with historical mortgage rate fluctuations. When using this instantaneous change in rates, if the fair value of the strata of MSRs is estimated to increase to a point where all of the impairment would be recovered, the impairment is considered to be temporary. When the Company determines that a portion of the MSRs is not recoverable, the related MSRs and the previously established valuation allowance are correspondingly reduced to reflect other than temporary impairment.

**Premises and Equipment** - Premises and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over their estimated service lives. 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 within the consolidated financial statements.

**Goodwill** - Goodwill represents the excess purchase price over the fair value of net assets acquired from business acquisitions and which were being amortized over their initial estimated lives, generally 20 years. The Company does not amortize goodwill, but instead tests for impairment at least annually. The Company 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-backed securities 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.

**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 LIBOR. Reverse repurchase agreements are accounted for as short-term borrowings and recorded as a liability on the balance sheet.

**Commercial Paper** - The Company formed 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 its mortgage loans held for sale. The commercial paper is secured by the Company's loans held for sale, mortgage-backed securities and cash and bears interest at prevailing money market rates approximating LIBOR. Commercial paper is accounted for as a short-term borrowing and recorded as a liability on the balance sheet.

**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 are transferred into one of the warehouse facilities when they are 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.

**Interest Rate Lock Commitments** - Loans to be Sold. 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. The Company classifies and accounts for the IRLCs associated with

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loans expected to be sold as free-standing derivatives. Accordingly, IRLCs are recorded at fair value with changes in fair value recorded to current earnings. The fair value of the IRLCs initiated on or before March 31, 2004 is determined by an estimate of the ultimate gain on sale of the loans, including the value of MSRs, net of estimated net costs to originate the loan. In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 105 ("SAB No. 105"), which changed the timing of recognition of MSRs for IRLCs initiated after March 31, 2004. See "Recently Issued Accounting

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Standards" in this note. IRLCs associated with loans held for securitization are not classified and accounted for as derivative financial instruments.

**Forward Delivery Commitments Used to 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, 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.

**Forward Purchase Contracts Used to Hedge MSRs.** From time to time, the Company hedges its exposure to impairment of the MSRs by the use of mortgage forward purchase contracts. These derivatives are classified and accounted for as fair value hedges. The mortgage forward purchase contracts are carried at fair value with the changes in their fair value recorded to current earnings. When the hedges are deemed to be highly effective, the book value of the hedged MSRs is adjusted for its change in fair value attributable to the hedged risk during the hedge period. The Company assesses the effectiveness of the hedge by using statistical analysis to measure the correlation of the changes in the value of the forward purchase contract to the changes in the value of the MSRs being hedged during the hedge period. During the six months ended June 30, 2004 and the year ended December 31, 2003, the Company did not hedge its exposure to impairment of the MSRs by the use of mortgage forward purchase contracts.

**Interest Rate Swap Agreements** - 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 "gain on sales of mortgage loans and mortgage-backed securities" as they are used to offset the price change exposure of mortgage-backed securities classified as trading. Certain swap agreements are designated as cash flow hedges against the

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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 Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," 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%. All changes in the unrealized gains and losses on swap agreements designated as cash flow hedges have been recorded in "accumulated other comprehensive loss" and are reclassified to earnings as interest expense is recognized on the Company's hedged borrowings. 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 loss would be reclassified to income.

**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 adjustments related to previously recognized income plus deferrals of fees and points received and direct loan origination costs.

**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 are securitized and held, net deferred origination costs are amortized over the life of the security using the level-yield method and such amounts are included in interest income. Gain on sales of mortgage loans and salaries, commissions and benefits have been

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reduced by \$47.8 million and \$43.7 million due to direct loan origination costs, including commission costs, incurred for the six months ended June 30, 2004 and 2003, respectively.

**Interest Recognition -** The Company accrues interest income as it is earned. 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. Interest expense is recorded on outstanding lines of credit at a rate based on a spread to the LIBOR.

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

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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"). The Company has elected to account for the Plan using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and to provide 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," had been applied. Had compensation cost been determined based on the fair value at the grant dates for awards under the Plan, the Company's net income would have been \$54.3 million and \$42.9 million for the six months ended June 30, 2004 and 2003, respectively. Basic earnings per share would have been \$1.55 and \$2.54 for the six months ended June 30, 2004 and 2003, respectively. Diluted earnings per share would have been \$1.53 and \$2.50 for the six months ended June 30, 2004 and 2003, respectively.

|                                                                                                                                           | Three Months Ended June 30, |           |
|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------|
| (In thousands, except per share data)                                                                                                     | 2004                        | 2003      |
| Net income, as reported                                                                                                                   | \$ 33,482                   | \$ 26,877 |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (179)                       | (160)     |
| Pro forma net income                                                                                                                      | \$ 33,303                   | \$ 26,717 |
| Earnings per share:                                                                                                                       |                             |           |
| Basic - as reported                                                                                                                       | \$ 0.84                     | \$ 1.58   |
| Basic - pro forma                                                                                                                         | \$ 0.83                     | \$ 1.57   |
| Diluted - as reported                                                                                                                     | \$ 0.83                     | \$ 1.55   |
| Diluted - pro forma                                                                                                                       | \$ 0.82                     | \$ 1.54   |

Earnings Per Share - Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or

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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 - On March 9, 2004, the SEC issued SAB No. 105, which provides guidance regarding loan commitments that are accounted for as derivative instruments under SFAS No. 133 (as amended), "Accounting for Derivative Instruments and Hedging Activities." In SAB No. 105, the SEC stated that the value of expected future cash flows related to servicing rights should be excluded when determining the fair value of derivative IRLCs. This guidance must be applied to derivative IRLCs initiated after March 31, 2004. Under the new policy, the value of the expected future cash flow related to servicing rights is not recognized until the underlying loans are sold. The Company's second quarter of 2004 results of operations were reduced \$18.7 million on a pre-tax basis by its adoption of SAB No. 105.

### NOTE 2 - MORTGAGE-BACKED SECURITIES

The following table presents the Company's mortgage-backed securities as of June 30, 2004 and December 31, 2003:

| June 30, 2004           |                       |                                  |                  |
|-------------------------|-----------------------|----------------------------------|------------------|
| (In thousands)          | Trading<br>Securities | Securities<br>Available for Sale | Total Securities |
| Adjusted cost           | \$ 2,205,480          | \$ 5,183,932                     | \$ 7,389,412     |
| Gross unrealized gains  | -                     | 2,716                            | 2,716            |
| Gross unrealized losses | (8,377)               | (52,589)                         | (60,966)         |
| Fair value              | \$ 2,197,103          | \$ 5,134,059                     | \$ 7,331,162     |
| December 31, 2003       |                       |                                  |                  |
| (In thousands)          | Trading<br>Securities | Securities<br>Available for Sale | Total Securities |
| Adjusted cost           | \$ 476,541            | \$ 1,282,523                     | \$ 1,759,064     |
| Gross unrealized gains  | 3,382                 | 1,969                            | 5,351            |
| Gross unrealized losses | (110)                 | (677)                            | (787)            |
| Fair value              | \$ 479,813            | \$ 1,283,815                     | \$ 1,763,628     |

During the quarter ended June 30, 2004, the Company sold \$947.7 million of

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mortgage-backed securities and realized \$10.7 million in gains and \$4.2 million in losses.

During the six months ended June 30, 2004, the Company sold \$1.7 billion of mortgage-backed securities and realized \$20.1 million in gains and \$5.1 million in losses.

The Company's mortgage-backed securities with gross unrealized losses at June 30, 2004 have been in an unrealized loss position for less than three months.

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The Company has credit exposure on loans it has securitized. The following table summarizes the loan delinquency information as of June 30, 2004 and December 31, 2003:

| June 30, 2004          |               |                 |                                     |                            |
|------------------------|---------------|-----------------|-------------------------------------|----------------------------|
| (Dollars in thousands) |               |                 |                                     |                            |
| Delinquency Status     | Loan<br>Count | Loan<br>Balance | Percent of Total<br>Securitizations | Percent of Total<br>Assets |
| 60 to 89 days          | 8             | \$ 1,436        | 0.05%                               | 0.01%                      |
| 90 and greater days    | 5             | 500             | 0.02%                               | 0.01%                      |
| Foreclosure            | 6             | 1,196           | 0.05%                               | 0.01%                      |
|                        | 19            | \$ 3,132        | 0.12%                               | 0.03%                      |
|                        | =====         | =====           | =====                               | =====                      |

| December 31, 2003      |               |                 |                                     |                            |
|------------------------|---------------|-----------------|-------------------------------------|----------------------------|
| (Dollars in thousands) |               |                 |                                     |                            |
| Delinquency Status     | Loan<br>Count | Loan<br>Balance | Percent of Total<br>Securitizations | Percent of Total<br>Assets |
| 60 to 89 days          | 1             | \$ 692          | 0.13%                               | 0.02%                      |
|                        | 1             | \$ 692          | 0.13%                               | 0.02%                      |
|                        | =====         | =====           | =====                               | =====                      |

As of June 30, 2004, the Company had a payable for securities purchased of \$423.9 million of mortgage-backed securities.

### NOTE 3 - MORTGAGE LOANS HELD FOR SALE, NET

The following table presents the Company's mortgage loans held for sale, net, as of June 30, 2004 and December 31, 2003:

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| (In thousands)                    | June 30,<br>2004 | December 31,<br>2003 |
|-----------------------------------|------------------|----------------------|
| Mortgage loans held for sale      | \$ 1,414,417     | \$ 1,187,314         |
| SFAS No. 133 basis adjustments    | 307              | 16,489               |
| Deferred origination costs, net   | 21,274           | 22,324               |
|                                   | -----            | -----                |
| Mortgage loans held for sale, net | \$ 1,435,998     | \$ 1,226,127         |
|                                   | =====            | =====                |

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## NOTE 4 - DERIVATIVE ASSETS AND LIABILITIES

The following table presents the Company's derivative assets and liabilities as of June 30, 2004 and December 31, 2003:

| (In thousands)                                   | June 30,<br>2004 | December 31,<br>2003 |
|--------------------------------------------------|------------------|----------------------|
|                                                  | -----            | -----                |
| Derivative Assets:                               |                  |                      |
| Interest rate lock commitments                   | \$ 6,122         | \$ 20,837            |
| Interest rate swaps                              | 38,486           | -                    |
|                                                  | -----            | -----                |
| Derivative assets                                | \$ 44,608        | \$ 20,837            |
|                                                  | =====            | =====                |
| Derivative Liabilities:                          |                  |                      |
| Forward delivery contracts - loan commitments    | \$ 5,683         | \$ 4,358             |
| Forward delivery contracts - loans held for sale | 4,415            | 2,300                |
| Interest rate swaps                              | -                | 6,036                |
|                                                  | -----            | -----                |
| Derivative liabilities                           | \$ 10,098        | \$ 12,694            |
|                                                  | =====            | =====                |

The notional amount of the Company's interest rate swaps as of June 30, 2004 was \$4.4 billion.

At June 30, 2004, the notional amount of forward delivery contracts amounted to approximately \$835.1 million. The forward delivery contracts have a high correlation to the price movement of the loans being hedged. The ineffectiveness recognized in hedging loans held for sale recorded on the balance sheet was insignificant as of June 30, 2004.

## NOTE 5 - MORTGAGE SERVICING RIGHTS, NET

The following table presents the activity in the Company's mortgage servicing rights, net, for the three and six months ended June 30, 2004 and 2003:

| (In thousands) | Three Months Ended June 30,<br>2004 | 2003  | Six Months<br>2004 |
|----------------|-------------------------------------|-------|--------------------|
|                | -----                               | ----- | -----              |

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|                                 |             |             |            |
|---------------------------------|-------------|-------------|------------|
| Mortgage Servicing Rights:      |             |             |            |
| Balance at beginning of period  | \$ 129,971  | \$ 112,288  | \$ 121,652 |
| Additions                       | 28,811      | 9,773       | 44,476     |
| Amortization                    | (7,764)     | (17,286)    | (15,110)   |
| Balance at end of period        | \$ 151,018  | \$ 104,775  | \$ 151,018 |
| Impairment Allowance:           |             |             |            |
| Balance at beginning of period  | \$ (16,452) | \$ (15,915) | \$ (3,868) |
| Impairment recovery (provision) | 7,252       | (6,472)     | (5,332)    |
| Balance at end of period        | \$ (9,200)  | \$ (22,387) | \$ (9,200) |
| Mortgage servicing rights, net  | \$ 141,818  | \$ 82,388   | \$ 141,818 |

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## Aggregate Amortization Expense

|                                |           |
|--------------------------------|-----------|
| Six months ended June 30, 2004 | \$ 15,110 |
|--------------------------------|-----------|

## Estimated Amortization Expense

|                          |           |
|--------------------------|-----------|
| Year ended June 30, 2005 | \$ 25,805 |
| Year ended June 30, 2006 | 21,676    |
| Year ended June 30, 2007 | 17,124    |
| Year ended June 30, 2008 | 13,805    |
| Year ended June 30, 2009 | 11,391    |
| Thereafter               | 61,217    |

On a quarterly basis, the Company reviews MSRs for impairment based on risk strata. The MSRs are stratified based on the predominant risk characteristics of the underlying loans. The Company's predominant risk characteristic is interest rate. A valuation allowance is recognized for MSRs that have an amortized balance in excess of the estimated fair value for the individual risk stratification.

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

The significant assumptions used in estimating the fair value of MSRs at June 30, 2004 and December 31, 2003 were as follows:

|                                         | June 30, 2004 | December 31, 2003 |
|-----------------------------------------|---------------|-------------------|
| Weighted-average prepayment speed (PSA) | 280           | 397               |
| Weighted-average discount rate          | 10.02%        | 9.82%             |

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Weighted-average default rate 2.70% 4.02%

The following table presents certain information regarding the Company's servicing portfolio of loans serviced for others at June 30, 2004 and December 31, 2003:

|                                             | June 30, 2004          | December 31, 2003 |
|---------------------------------------------|------------------------|-------------------|
|                                             | -----                  | -----             |
|                                             | (Dollars in thousands) |                   |
| Loan servicing portfolio -                  |                        |                   |
| loans sold or securitized                   | \$ 10,196,733          | \$ 8,272,294      |
| Average loan size                           | \$ 146                 | \$ 120            |
| Weighted-average servicing fee              | 0.358%                 | 0.347%            |
| Weighted-average note rate                  | 5.39%                  | 5.72%             |
| Weighted-average remaining term (in months) | 313                    | 298               |
| Weighted-average age (in months)            | 20                     | 27                |

### NOTE 6 - GOODWILL

The following table presents the activity in the Company's goodwill for the six months ended June 30, 2004:

| (In thousands)                      | Loan<br>Origination<br>Segment | Mortgage-Backed<br>Securities Holdings<br>Segment | Total     |
|-------------------------------------|--------------------------------|---------------------------------------------------|-----------|
|                                     | -----                          | -----                                             | -----     |
| Balance at December 31, 2003        | \$ 58,605                      | \$ 24,840                                         | \$ 83,445 |
| Earnouts from previous acquisitions | 5,354                          | -                                                 | 5,354     |
|                                     | -----                          | -----                                             | -----     |
| Balance at June 30, 2004            | \$ 63,959                      | \$ 24,840                                         | \$ 88,799 |
|                                     | =====                          | =====                                             | =====     |

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

#### Warehouse Lines of Credit

As of June 30, 2004, the Company has a committed bank syndicated facility led by Residential Funding Corporation ("RFC") and a pre-purchase facility with UBS Real Estate Securities Inc. (formerly Paine Webber Real Estate Securities Inc.) ("UBS"). The Company also has committed facilities with CDC Mortgage Capital Inc. ("CDC"), Morgan Stanley Bank ("Morgan Stanley") and Credit Lyonnais. In addition, the Company has a gestation facility with Greenwich Capital Financial Products, Inc. The RFC facility is for \$450 million, the UBS facility is for \$1.2 billion, the CDC facility is for \$450 million, the Morgan Stanley facility is for \$350 million and the Credit Lyonnais facility is for \$200 million. 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 June 30, 2004, the Company was in compliance with respect to the loan covenants.

Included within the RFC line of credit, the Company has a working capital sub-limit that allows for borrowings up to \$35.0 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 June 30, 2004, borrowings under the

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working capital line of credit were \$30.6 million.

The following table presents the Company's warehouse lines of credit as of June 30, 2004 and December 31, 2003:

|                           | June 30, 2004 |              | December 31, |
|---------------------------|---------------|--------------|--------------|
|                           | Outstanding   | Weighted     | Outstanding  |
| (Dollars in thousands)    | Balance       | Average Rate | Balance      |
| CDC                       | \$ 226,261    | 2.09 %       | \$ 406,444   |
| Credit Lyonnais           | 199,540       | 1.92         | 200,702      |
| RFC                       | 199,362       | 2.56         | 293,344      |
| Morgan Stanley            | 44,236        | 2.05         | 92,925       |
| UBS                       | 3,057         | 3.67         | 128,345      |
| Warehouse lines of credit | \$ 672,456    | 2.18 %       | \$1,121,760  |

### Reverse Repurchase Agreements

The Company has arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with 13 different financial institutions and on June 30, 2004 had borrowed funds from nine 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 June 30, 2004, the Company had \$6.4 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.64% and a weighted-average remaining maturity of 6.5 months. As of December 31, 2003, the Company had \$1.3 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.26% and a weighted-average remaining maturity of 6.9 months.

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At June 30, 2004 and December 31, 2003, the Company's reverse repurchase agreements had the following remaining maturities:

|                | June 30,<br>2004 | December 31,<br>2003 |
|----------------|------------------|----------------------|
|                | -----            | -----                |
| (In thousands) |                  |                      |
| Within 30 days | \$ 490,908       | \$ 184,302           |
| 31 to 89 days  | 1,285,198        | -                    |
| 90 to 365 days | 4,637,400        | 1,160,025            |
|                | -----            | -----                |

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|                               |              |              |
|-------------------------------|--------------|--------------|
| Reverse repurchase agreements | \$ 6,413,506 | \$ 1,344,327 |
|                               | =====        | =====        |

## Commercial Paper

In May 2004, the Company formed 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 its mortgage loans held for sale. The special purpose entity allows for issuance of short-term notes with maturities of up to 180 days, extendable up to 300 days. The SLNs bear interest at prevailing money market rates approximating LIBOR. The SLN program capacity, based on aggregate commitments of underlying credit enhancers, was \$2.0 billion at June 30, 2004.

As of June 30, 2004, the Company had \$1.0 billion of SLNs outstanding, with an average interest cost of 1.58%. The SLNs were collateralized by loans held for sale, mortgage-backed securities and cash with a balance of \$1.1 billion as of June 30, 2004.

At June 30, 2004, the Company's commercial paper had the following remaining maturities:

|                  |                  |
|------------------|------------------|
|                  | June 30,<br>2004 |
|                  | -----            |
|                  | (In thousands)   |
| Within 30 days   | \$ 706,241       |
| 31 to 89 days    | 291,149          |
| 90 to 365 days   | 49,646           |
|                  | -----            |
| Commercial paper | \$ 1,047,036     |
|                  | =====            |

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## NOTE 8 - 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 six months ended June 30, 2004 and 2003:

|                                                     |                             |            |
|-----------------------------------------------------|-----------------------------|------------|
|                                                     | Three Months Ended June 30, |            |
|                                                     | 2004                        | 2003       |
| (Dollars in thousands, except per share amounts)    | -----                       | -----      |
| Numerator for basic earnings per share - Net income | \$ 33,482                   | \$ 26,877  |
|                                                     | =====                       | =====      |
| Denominator:                                        |                             |            |
| Denominator for basic earnings per share            |                             |            |
| Weighted average number of common shares            |                             |            |
| outstanding during the period                       | 40,000,162                  | 16,980,679 |
| Net effect of dilutive stock options                | 445,015                     | 367,154    |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Denominator for diluted earnings per share | 40,445,177 | 17,347,833 |
|                                            | =====      | =====      |
| Net income per share:                      |            |            |
| Basic                                      | \$ 0.84    | \$ 1.58    |
|                                            | =====      | =====      |
| Diluted                                    | \$ 0.83    | \$ 1.55    |
|                                            | =====      | =====      |

## NOTE 9 - STOCK OPTION PLANS

In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). Pursuant to the Plan, eligible employees, officers and directors are 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 3,000,000 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.

As of June 30, 2004, the Company has awarded 181,545 shares of restricted stock under the Plan. During the six months ended June 30, 2004 and 2003, the Company recognized compensation expense of \$524 thousand and \$245 thousand, respectively, relating to shares of restricted stock. At June 30, 2004, 111,085 shares are vested. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

The Plan is a compensatory stock option plan. There was no intrinsic value of the options when granted, as the exercise price was equal to the quoted market price at the grant date. No compensation cost has been recognized for the six months ended June 30, 2004 and 2003.

Pursuant to the terms of the Company's merger with Apex, which was consummated on December 3, 2003 (following the approval of the Company's stockholders at a special meeting held on November 21, 2003), the Company assumed the Amended and Restated 1997 Stock Option Plan of Apex (the "Apex Plan"). Upon the closing of the merger with Apex, Apex caused all unvested options granted under the Apex Plan to become vested, and each option granted under the Apex Plan that was not exercised as of December 3, 2003 was terminated and not assumed by the Company.

An aggregate of 1 million shares of common stock were available for issuance upon exercise of stock options granted under the Apex Plan. As of the effective date of the merger, Apex had granted options to purchase 791,000 shares of common stock, which options were either (i) previously caused to become vested or (ii) terminated and not assumed by the Company. Accordingly, options to purchase an aggregate of 209,000 shares of the Company's common stock remain available for grant under the Apex Plan.

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There were 204,691 and 378,014 options granted under the Plan in the three months and six months ended June 30, 2004. The weighted-average fair value per share of options granted during the three months and six months ended June 30, 2004 was \$4.69 and \$5.12, respectively.

There were 174,376 options granted under the Plan in the three months and six months ended June 30, 2003. The weighted-average fair value of options granted

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in the three months and six months ended June 30, 2003 was \$4.32.

The fair value of the options granted is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the grants:

|                         | Three Months Ended June 30, |         | Six Months Ended June 30, |         |
|-------------------------|-----------------------------|---------|---------------------------|---------|
|                         | 2004                        | 2003    | 2004                      | 2003    |
| Dividend yield          | 9.0 %                       | 3.0 %   | 8.1 %                     | 3.0 %   |
| Expected volatility     | 44.0 %                      | 47.0%   | 47.3%                     | 47.0%   |
| Risk-free interest rate | 5.0 %                       | 5.0%    | 5.0%                      | 5.0%    |
| Expected life           | 3 years                     | 3 years | 3 years                   | 3 years |

### NOTE 10 - ACQUISITIONS

Apex Mortgage Capital, Inc.

On December 3, 2003, AHM Investment completed its merger with Apex, a Maryland corporation that operated and elected to be treated as a REIT for federal income tax purposes. Immediately prior to the merger, under the terms of the reorganization agreement between AHM Holdings and AHM Investment, AHM Holdings reorganized through a reverse triangular merger that caused AHM Investment, a newly formed Maryland corporation that operates and will elect to be treated as a REIT for federal income tax purposes, to become AHM Holdings' parent. The shares of AHM Investment issued to former Apex stockholders in the merger were valued at \$177.3 million.

The following table summarizes the required disclosures of the pro forma combined entity, as if the acquisition occurred at the beginning of the year for the six months ended June 30, 2003:

| (In thousands, except per share amounts) | Six Months Ended<br>June 30, 2003 |
|------------------------------------------|-----------------------------------|
| Revenue                                  | \$ 250,237                        |
| Income before income taxes               | 96,838                            |
| Net income                               | \$ 65,949                         |
| Earnings per share - basic               | \$ 2.69                           |
| Earnings per share - diluted             | \$ 2.65                           |

Valley Bancorp, Inc.

In August 2001, AHM Holdings entered into an agreement to acquire Valley Bancorp, Inc. ("Valley Bancorp") and its wholly-owned subsidiary, Valley Bank of Maryland, a federal savings bank located in suburban Baltimore, Maryland, for a combination of cash and stock, subject to certain adjustments. Under the terms of the definitive agreement, the Company will pay \$46 for each share of Valley Bancorp common stock outstanding, or approximately \$6.0 million. The acquisition

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agreement between AHM Holdings and Valley Bancorp has been extended through July 31, 2005. This transaction is subject to regulatory approval and no assurance can be given that such approval will be obtained or that the acquisition agreement with Valley Bancorp will be further extended if necessary.

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### NOTE 11 - SEGMENTS AND RELATED INFORMATION

The Company has three segments, the Mortgage-Backed Securities Holdings segment, the Loan Origination segment and the Loan Servicing segment. The Mortgage-Backed Securities Holdings segment uses the Company's equity capital and borrowed funds to invest in mortgage-backed securities, thereby producing net interest income. The Loan Origination segment originates mortgage loans through the Company's retail and internet branches and loans sourced through mortgage brokers (wholesale channel). The Loan Servicing segment includes investments in MSRs as well as servicing operations primarily for other financial institutions.

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

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 and realized and unrealized gains or losses on related interest rate swaps.

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|                                                                   | Three Months Ended June 30, 20                    |                             |
|-------------------------------------------------------------------|---------------------------------------------------|-----------------------------|
|                                                                   | (In thousands)                                    |                             |
|                                                                   | Mortgage-Backed<br>Securities<br>Holdings Segment | Loan Origination<br>Segment |
| Net interest income:                                              |                                                   |                             |
| Interest income                                                   | \$ 41,189                                         | \$ 31,215                   |
| Interest expense                                                  | (30,490)                                          | (20,927)                    |
| Total net interest income                                         | 10,699                                            | 10,288                      |
| Non-interest income:                                              |                                                   |                             |
| Gain on sales of mortgage loans and<br>mortgage-backed securities | -                                                 | 59,840                      |
| Loan servicing fees                                               | -                                                 | -                           |
| Amortization                                                      | -                                                 | -                           |
| Impairment reserve recovery                                       | -                                                 | -                           |
| Net loan servicing fees                                           | -                                                 | -                           |

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|                           |   |        |
|---------------------------|---|--------|
| Other non-interest income | - | 1,226  |
| Total non-interest income | - | 61,066 |

## Non-interest expenses:

|                                         |       |        |
|-----------------------------------------|-------|--------|
| Salaries, commissions and benefits, net | 54    | 41,612 |
| Occupancy and equipment                 | -     | 7,898  |
| Data processing and communications      | 4     | 3,250  |
| Office supplies and expenses            | -     | 2,947  |
| Marketing and promotion                 | -     | 2,193  |
| Travel and entertainment                | -     | 2,876  |
| Professional fees                       | 136   | 1,458  |
| Other                                   | 2,028 | 1,129  |

|                             |       |        |
|-----------------------------|-------|--------|
| Total non-interest expenses | 2,222 | 63,363 |
|-----------------------------|-------|--------|

|                                                |       |       |
|------------------------------------------------|-------|-------|
| Net income before income tax expense (benefit) | 8,477 | 7,991 |
|------------------------------------------------|-------|-------|

|                              |   |          |
|------------------------------|---|----------|
| Income tax expense (benefit) | - | (14,492) |
|------------------------------|---|----------|

|            |          |           |    |
|------------|----------|-----------|----|
| Net income | \$ 8,477 | \$ 22,483 | \$ |
|------------|----------|-----------|----|

June 30, 2004

|                |              |              |      |
|----------------|--------------|--------------|------|
| Segment assets | \$ 7,511,774 | \$ 1,921,370 | \$ 2 |
|----------------|--------------|--------------|------|

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Three Months Ended Jun

(In thousands)

|                           | Mortgage-Backed<br>Securities<br>Holdings Segment | Loan Origination<br>Segment |
|---------------------------|---------------------------------------------------|-----------------------------|
| Net interest income:      |                                                   |                             |
| Interest income           | \$ -                                              | \$ 25,446                   |
| Interest expense          | -                                                 | (11,860)                    |
| Total net interest income | -                                                 | 13,586                      |

## Non-interest income:

|                                 |   |         |
|---------------------------------|---|---------|
| Gain on sales of mortgage loans | - | 129,282 |
| Loan servicing fees             | - | -       |
| Amortization                    | - | -       |

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|                                                |              |                 |
|------------------------------------------------|--------------|-----------------|
| Impairment reserve provision                   | -            | -               |
| Net loan servicing fees (loss)                 | -            | -               |
| Other non-interest income                      | -            | 1,241           |
| Total non-interest income                      | -            | 130,523         |
| Non-interest expenses:                         |              |                 |
| Salaries, commissions and benefits, net        | -            | 53,284          |
| Occupancy and equipment                        | -            | 6,626           |
| Data processing and communications             | -            | 2,725           |
| Office supplies and expenses                   | -            | 3,500           |
| Marketing and promotion                        | -            | 2,796           |
| Travel and entertainment                       | -            | 2,888           |
| Professional fees                              | -            | 1,491           |
| Other                                          | -            | 7,182           |
| Total non-interest expenses                    | -            | 80,492          |
| Net income before income tax expense (benefit) | -            | 63,617          |
| Income tax expense (benefit)                   | -            | 26,279          |
| Net income                                     | \$ -         | \$ 37,338       |
|                                                |              | December 31, 20 |
| Segment assets                                 | \$ 1,865,414 | \$ 1,375,276    |

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|                           | Six Months Ended Ju                               |                             |
|---------------------------|---------------------------------------------------|-----------------------------|
|                           | (In thousands)                                    |                             |
|                           | Mortgage-Backed<br>Securities<br>Holdings Segment | Loan Origination<br>Segment |
| Net interest income:      |                                                   |                             |
| Interest income           | \$ 56,338                                         | \$ 50,116                   |
| Interest expense          | (39,902)                                          | (31,889)                    |
| Total net interest income | 16,436                                            | 18,227                      |
| Non-interest income:      |                                                   |                             |

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|                                                                |              |               |
|----------------------------------------------------------------|--------------|---------------|
| Gain on sales of mortgage loans and mortgage-backed securities | 12,651       | 127,322       |
| Loan servicing fees                                            | -            | -             |
| Amortization                                                   | -            | -             |
| Impairment reserve provision                                   | -            | -             |
| Net loan servicing fees (loss)                                 | -            | -             |
| Other non-interest income                                      | -            | 2,204         |
| Total non-interest income                                      | 12,651       | 129,526       |
| Non-interest expenses:                                         |              |               |
| Salaries, commissions and benefits, net                        | 104          | 80,212        |
| Occupancy and equipment                                        | -            | 15,833        |
| Data processing and communications                             | 6            | 6,431         |
| Office supplies and expenses                                   | -            | 5,694         |
| Marketing and promotion                                        | -            | 4,405         |
| Travel and entertainment                                       | 2            | 5,338         |
| Professional fees                                              | 207          | 3,671         |
| Other                                                          | 3,073        | 4,453         |
| Total non-interest expenses                                    | 3,392        | 126,037       |
| Net income before income tax expense (benefit)                 | 25,695       | 21,716        |
| Income tax expense (benefit)                                   | -            | (12,757)      |
| Net income                                                     | \$ 25,695    | \$ 34,473     |
|                                                                |              | June 30, 2013 |
| Segment assets                                                 | \$ 7,511,774 | \$ 1,921,370  |

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|                      |                                             |                          |
|----------------------|---------------------------------------------|--------------------------|
|                      | Six Months Ended                            |                          |
|                      | (in thousands)                              |                          |
|                      | Mortgage-Backed Securities Holdings Segment | Loan Origination Segment |
| Net interest income: |                                             |                          |
| Interest income      | \$ -                                        | \$ 46,424                |
| Interest expense     | -                                           | (21,281)                 |

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|                                                |              |              |
|------------------------------------------------|--------------|--------------|
| Total net interest income                      | -            | 25,143       |
| Non-interest income:                           |              |              |
| Gain on sales of mortgage loans                | -            | 217,493      |
| Loan servicing fees                            | -            | -            |
| Amortization                                   | -            | -            |
| Impairment reserve provision                   | -            | -            |
| Net loan servicing fees (loss)                 | -            | -            |
| Other non-interest income                      | -            | 4,169        |
| Total non-interest income                      | -            | 221,662      |
| Non-interest expenses:                         |              |              |
| Salaries, commissions and benefits, net        | -            | 97,125       |
| Occupancy and equipment                        | -            | 12,118       |
| Data processing and communications             | -            | 5,777        |
| Office supplies and expenses                   | -            | 6,164        |
| Marketing and promotion                        | -            | 5,593        |
| Travel and entertainment                       | -            | 4,874        |
| Professional fees                              | -            | 3,200        |
| Other                                          | -            | 10,441       |
| Total non-interest expenses                    | -            | 145,292      |
| Net income before income tax expense (benefit) | -            | 101,513      |
| Income tax expense (benefit)                   | -            | 41,863       |
| Net income                                     | \$ -         | \$ 59,650    |
|                                                |              | December 31, |
| Segment assets                                 | \$ 1,865,414 | \$ 1,375,276 |

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## NOTE 12 - SUBSEQUENT EVENTS

### Acquisition of Certain Home Loan Centers of Washington Mutual

On July 28, 2004, the Company announced it signed a definitive agreement with Washington Mutual, Inc. and its subsidiaries to acquire certain residential mortgage home loan centers and associated satellite offices that Washington Mutual previously slated for closure in 18 states. Approximately 500 employees are currently supporting these home loan centers and associated satellite offices with the vast majority being sales professionals focused on retail loan originations. The Company is currently in the process of hiring a number of the

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Washington Mutual employees who work at the acquired home loan centers.

Under the terms of the acquisition, the Company assumed Washington Mutual's lease obligations and purchased certain fixed assets in the acquired offices. The acquisition closed on August 2, 2004 and was funded from current cash reserves. The Company projects that the newly hired staff will add to its retail loan production in the third and fourth quarters of 2004.

### Preferred Stock Issuance

In July 2004, the Company issued 2,150,000 shares of 9.75% Series A Cumulative Redeemable Preferred Stock ("Preferred Stock") at a price of \$25 per share. The total number of shares of Preferred Stock outstanding includes: 1,400,000 shares of Preferred Stock issued in an underwritten public offering (the "Initial Offering"), which closed on July 7, 2004; 100,000 shares of Preferred Stock issued in connection with the underwriters' election to purchase a portion of the shares of Preferred Stock offered to them in connection with the Initial Offering to cover over-allotments, which closed on July 12, 2004; and 650,000 shares of Preferred Stock issued and sold to the underwriters in connection with a subsequent public offering of Preferred Stock, which closed on July 20, 2004. The total proceeds from both offerings to the Company were \$53.8 million before underwriting discounts, commissions and other expenses. The Company intends to use the net proceeds of these offerings for general corporate purposes, including investing in mortgage-backed securities.

The Preferred Stock, which has no stated maturity date, and is non-callable for five years, is listed on the New York Stock Exchange under the symbol "AHM PrA."

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### ITEM 2.

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

##### Regarding Forward-Looking Statements

This report, including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 which are not historical in nature, including 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. Statements which also 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 mortgage-backed securities holdings in particular, is a statement about our

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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. 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 our expectations of future results, performance or financial position. These factors include, without limitation:

- o our limited operating history with respect to our proposed portfolio strategy;
- o our proposed portfolio strategy may be changed or modified by our management without advance notice to stockholders, and that we may suffer losses as a result of such modifications or changes;
- o our need for a significant amount of cash to operate our business;
- o risks associated with the use of leverage;
- o disruptions in the market for repurchase facilities;
- o failure to match the interest rates on our borrowings with the interest rates on the mortgage-backed securities we hold;
- o failure to maintain our status as a real estate investment trust;
- o changes in federal and state tax laws affecting real estate investment trusts;
- o general economic, political, market, financial or legal conditions; and
- o the other factors referenced in this report, including, without limitation, those under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 actual results may differ from expectations.

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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.

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**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 on these financial instruments or third-party pricing services. If the fair value of a mortgage-backed security is not reasonably available, management estimates the fair value, which requires management's judgment and may not be indicative of the amounts we could realize in a current market exchange.

**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 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, 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 Servicing Rights** - When we acquire servicing assets through either purchase or origination of loans and sell or securitize those loans with servicing assets retained, the total cost of the loans is allocated to the servicing assets and the loans (without the servicing assets) based on their relative fair values. The amount attributable to the servicing assets is capitalized as MSRs on the consolidated balance sheets. The MSRs are amortized to expense in proportion to and over the period of estimated net servicing income.

The MSRs are assessed for impairment based on the fair value of those assets. We estimate the fair value of the servicing assets by obtaining market information from a primary MSR broker. When the book value of capitalized servicing assets exceeds their fair value, impairment is recognized through a valuation allowance. In determining impairment, the mortgage servicing portfolio is stratified by the predominant risk characteristic of the underlying mortgage loans. We have determined that the predominant risk characteristic is the interest rate on the underlying loan. We measure impairment for each stratum by comparing the estimated fair value to the recorded book value. Temporary impairment is recorded through a valuation allowance and amortization expense in the period of occurrence. In addition, we periodically evaluate our MSRs for other than temporary impairment to determine if the carrying value before the application of the valuation allowance is recoverable. We receive a sensitivity analysis of the estimated fair value of our MSRs assuming a 200-basis-point instantaneous increase in interest rates from an independent MSR broker. The fair value estimate includes changes in market assumptions that would be expected given the increase in mortgage rates (e.g., prepayment speeds would be lower). We believe this 200-basis-point increase in mortgage rates to be an appropriate threshold for determining the recoverability of the temporary impairment because that size rate increase is foreseeable and consistent with historical mortgage rate fluctuations. When using this instantaneous change in rates, if the fair value of the strata of MSRs is estimated to increase to a point where all of the impairment would be recovered, the impairment is considered to be temporary. When we determine that a portion of the MSRs is not recoverable, the related MSRs and the previously established valuation allowance are correspondingly reduced to reflect other than temporary impairment.

**Derivative Assets and Derivative Liabilities** - Our 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. IRLCs associated with loans expected to be sold are recorded at fair value with changes in fair value recorded to current earnings. The fair value of the IRLCs initiated on or before March 31, 2004 is determined by an estimate of the ultimate gain on sale of the loans, including the value of MSRs, net of estimated net costs remaining to originate the loan. In March 2004, the SEC

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issued SAB No. 105, which provides industry guidance which changed the timing of recognition of MSRs for IRLCs initiated after March 31, 2004. See "Recently Issued Accounting Standards" in Note 1 to the Consolidated Financial Statements. IRLCs associated with loans held for securitization are not classified and accounted for as derivative financial instruments.

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

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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 adjustable-rate mortgage loans and mortgage-backed securities. 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 third-party pricing services. If the fair value of a trading security is not reasonably available, management estimates the fair value, which requires management's judgment and may not be indicative of the amounts we could realize in a current market exchange.

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 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 Mortgage-Backed Securities 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

At June 30, 2004, 76.1% of our total assets were mortgage-backed securities and 14.9% were mortgage loans held for sale, compared to 51.8% and 36.0%, respectively, at December 31, 2003.

Total assets increased \$6.2 billion to \$9.6 billion at June 30, 2004 from \$3.4 billion at December 31, 2003. The increase primarily reflects an increase in mortgage-backed securities of \$5.6 billion and a \$0.2 billion rise in mortgage loans held for sale. The growth in mortgage-backed securities was primarily funded by an increase in reverse repurchase agreements of \$5.1 billion. We began issuing commercial paper in the quarter ended June 30, 2004, to fund our loans held for sale. As of June 30, 2004, we had \$1.0 billion of commercial paper outstanding, which allowed us to reduce the amount of loans funded by warehouse lines of credit.

The following table summarizes our mortgage-backed securities owned at June 30, 2004 and December 31, 2003, classified by type of issuer and by ratings categories:

|                        | June 30, 2004      |               |                               |               |
|------------------------|--------------------|---------------|-------------------------------|---------------|
|                        | Trading Securities |               | Securities Available for Sale |               |
|                        | Carrying Value     | Portfolio Mix | Carrying Value                | Portfolio Mix |
| (Dollars in thousands) |                    |               |                               |               |
| Agency securities      | \$ 1,060,417       | 48.3%         | \$ 1,544,723                  | 30.1%         |
| Privately issued:      |                    |               |                               |               |
| AAA                    | 1,013,391          | 46.1          | 3,504,782                     | 68.3          |
| AA                     | 55,372             | 2.5           | 31,821                        | 0.6           |
| A                      | 19,805             | 0.9           | 19,972                        | 0.4           |
| BBB                    | 8,286              | 0.4           | 10,218                        | 0.2           |
| Unrated (1)            | 39,832             | 1.8           | 22,543                        | 0.4           |
| Total                  | \$ 2,197,103       | 100.0%        | \$ 5,134,059                  | 100.0%        |

(1) Unrated subordinated certificates retained by the Company as credit enhancements for its privately issued securities.

|                        | December 31, 2003  |               |                               |               |
|------------------------|--------------------|---------------|-------------------------------|---------------|
|                        | Trading Securities |               | Securities Available for Sale |               |
|                        | Carrying Value     | Portfolio Mix | Carrying Value                | Portfolio Mix |
| (Dollars in thousands) |                    |               |                               |               |

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|                   |            |        |              |        |       |
|-------------------|------------|--------|--------------|--------|-------|
| Agency securities | \$ 287,577 | 60.0%  | \$ 713,790   | 55.6%  | \$    |
| Privately issued: |            |        |              |        |       |
| AAA               | 167,974    | 35.0   | 570,025      | 44.4   |       |
| AA                | 11,322     | 2.4    | -            | -      |       |
| A                 | 6,470      | 1.3    | -            | -      |       |
| Unrated (1)       | 6,470      | 1.3    | -            | -      |       |
| Total             | \$ 479,813 | 100.0% | \$ 1,283,815 | 100.0% | \$    |
|                   | =====      | =====  | =====        | =====  | ===== |

(1) An unrated subordinated certificate retained by the Company as a credit enhancement for its privately issued securities.

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The following table classifies our mortgage-backed securities portfolio by type of interest rate index at June 30, 2004 and December 31, 2003:

|                                     | June 30, 2004      |               |                               |               |                |
|-------------------------------------|--------------------|---------------|-------------------------------|---------------|----------------|
|                                     | Trading Securities |               | Securities Available for Sale |               |                |
|                                     | Carrying Value     | Portfolio Mix | Carrying Value                | Portfolio Mix | Carrying Value |
| (Dollars in thousands)              |                    |               |                               |               |                |
| Index:                              |                    |               |                               |               |                |
| One-month LIBOR                     | \$ 239,667         | 10.9%         | \$ 142,623                    | 2.8%          | \$ 382,296     |
| Six-month LIBOR                     | 336,197            | 15.3          | 2,331,786                     | 45.4          | 2,667,983      |
| One-year LIBOR                      | 1,602,889          | 73.0          | 1,946,900                     | 37.9          | 3,549,179      |
| One-year constant maturity treasury | 18,350             | 0.8           | 712,750                       | 13.9          | 731,134        |
| Total                               | \$ 2,197,103       | 100.0%        | \$ 5,134,059                  | 100.0%        | \$ 7,331,592   |
|                                     | =====              | =====         | =====                         | =====         | =====          |

|                                     | December 31, 2003  |               |                               |               |                |
|-------------------------------------|--------------------|---------------|-------------------------------|---------------|----------------|
|                                     | Trading Securities |               | Securities Available for Sale |               |                |
|                                     | Carrying Value     | Portfolio Mix | Carrying Value                | Portfolio Mix | Carrying Value |
| (Dollars in thousands)              |                    |               |                               |               |                |
| Index:                              |                    |               |                               |               |                |
| One-month LIBOR                     | \$ 239,667         | 10.9%         | \$ 142,623                    | 2.8%          | \$ 382,296     |
| Six-month LIBOR                     | 336,197            | 15.3          | 2,331,786                     | 45.4          | 2,667,983      |
| One-year LIBOR                      | 1,602,889          | 73.0          | 1,946,900                     | 37.9          | 3,549,179      |
| One-year constant maturity treasury | 18,350             | 0.8           | 712,750                       | 13.9          | 731,134        |
| Total                               | \$ 2,197,103       | 100.0%        | \$ 5,134,059                  | 100.0%        | \$ 7,331,592   |
|                                     | =====              | =====         | =====                         | =====         | =====          |

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|                                     |            |        |              |        |              |
|-------------------------------------|------------|--------|--------------|--------|--------------|
| One-month LIBOR                     | \$ 189,772 | 39.6%  | \$ -         | - %    | \$ 189,772   |
| Six-month LIBOR                     | -          | -      | 517,248      | 40.3   | 517,248      |
| One-year LIBOR                      | 261,548    | 54.5   | 610,963      | 47.6   | 872,511      |
| One-year constant maturity treasury | 28,493     | 5.9    | 155,604      | 12.1   | 184,097      |
| Total                               | \$ 479,813 | 100.0% | \$ 1,283,815 | 100.0% | \$ 1,763,600 |

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The following table classifies our mortgage-backed securities portfolio by product type at June 30, 2004 and December 31, 2003:

| June 30, 2004          |               |                               |               |        |
|------------------------|---------------|-------------------------------|---------------|--------|
| Trading Securities     |               | Securities Available for Sale |               |        |
| Carrying Value         | Portfolio Mix | Carrying Value                | Portfolio Mix |        |
| (Dollars in thousands) |               |                               |               |        |
| Product:               |               |                               |               |        |
| ARM less than 3 years  | \$ 374,157    | 17.0%                         | \$ 1,145,102  | 22.3%  |
| 3/1 Hybrid ARM         | 805,466       | 36.7                          | 882,901       | 17.2   |
| 5/1 Hybrid ARM         | 1,017,480     | 46.3                          | 3,106,056     | 60.5   |
| Total                  | \$ 2,197,103  | 100.0%                        | \$ 5,134,059  | 100.0% |

| December 31, 2003      |               |                               |               |        |
|------------------------|---------------|-------------------------------|---------------|--------|
| Trading Securities     |               | Securities Available for Sale |               |        |
| Carrying Value         | Portfolio Mix | Carrying Value                | Portfolio Mix |        |
| (Dollars in thousands) |               |                               |               |        |
| Product:               |               |                               |               |        |
| ARM less than 3 years  | \$ 189,771    | 39.6%                         | \$ 212,897    | 16.6%  |
| 3/1 Hybrid ARM         | 133,019       | 27.7                          | 415,674       | 32.4   |
| 5/1 Hybrid ARM         | 133,140       | 27.7                          | 619,688       | 48.2   |
| 7/1 Hybrid ARM         | 23,883        | 5.0                           | 35,556        | 2.8    |
| Total                  | \$ 479,813    | 100.0%                        | \$ 1,283,815  | 100.0% |

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During the six months ended June 30, 2004, we purchased \$4.7 billion of mortgage-backed securities and added \$3.1 billion of self-originated mortgage-backed securities.

During the six months ended June 30, 2004, we sold \$1.7 billion of mortgage-backed securities.

The average cost basis of our mortgage-backed securities, excluding unrealized gains and losses, was 100.8% of par as of June 30, 2004 and 101.5% of par as of December 31, 2003.

We had payables for securities purchased of \$423.9 million and \$259.7 million as of June 30, 2004 and December 31, 2003, respectively.

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### Results of Operations - Comparison of the Three Months Ended June 30, 2004 and 2003

|                                                                | Three Months Ended June 30, 2004                  |                             |
|----------------------------------------------------------------|---------------------------------------------------|-----------------------------|
|                                                                | (In thousands)                                    |                             |
|                                                                | Mortgage-Backed<br>Securities<br>Holdings Segment | Loan Origination<br>Segment |
| Net interest income:                                           |                                                   |                             |
| Interest income                                                | \$ 41,189                                         | \$ 31,215                   |
| Interest expense                                               | (30,490)                                          | (20,927)                    |
| Total net interest income                                      | 10,699                                            | 10,288                      |
| Non-interest income:                                           |                                                   |                             |
| Gain on sales of mortgage loans and mortgage-backed securities | -                                                 | 59,840                      |
| Loan servicing fees                                            | -                                                 | -                           |
| Amortization                                                   | -                                                 | -                           |
| Impairment reserve recovery                                    | -                                                 | -                           |
| Net loan servicing fees                                        | -                                                 | -                           |
| Other non-interest income                                      | -                                                 | 1,226                       |
| Total non-interest income                                      | -                                                 | 61,066                      |
| Non-interest expenses:                                         |                                                   |                             |
| Salaries, commissions and benefits, net                        | 54                                                | 41,612                      |
| Occupancy and equipment                                        | -                                                 | 7,898                       |
| Data processing and communications                             | 4                                                 | 3,250                       |
| Office supplies and expenses                                   | -                                                 | 2,947                       |
| Marketing and promotion                                        | -                                                 | 2,193                       |

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|                                                |               |              |      |
|------------------------------------------------|---------------|--------------|------|
| Travel and entertainment                       | -             | 2,876        |      |
| Professional fees                              | 136           | 1,458        |      |
| Other                                          | 2,028         | 1,129        |      |
|                                                | <hr/>         |              |      |
| Total non-interest expenses                    | 2,222         | 63,363       |      |
|                                                | <hr/>         |              |      |
| Net income before income tax expense (benefit) | 8,477         | 7,991        |      |
|                                                | <hr/>         |              |      |
| Income tax expense (benefit)                   | -             | (14,492)     |      |
|                                                | <hr/>         |              |      |
| Net income                                     | \$ 8,477      | \$ 22,483    | \$   |
|                                                | <hr/>         |              |      |
|                                                | <hr/>         |              |      |
|                                                | June 30, 2004 |              |      |
|                                                | <hr/>         |              |      |
| Segment assets                                 | \$ 7,511,774  | \$ 1,921,370 | \$ 2 |
|                                                | <hr/>         |              |      |

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|                                         |                                                   |                             |
|-----------------------------------------|---------------------------------------------------|-----------------------------|
|                                         | Three Months Ended                                |                             |
|                                         | <hr/>                                             |                             |
|                                         | (in thousands)                                    |                             |
|                                         | <hr/>                                             |                             |
|                                         | Mortgage-Backed<br>Securities<br>Holdings Segment | Loan Origination<br>Segment |
|                                         | <hr/>                                             |                             |
| Net interest income:                    |                                                   |                             |
| Interest income                         | \$ -                                              | \$ 25,446                   |
| Interest expense                        | -                                                 | (11,860)                    |
|                                         | <hr/>                                             |                             |
| Total net interest income               | -                                                 | 13,586                      |
|                                         | <hr/>                                             |                             |
| Non-interest income:                    |                                                   |                             |
| Gain on sales of mortgage loans         | -                                                 | 129,282                     |
| Loan servicing fees                     | -                                                 | -                           |
| Amortization                            | -                                                 | -                           |
| Impairment reserve provision            | -                                                 | -                           |
|                                         | <hr/>                                             |                             |
| Net loan servicing fees (loss)          | -                                                 | -                           |
| Other non-interest income               | -                                                 | 1,241                       |
|                                         | <hr/>                                             |                             |
| Total non-interest income               | -                                                 | 130,523                     |
|                                         | <hr/>                                             |                             |
| Non-interest expenses:                  |                                                   |                             |
| Salaries, commissions and benefits, net | -                                                 | 53,284                      |

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|                                    |   |       |
|------------------------------------|---|-------|
| Occupancy and equipment            | - | 6,626 |
| Data processing and communications | - | 2,725 |
| Office supplies and expenses       | - | 3,500 |
| Marketing and promotion            | - | 2,796 |
| Travel and entertainment           | - | 2,888 |
| Professional fees                  | - | 1,491 |
| Other                              | - | 7,182 |

|                             |   |        |
|-----------------------------|---|--------|
| Total non-interest expenses | - | 80,492 |
|-----------------------------|---|--------|

|                                                |   |        |
|------------------------------------------------|---|--------|
| Net income before income tax expense (benefit) | - | 63,617 |
|------------------------------------------------|---|--------|

|                              |   |        |
|------------------------------|---|--------|
| Income tax expense (benefit) | - | 26,279 |
|------------------------------|---|--------|

|            |      |           |
|------------|------|-----------|
| Net income | \$ - | \$ 37,338 |
|------------|------|-----------|

December 31,

|                |              |              |
|----------------|--------------|--------------|
| Segment assets | \$ 1,865,414 | \$ 1,375,276 |
|----------------|--------------|--------------|

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## Overview

Net income for the quarter ended June 30, 2004 was \$33.5 million, compared to \$26.9 million for the quarter ended June 30, 2003, an increase of \$6.6 million, or 24.5%. This increase was the result of a \$31.8 million decrease in income tax expense, a \$14.9 million decrease in non-interest expense and a \$7.2 million increase in net interest income, partly offset by a \$47.3 million decrease in non-interest income.

## Mortgage-Backed Securities Holdings Segment

Our Mortgage-Backed Securities Holdings segment began operations on December 3, 2003 as a result of the reorganization of the Company into a REIT and the merger with Apex. The segment's business is the holding for net interest income of adjustable-rate mortgage ("ARM")-backed securities.

The following table presents the average balances for the Mortgage-Backed Securities Holdings segment's mortgage-backed securities and reverse repurchase agreements, corresponding annualized effective rate of interest and the related interest income or expense:

|                        | Three Months Ended June |          |
|------------------------|-------------------------|----------|
| (Dollars in thousands) | 2004                    |          |
|                        | Average Balance         | Interest |

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|                                     |              |           |
|-------------------------------------|--------------|-----------|
| Mortgage-backed securities, net (1) | \$ 4,812,343 | \$ 41,189 |
| Reverse repurchase agreements (2)   | 4,500,076    | 30,490    |
| Net interest income                 |              | \$ 10,699 |
| Interest rate spread                |              |           |
| Net interest margin                 |              |           |

(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 net interest expense on interest rate swaps.

Revenues. Total revenues for the Mortgage-Backed Securities Holdings segment for the three months ended June 30, 2004 were \$10.7 million, consisting entirely of net interest income.

## Loan Origination Segment

The Loan Origination segment's primary business is the origination and sale of primarily one-to-four family residential mortgage loans. Total loan originations for the quarter ended June 30, 2004 were \$6.6 billion compared to \$6.2 billion for the second quarter of 2003, a 6.5% increase. Our retail originations, which are conducted through our community loan production offices and Internet call center, were 47% of our loan originations in the quarter ended June 30, 2004 compared to 80% of our originations in the quarter ended June 30, 2003. Mortgage brokers accounted for 53% of our loan originations in the quarter ended June 30, 2004 compared to 20% of our originations in the quarter ended June 30, 2003. Mortgage brokers accounted for an increased percentage of our originations in the quarter ended June 30, 2004 due to the opening of wholesale branches in the western United States.

Gain on Sales of Mortgage Loans and Mortgage-Backed Securities. Gain on sales of mortgage loans and mortgage-backed securities for the quarter ended June 30, 2004 was \$59.8 million compared to \$129.3 million in the quarter ended June 30, 2003. The decrease in gain on sale of loans and mortgage-backed securities was primarily the result of a decrease in average volume of IRLCs and hedged loans held for sale, the Company's adoption of SAB No. 105, which reduced the fair value of IRLCs and loans held for sale and the increased percentage of wholesale originations in the quarter ended June 30, 2004 compared to the quarter ended June 30, 2003. The change in fair value of IRLCs included in gain on sale of loans in the second quarter of 2004 was reduced as a result of the Company's adoption of SAB No. 105. The change in fair value of IRLCs and hedged loans held for sale decreased by \$27.8 million to a loss of \$28.7 million in the quarter ended June 30, 2004 compared to a loss of \$0.9 million in the quarter ended June 30, 2003. Brokers fee expenses included as a reduction to gain on sale of loans increased \$18.6 million from \$21.7 million in the quarter ended June 30, 2003 to \$40.3 million in the

quarter ended June 30, 2004. The rise in fees paid to brokers on wholesale

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originations is the result of the increased percentage of wholesale originations in the second quarter of 2004 versus the second quarter of 2003.

**Net Interest Income.** Total interest income for the quarter ended June 30, 2004 on our Loan Origination segment's mortgages held for sale was \$31.2 million, compared to interest income for the quarter ended June 30, 2003 of \$25.4 million, an increase of \$5.8 million, or 22.7%. The increase was primarily due to higher average loan inventory in the second quarter of 2004 versus the second quarter of 2003. Our Loan Origination segment funds its loan inventory primarily through a \$2.0 billion Secured Liquidity Note Program and borrowing facilities with several mortgage warehouse lenders. Total interest expense for the quarter ended June 30, 2004 was \$20.9 million, compared to interest expense for the quarter ended June 30, 2003 of \$11.9 million, a \$9.1 million increase, which was primarily due to increased borrowings to fund our increased loan inventory.

**Other Revenue.** Other revenue totaled \$1.2 million for the quarter ended June 30, 2004 and the quarter ended June 30, 2003. For the quarter ended June 30, 2004, other income primarily includes revenue from rental income of \$0.6 million, reinsurance premiums earned totaling approximately \$0.4 million, and revenue from title services of \$0.2 million. For the quarter ended June 30, 2003, other income primarily consists of volume incentive bonuses received from loan purchasers totaling approximately \$0.6 million and revenue from title services of \$0.4 million.

**Expenses.** Total expenses of our Loan Origination segment for the quarter ended June 30, 2004 were \$63.4 million, compared to \$80.5 million for the quarter ended June 30, 2003.

Our operating expenses represent costs that are not eligible to be added to the book value of the loans because they are not considered direct origination costs under the rules of 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 for the quarter ended June 30, 2004 were \$41.6 million, or 63 basis points of total loan originations, compared to \$53.3 million, or 85 basis points of total loan originations, for the quarter ended June 30, 2003. The decrease in expenses reflects the higher percentage of wholesale originations in the quarter ended June 30, 2004.

Operating expenses, excluding salaries, commissions and benefits, were 33 basis points of total loan originations for the quarter ended June 30, 2004 and 44 basis points for the quarter ended June 30, 2003.

**Income Tax Expense.** Income tax expense decreased to a benefit of \$14.5 million for the quarter ended June 30, 2004 from expense of \$26.3 million for the quarter ended June 30, 2003, a decrease of \$40.8 million. The effective tax rate for the Loan Origination segment in the 2004 period includes permanent book-to-tax differences related to activity within the REIT and the transactions between our taxable REIT subsidiary ("TRS") and qualified REIT subsidiary ("QRS").

### Loan Servicing Segment

The Loan Servicing segment total revenues for the quarter ended June 30, 2004 were \$7.3 million compared to a loss of \$14.6 million for the quarter ended June 30, 2003, an increase of \$21.9 million.

Net loan servicing fees were \$8.2 million for the quarter ended June 30, 2004, compared to a loss of \$13.9 million for the quarter ended June 30, 2003.

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Loan servicing fees decreased to \$8.7 million for the quarter ended June 30, 2004 from \$9.8 million for the quarter ended June 30, 2003, a decrease of \$1.1 million, or 11.1%. Included in loan servicing fees are gains on Ginnie Mae early buy-out sales of \$0.6 million for the quarter ended June 30, 2004 compared to \$3.2 million for the quarter ended June 30, 2003, a decrease of \$2.6 million.

Amortization decreased to \$7.8 million for the quarter ended June 30, 2004 from \$17.3 million for the quarter ended June 30, 2003, a decrease of \$9.5 million. The decrease in amortization was due to a rise in interest rates which resulted in slower prepayment speeds in the quarter ended June 30, 2004 versus the quarter ended June 30, 2003.

We recognized a temporary impairment recovery of \$7.2 million for the quarter ended June 30, 2004 versus a temporary impairment provision of \$6.5 million for the quarter ended June 30, 2003, resulting in an increase in net loan servicing fees of \$13.7 million. The increase in impairment recovery in the quarter ended June 30, 2004 was due to an increase in the fair value of servicing rights attributable to a decrease in estimated future prepayment speeds. The decrease in estimated future prepayment speeds was a result of a rise in interest rates in the quarter ended June 30, 2004.

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Expenses. Total expenses of our Loan Servicing segment for the quarter ended June 30, 2004 and the quarter ended June 30, 2003 were \$2.8 million.

Income Tax Expense. Income tax expense increased to \$2.0 million for the quarter ended June 30, 2004 from a \$6.9 million benefit for the quarter ended June 30, 2003, an increase of \$8.9 million.

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### Results of Operations - Comparison of the Six Months Ended June 30, 2004 and 2003

|                                                                   | Six Months Ended June 30                          |                             |
|-------------------------------------------------------------------|---------------------------------------------------|-----------------------------|
|                                                                   | (In thousands)                                    |                             |
|                                                                   | Mortgage-Backed<br>Securities<br>Holdings Segment | Loan Origination<br>Segment |
| Net interest income:                                              |                                                   |                             |
| Interest income                                                   | \$ 56,338                                         | \$ 50,116                   |
| Interest expense                                                  | (39,902)                                          | (31,889)                    |
| Total net interest income                                         | 16,436                                            | 18,227                      |
| Non-interest income:                                              |                                                   |                             |
| Gain on sales of mortgage loans and<br>mortgage-backed securities | 12,651                                            | 127,322                     |
| Loan servicing fees                                               | -                                                 | -                           |

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|                                                |              |               |
|------------------------------------------------|--------------|---------------|
| Amortization                                   | -            | -             |
| Impairment reserve provision                   | -            | -             |
| Net loan servicing fees (loss)                 | -            | -             |
| Other non-interest income                      | -            | 2,204         |
| Total non-interest income                      | 12,651       | 129,526       |
| Non-interest expenses:                         |              |               |
| Salaries, commissions and benefits, net        | 104          | 80,212        |
| Occupancy and equipment                        | -            | 15,833        |
| Data processing and communications             | 6            | 6,431         |
| Office supplies and expenses                   | -            | 5,694         |
| Marketing and promotion                        | -            | 4,405         |
| Travel and entertainment                       | 2            | 5,338         |
| Professional fees                              | 207          | 3,671         |
| Other                                          | 3,073        | 4,453         |
| Total non-interest expenses                    | 3,392        | 126,037       |
| Net income before income tax expense (benefit) | 25,695       | 21,716        |
| Income tax expense (benefit)                   | -            | (12,757)      |
| Net income                                     | \$ 25,695    | \$ 34,473     |
|                                                |              | June 30, 2004 |
| Segment assets                                 | \$ 7,511,774 | \$ 1,921,370  |

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|                           | Six Months Ended June 30                    |                          |
|---------------------------|---------------------------------------------|--------------------------|
|                           | (In thousands)                              |                          |
|                           | Mortgage-Backed Securities Holdings Segment | Loan Origination Segment |
| Net interest income:      |                                             |                          |
| Interest income           | \$ -                                        | \$ 46,424                |
| Interest expense          | -                                           | (21,281)                 |
| Total net interest income | -                                           | 25,143                   |

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|                                                |              |              |    |
|------------------------------------------------|--------------|--------------|----|
| Non-interest income:                           |              |              |    |
| Gain on sales of mortgage loans                | -            | 217,493      |    |
| Loan servicing fees                            | -            | -            |    |
| Amortization                                   | -            | -            |    |
| Impairment reserve provision                   | -            | -            |    |
| Net loan servicing fees (loss)                 | -            | -            |    |
| Other non-interest income                      | -            | 4,169        |    |
| Total non-interest income                      | -            | 221,662      |    |
| Non-interest expenses:                         |              |              |    |
| Salaries, commissions and benefits, net        | -            | 97,125       |    |
| Occupancy and equipment                        | -            | 12,118       |    |
| Data processing and communications             | -            | 5,777        |    |
| Office supplies and expenses                   | -            | 6,164        |    |
| Marketing and promotion                        | -            | 5,593        |    |
| Travel and entertainment                       | -            | 4,874        |    |
| Professional fees                              | -            | 3,200        |    |
| Other                                          | -            | 10,441       |    |
| Total non-interest expenses                    | -            | 145,292      |    |
| Net income before income tax expense (benefit) | -            | 101,513      |    |
| Income tax expense (benefit)                   | -            | 41,863       |    |
| Net income                                     | \$ -         | \$ 59,650    | \$ |
| December 31, 2003                              |              |              |    |
| Segment assets                                 | \$ 1,865,414 | \$ 1,375,276 | \$ |

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### Overview

Net income for the six months ended June 30, 2004 was \$54.7 million, compared to \$43.2 million for the six months ended June 30, 2003, an increase of \$11.5 million, or 26.7%. This increase was the result of a \$47.2 million decrease in income tax expense, a \$14.7 million decrease in non-interest expense and a \$9.2 million increase in net interest income, partly offset by a \$59.6 million decrease in non-interest income.

### Mortgage-Backed Securities Holdings Segment

The following table presents the average balances for the Mortgage-Backed Securities Holdings segment's mortgage-backed securities and reverse repurchase agreements, corresponding annualized effective rate of interest and the related interest income or expense:

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| (Dollars in thousands)              | Six Months Ended June 30, |           |                       |
|-------------------------------------|---------------------------|-----------|-----------------------|
|                                     | 2004                      |           |                       |
|                                     | Average<br>Balance        | Interest  | Average<br>Yield/Cost |
| Mortgage-backed securities, net (1) | \$ 3,385,341              | \$ 56,338 |                       |
| Reverse repurchase agreements (2)   | 3,147,704                 | 39,902    |                       |
| Net interest income                 |                           | \$ 16,436 |                       |
| Interest rate spread                |                           | =====     |                       |
| Net interest margin                 |                           |           | =====                 |

(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 net interest expense on interest rate swaps.

Revenues. Total revenues for the Mortgage-Backed Securities Holdings segment for the six months ended June 30, 2004 were \$29.1 million, consisting entirely of \$16.4 million of net interest income and \$12.7 million of gain on mortgage-backed securities.

## Loan Origination Segment

Total loan originations for the six months ended June 30, 2004 were \$11.0 billion compared to \$10.5 billion for the six months ended June 30, 2003, a 4.8% increase. Our retail originations, which are conducted through our community loan production offices and Internet call center, were 46% of our loan originations in the six months ended June 30, 2004 compared to 81% of our originations in the six months ended June 30, 2003. Mortgage brokers accounted for 54% of our loan originations in the six months ended June 30, 2004 compared to 19% of our originations in the six months ended June 30, 2003. Mortgage brokers accounted for an increased percentage of our originations in the six months ended June 30, 2004 due to the opening of wholesale branches in the western United States.

Gain on Sales of Mortgage Loans and Mortgage-Backed Securities. Gain on sales of mortgage loans and mortgage-backed securities for the six months ended June 30, 2004 was \$127.3 million compared to \$217.5 million in the six months ended June 30, 2003. The decrease in gain on sale of loans and mortgage-backed securities was primarily the result of a decrease in average volume of IRLCs and hedged loans held for sale, the Company's adoption of SAB No. 105, which reduced the fair value of IRLCs and loans held for sale and the increased percentage of wholesale originations in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The change in fair value of IRLCs included in gain on sale of loans in the 2004 period was reduced as a result of the Company's adoption of SAB No. 105. The change in fair value of IRLCs and hedged loans held

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for sale decreased by \$40.8 million to a loss of \$30.9 million in the six months ended June 30, 2004 from a gain of \$9.9 million in the six months ended June 30, 2003. Broker fee expenses included as a reduction to gain on sale of loans increased \$41.1 million from \$33.2 million in the six months ended June 30, 2003 to \$74.3 million in the six months ended June 30, 2004. The rise in fees paid to brokers on wholesale originations is the result of the increased percentage of wholesale originations in the 2004 period versus the 2003 period.

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**Net Interest Income.** Total interest income for the six months ended June 30, 2004 on our Loan Origination segment's mortgages held for sale was \$50.1 million, compared to interest income for the six months ended June 30, 2003 of \$46.4 million, an increase of \$3.7 million, or 8.0%. The increase was primarily due to higher average loan inventory in 2004. Our Loan Origination segment funds its loan inventory primarily through a \$2.0 billion Secured Liquidity Note Program and borrowing facilities with several mortgage warehouse lenders. Total interest expense for the six months ended June 30, 2004 was \$31.9 million, compared to interest expense for the six months ended June 30, 2003 of \$21.3 million, a \$10.6 million increase, which was primarily due to increased borrowings to fund our increased loan inventory.

**Other Revenue.** Other revenue totaled \$2.2 million for the six months ended June 30, 2004 compared to \$4.2 million for the six months ended June 30, 2003. For the six months ended June 30, 2004, other income primarily includes rental income of \$1.2 million, reinsurance premiums earned totaling approximately \$0.5 million and revenue from title services of \$0.4 million. For the six months ended June 30, 2003, other income primarily consists of Principal fulfillment fees of \$1.9 million, revenue from title services of \$0.9 million and volume incentive bonuses received from loan purchasers totaling approximately \$1.0 million. The Principal fulfillment fees represent non-recurring fees received from Principal Residential Mortgage, Inc. ("PRM") for loans closed by us on behalf of PRM. As part of the agreement to acquire the retail branches of PRM (the "Principal Branches"), we agreed to assume the costs incurred to close out PRM's application pipeline as of the date of the agreement on behalf of PRM for a per loan fee.

**Expenses.** Total expenses of our Loan Origination segment for the six months ended June 30, 2004 were \$126.0 million, compared to \$145.3 million for the six months ended June 30, 2003.

Our operating expenses represent costs that are not eligible to be added to the book value of the loans because they are not considered direct origination costs under the rules of 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 for the six months ended June 30, 2004 were \$80.2 million, or 73 basis points of total loan originations, compared to \$97.1 million, or 93 basis points of total loan originations, for the six months ended June 30, 2003. The decrease in expenses reflects the higher percentage of wholesale originations in the 2004 period.

Operating expenses, excluding salaries, commissions and benefits, were 42 basis points of total loan originations for the six months ended June 30, 2004 and 46 basis points for the six months ended June 30, 2003.

**Income Tax Expense.** Income tax expense decreased to a benefit of \$12.8 million for the six months ended June 30, 2004 from an expense of \$41.9 million for the

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six months ended June 30, 2003, a decrease of \$54.6 million. The effective tax rate for the Loan Origination segment during the 2004 period includes permanent book-to-tax differences related to activity within the REIT and the transactions between the TRS and QRS.

### Loan Servicing Segment

The Loan Servicing segment total revenues for the six months ended June 30, 2004 were a loss of \$3.2 million compared to a loss of \$22.8 million for the six months ended June 30, 2003, an increase of \$19.6 million.

Net loan servicing fees were a loss of \$1.4 million for the six months ended June 30, 2004, compared to a loss of \$21.3 million for the six months ended June 30, 2003.

Loan servicing fees decreased to \$19.0 million for the six months ended June 30, 2004 from \$20.9 million for the six months ended June 30, 2003, a decrease of \$1.9 million, or 9.1%. Included in loan servicing fees are gains on Ginnie Mae early buy-out sales of \$3.0 million for the six months ended June 30, 2004 compared to \$6.8 million for the six months ended June 30, 2003, a decrease of \$3.8 million, or 55.9%.

Amortization decreased to \$15.1 million for the six months ended June 30, 2004 from \$30.1 million for the six months ended June 30, 2003, a decrease of \$15.0 million, or 49.7%. The decrease in amortization was due to a rise in interest rates which resulted in slower prepayment speeds in the six months ended June 30, 2004 versus the six months ended June 30, 2003.

We recognized a temporary impairment provision of \$5.3 million for the six months ended June 30, 2004 versus a temporary impairment provision of \$12.2 million for the six months ended June 30, 2003, resulting in an increase in net loan servicing fees of \$6.9 million. The decrease in impairment provision in the six months ended June 30, 2004 is due to an increase in the fair value of servicing rights

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attributable to a decrease in estimated future prepayment speeds. The decrease in estimated future prepayment speeds was a result of a rise in interest rates in the six months ended June 30, 2004.

Expenses. Total expenses of our Loan Servicing segment for the six months ended June 30, 2004 were \$5.8 million, compared to \$4.6 million for the six months ended June 30, 2003.

Income Tax Benefit. Income tax benefit decreased to \$3.6 million for the six months ended June 30, 2004 from an \$11.0 million benefit for the six months ended June 30, 2003, a decrease of \$7.4 million, or 67.3%.

### Liquidity and Capital Resources

We have arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with 13 different financial institutions and on June 30, 2004 had borrowed funds from nine of these firms. 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.

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As of June 30, 2004, we had \$6.4 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.64% before the impact of interest rate swaps and a weighted-average remaining maturity of 6.5 months.

To originate a mortgage loan, we draw against a \$2.0 billion Secured Liquidity Note Program, \$1.2 billion pre-purchase facility with UBS Real Estate Securities Inc. (formerly Paine Webber Real Estate Securities Inc.) ("UBS"), a \$450 million bank syndicated facility led by Residential Funding Corporation ("RFC"), a \$450 million facility with CDC Mortgage Capital Inc. ("CDC"), a facility of \$350 million with Morgan Stanley Bank ("Morgan Stanley") and a facility of \$200 million with Credit Lyonnais. In addition, the Company has a gestation facility with Greenwich Capital Financial Products, Inc. These facilities are secured by the mortgages owned by us and by certain of our other assets. Advances drawn under the 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 the Company's liabilities to its tangible net worth. At August 3, 2004, the aggregate outstanding balance under the warehouse facilities was \$1.9 billion, the aggregate outstanding balance in drafts payable was \$56.5 million and the aggregate maximum amount available for additional borrowings was \$1.2 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 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 warehousing agreement).

As of June 30, 2004, our aggregate warehouse facility borrowings were \$672.5 million (including \$30.6 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were \$86.3 million, compared to \$1.1 billion (including \$29.0 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were \$25.6 million as of December 31, 2003. At June 30, 2004, our loans held for sale were \$1.4 billion compared to \$1.2 billion at December 31, 2003.

In addition to the UBS, CDC, RFC, Morgan Stanley, and Credit Lyonnais warehouse facilities, we have a purchase and sale agreement with UBS. This agreement allows us to accelerate the sale of our mortgage loan inventory, resulting in a more effective use of the warehouse facility. Amounts sold and being held under this agreement at June 30, 2004 and December 31, 2003 were \$96.9 million and

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\$236.0 million, respectively. The amount so held under this agreement at August 3, 2004 was \$36.7 million. This agreement is not a committed facility and may be terminated at the discretion of the counterparty.

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 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 \$79.6 million term loan facility with a bank syndicate led by RFC which we use to finance our MSRs. The term loan facility expires on August 30, 2004. Interest is based on a spread to the LIBOR and may be adjusted for earnings on escrow balances. At June 30, 2004 and December 31, 2003, borrowings under our term loan facility were \$79.6 million and \$71.5 million, respectively.

Cash and cash equivalents increased to \$433.9 million at June 30, 2004 from \$53.1 million at December 31, 2003.

Our primary sources of cash and cash equivalents during the six months ended June 30, 2004, were as follows:

- o \$5.1 billion increase in reverse repurchase agreements;
- o \$1.0 billion increase in commercial paper; and
- o \$342.2 million from the issuance of capital stock.

Our primary uses of cash and cash equivalents during the six months ended June 30, 2004, were as follows:

- o \$5.6 billion net increase in mortgage-backed securities;
- o \$449.3 million net decrease in warehouse lines of credit; and
- o \$209.9 million net increase in mortgage loans held for sale.

#### Commitments

The Company had the following commitments (excluding derivative financial instruments) at June 30, 2004:

|                      | Total          | Less Than<br>1 Year | 1 - 3 Years | 4 - 5 Years |
|----------------------|----------------|---------------------|-------------|-------------|
|                      | (In thousands) |                     |             |             |
| Warehouse facilities | \$ 672,456     | \$ 672,456          | \$ -        |             |

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|                                  |           |           |        |
|----------------------------------|-----------|-----------|--------|
| Operating leases                 | 47,290    | 7,871     | 23,198 |
| Notes payable                    | 107,237   | 81,213    | 707    |
| Commercial paper                 | 1,047,036 | 1,047,036 | -      |
| Reverse repurchase agreements    | 6,413,506 | 6,413,506 | -      |
| Payable for securities purchased | 423,909   | 423,909   | -      |

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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 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.

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. 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 six 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. The Company considers the expected increase in loan origination volumes and the resulting additional origination related income as a natural hedge against the expected change in the value of MSR's. Lower mortgage rates generally reduce the fair value of the MSR's, as increased prepayment speeds are highly correlated with lower levels of mortgage interest rates.

The Company enters into interest rate swap agreements ("Swap Agreements") to manage its interest rate exposure when financing its adjustable-rate 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

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less than one year, and frequently six to 12 months. The Company's adjustable-rate loans and mortgage-backed securities financing vehicles generally have an interest rate that reprices based on frequency terms of one to 12 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 less than one month on June 30, 2004.

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The following table summarizes the Company's interest rate sensitive instruments:

|                                                                | Notional<br>Amount |  |
|----------------------------------------------------------------|--------------------|--|
| Assets:                                                        |                    |  |
| Mortgage-backed securities                                     | \$ 7,389,412       |  |
| Interest rate lock commitments - loans to be sold              | 903,735            |  |
| Interest rate lock commitments - loans held for securitization | 1,416,265          |  |
| Mortgage loans held for sale, net                              | 1,414,417          |  |
| Mortgage servicing rights, net                                 | 10,196,733         |  |
| Interest rate swaps                                            | 4,377,000          |  |
| Liabilities:                                                   |                    |  |
| Reverse repurchase agreements                                  | \$ 6,413,506       |  |
| Forward delivery commitments- Loan commitments                 | 469,991            |  |
| Forward delivery commitments - Loans held for sale             | 365,109            |  |
| Assets:                                                        |                    |  |
| Mortgage-backed securities                                     | \$ 1,759,064       |  |
| Interest rate lock commitments - loans to be sold              | 1,140,350          |  |
| Mortgage loans held for sale, net                              | 1,187,314          |  |
| Mortgage servicing rights, net                                 | 8,272,294          |  |
| Liabilities:                                                   |                    |  |
| Reverse repurchase agreements                                  | \$ 1,344,327       |  |
| Forward delivery commitments- Loan commitments                 | 477,863            |  |
| Forward delivery commitments - Loans held for sale             | 1,161,217          |  |
| Interest rate swaps                                            | 755,000            |  |

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The Company had total commitments to lend at June 30, 2004 and December 31, 2003 of \$6.5 billion and \$4.0 billion, respectively.

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### ITEM 4.

#### 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 second quarter of 2004 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 second quarter of 2004.

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### PART II-OTHER INFORMATION

#### ITEM 1.

##### LEGAL PROCEEDINGS

In June 2002, the Company acquired Columbia National, Incorporated, a Maryland corporation ("Columbia"), which is a subsidiary of the Company and which recently changed its name to "American Home Mortgage Servicing, Inc." Before the Company acquired Columbia, Columbia discovered fraudulent loan activity at its Bensalem, Pennsylvania office and notified the U.S. Department of Housing and Urban Development ("HUD"). HUD then instituted an investigation into the loan originations of the Bensalem office. Shortly thereafter, several years before Columbia was acquired by the Company, Columbia closed the Bensalem office and terminated the employees involved in the alleged fraudulent activity. In 2000, Columbia settled with HUD, paying a fine to HUD in the amount of \$24,000 and agreeing to indemnify HUD for certain losses. Columbia, as loan servicer for institutional investors, subsequently made FHA insurance claims with respect to approximately 60 loans that were originated by the Bensalem office between 1997 and 1999. The federal government is now seeking to recover insurance proceeds paid in connection with certain of those claims, along with potentially applicable fines and penalties. The Company is cooperating fully with respect to the federal government's review of these loans. While the amount of any potential settlement is not known at this time, the Company does not expect that such amount will materially affect its financial condition or results of operations.

#### ITEM 2.

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### CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Series A Preferred Stock

In July 2004, we issued 2,150,000 shares of 9.75% Series A Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share ("Series A Preferred Stock"), in an underwritten public offering. The Series A Preferred Stock ranks senior to our common stock with respect to dividend rights, redemption rights and rights upon our voluntary or involuntary liquidation, dissolution or winding up. Accordingly, if we liquidate, dissolve or wind up, holders of the Series A Preferred Stock will have the right to receive the liquidation preference of \$25.00 per share, plus all accumulated and unpaid dividends (whether or not declared) to the date of payment, before any payments are made to the holders of our common stock. For a complete description of the rights and preferences of the Series A Preferred Stock, refer to Exhibits 3.1 and 3.2 of this Quarterly Report on Form 10-Q.

#### Issuance of Unregistered Securities

The following is a description of the Company's securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act"), which were sold during the quarter ended June 30, 2004.

The Company acquired Marina Mortgage Company, Inc. ("Marina") on December 29, 1999. In addition to the shares paid to former Marina shareholders as initial consideration, the Company is required to issue unregistered shares of common stock to the former shareholders under the earnout provisions of the merger agreement. On May 12, 2004 pursuant to these earnout provisions, the Company issued an aggregate of 202,582 shares of common stock to such shareholders as additional consideration. These securities were exempt from registration under Section 4(2) of the Securities Act because they were issued pursuant to the terms of a private transaction rather than through a public offering.

The Company acquired First Home Mortgage Corp. ("First Home") on June 30, 2000. In addition to the shares paid to former First Home shareholders as initial consideration, the Company is required to issue unregistered shares of common stock to the former shareholders as additional consideration under the earnout provisions of the merger agreement. On April 1, 2004, pursuant to these earnout provisions, the Company issued an aggregate of 1,888 shares of common stock to such shareholders as additional consideration. In addition, on May 15, 2004, the Company issued 2,311 shares of common stock to such shareholders. These securities were exempt from registration under Section 4(2) of the Securities Act because they were issued pursuant to the terms of a private transaction rather than through a public offering.

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#### ITEM 3.

##### DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4.

##### SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's 2004 Annual Meeting of Stockholders held on June 16, 2004, the following actions were proposed (which are described in greater detail in the

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Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 29, 2004):

|   | Proposal<br>-----                                                                                                                                                                                                                                                                                                                                                                                                                                           | Votes For<br>----- |
|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| o | To elect each of John A. Johnston and Michael A. McManus, Jr. as a Class II director to serve for a three-year term expiring at the 2007 Annual Meeting of Stockholders and to elect Irving J. Thau as a Class III director to serve for the remainder of the current term of office of the Class III directors, which expires at the 2005 Annual Meeting of Stockholders, and in each case until their respective successors are duly elected and qualify. |                    |
|   | o John A. Johnston                                                                                                                                                                                                                                                                                                                                                                                                                                          | 37,074,591         |
|   | o Michael A. McManus, Jr.                                                                                                                                                                                                                                                                                                                                                                                                                                   | 37,351,843         |
|   | o Irving J. Thau                                                                                                                                                                                                                                                                                                                                                                                                                                            | 37,351,843         |
| o | To consider and ratify Deloitte & Touche LLP as the Company's external auditor for the fiscal year ending December 31, 2004.                                                                                                                                                                                                                                                                                                                                | 36,681,229         |

Each of the above proposals was approved by the Company's stockholders.

### ITEM 5.

#### OTHER INFORMATION

None.

### ITEM 6.

#### EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits.

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

- |             |                                                                                                                                                                                                                                                                                                          |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 3.1 | Articles Supplementary of the Company establishing and fixing the rights and preferences of the Company's 9.75% Series A Cumulative Redeemable Preferred Stock, which the Company filed with the State Department of Assessments and Taxation of Maryland on July 6, 2004.                               |
| Exhibit 3.2 | Articles Supplementary of the Company establishing and fixing the rights and preferences of 747,000 additional shares of the Company's 9.75% Series A Cumulative Redeemable Preferred Stock, which the Company filed with the State Department of Assessments and Taxation of Maryland on July 19, 2004. |

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- |              |                                                                                                                                                                                     |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 10.1 | Second Amended and Restated Warehousing Credit, Term Loan and Security Agreement (Syndicated), dated as of May 27, 2004 (the "RFC Loan Agreement"), by and among Columbia National, |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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Incorporated, American Home Mortgage Corp., and American Home Mortgage Acceptance, Inc., collectively "Borrowers," Residential Funding Corporation, as credit agent for the Lenders that are party thereto, and U.S. Bank National Association and Manufacturers and Traders Trust Company, together as co-agents.

- Exhibit 10.2      Guaranty, dated as of May 27, 2004, made by the Company, as Guarantor, on behalf of the Borrowers in favor of Residential Funding Corporation, as credit agent for the Lenders that are party to the RFC Loan Agreement.
- Exhibit 10.3      Second Amended and Restated Master Repurchase Agreement, dated as of June 1, 2004, by and among the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp., Columbia National, Incorporated, and CDC Mortgage Capital Inc.
- Exhibit 10.4      Second Amended and Restated Custodial and Disbursement Agreement, dated as of June 1, 2004, by and among the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp., Columbia National, Incorporated, CDC Mortgage Capital Inc., and Deutsche Bank National Trust Company, as custodian and disbursement agent.
- Exhibit 31.1      Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2      Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 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.
- Exhibit 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.

### (b) Reports on Form 8-K.

During the fiscal quarter ended June 30, 2004, the Company filed with the SEC the following Current Reports on Form 8-K:

- o      Current Report on Form 8-K, dated April 28, 2004, and furnished to the SEC on April 28, 2004, which disclosed that the Company issued a press release reporting its financial results for the fiscal quarter ended March 31, 2004.
- o      Current Report on Form 8-K, dated June 21, 2004, and filed on June 21, 2004, which reported that the Company filed a Preliminary Prospectus Supplement to the Prospectus dated January 12, 2004, and included as part of the Registration Statement on Form S-3 of the Company (File No. 333-111546) as filed with the SEC on December 24, 2003, as amended by Amendment No. 1 to the Registration Statement filed with the Commission on January 8, 2004, relating to the offering of 3,000,000 shares of the Company's Series A Cumulative

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Redeemable Preferred Stock, par value \$0.01 per share.

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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)

Date: August 9, 2004

By: /s/ Michael Strauss

-----  
Michael Strauss  
Chairman of the Board,  
Chief Executive Officer  
and President

Date: August 9, 2004

By: /s/ Stephen A. Hozie

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

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### INDEX TO EXHIBITS

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | -- Articles Supplementary of the Company establishing and fixing the rights and preferences of the Company's 9.75% Series A Cumulative Redeemable Preferred Stock, which the Company filed with the State Department of Assessments and Taxation of Maryland on July 6, 2004.                                                                                                                                                                                                                             |
| 3.2         | -- Articles Supplementary of the Company establishing and fixing the rights and preferences of 747,000 additional shares of the Company's 9.75% Series A Cumulative Redeemable Preferred Stock, which the Company filed with the State Department of Assessments and Taxation of Maryland on July 19, 2004.                                                                                                                                                                                               |
| 10.1        | -- Second Amended and Restated Warehousing Credit, Term Loan and Security Agreement (Syndicated), dated as of May 27, 2004 (the "RFC Loan Agreement"), by and among Columbia National, Incorporated, American Home Mortgage Corp., and American Home Mortgage Acceptance, Inc., collectively "Borrowers," Residential Funding Corporation, as credit agent for the Lenders that are party thereto, and U.S. Bank National Association and Manufacturers and Traders Trust Company, together as co-agents. |

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- 10.2            --     Guaranty, dated as of May 27, 2004, made by the Company, as Guarantor, on behalf of the Borrowers in favor of Residential Funding Corporation, as credit agent for the Lenders that are party to the RFC Loan Agreement.
- 10.3                    Second Amended and Restated Master Repurchase Agreement, dated as of June 1, 2004, by and among the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp., Columbia National, Incorporated, and CDC Mortgage Capital Inc.
- 10.4                    Second Amended and Restated Custodial and Disbursement Agreement, dated as of June 1, 2004, by and among the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp., Columbia National, Incorporated, CDC Mortgage Capital Inc., and Deutsche Bank National Trust Company, as custodian and disbursement agent.
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